

# ESG In Credit Ratings

## Q2 2024

S&P Global  
Ratings

### Governance Factors Drive Quarter's ESG-Related Rating Actions

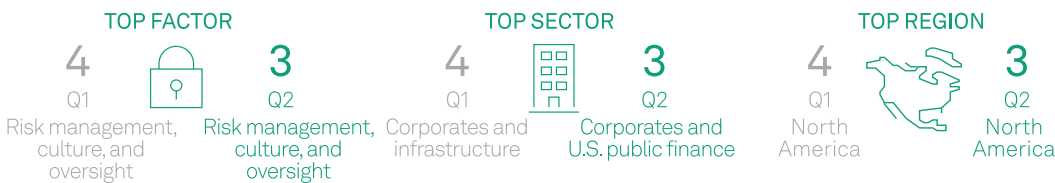
*This report does not constitute a rating action.*

#### By the numbers: Second-quarter 2024 ESG-related credit rating actions

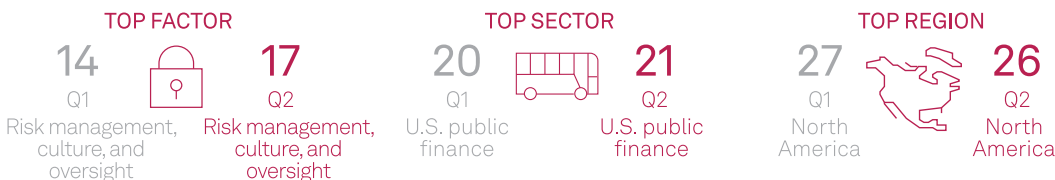
##### Total ESG-driven credit rating actions, Q1 2024 versus Q2 2024



##### Positive rating action breakdown



##### Negative rating action breakdown



ESG-related rating actions are those where ESG credit factors were a key driver of the decision to change a credit rating, outlook, or CreditWatch status. S&P Global Ratings considers ESG credit factors to be those ESG factors that may influence the capacity and willingness of an issuer to meet its financial commitments. Rating actions include changes in ratings, CreditWatch placements, and outlooks between January and June 2024. Excludes CreditWatch developing because it can represent either a positive or negative rating action. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

#### Key Takeaways

- There were 42 rating actions related to environmental, social, and governance (ESG) factors in the second quarter, up from 35 in the first quarter, a 20% increase--with negative actions continuing to outpace positive ones.
- Governance factors remained the primary driver in the second quarter, representing 83% of ESG-related rating actions. Risk management, culture, and oversight continued to be the primary underlying ESG factor with 21 actions, up from 18 the previous quarter.
- U.S. public finance continued to be the sector with the most ESG-related rating actions in the second quarter, increasing to 24 from 21 the prior quarter, for a year-to-date total of 45 (58% of total ESG-related rating activity this year).

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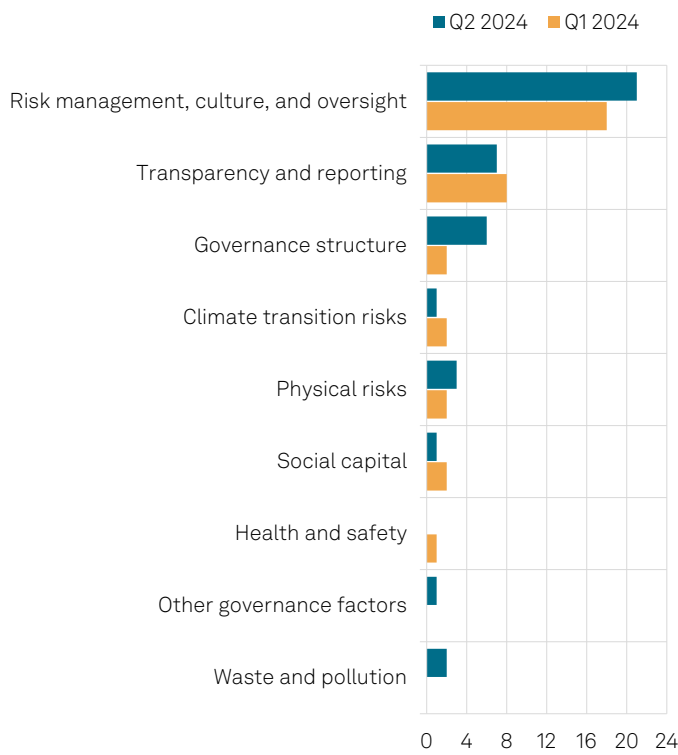
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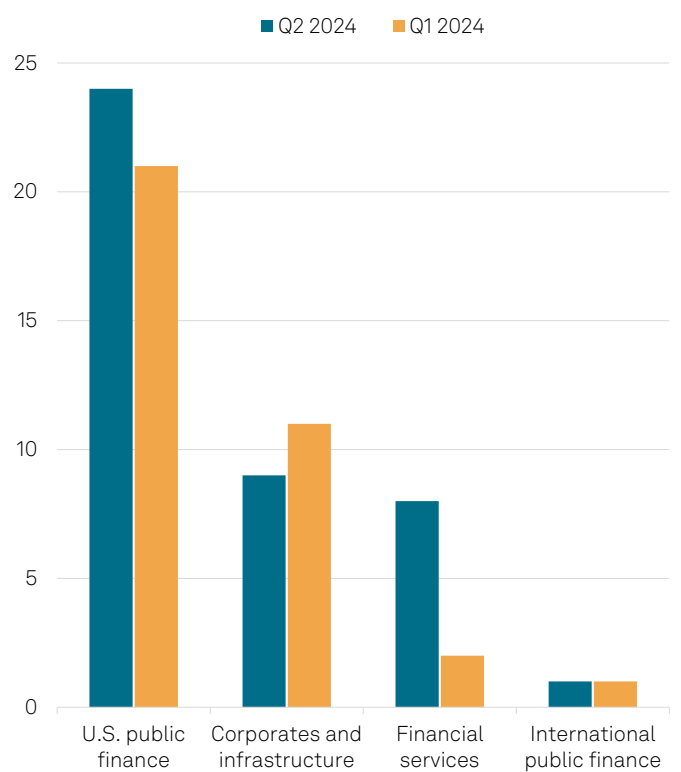
# 2024 ESG Credit Rating Actions

S&P Global Ratings includes a reference in its credit rating rationales when one or more of the below ESG factors were a key driver 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 an assessment of an 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 rating activity by ESG factor**  
Q2 2024 versus Q1 2024, no. of actions



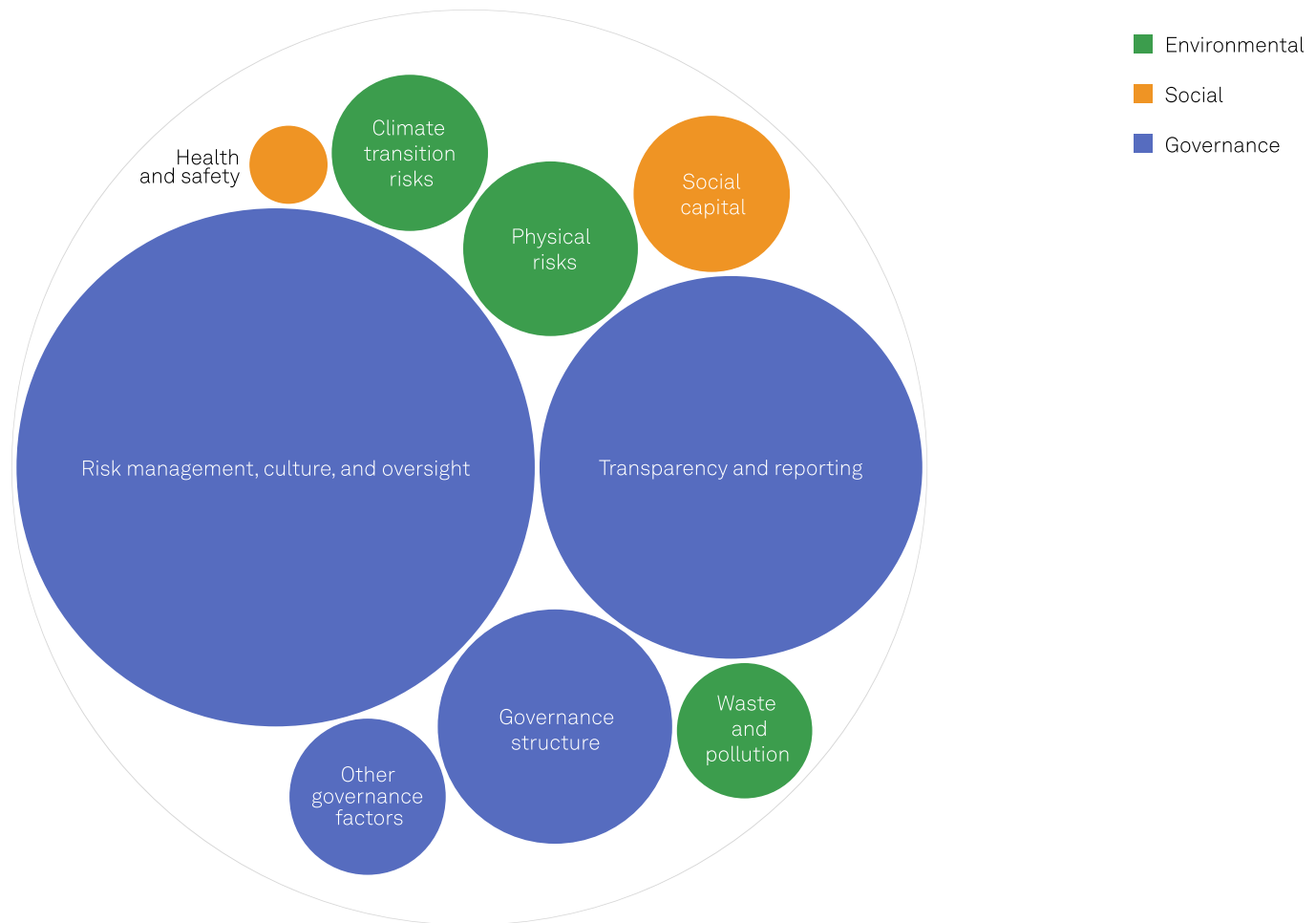
**ESG-related rating activity by sector**  
Q2 2024 versus Q1 2024, no. of actions



Data reviews rating activity between January and June 2024. Source: S&P Global Ratings.

## Leading factors cited in ESG-related rating actions

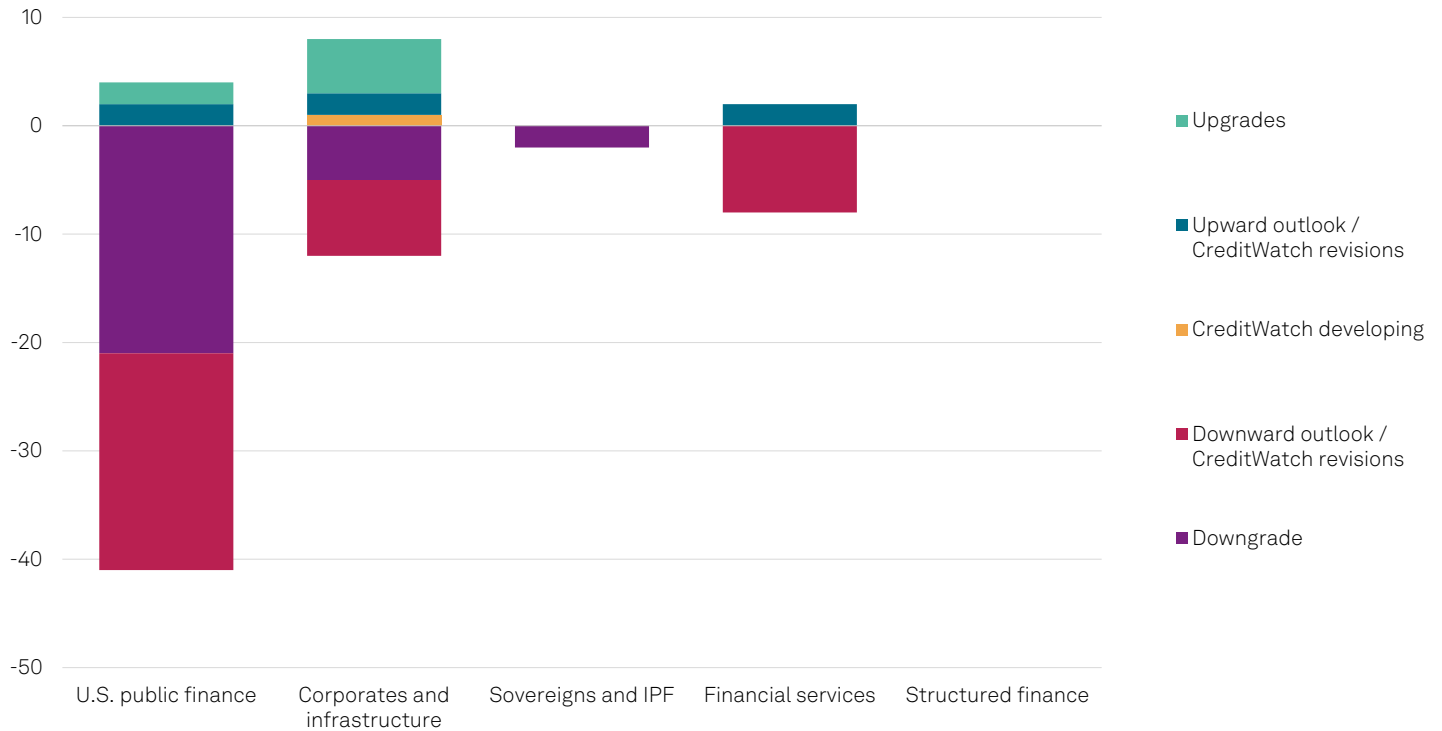
Year-to-date 2024



Data as of June 30, 2024. ESG tagged factors as a proportion of total tagged factors. Bubble size is determined by the occurrence of factors between January and June 2024. In instances where multiple ESG factors were recorded as the main drivers of the credit rating action, each is counted for the purposes of this infographic. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

## ESG-related credit rating actions by type

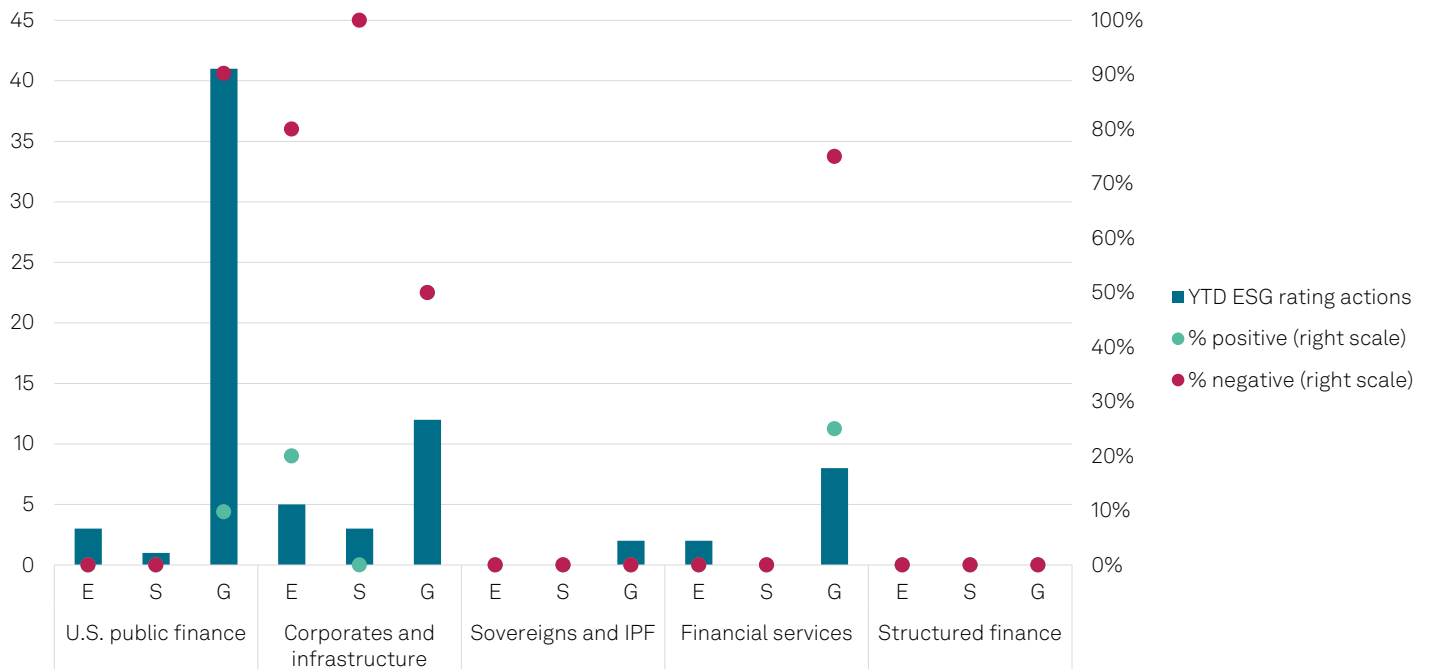
Number of actions, year-to-date



Data as of June 30, 2024. 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 and downward outlook/CreditWatch revisions are shown as negative numbers. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

## ESG-related credit rating actions by sector and factor

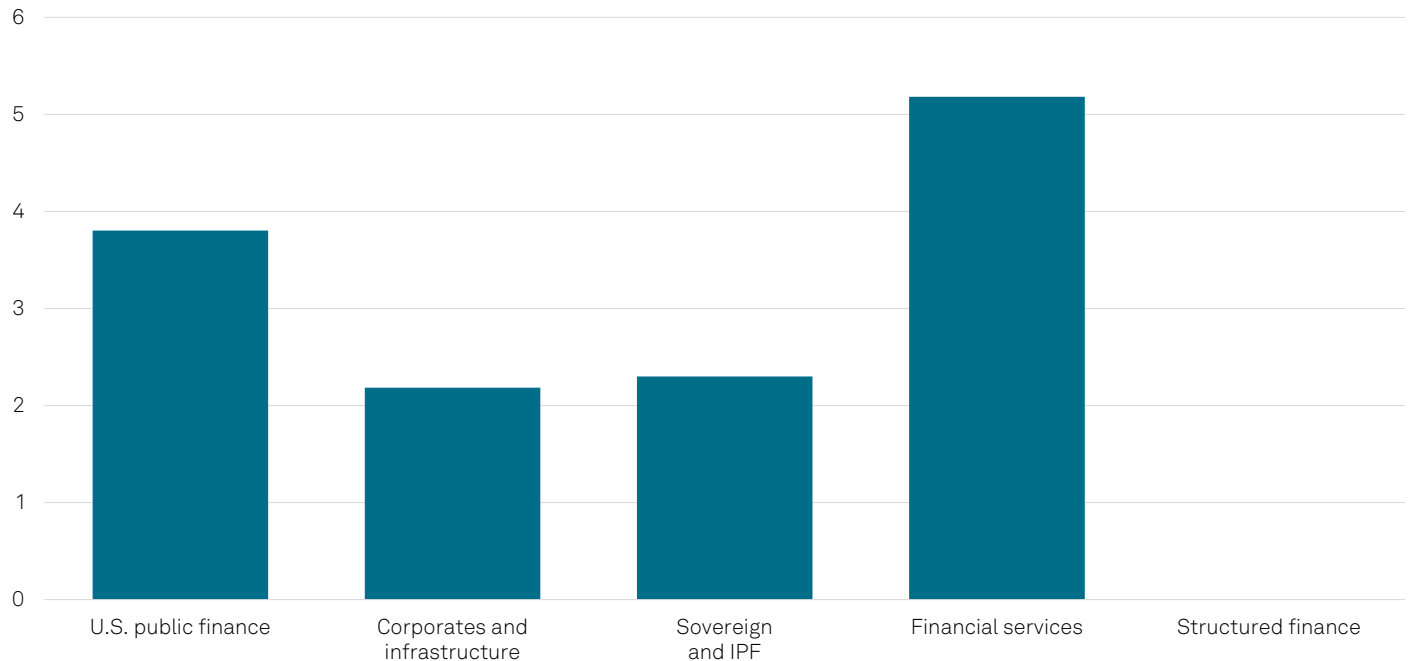
Number of actions, year-to-date



Data as of June 30, 2024. Rating actions include rating, CreditWatch, and outlook changes. 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. YTD--Year-to-date. Source: S&P Global Ratings.

## ESG-related credit rating actions

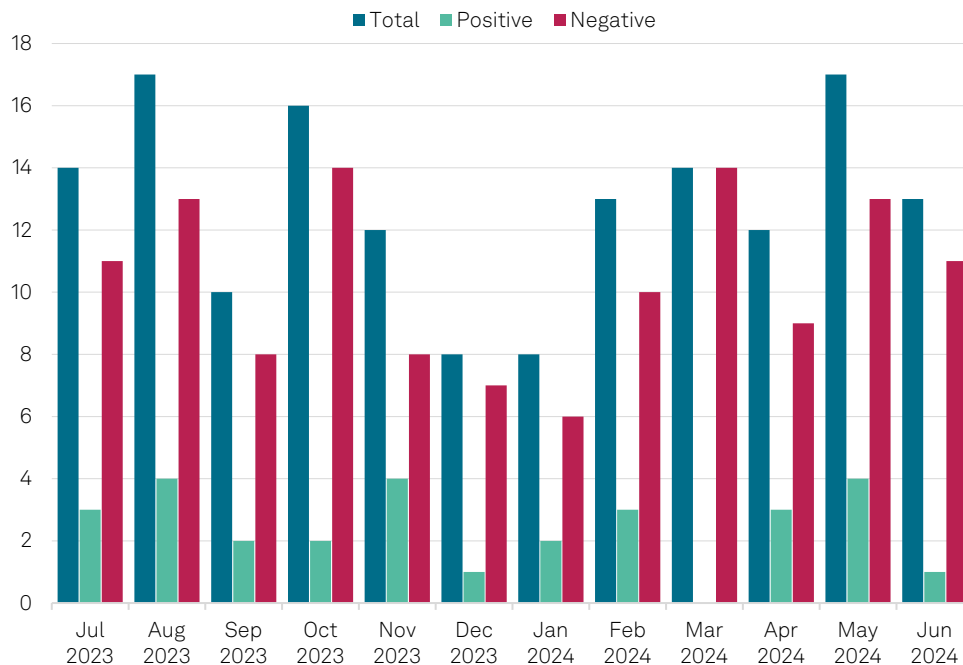
% of total, year-to-date



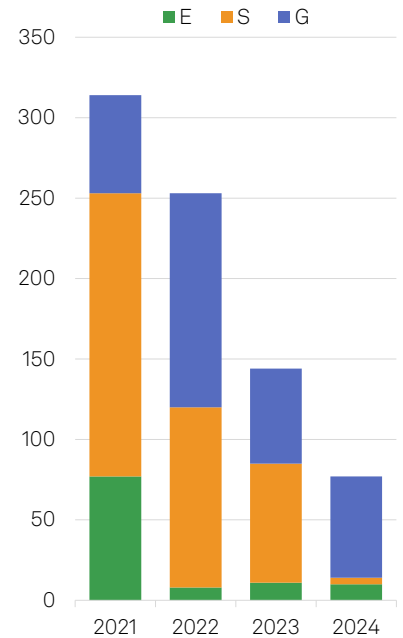
Data as of June 30, 2024. Total rating actions exclude affirmations with no outlook change, withdrawals, and new ratings, including instances where multiple rating actions exist. ESG--Environmental, social, and governance. IPF--International public finance. Source: S&P Global Ratings.

## ESG-related credit rating actions

Number of actions, trailing 12 months



Number of actions, year-to-date



Data as of June 30, 2024. Positive and negative chart excludes CreditWatch developing because it can represent either a positive or negative rating action. 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, and downgrades with outlook revisions. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

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# ESG Research Highlights

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## **Sustainability Insights: Electric Shock: How Engine Technology Affects Auto ABS Risk**

**July 10, 2024**

Vehicle electrification is here to stay. As the market for used battery electric vehicles (BEVs) and plug-in hybrid vehicles (PHEVs) matures, more residual value data for these engine types is becoming available. Used BEVs generally depreciate more than PHEV vehicles while internal combustion engine (ICE) residual values generally outperform both BEVs and PHEVs. Hybrid electric vehicles (HEVs) also generally perform at least as well as ICE vehicles. In auto asset-backed securities (ABS) pools secured by a significant proportion of BEVs and PHEVs, we generally factor the used vehicle price uncertainty in our rating analysis and have recently updated our approach based on used car price depreciation for these engine types.



## **Sustainable Finance FAQ: How S&P Global Ratings Supports Credibility And Transparency In Transition Financing**

**July 2, 2024**

Sustainable finance is not only about financing activities and investments that are already compatible with a low-carbon, climate resilient future, considered "green," and aligned with the Paris Agreement. It is also about financing activities and investments that are not yet compatible with a low-carbon, climate resilient future but contribute to a reduction of greenhouse gas emissions. There are various interpretations of what constitutes transition financing. Broadly speaking, this refers to the financing of activities and investments supporting the shift away from carbon-intensive operations to those more closely aligned with a low-carbon climate resilient future.



## **Decarbonizing Hard-To-Abate Sectors: Credit Quality Implications And Six Key Observations**

**June 25, 2024**

Pressure to decarbonize sectors with hard-to-abate emissions is increasing but is uneven and unlikely to deliver a net-zero carbon trajectory or most countries' stated climate change ambitions. More stringent climate regulations could put pressure on companies' credit quality, particularly when combined with the necessity for massive investment in decarbonization initiatives, increased resource scarcity, and rising production costs. Issuers with investment-grade ratings are better positioned to resist these pressures due to their scale, diversification, market position, and stronger balance sheets.

# Chart Of The Quarter

## Decarbonizing Hard-To-Abate Sectors: Credit Quality Implications And Six Key Observations

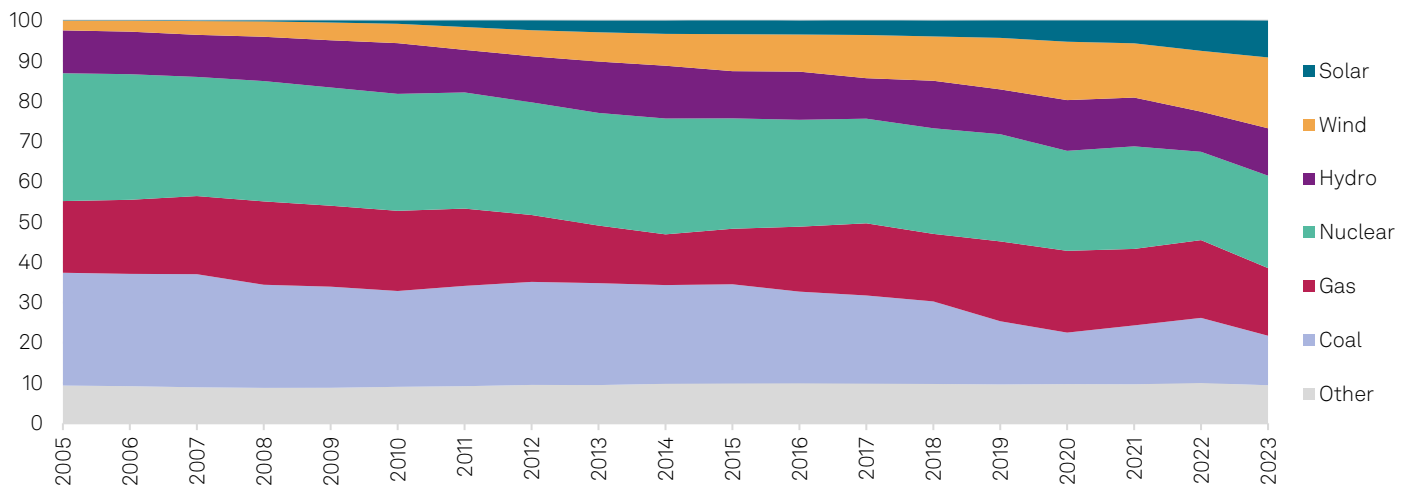
### Observation One: Lessons From A Transformative Decade For Utilities

The power and gas utilities sector is the most advanced in terms of energy transition and has been most affected by the decarbonization journey--perhaps not surprisingly given that energy is at the heart of the decarbonization of economies. The sector's investment in low-carbon technologies has been significant over the past decade and notably included greener generating assets and network upgrades. At the same time, utilities in some regions have faced early closure of fossil fuel-based assets (due to evolving regulations, less favorable prices, and adverse fiscal conditions), which has added uncertainty to returns and cash flow generation during a period of significant investment. We note that the utilities have had to choose from several decarbonization technology options that were, initially, relatively immature, and often costly compared to their legacy assets. The resultant heightened execution risk has often weighed negatively on our assessment of business-risk profiles. This was particularly true in Europe and to a lesser extent the U.S.

In the EU, the material transformation of the power system over the past decade has reflected notably strict regulations, the rapid development of decarbonization technologies (including renewables), and the sector's ability to raise capital. The result has been a 36% decrease in direct (Scope 1) and indirect (Scope 2) carbon emissions between 2013 and 2023. Companies face rising physical climate risks.

### EU renewables generation has increased as coal-fired power has retreated

Generation mix in the EU, %



Source: Ember.

For more, see "[Decarbonizing Hard-To-Abate Sectors: Credit Quality Implications And Six Key Observations](#)," published June 25, 2024.

# 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	21	5	0	2	0	0	28
CreditWatch negative	15	1	0	0	2	0	18
Downward outlook revision	5	6	0	0	6	0	17
Upgrade	2	5	0	0	0	0	7
Upward outlook revision	2	2	0	0	2	0	6
CreditWatch developing or removed from CreditWatch developing	0	1	0	0	0	0	1
<b>Total ESG-related rating actions*</b>	<b>45</b>	<b>20</b>	<b>0</b>	<b>2</b>	<b>10</b>	<b>0</b>	<b>77</b>
Environmental§	6	7	0	0	2	0	15
Social§	1	4	0	0	0	0	5
Governance§	48	17	0	2	11	0	78
<b>Total ESG-tagged factors§</b>	<b>55</b>	<b>28</b>	<b>0</b>	<b>2</b>	<b>13</b>	<b>0</b>	<b>98</b>

Data as of June 30, 2024. \*Rating actions include rating, CreditWatch, and outlook changes between January and June 2024. 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 factors affecting rating actions 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.

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