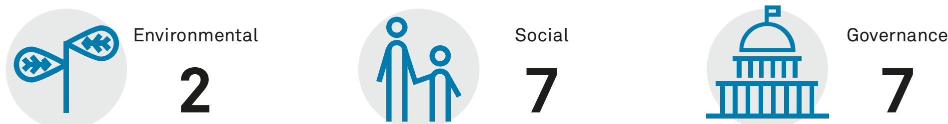
ESG In Credit Ratings Newsletter

February 2022

S&P Global Ratings

This report does not constitute a rating action

By The Numbers – January 2022 ESG-Driven Credit Rating Actions



*Rating actions comprise rating, CreditWatch, and outlook changes in January 2022. ESG--Environmental, social, and governance.

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Key Takeaways

– We take a positive view of the European Central Bank's (ECB's) climate risk stress test because it paves the way for banks to better understand and integrate climate risks into their risk-management frameworks.

– Banks will have to forecast potential losses stemming from climate risks, and report how they would amend their business models under various long-term climate change scenarios.

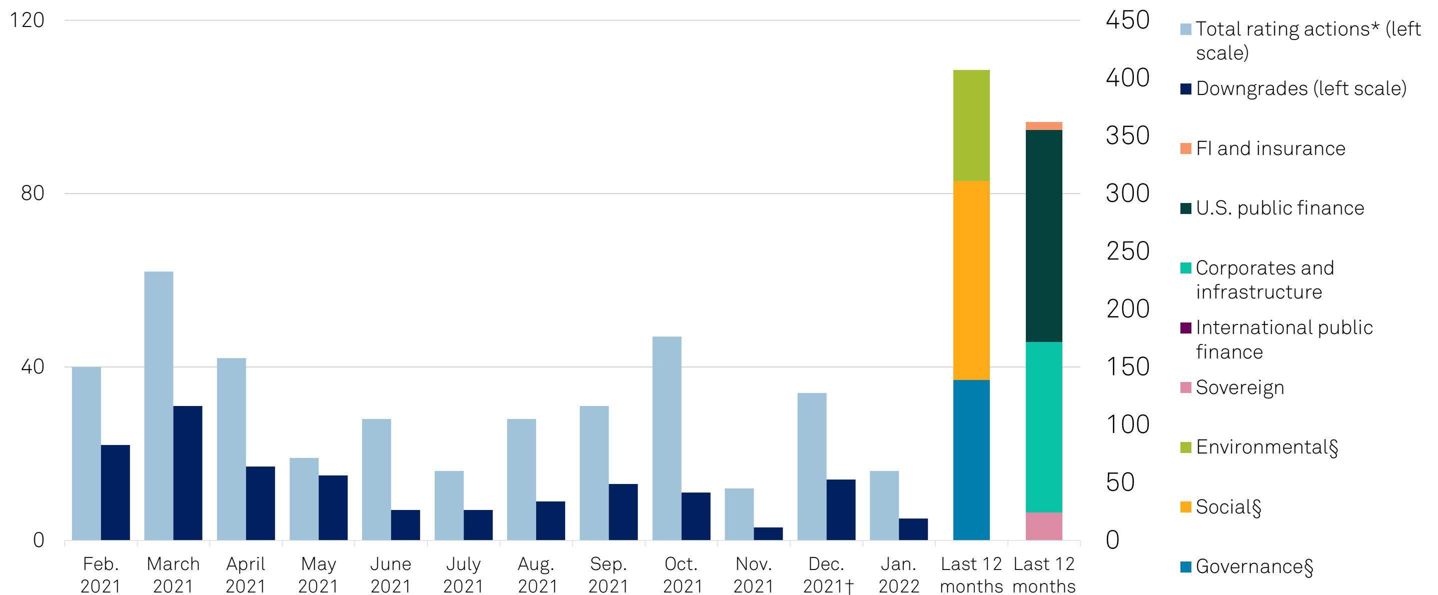
– The results, due July 2022, will provide insight into where the biggest climate risks lie. Given the assumptions set by the ECB, we believe that most banks will report only limited capital impact overall.

– Environmental factors have only a limited impact on our bank ratings. However, improved disclosure of risks that could become standardized and comparable, and which detail banks' vulnerabilities to climate and environmental risks, would benefit our credit analysis and help us further differentiate between banks.

For a deeper dive into sustainable finance developments, see our [ESG Sustainable Finance Newsletter](), Feb. 24, 2022.

ESG-Related Credit Rating Actions Excluding Structured Finance

Feb. 2021- Jan. 2022



*Rating actions comprise rating, CreditWatch, and outlook changes over February 2021-January 2022. §The sum of social, governance, and environmental actions slightly exceeds total ESG-related rating actions because some actions were influenced by multiple factors. †Includes one issuer for which the outlook was revised to CreditWatch Developing" from "Stable". ESG--Environmental, social, and governance. Source: S&P Global Ratings.

ESG-Related Credit Rating Actions Including Structured Finance

Jan. 2022

	Sovereigns	International public finance	U.S. public finance	Corporates and infrastructure	Structured finance	FI and insurance	Total
Downgrade	1	0	2	2		0	5
CreditWatch negative	0	0	1	0		0	1
Downward outlook revision	0	1	1	1		0	3
Upgrade	0	0		4		1	5
Upward outlook revision	0	0	1	1		0	2
CreditWatch positive	0	0		0		0	0
CreditWatch developing	0	0		0		0	0
Total ESG-related rating actions*	1	1	5	8	0	1	16
Of which social§	0	0	2	5		0	7
Of which governance§	1	0	3	2		1	7
Of which environmental§	0	1		1		0	2

*Rating actions comprise rating, CreditWatch, and outlook changes in January 2022. 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 social, governance, and environmental actions may exceed total ESG rating actions because some actions are influenced by multiple factors. ESG--Environmental, social, and governance.

The ECB's Climate Risk Stress Test Paves Way For Banks To Integrate Climate Risks Into Operations

Following the U.K.'s Prudential Regulatory Authority (PRA), the ECB is the second European supervisory authority to launch a "bottom-up" climate risk stress test in 2022. Unlike previous economywide stress tests conducted by various regulatory authorities, the projections will not be made "top-down"; rather, the banks themselves will formulate the projections, using their own credit and market risk models under scenarios set by the ECB. This will require much more work from individual banks, but should produce more revealing results. The increasing prominence of climate stress testing in the financial services industry worldwide is a key trend that will drive the ESG agenda this year (see "S&P Global Outlines Key Trends That Will Drive The ESG Agenda In 2022," published Jan. 31, 2022).

This stress test is part of a broader supervisory push to move climate risks higher on the risk management agenda for European banks, and a regulatory effort to include ESG risks into the three pillars of the Basel prudential framework (see box below).

We view these initiatives as positive developments because most banks have not yet fully integrated climate risks into their risk-management frameworks. In its recent assessment of the largest eurozone banks, the ECB noted that about half of the banks expect climate and environmental risks to have a material effect in the short to medium term, and that the largest impacts will be on credit, operational, and business model risks. Despite that, only a few institutions have implemented climate risk practices in line with supervisory expectations. Integrating climate risks across the full spectrum of risk management activities will require major efforts for banks in the years to come.

Regulators Plan To Gradually Include ESG Risks Into The Three Pillars Of Basel Capital Requirements

Pillar 1 - Minimum capital requirements. At the moment, ESG risks are not covered by minimum capital requirements under Pillar 1. In the EU's Capital Requirements Regulation, the European Banking Association (EBA) is due to assess whether assigning a higher risk weight to "brown" assets would be justified. The deadline for the EBA to report its findings was recently accelerated to end-2023. We believe that such a capital treatment for "brown" assets may be possible only if data availability and consistency improves. Also, policymakers will likely proceed with caution because of the consequences any changes might have on the climate transition of some economic sectors.

Pillar 2 - Supervisory review. Supervisors are already assessing ESG risks, as shown by the climate risk stress test and other exercises conducted in the past few years. Furthermore, they have long used pillar 2 add-ons to reflect deficiencies in risk management, high litigation risks, or other aspects of governance. In its latest proposed revision of the Capital Requirements Directive, the European Commission reinforces the importance of ESG risks in the Supervisory Review and Evaluation Process (SREP) and, most importantly, proposes to create a new supervisory power aiming to reduce the risks arising from banks' misalignment with relevant EU policies related to ESG. However, it remains to be seen if this wording will make it intact to the final legislation and, if that's the case, if supervisors believe this to be a sufficiently sound legal ground to pursue corrective actions.

Pillar 3 – Market discipline and disclosures. The EBA recently published its final draft technical standards for Pillar 3 disclosures regarding ESG risks. Banks will be required to publish qualitative information about ESG risks and quantitative data about their exposure to climate change transition and physical risks. These disclosures are aligned with those recommended by the Financial Stability Board's Task Force on Climate-related Financial Disclosures, and the classifications specified in the EU's Taxonomy Regulation. In addition, banks will need to report their Green Asset Ratio (GAR) and their Banking Book Taxonomy Alignment Ratio (BTAR), indicating the extent to which their financing activities are associated with economic activities aligned with the Taxonomy Regulation and the Paris Agreement. Banks will also need to clearly show how they are mitigating those risks, including information about how they are engaging with clients in the adaptation process to climate change and the transition toward a more sustainable economy. We believe the creation of harmonized ESG disclosure standards will help reduce information asymmetries, ease transparency, and improve the comparative analysis of environmental data.

The ECB's exercise has three modules (see overview in box below). The overarching goal is to raise the bar for banks' internal stress-testing capabilities, by requiring them to collect data on their riskiest exposures and integrate climate risk dimensions into their regular stress test models.

The ECB's Climate Risk Stress Test: An Overview

Module 1
Questionnaire
Assesses how banks are building internal climate risk stress test capabilities, through 78 questions covering: - Governance of climate stress tests. - Data availability. - Scenarios considered. - Detailed assumptions.

Module 2
Peer benchmark exercise
Compares banks across common climate risk metrics: - Share of income/expenses/exposures to 22 most-impacted industries. - GHG intensity: Scope 1, 2, 3 emissions/€ of revenue for top 15 counterparties, in each of the 22 most-impacted sectors.

Module 3			
Bottom-up stress test			
Transition risk		Physical risk	
Short-term vulnerability	Long-term strategic response	Flooding risk	Drought and heat wave
Assesses how extreme weather events would affect banks (physical risk), how vulnerable the banks are to a sharp increase in carbon prices (short-term transition risk), and how banks would respond to long-term climate change scenarios (long-term transition risk).			

GHG--Greenhouse gas. Sources: European Central Bank (ECB), S&P Global Ratings.

Under the three-year transition risk stress test, banks will forecast their potential credit and market losses under a base case and a disorderly transition. The ECB has based its assumptions on the scenarios provided by the Network for Greening the Financial System (NGFS). Under the disorderly transition, late and sudden policy actions to reverse climate change would lead to a tripling of carbon prices over a three-year period. However, the overall impact on macroeconomic variables would be relatively limited. For instance, the cumulative hit to GDP would be about 2%, compared with the baseline scenario. By way of comparison, 2021's EBA stress test envisaged a far more substantial economic deterioration, with a cumulative GDP decline of about 13% over the three years between the adverse and the baseline case. Similarly, the assumed price shocks for key market variables, such as equity prices for most affected sectors, are milder than those in 2021's stress test. Given the positive results from 2021's exercise and the less punitive assumptions set by the ECB, we expect that most banks will report only limited capital impact under the disorderly transition scenario.

In addition, banks will be asked to forecast potential credit losses in 2030, 2040, and 2050 for selected portfolios under three scenarios provided by the NGFS. Under each long-term scenario, banks will indicate how they would rebalance their exposures. This will be the most interesting part of this exercise, since predicting credit losses over such a long period is likely to be more art than science. Finally, banks will be asked to assess the effect on their credit portfolios of potential severe physical events--floods and heatwave/drought--on collateral values. For this part of the test, banks will be allowed to mitigate potential losses with existing private insurance covers as well as public natural disaster relief schemes. However, they will not need to account for second-round economic effects, such as potential losses on exposures to insurance companies. This will also greatly reduce the overall capital impact for most banks.

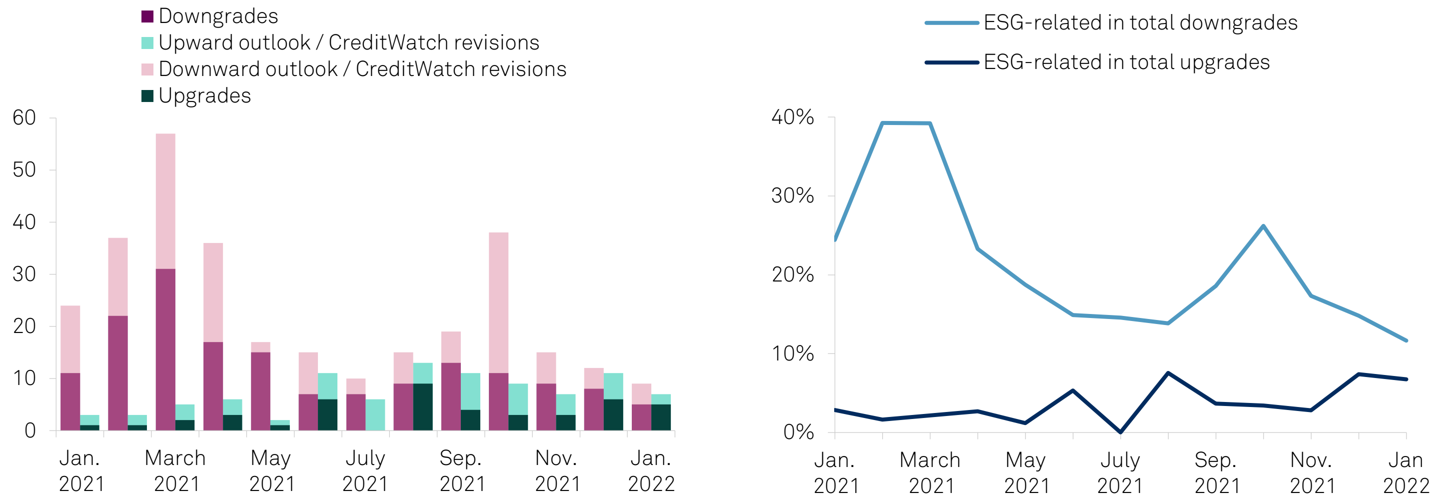
Better climate risk disclosure, better credit risk differentiation among banks. Currently, environmental factors have only a limited impact on our bank ratings. For most EU banks, our

environmental credit indicator--measuring the influence of this factor on our rating analysis--is 2 (on a 1-5 scale, with 5 being 'very negative'). This indicates a neutral impact on our credit rating analysis. Better quality disclosures of banks' exposures and vulnerabilities to climate and environmental risks, which are more easily comparable, would support our credit analysis and help us further differentiate among banks. Over time, the implementation of public climate policies will aim to reduce physical risks, but in turn will likely increase transition risks for economic sectors with elevated greenhouse gas emissions. At that point, banks' ability to measure and mitigate climate risks would become an important factor affecting their creditworthiness.

For more information, see "The ECB's Climate Risk Stress Test: Raising The Bar For Banks," published Feb. 3, 2022.

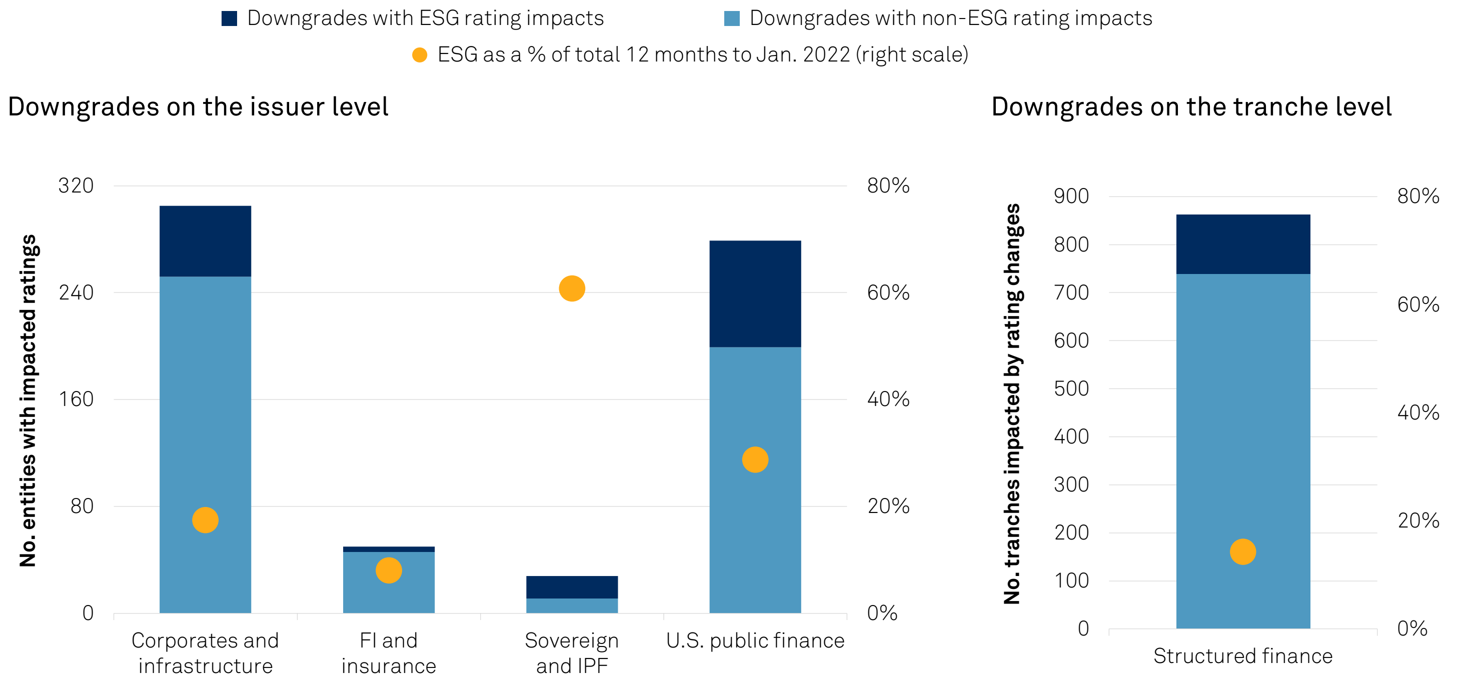
Overview: ESG Credit Rating Actions

Monthly Breakdown Of ESG-Related Credit Rating Actions (Excluding Structured Finance)



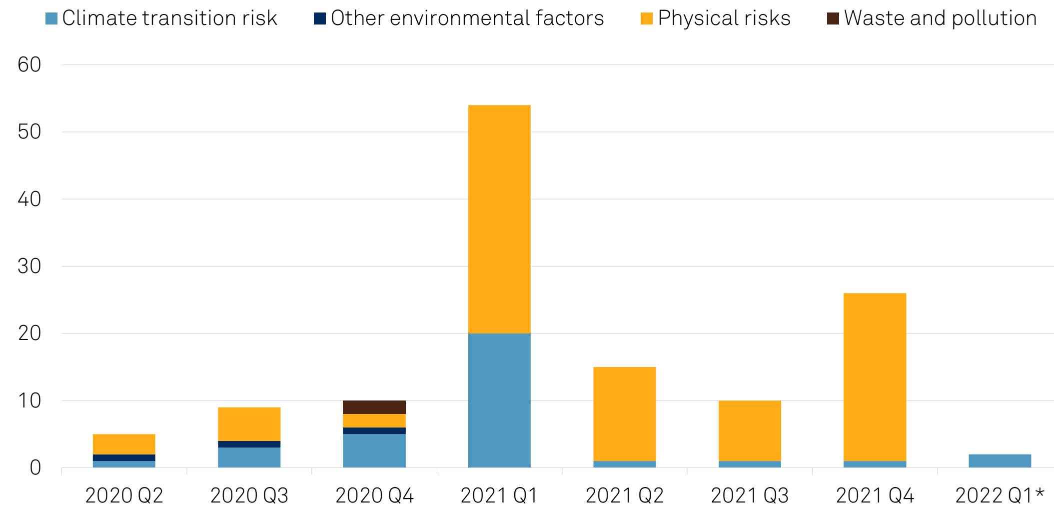
ESG--Environmental, social, and governance. Source: S&P Global Ratings.

ESG Versus Non ESG-Affected Credit Ratings (February 2021 - January 2022)



Note: Includes downgrades between February 2021 and January 2022. Entities reflect issuers (ultimate parent only without subsidiaries), except for issues/tranches for structured finance. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

Rating Changes With Environmental Factors As Key Drivers (Excl. Structured Finance)

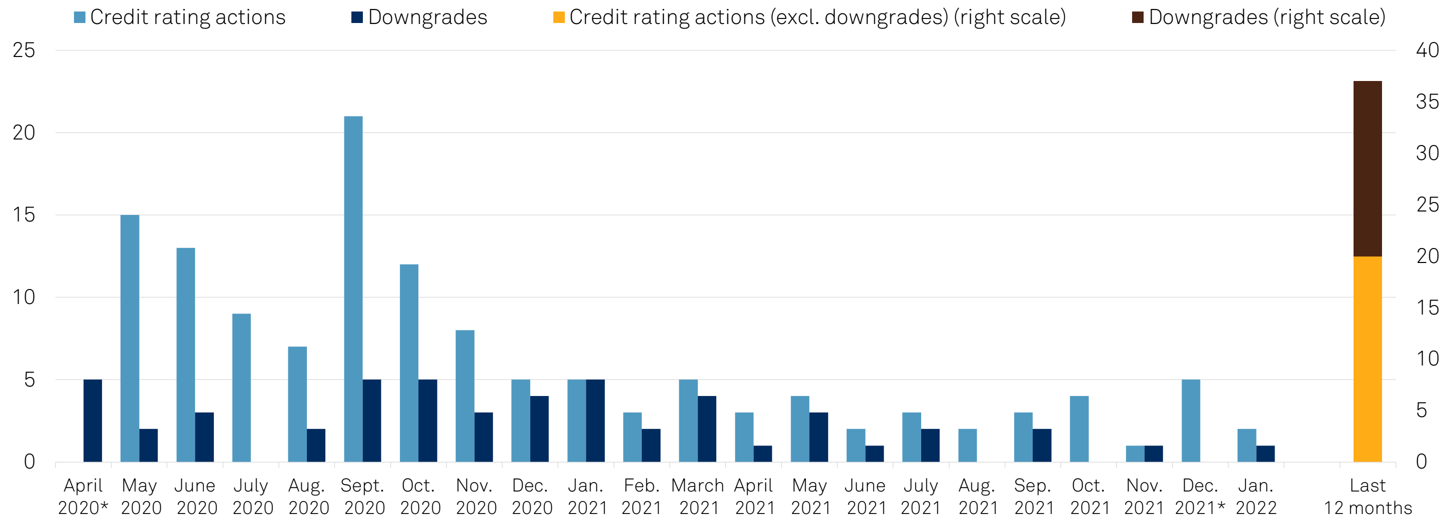


* Through Jan. 31, 2022. Source: S&P Global Ratings.

Sovereigns And International Public Finance

[Download table of all ESG-related rating actions]

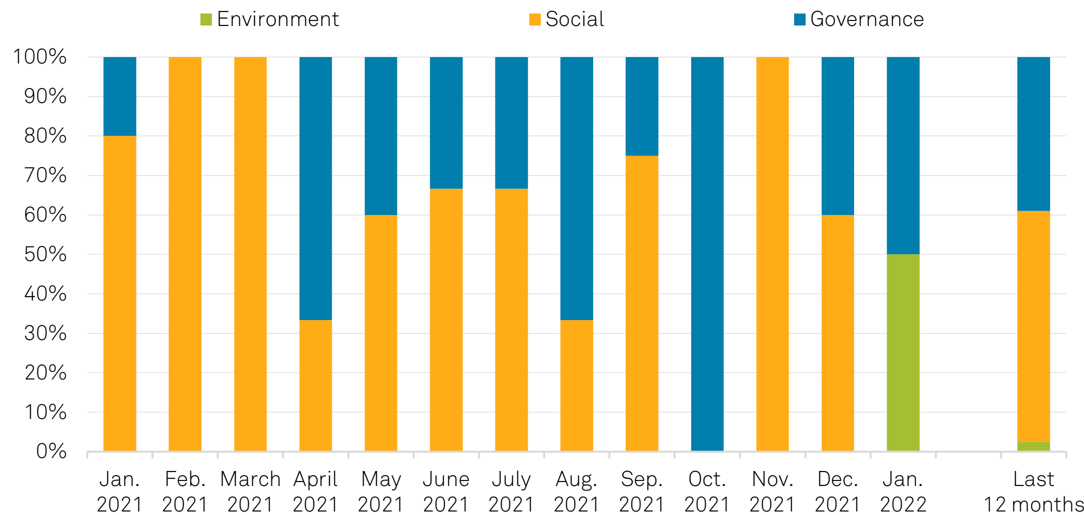
Sovereigns And International Public Finance ESG-Related Credit Rating Actions



Note: Rating actions comprise rating, CreditWatch, and outlook changes. *April 2020 rating actions amounted to 43, of which 38 corresponded to negative outlook revisions. * December 2021 includes one issuer which was revised to "CreditWatch Developing" from "Stable". ESG--Environmental, social, and governance. Source: S&P Global Ratings.

Sovereign And International Public Finance: ESG-Related Credit Rating Actions By ESG Factor

Share of total ESG-related credit rating actions



ESG--Environmental, social, and governance. Source: S&P Global Ratings.

The energy agenda weighs on the U.K.'s social housing sector. We have identified climate transition risk as a key risk for the U.K. social housing sector in 2022, given the sharper focus on asset quality and consumer standards, including the national push toward energy efficiency, which narrows the financial headroom on some entities. Enhanced building safety and energy efficiency standards will require investments to reach a minimum Energy Performance Certificate (EPC) rating of C by 2030-2035, to be followed by expenditure on reaching the government's net-zero carbon emissions target by 2050. We think that these costs will remain, and likely increase over time, and this will result in more investments in existing stock (see "Social Housing Outlook 2022: Green Agenda Takes Root in Investment Plans," published Nov. 23, 2021.)

Case Study: U.K. Social Housing Association East Midlands Housing Group Ltd. Outlook Revised To Negative; 'A+' Ratings Affirmed, Jan. 27, 2022

The outlook revision reflects our view that EMH's increased investment in existing stock and development targets will entail higher-than-expected costs. This will tighten the group's financial position and keep its debt burden elevated over the next three years. U.K. housing associations are subject to interim targets of transforming all properties to meet EPC C standards by 2030, which will result in material increases in capital spending and debt for many entities, reducing margins and weighing on financial performance.

Environmental, social, and governance (ESG) credit factors for this outlook change:

- Climate transition risk

Governance risks were highlighted in our downgrade of Burkina Faso. Governance factors are central to the creditworthiness of sovereign entities, particularly to the extent they are incorporated into our institutional assessment. As the credit impact of the COVID-19-induced health and safety crisis induced fades, we have seen fewer ESG-driven sovereign credit rating actions, and those taken have been driven primarily by governance credit factors.

Case Study: Burkina Faso Ratings Lowered To 'CCC+/C' And Put On CreditWatch Developing Following Military Coup, Jan. 26, 2022

Following a military coup that deposed the sitting president, dissolved the national assembly, suspended the constitution, and closed the country's borders, S&P Global Ratings lowered its long- and short-term foreign and local currency sovereign credit ratings on Burkina Faso to 'CCC+/C' from 'B/B'. We placed all ratings on CreditWatch with developing implications to reflect the uncertainty inherent in the current political situation. The ratings reflect the heightened political, economic, and financial risks caused by the sudden destabilization of the country's governance structure.

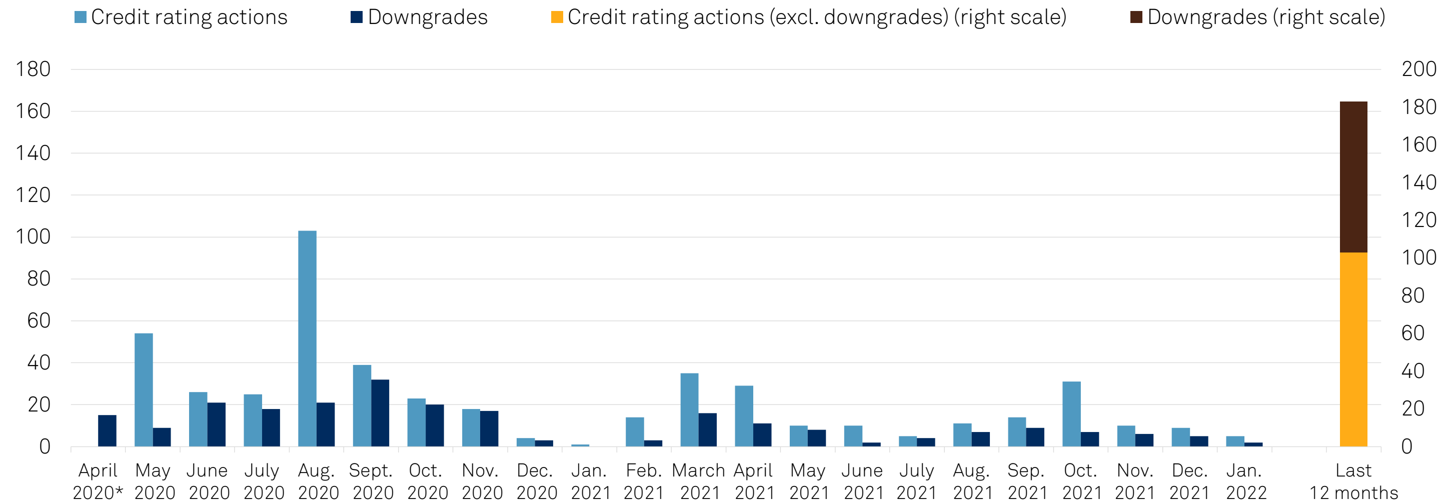
Environmental, social, and governance (ESG) credit factors for this rating action:

- Governance structure

U.S. Public Finance

[Download table of all ESG-related rating actions]

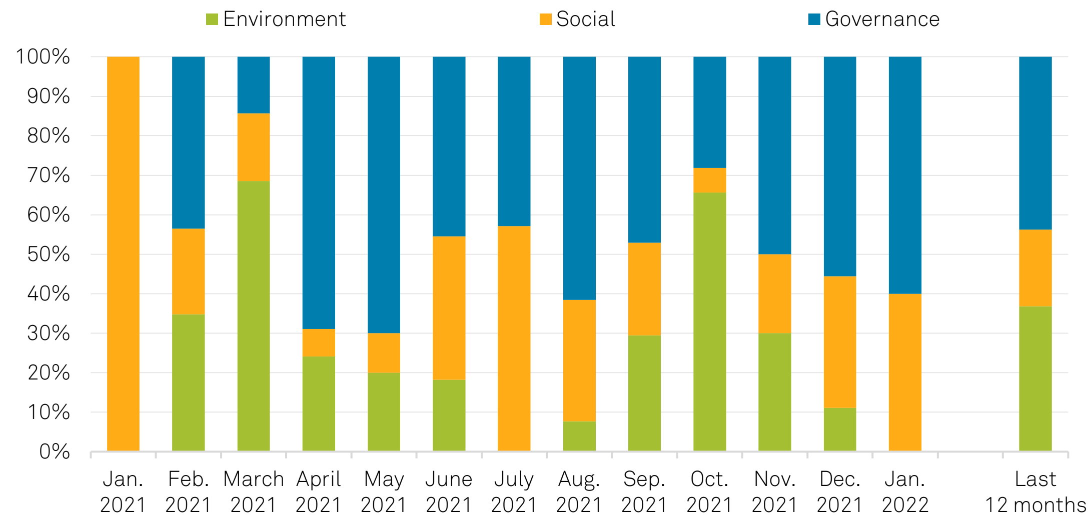
U.S. Public Finance ESG-Related Credit Rating Actions And Downgrades



Rating actions comprise rating, CreditWatch, and outlook changes. *April 2020 rating actions amounted to 451 of which 425 corresponded to negative outlook revisions. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

U.S. Public Finance: ESG-Related Credit Rating Actions By ESG Factor

Share of total ESG-related credit rating actions



Note: There was only one rating change in January. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

U.S. public finance kicked off January with five ESG-driven credit rating actions--a relatively small number compared with usual monthly activity. We believe that January will remain an outlier and that monthly ESG-driven credit rating actions are likely to accelerate during the remainder of the year, as government officials continue managing evolving ESG issues that affect their operations.

Case Study: Kentucky Rating Outlook Revised To Positive From Stable On Improved Budgetary Performance, Jan. 28, 2022

S&P Global Ratings revised the outlook to positive from stable and affirmed its 'A' issuer credit rating on the **Commonwealth of Kentucky.** The positive outlook reflects our view of Kentucky's improved risk-management practices, which are captured under our ESG factors, including less reliance on one-time items to balance the budget, and a higher rainy day fund--the budget reserve trust fund--which increased to $1.9 billion, or 16% of general fund expenditure, from $303 million in fiscal 2020. The improved governance also incorporates Kentucky's transition of its Teachers' Retirement System to a hybrid structure for teachers hired after Jan. 1, 2022. We believe these changes improve the legal flexibility to meet our view of minimum funding progress, as well as modifying a number of plan assumptions (see "Teachers' Pension Plan Changes Are A Step Forward For Kentucky's Finances," published Jan. 25, 2022). This is in addition to Kentucky continuing its commitment to fully funding the actuarially determined contributions of the pension plans since fiscal 2017, which we view positively.

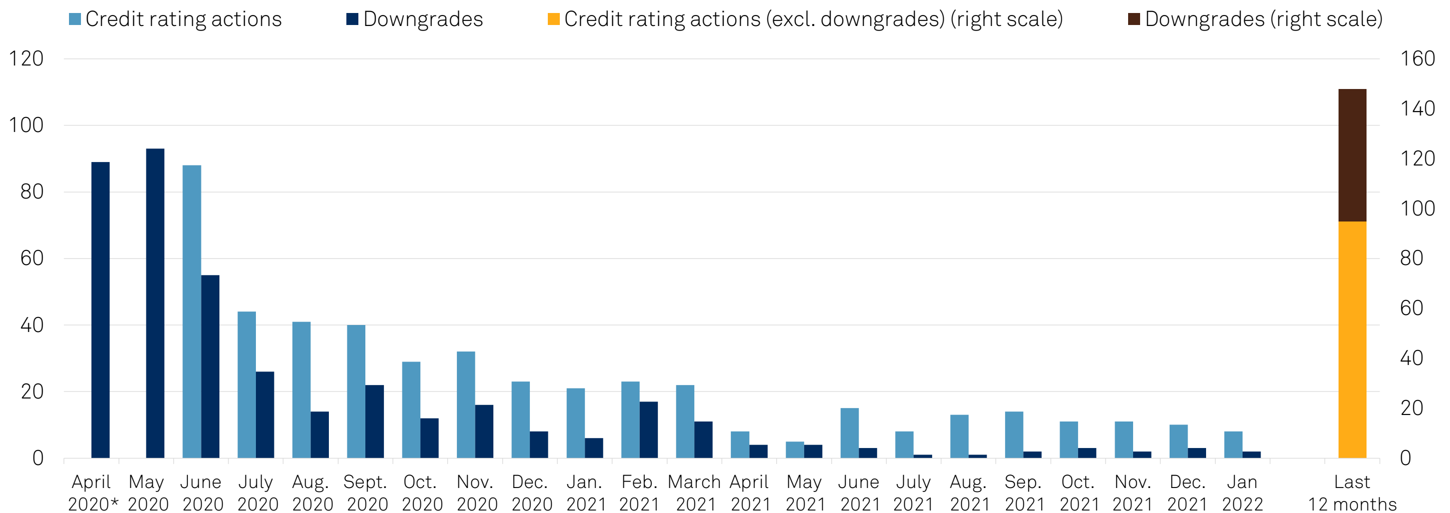
Environmental, social, and governance (ESG) credit factors for this outlook change:

- Risk management, culture, and oversight

Corporates And Infrastructure

Download table of all ESG-related rating actions

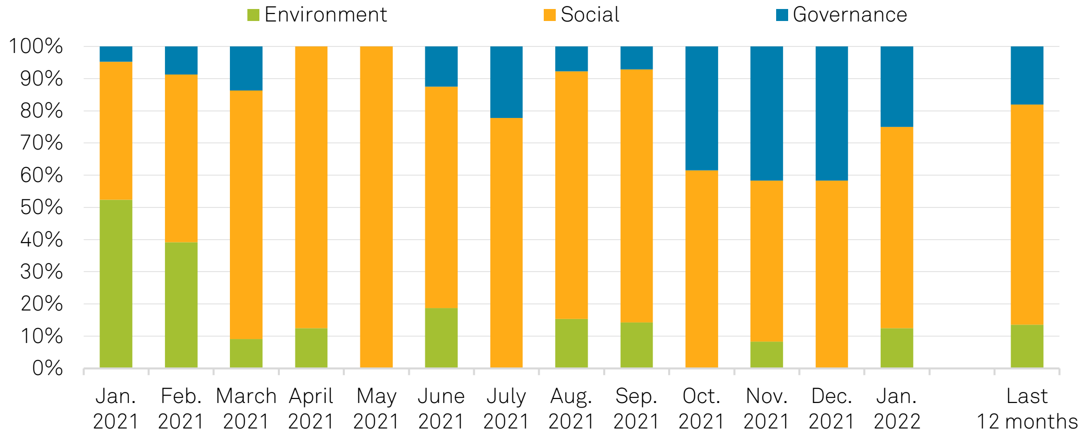
Corporates And Infrastructure ESG-Related Credit Rating Actions And Downgrades



Note: Rating actions comprise rating, CreditWatch, and outlook changes. *April 2020 rating actions amounted to 187, of which 101 corresponded to negative outlook revisions. May 2020 rating actions amounted to 139, of which 44 corresponded to negative outlook revisions. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

Corporates And Infrastructure: ESG-Related Credit Rating Actions By ESG Factor

Share of total ESG-related credit rating actions



ESG--Environmental, social, and governance. Source: S&P Global Ratings.

We began the new year with eight ESG-driven rating actions for corporates and infrastructure in January 2022. Approximately 60% of these were driven by health and safety factors, most of which were in the media and entertainment sector, and all of which were positive rating actions. These reflected ongoing improvements in business conditions as vaccination availability and rates rise, COVID-19 treatment options increase, and masking regulations and social and travel restrictions were relaxed. This led to positive actions on U.S. movie exhibitor National Cinemedia Inc., online travel agency eDreams ODIGEO S.A., and European lottery provider Sazka Group A.S. and its Greek gaming subsidiary OPAP S.A. We also upgraded global car rental company Avis Budget Group Inc. as the company continued to benefit from a strong car rental environment. U.S. airline traffic has since recovered to close to pre-COVID-19 levels on domestic routes as vaccinations have become widespread. By contrast in Europe, we forecast a more gradual recovery for air traffic, bearing in mind the higher share of international traffic, with 2022

forecasts at maximum 65% compared with pre-pandemic levels. See "Industry Top Trends 2022: Global Transportation Infrastructure," published Jan. 26, 2022.

Total Traffic Recovery In Different Regions (Passenger Volume)

Calendar year (from 2019 baseline)	U.S. airports[1]	European airports[2]	APAC airports[3]	LATAM airports[4]
2021e	70%	20%-35%	50%-70%	50%-70%
2022f	85%-90%	45%-65%	60%-80%	70%-85%
2023f	95%-100%	70%-85%	70%-90%	90%-100%
2024f	100%-105%	80%-95%	85%-100%	100%-105%

[1]Of total market, approximately 80% is domestic traffic. [2]Of total market, approximately 20%-30% is domestic traffic. European airports have a lower proportion of domestic traffic relative to other regions. [3]Of total market, approximately 60%-80% is domestic traffic. Varies across the region; reflects rated Australian, New Zealand, and Indian airports. [4]Of total market, approximately 70%-80% is domestic traffic. e--Estimate. f--Forecast. Source: S&P Global Ratings.

Governance factors also drove two credit rating actions in January. The negative outlook revision on Polish telecom company Cyfrowy Polsat S.A. considers our view of Cyfrowy prioritizing the interest of its controlling shareholder, given its larger-than-anticipated short-term investments, combined with large shareholder remuneration. We also lowered our ratings for Spain's leading natural gas transmission company Enagas S.A, revising its governance score to fair from satisfactory given our concern about risks related to the company's diversification strategy.

Case Study: Enel Chile S.A. And Enel Generacion Chile Downgraded To 'BBB' From 'BBB+' On Expected Higher Leverage, Outlook Stable, Jan. 24, 2022

We updated our base-case scenario for the Chilean electricity utility, Enel Chile S.A., incorporating new hydrology conditions and the company's latest strategic plan for 2022-2024 announced in late 2021. With close to 45% of its capacity coming from hydro plants, Enel Chile is exposed to hydrology risks, which can cause cash flow volatility, as seen in 2021. The company's 2022-2024 investment plan continues to prioritize carbon reduction, but was also slightly higher than expected, thus weighing further on its already-leveraged financial profile. Enel Chile's net debt to EBITDA will therefore remain above 3x in 2022, which is not commensurate with the previous 'BBB+' rating.

At the same time, we view Enel Chile's strategy to increase renewable installations by 2.3 gigawatts and phase out its remaining coal plant by May 2022 as positive from a credit standpoint, because it will enhance the company's already-leading position in the Chilean market (as of Sept. 30, 2021, the company had a market share of 37% in terms of energy sales in the generation business) and to reduce its exposure to hydrology and commodities.

Environmental, social, and governance (ESG) credit factors for this rating action:

- Climate transition risk

Financial Services

Financial services ratings have experienced very few ESG-related credit impacts through January 2022. Since April 2020, the banking and insurance sectors have seen hardly any credit rating or outlook changes directly attributable to ESG factors (even if several negative outlook revisions were triggered by the indirect economic effects of the pandemic). The ESG trends we see as most relevant for financial services companies, and which are growing in momentum, are the efforts to tackle climate change and the standardization of ESG reporting. As many countries target a green recovery following the pandemic, banks and insurers have an opportunity to support this in how they allocate capital, through lending, investing, or underwriting. This presents opportunities for growth and returns, but also poses challenges as firms look to manage their exposure to climate risks throughout their value chains. However, because banks and insurers are often dependent on the quality of disclosure from their underlying counterparties (for example, borrowers, policyholders, or investee companies), their ability to reliably assess their own exposures can be undermined if there are gaps in the underlying data.

An increasing number of authorities and regulatory bodies are working on setting supervisory frameworks for banks and insurers to address climate-related risks. Their initial goal is to encourage these businesses to deepen their knowledge of climate-related risks and incorporate them under the current prudential framework. We also expect supervisors to finetune their methodologies, including the stress tests, to assess banks' and insurers' vulnerability to these risks, to ultimately ensure financial stability.

Case Study: First Instance Of Insurance Credit Rating Positively Influenced By Climate Risk

On Jan. 26, 2022, S&P Global Ratings assigned its 'BBB-' long-term financial strength rating to Portugal-based P&C insurer Abarca Companhia de Seguros, S.A. (Abarca). This is the first instance where we believe environmental factors, namely Climate Transition Risk, have a positive influence on the credit rating analysis of an insurance company. As such, we have assessed Abarca's environmental credit indicator as 'E-1'.

The rating reflects Abarca's success in creating a sustainable and profitable business model since its creation in 2016. Abarca's core specialty is to guarantee the completion of energy infrastructure projects, notably renewables, but it also provides surety on other types of projects and services, including housing projects. The long-term nature of surety bonds (four-to-five-year maturity) increases the predictability of premium generation in the coming three years. In addition, the huge need for growth in Europe for renewables and other energy infrastructure projects to fulfill the 2050 decarbonization goals puts Abarca in a good position for continued profitable expansion in 2022-2023.

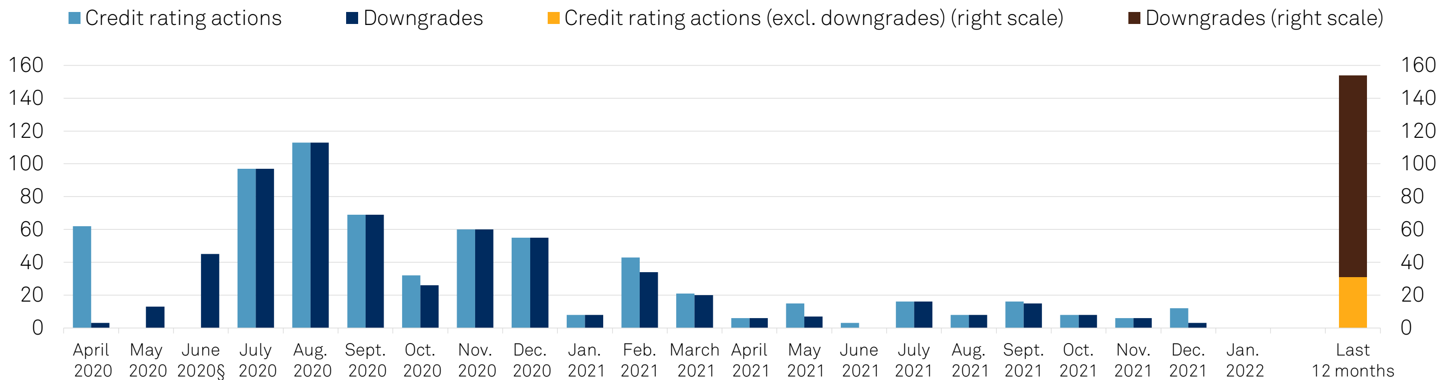
ESG credit indicators: E-1, S-2, G-2

- Environmental factors are a positive influence on our credit rating analysis of Abarca. Abarca's focus on underwriting performance bonds related to renewable energy projects means it is well placed to benefit from Europe's goal to achieve carbon neutrality by 2050 and the resulting need for renewable infrastructure projects. Our assessment of Abarca's competitive position as fair includes the benefits of ongoing climate transition. Although we also believe the insurer is exposed to some key-person risk, given its small headcount, we view the decision-making process as highly collegial.

Structured Finance

[Download table of all ESG-related rating actions]

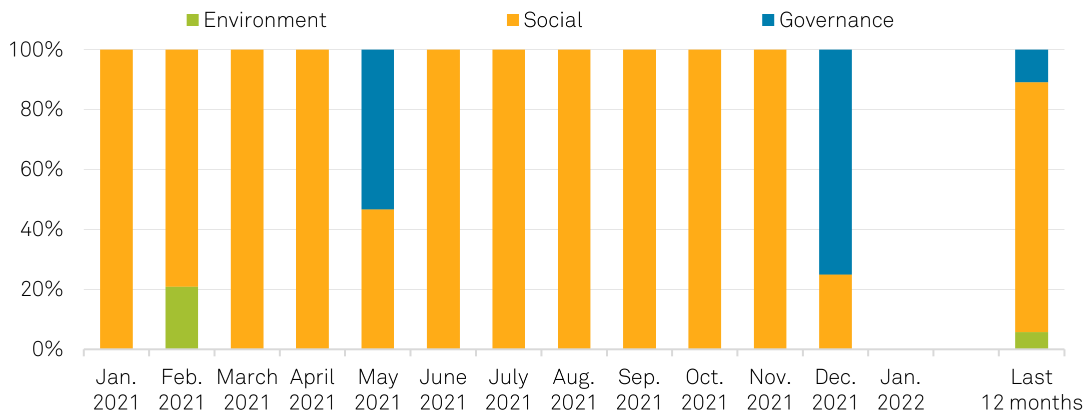
Structured Finance ESG-Related Credit Rating Actions And Downgrades



Note: May 2020 rating actions amounted to 167, of which 154 corresponded to negative outlook revisions. June 2020 rating actions amounted to 182, of which 137 corresponded to negative outlook revisions. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

Structured Finance: ESG-Related Credit Rating Actions By ESG Factor

Share of total ESG-related credit rating actions



ESG--Environmental, social, and governance. Source: S&P Global Ratings.

There were no rating changes in January where ESG credit factors were considered a key driver.

Structured finance issuers are typically established as special purpose entities (SPE) where the roles and responsibilities of each transaction party are well defined. This makes the transaction documentation, outlining the management and operation of the structure, a key component of our analysis of the governance framework. In connection with the phaseout of Libor, we consider how effective the documented requirements for selecting alternative interest rates may be in mitigating the risk. For transactions where successor interest language may be unclear and where amendments may be difficult, or so-called "tough legacy" issues, we see more uncertainty on how the contractual interest amounts owed to noteholders will be determined following the cessation of Libor. Where an alternative interest rate ultimately cannot be determined following the cessation of Libor, we would generally consider it a governance structure ESG credit factor for structured finance issuers, since the mechanics outlined in the transaction documentation were not effective in determining a successor rate. Following the discontinuation of sterling, Japanese yen, Swiss franc, and euro Libor on Dec. 31, 2021, we have begun taking rating actions on transactions whose successor language is unclear or where we understand solutions such as synthetic Libor will not be applied. We have not yet taken any action on issues tied to major dollar or other Libor settings for which additional time is available before the benchmark is phased out. For further information, see "Failure To Replace Discontinued Libor Settings Could Lead To Issue Credit Rating Actions," published Nov. 15, 2021.

Appendix

COVID-19's direct (ESG) versus indirect (non-ESG) credit rating impact

We consider the COVID-19 pandemic to be a social credit factor when we believe health concerns and social-distancing measures have a direct impact on an entity's activities. Put differently, our data presented here exclude rating actions stemming from the pandemic-induced recession, and from the downturn in oil and gas that started before the COVID-19 outbreak and is tied to oversupply and a price war. For sovereign ratings, however, we see the pandemic's direct and indirect macroeconomic, fiscal, and external impacts as intertwined and feeding into each other, and therefore consider rating actions triggered by the COVID-19-induced recession as health and safety-related.

We have tagged credit rating actions tied directly to health and safety concerns as ESG-driven

One of the clearest examples is airlines, for which demand has significantly dropped due to travel restrictions to stop the spread of the virus. Other examples include auto dealers, which were forced to close their doors due to social-distancing requirements, resulting in lost sales for auto manufacturers. Movie theaters, airports, restaurants, and leisure activities were/have been shut down due to the virus and local requirements for social distancing, resulting in a total cessation of revenue streams and limitations on large and social gatherings.

For the purposes of classifying ESG impacts, we excluded indirect rating actions tied to the pandemic-induced recession.

For example, the recession may ultimately increase the risk of nonpayments for banks or depress asset values, affecting insurers. While important, we have not flagged these as ESG-driven. Similarly, many corporate sectors are indirectly affected; for instance, many consumer products companies have had to reduce their advertising, thereby affecting media companies. Also, job losses and loss of consumer confidence have stopped buyers from making large consumer products purchases.

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