

Scorecard

Fitch Solutions ESG Ratings Methodology

About Fitch Solutions

LAUNCH DATE

2019

FOCUS

Corporate ESG ratings

LINK:

<https://www.sustainablefitch.com/products/esg-scores#>

Fitch Solutions ESG Ratings Methodology Score

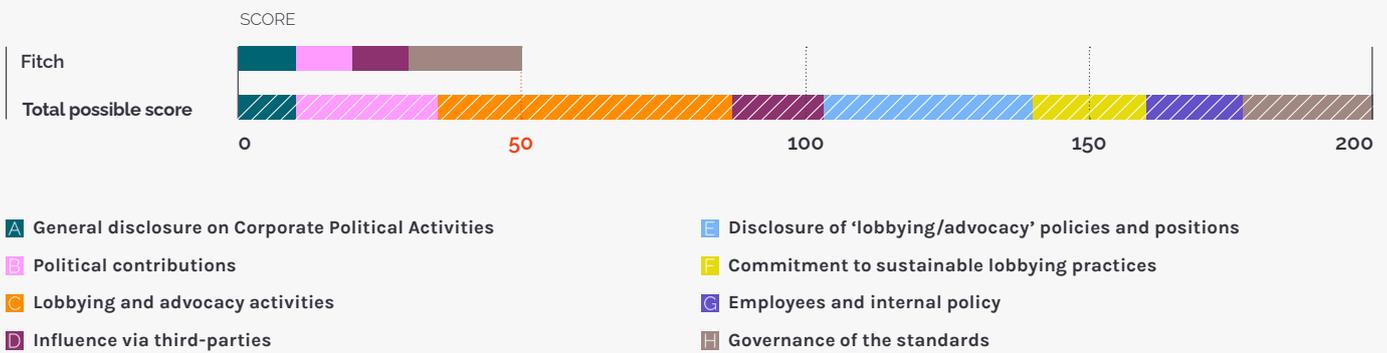


Rank 20 /27

Tracker Rank and Score for Fitch

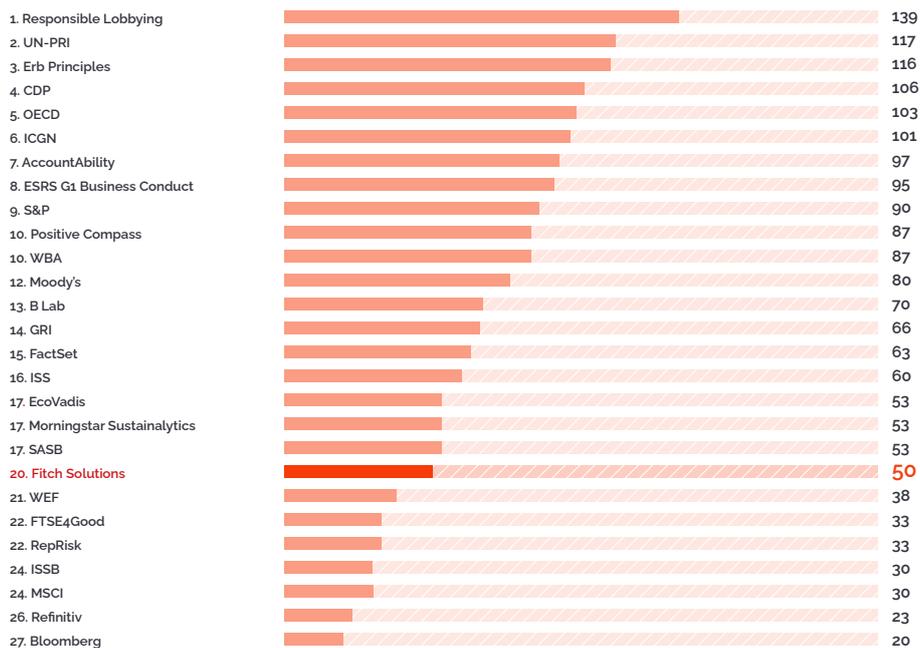
The score is out of a total of 200 and the rank describes the standards position in the 27 standards assessed by the Tracker.

Category scores of Fitch



*Categories where the standard received no points do not appear in the colour-coded graph

Rank and scores for all standards



Description

Fitch Solutions ESG Scores are asset-level evaluations of entities that assess environmental alignment and impact, referring to the EU taxonomy and for social issues, the social aspects of the UN Sustainable Development Goals (SDGs). Fitch Solutions provide two types of ESG scores: (a) an Entity Score, which measures the extent to which an entity's business activities make a positive or negative contribution towards environmental or social goals, as well as the effectiveness of governance; and (b) a Framework Score, which provides an evaluation of the ESG profile of an entity's labelled bond framework, and an assessment of use of proceeds.¹ To enable comparability across and within industries, Fitch ESG Scores are on an absolute scale that ranges from 0 to 100 (100 being the best), which allows comparability across and within industries. The Tracker analysis focuses on the Entity Score.

Accompanying the Entity ESG Score, Sustainable Fitch produces a short summary analysis that includes an evaluation of the individual business practices and activities of the company. These short-form analysis reports of the company, including an evaluation of the business practices and company sustainability targets. There is more detailed commentary on alignment of company conduct and targets with major science-based taxonomies for environmental aspects, including the SDGs and OECD Principles. Analysts monitor company conduct and ESG Scores are valid for 18 months, with updates occurring annually in response to significant ESG events, or at the request of investors with relevant new information.

According to Fitch, their ESG Entity Rating, launched in 2019 as 'ESG Relevance Scores',² "indicate an entity's performance, commitment, and integration of environmental and social considerations into its business, strategy and management, and the effectiveness of governance. The metrics seek to measure the impact of business activities on the environment and on society."³

Score summary

The Sustainable Fitch ESG Ratings Methodology for ESG Entity Rating receives a Tracker score of 50 out of 200. The Fitch approach to assessing corporate conduct determines "whether an entity's main business lines contribute positively to environmental and social goals." This analysis is assumed to cover the disclosure of corporate political activities and lobbying spend as required under local regulations, so the methodology receives points in Category A of the Tracker assessment, 'General disclosure on corporate political activities.' The Fitch process benchmarks "each business activity against internationally recognised environmental taxonomies and internationally recognised documents setting out social goals," including the SDGs.⁴ Finally, the methodology provides a broad assessment on "the extent to which an entity's governance profile furthers environmental and social goals and adheres to sound governance practices." This is understood to include some disclosure of corporate political activities, but only those required by local regulations, which vary by jurisdiction. The high-level approach and lack of specificity in Fitch's approach to assessing corporate political activities weakens their Tracker score.

Opportunities for improvement

The Fitch Solutions ESG methodology does not currently capture corporate political activities in a consistent or comprehensive manner. There is room for improvement across all eight Tracker categories. The Governance pillar in the Fitch ESG scoring process does not appear to cover or assess corporate political activities and other forms of lobbying. As more firms seek to contribute to positive policy goals related to the energy transitions, Category F, 'Commitment to Sustainable Lobbying Practices' should also be added to Fitch's existing scanning of company contributions to ESG goals. According to Fitch, ESG Scores are valid for 18 months and updated annually with new financing transactions; after significant ESG events, or at the request of investors with relevant new information. This approach suggests openness to investors to engage the Fitch team to improve incorporation of corporate political activity data into their methodology.

Endnotes

- 1 <https://www.sustainablefitch.com/products/esg-scores>
- 2 <https://www.fitchsolutions.com/sites/default/files/2022-04/Fitch-Ratings-ESG-Relevance-Scores-Data-FAQs-130422.pdf>
- 3 https://www.sustainablefitch.com/products/esg-ratings?gclid=CjwKCAjw9pGjBhB-EiwAa-5jl3NrBXoUMcNrpZ2ToTAmO7iB3jBSiBoAm_mLB_xZHNeEBAzsAlOQTVRoC_mMQAvD_BwE#about-esg-ratings
- 4 https://assets.ctfassets.net/03fbs7oah13w/5hWQ7R44kPRUDKNH16kBRx/6d14d4655f-484cf5bd361558afea06bc/SUF_ESG_Score_Methodology_2022-06.pdf

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