FINANCE FOR THE FUTURE

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MOODY'S

Moody's: Decoding climate and ESG risks

Climate Leader

What?

In 2021, global integrated risk assessment firm Moody's committed to achieving net zero by 2040, bringing forward its previous net zero commitment by ten years.

Moody's sustainability strategy includes a framework with three pillars: better business, better lives and better solutions. These pillars guide the company's work to operate more sustainably across its own operations and value chain, strengthen human and social capital for people and communities, and drive market clarity and standards.

Through strategic acquisitions and integrating ESG into its core products, Moody's offers a wide range of climate and ESG data, insights and analytic capabilities. These solutions cover the full cycle of data and analytics, providing a comprehensive integrated approach to customers. The company's climate solutions enable customers to identify, quantify and manage their climate risk exposure.

Moody's is a member of TCFD and TNFD, a founding member of the Net Zero Financial Service Providers Alliance and part of the Glasgow Financial Alliance for Net Zero (GFANZ). Recently, the company took part in road-testing the Science Based Targets initiative's Net-Zero Standard.

> Moody's plays a catalytic leadership role in equipping the next generation of market participants, providing them with the tools and insights to make more sustainable decisions as well as de-risk emerging markets and developing countries.
>
> Finance for the Future Awards judges

Why?

For Moody's, climate change represents a critical, complex, and integrated risk. As a risk assessment firm with deep domain expertise in climate science, engineering, and financial analysis, the company believes it has an important role to play in helping market participants to navigate climate risk with transparent and effective data and analytics solutions.

One driver for Moody's focus on climate and ESG solutions is the rapidly increasing market demand. This has partly been driven by the evolving regulatory landscape. Disclosure requirements such as TCFD are prompting more companies to consider climate-related financial risk in their governance, strategy and risk management. Central banks, too, are establishing new expectations and best practices for managing climate risk.

Aside from regulatory changes, the financial impact of climate change is becoming clearer when customers leverage Moody's data, insights and analytical solutions. As a result, businesses, investors and financial institutions are paying more attention to climate risk and committing to net zero targets. Moody's existing capabilities and reach put it in a strong position to expand its offerings to meet the growing need for climate risk data, analytics and modelling.

> Our world is experiencing rapid, system-wide change largely driven by growing ESG risks, which is increasing market demand for solutions that offer rigour, transparency and trusted insights. Moody's is meeting this demand by bringing high-quality, independent research and analysis to customers seeking to understand ESG as part of a range of interconnected risks.

Nicole Young, MD Head of Stakeholder Sustainability, Moody's

How?

Moody's sustainability strategy integrates best practices in identifying and quantifying risk across its business processes, requirements for partners, and offerings in the market:

- The three pillars of Moody's sustainability framework are based on five of the UN Sustainable Development Goals, including SDG 13, climate action. The company started with a materiality assessment to identify the aspects of sustainability considered most material to its stakeholders.
- A decarbonisation plan includes science-based targets and a detailed roadmap showing how the company will reduce its emissions. One target is for 60% of Moody's suppliers, by spend, to set their own science-based targets by 2025. Shareholders voted on the plan at an annual general meeting.
- ESG is included in Moody's core credit ratings and analytics solutions. Two scores - ESG Issuer Profile Scores and Credit Impact Scores - provide transparency on the systematic integration of ESG considerations into credit analysis. The company also built climate into its Expected Default Frequency model to calculate a climate-adjusted probability of default. Meanwhile, the Credit Lens product now allows Moody's customers to incorporate climate considerations into decisions on issuing new credit.
- Moody's also offers supply chain solutions, helping its customers to evaluate the ESG performance of suppliers and potential suppliers. The company can provide a modelled ESG score for millions of private companies that customers can use in their supplier due diligence or climate-related supply chain risk assessments.
- Strategic acquisitions have enabled Moody's to expand its offerings and integrate climate and ESG into existing products. The company bought a majority stake in climate risk company Four Twenty Seven in 2019 and acquired RMS, a climate and natural disaster modelling company in 2021. These additional capabilities enabled Moody's to refine and enhance climate and ESG risk assessment across its portfolio of offerings including the Climate on Demand software for understanding global and physical risk to real asset portfolios.
- Moody's is part of a number of initiatives and partnerships aimed at guiding best practices and setting standards around climate and sustainability disclosures in the financial markets, including TCFD, TNFD and GFANZ. And, as a member of the Net Zero Financial Service Providers Alliance, Moody's committed its relevant products and services to net zero.

www.moodys.com

The Finance for the Future Awards recognise the role of finance in driving sustainable economies.

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