

ESG In Credit Ratings

January 2024

2023 In Review

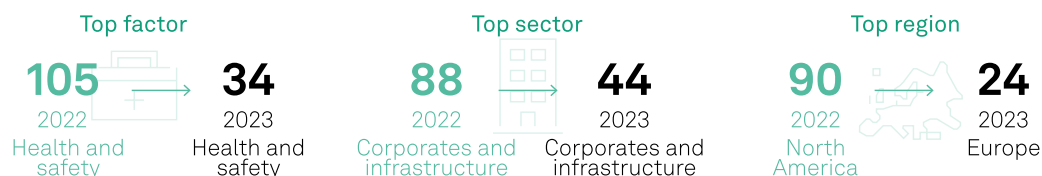
S&P Global
Ratings

This report does not constitute a rating action.

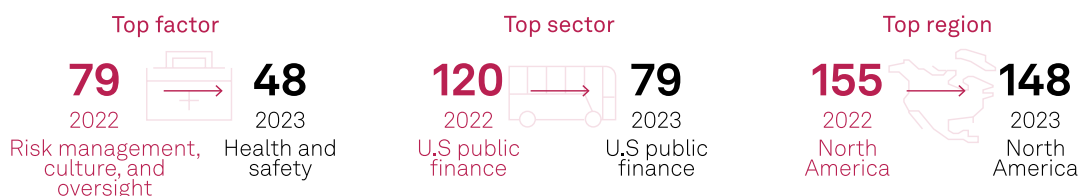
Total ESG-driven credit rating actions (2022 versus 2023)



Positive rating action breakdown



Negative rating action breakdown



Three 2022 CreditWatch developing rating actions are excluded from the positive and negative totals in the above graphic because they are neither positive nor negative. Source: S&P Global Ratings.

Key Takeaways

- Credit rating actions related to environmental, social, and governance (ESG) factors fell 44% in 2023 versus 2022, largely due to the ongoing decline in COVID-19-related risks.
- The corporates and infrastructure sector and U.S. public finance retained their leads in ESG-related positive and negative rating actions, respectively.
- The dominant factor in both positive and negative ESG-related rating actions was health and safety, overtaking risk management, culture, and oversight as the top factor behind negative rating actions by a slight margin (48 versus 44 in 2023).
- Governance factors continued to play a meaningful role, accounting for over 40% of ESG-related rating actions, while climate transition risk remains a limited, albeit growing, rating action factor.

Newsletter Contacts

Brenden Kugle

Centennial
+1-303-721-4619
brenden.kugle
@spglobal.com

Patrick Drury Byrne

Dublin
+353-1-568-0605
patrick.drurybyrne
@spglobal.com

Pierre Georges

Paris
+33-14-420-6735
pierre.georges
@spglobal.com

ESG-Related Rating Actions Decelerated In 2023

S&P Global Ratings includes a reference in its credit rating rationales when one or more of the below ESG factors were key drivers behind a change to the credit rating, outlook, or CreditWatch status. We consider ESG credit factors as those ESG factors that can materially influence the creditworthiness of a rated entity or issue and for which we have sufficient visibility and certainty to include in our credit rating analysis. They are not assessments of entities' sustainability profile or ESG performance. This newsletter provides additional data and insights on ESG credit factors that have been key drivers behind changes to our credit ratings.

ESG-related credit rating actions fell nearly 44% last year, to a tally of 221 in 2023 from 392 in 2022. The lower number of actions largely owed to the ongoing decline in COVID-19-related risks.

Health and safety was the top ESG factor in 2023, driving 37% of ESG-related rating activity with 82 actions, down by nearly half from 158 in 2022. Despite the overall decline, health and safety remained the dominant factor for positive ESG-related rating actions and overtook risk management, culture, and oversight as the leading reason for negative ESG-related actions in 2023. Our rating actions related to health and safety exclusively stem from COVID-related risks.

Rating actions related to risk management, culture, and oversight, the second highest-cited ESG factor in 2023, with 25% of ESG-related activity, were most prominent in the U.S. public finance sector, particularly among state and local governments, which accounted for 42% of these rating actions within U.S. public finance. Risk management is an inherent day-to-day responsibility of state and local governments that ensures the stability of their operations and financial outcomes. When risk management falters or may be insufficient, this governance factor can become material in our credit rating analysis and lead to rating and outlook changes. Financial institutions, which experienced significant headwinds in business volume and asset quality earlier in the year, also contributed to the risk management, culture, and oversight rating action total.

While overall governance factors held steady relative to 2022 at over 46% of total ESG-related rating actions in 2023, this share climbed from just 2% in 2020 and 22% in 2021, largely owing to the high number of rating actions related to COVID-19 in those years.

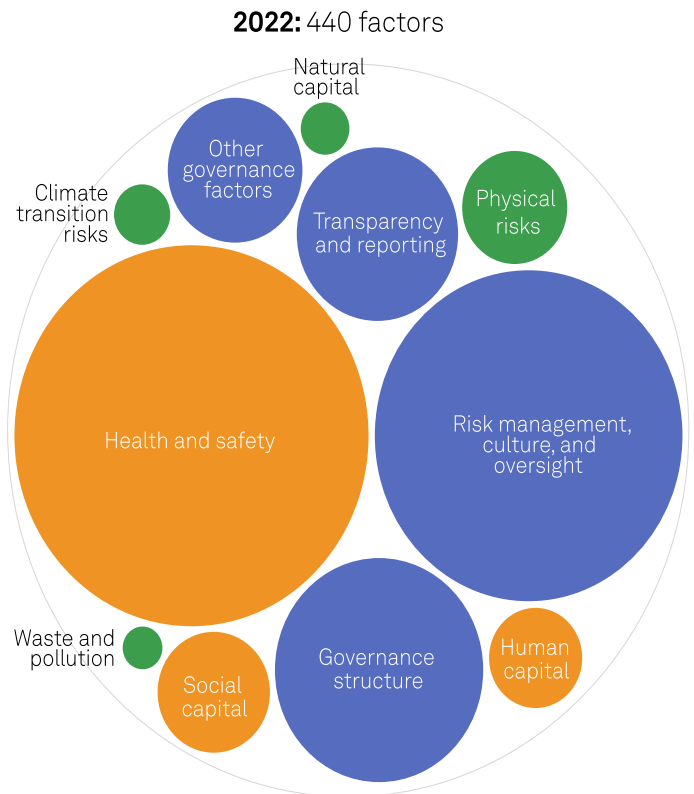
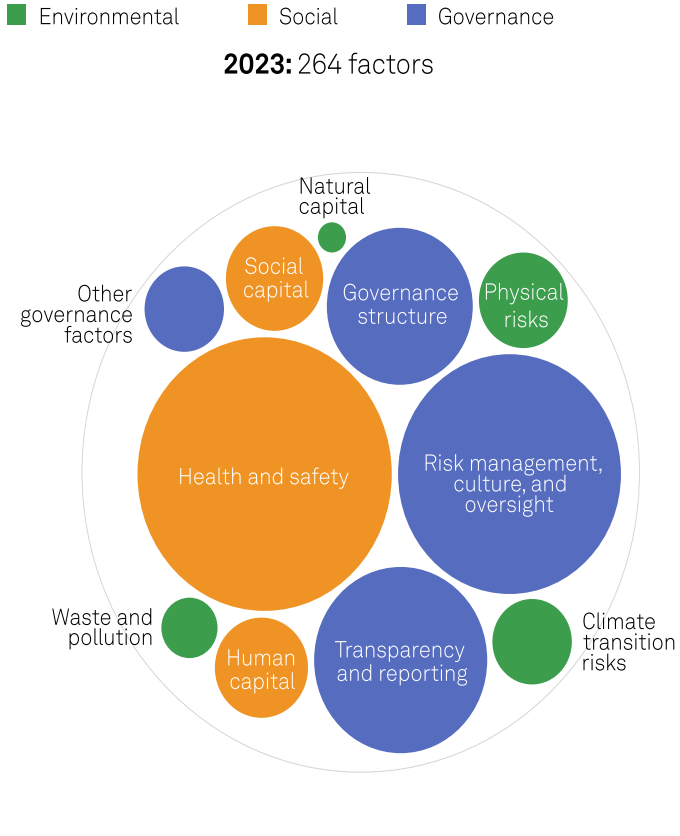
Despite the reduction in overall ESG-related rating activity, rating actions related to climate transition risks picked up. A majority of these actions were negative in 2023 as aspirations of decarbonization and electrification intensified, with the financial debt burden of realizing such goals cited as the main risk.

North America maintained the largest number of ESG-related rating actions by region in 2023, at 173, accounting for 78% of ESG-related rating activity--a disproportionate percentage relative to the region's share of total outstanding ratings. Although this percentage was up from 67% in 2022, the increase was primarily due to the material drop in rating actions related to ESG credit factors.

North American ESG-related rating actions were 86% negative in 2023, led by the U.S. public finance sector--in sharp contrast to European ESG-related rating actions, which were 67% positive, led by the corporates and infrastructure sector. ESG factors cited outside the U.S. and Europe remained sparse, with Asia-Pacific, Latin America, and Eastern Europe, the Middle East, and Africa representing just 6% of 2023 ESG-related rating activity combined.

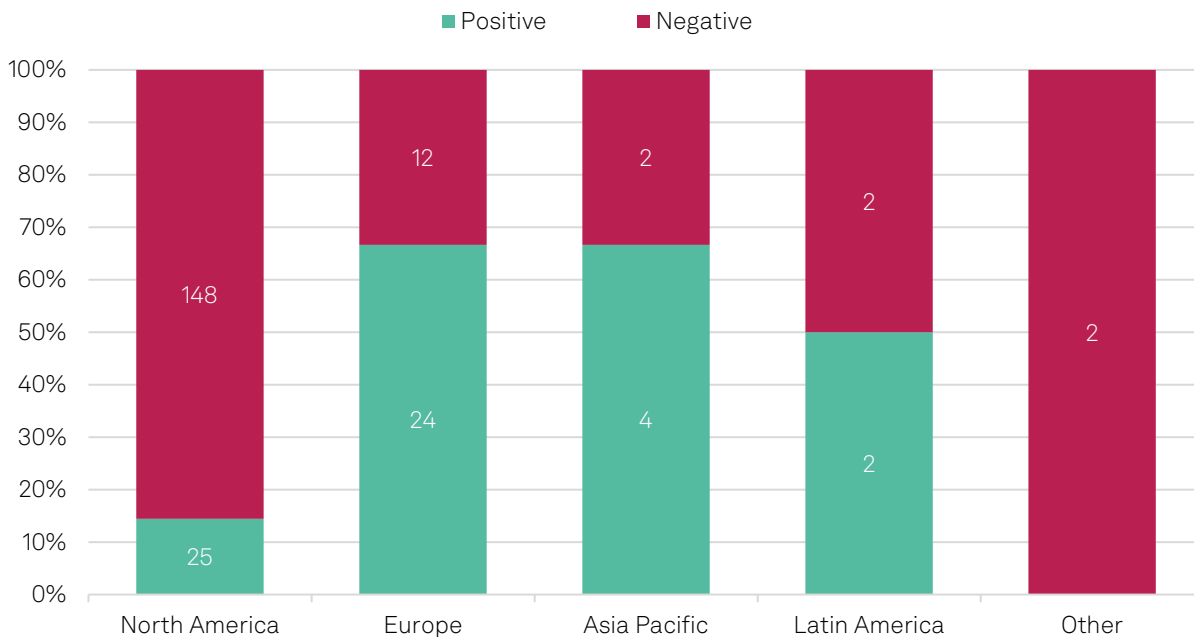
Leading ESG factors propelling credit rating actions

As a proportion of total cited factors (2023 versus 2022)



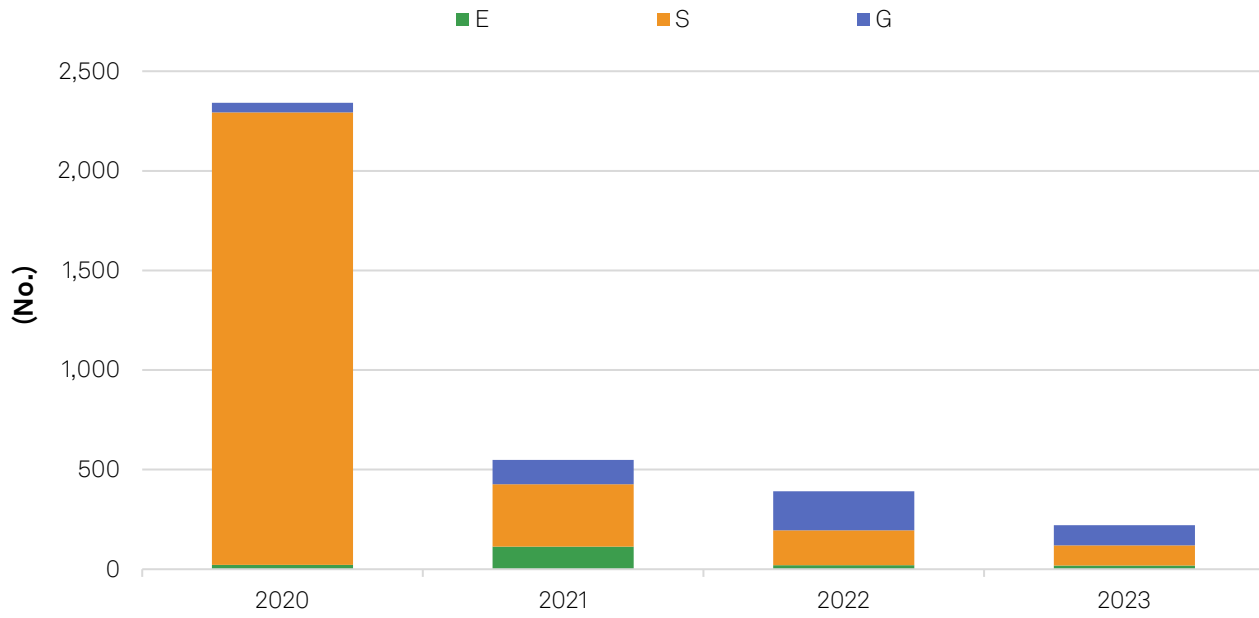
Data as of Dec. 31, 2023. Bubble size is determined by occurrence of factors within the year per chart, irrespective of positive or negative actions. The sum of ESG factors exceeds total ESG-related rating actions because some actions are influenced by multiple factors. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

2023 ESG credit rating actions by region (percentage and count)



Data as of Dec. 31, 2023. "Other" includes the Middle East and Africa. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

ESG credit rating actions by year



Data as of Dec. 31, 2023. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

2023 ESG-Related Credit Rating Actions

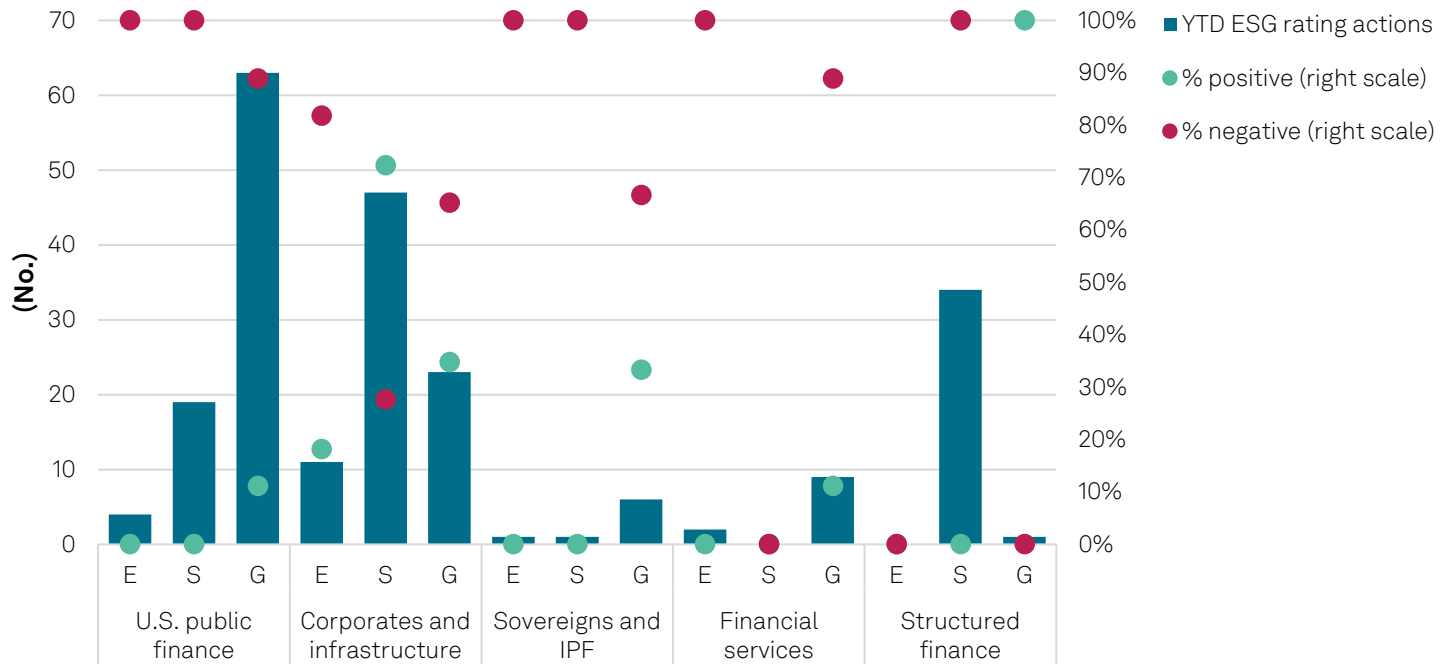
2023 ESG-related credit rating actions by type



Data as of Dec. 31, 2023. Structured finance actions relate to ESG impacts by transaction (tranche), while for other sectors, the impact is measured on the issuer credit rating. Upgrades and upward outlook/CreditWatch revisions are shown as positive numbers, while downgrades, downward outlook/CreditWatch revisions, and withdrawals are shown as negative numbers. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

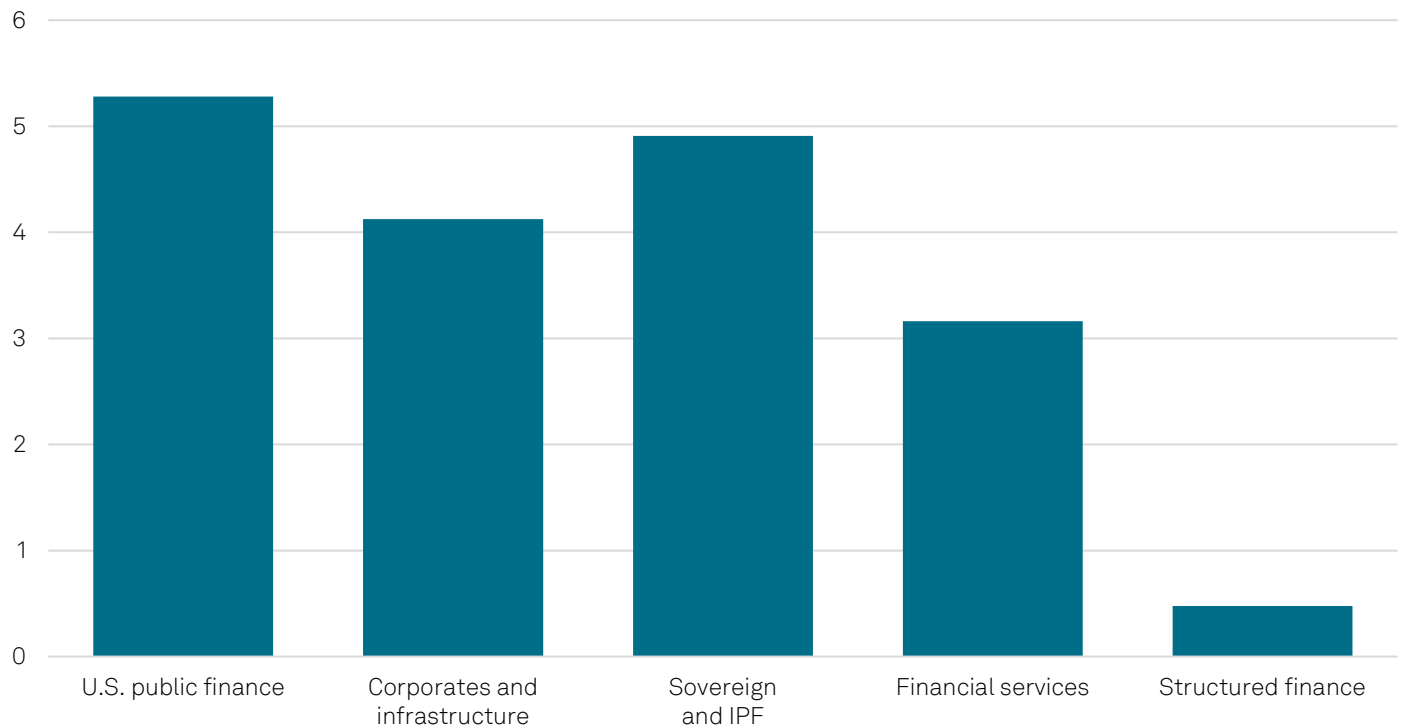
2023 ESG-related credit rating actions by sector and factor

Number of actions and proportion positive/negative



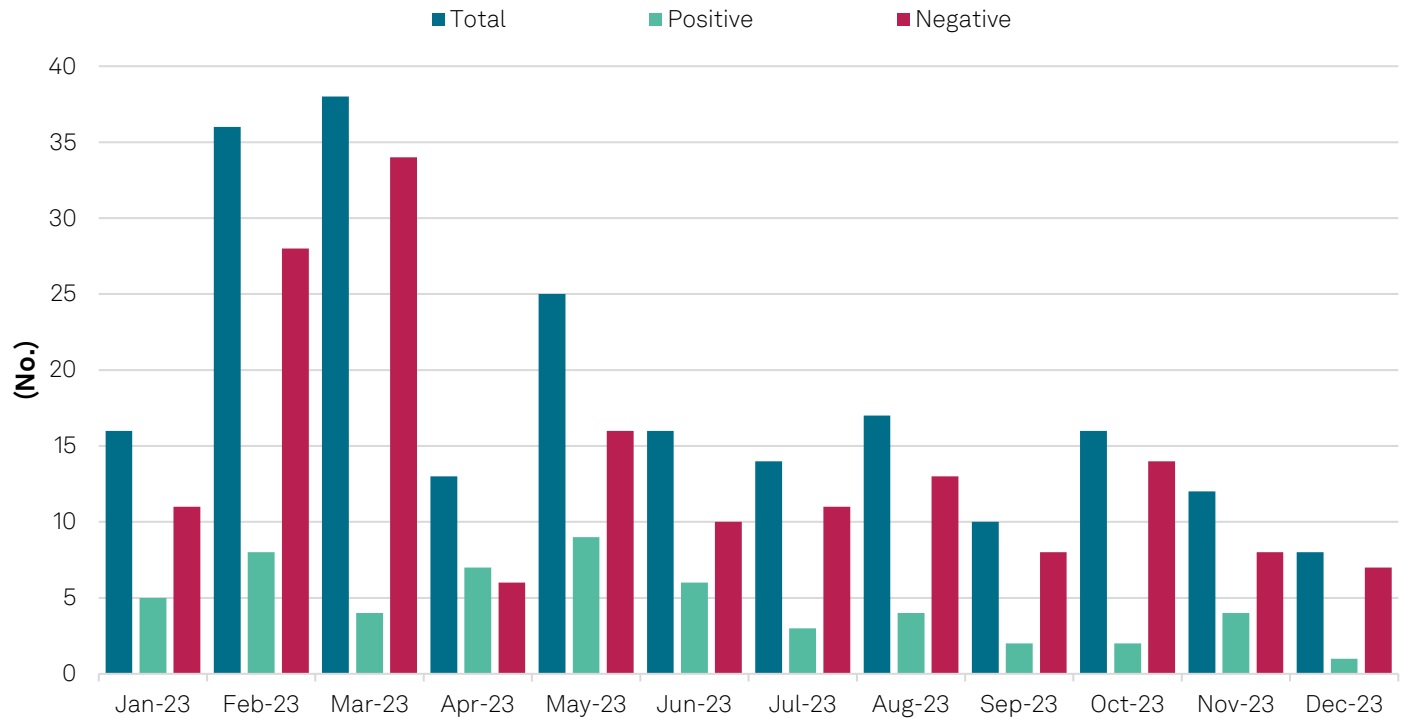
Data as of Dec. 31, 2023. Rating actions include rating, CreditWatch, and outlook changes and withdrawals. Structured finance actions relate to ESG impacts by transaction (tranche), while for other sectors, the impact is measured on the issuer credit rating. ESG--Environmental, social, and governance. IPF--International public finance. Source: S&P Global Ratings.

2023 ESG-affected rating actions (% of total)



Data as of Dec. 31, 2023. Total rating actions exclude affirmations, withdrawals, and new ratings, including instances where multiple rating actions exist. ESG--Environmental, social, and governance. IPF--International public finance. Source: S&P Global Ratings.

2023 ESG-related credit rating actions by month



Data as of Dec. 31, 2023. Positive actions include upgrades, CreditWatch positive placements, upward outlook revisions, and upgrades with outlook revisions. Negative actions include downgrades, downward outlook revisions, CreditWatch negative placements, downgrades with outlook revisions, and withdrawals. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

Appendix

ESG-related credit rating actions

Year to date

	U.S. public finance	Corporates and infrastructure	Sovereigns	International public finance	Financial services	Structured finance	Total
Downgrade	48	21	1	5	6	16	97
CreditWatch negative	18	2	0	0	1	18	39
Downward outlook revision	12	14	0	0	3	0	29
Upgrade	7	26	0	1	0	0	34
Upward outlook revision	0	18	1	0	1	0	20
CreditWatch positive	0	0	0	0	0	1	1
Withdrawn	1	0	0	0	0	0	1
Total ESG-related rating actions*	86	81	2	6	11	35	221
Environmental§	5	15	0	1	2	0	23
Social§	23	49	0	1	0	34	107
Governance§	84	29	2	4	13	2	134

Data as of Dec. 31, 2023. *Rating actions include rating, CreditWatch, and outlook changes and withdrawals in January-December 2023. Structured finance actions relate to ESG impacts by transaction (tranche), while for other sectors, the impact is measured on the issuer credit rating. §The sum of ESG actions by factor may exceed total ESG-related rating actions because some actions are influenced by multiple factors. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

Sector Contacts

Lai Ly

Global Head of ESG Research
+33-1-4075-2597
lai.ly
@spglobal.com

Pierre Georges

Corporates
+34-14-420-6735
pierre.georges
@spglobal.com

Nora Wittstruck

U.S. Public Finance
+1-212-438-8589
nora.wittstruck
@spglobal.com

Matthew S Mitchell

Structured Finance
+33-6-17-23-72-88
matthew.mitchell
@spglobal.com

Sarah Sullivant

Sovereigns
+1-415-371-5051
sarah.sullivant
@spglobal.com

Emmanuel Volland

Financial Institutions
+33-14-420-6696
emmanuel.volland
@spglobal.com

Taos Fudji

Insurance
+39-02-7211-1276
taos.fudji
@spglobal.com

Research Contributor

Yogesh Balasubramanian

Mumbai
CRISIL Global Analytical Center,
an S&P affiliate

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.