Task Force on Climate-related Financial Disclosures – Recommendations

The Financial Stability Board established the Task Force on Climate-related Financial Disclosures (TCFD) to develop recommendations for more effective climate-related disclosures that: a) could "promote more informed investment, credit, and insurance underwriting decisions" and b) in turn, "would enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks."

Moody's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have signed statements of support for the recommendations put forward by TCFD in June 2017. Moody's has implemented the recommendation as follows.

Governance

a. **Describe the board's oversight of climate-related risks and opportunities**
The MCO Board of Directors (the "Board") oversees the Company's Enterprise Risk Management ("ERM") process and approves the Company's Environmental Policy. The Company's Chief Risk Officer reviews with the Board the ERM Function's conclusions with respect to risks and opportunities presented by climate change, as well as risk mitigating actions.

b. **Describe management's role in assessing and managing climate-related risks and opportunities**
The assessment of climate-related risks and opportunities is integrated into a multi-disciplinary company-wide risk management process. Management is involved in the ERM process, including discussions of the risks and opportunities presented by climate change, as well as risk mitigating actions.

Strategy

a. **Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.**
MIS publishes credit ratings and research that provide information about the credit risks and other risk aspects of fixed-income securities and other financial obligations. By providing predictive and independent opinions about the risks associated with securities and other financial obligations, MIS's ratings and research may help market participants decide where to allocate capital.

MA offers products and services to help people and companies become better lenders and more intelligent borrowers. MA's research, training and software tools improve its customers' understanding of risk.

Moody's does not produce significant greenhouse gas (GHG) emissions or rely heavily on energy use in its global operations and thus is not a large contributor to climate-change. In addition, its operations are not heavily concentrated in any particular geography in a way that would leave it especially vulnerable to the environmental impacts associated with climate change. Moody's does not, therefore, disclose any climate-related risks in its Annual Report or financial filings as it has not identified any such risks to be material to the business.

MIS could be indirectly exposed to the effects of climate-related risk. In particular, MIS' reputation could be adversely affected if it failed to appropriately incorporate climate-related risks into its credit methodologies and ratings. Moreover, the independence of Moody's ratings and research could be impacted if policymakers were to attempt to regulate the manner in which climate-related risks are incorporated into MIS' credit rating research and methodologies.

Market interest in the financial market and credit implications of climate change could create business opportunities for MCO. The opportunities include a) the further integration of climate-related factors into MIS's ratings assessment; b) the development of new MIS and MA products that specifically address the increased interest in climate change and regulation; and c) the strengthening of MIS's reputation by appropriately incorporating discussion of climate-related considerations into its credit ratings and research.

b. **Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.**

Moody's new product offerings and climate-related analytical initiatives are intended to address the business opportunities and risks identified above.

<u>New Business Opportunities</u>

MIS publishes a suite of research analyzing the impact of climate change on credit risk for corporate and public sector debt issuers. In 2015, MIS published the approach to assessing the credit impact of environmental risk and released research on how the transition to a low-carbon economy will impact 86 different sectors globally. The resulting heat map showed MIS's view of which sectors faced the highest risk to their credit quality based on a variety of drivers. This was the first time a rating agency classified sectors in this way. Most of the 86 sectors scored consistently low across the five subcategories of environmental risk: air pollution; soil/water pollution and land use restrictions; carbon regulations; water shortages; and natural and man-made disasters. Carbon regulations and air pollution were the most frequently cited risks in sectors with higher risk overall. Since then, MIS has regularly published sector-specific analyses on the credit impact of climate change.

In 2016, MIS introduced Green Bond Assessments which are opinions regarding the relative effectiveness of the approaches adopted by the issuer to manage, administer, allocate proceeds to and report on environmental projects financed with the proceeds of Green Bonds. A Green Bond is a fixed-income security that funds projects with specific climate or environmental sustainability purposes. Green Bond Assessments are distinct from MIS credit ratings and do not measure credit risk. Moody's Green Bond Assessments are assigned an assessment on a five point scale from GB1— excellent—to GB5—poor. The Green Bond Assessment reflects Moody's evaluation of five broad factors, including use of proceeds, ongoing reporting, organization, management of proceeds and disclosure on use of proceeds.

In November 2017, Moody's announced the establishment of a specialized team dedicated to focus on ESG and Green Bond initiatives. Moody's expanded ESG team was created to advance the transparency around how ESG risk considerations are incorporated into our credit analysis. The ESG team will initially focus its effort on a series of research that assesses the credit impact of carbon transition for the most exposed sectors, including utilities, oil & gas, automobiles, steel, and metals & mining. The firm has more than 60 analysts across rating groups globally that support its ESG initiatives.

c. **Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2° C or lower scenario.**

No disclosure available as different climate-related scenarios are not expected to materially affect Moody's.

Risk Management

a. **Describe the organization's processes for identifying and assessing climate-related risks.**
The identification of climate-related risks and opportunities is integrated into a multi-disciplinary company-wide risk management processes.
The Board of Directors oversees Moody's enterprise-wide approach to the major risks facing the Company and, with the assistance of the Audit Committee and the Compensation & Human Resources Committee, oversees its policies for assessing and managing its exposure to risk. The Board periodically reviews these risks and the Company's risk management processes, including in connection with its review of the Company's strategy. The Board's responsibilities include reviewing the Company's practices with respect to risk assessment and risk management and reviewing contingent liabilities and risks that may be material to the Company.

Under the oversight of the Board and its committees, the Chief Executive Officer has established an Enterprise-Wide Risk Committee, comprised of the Chief Executive Officer and his direct reports, which include the Chief Risk Officer. The Enterprise Risk Committee reviews the work of the Enterprise Risk Function which is managed by the Chief Risk Officer with the assistance of the Head of Corporate Planning and Treasury and the Head of the Internal Audit Function.

The Chief Risk Officer chairs a subcommittee consisting of senior executives from each of the Company's major business units and support functions, who periodically report on risks and their mitigations within their areas of responsibility. Among other things, the Enterprise Risk Function is responsible for identifying and monitoring important existing and emerging risks to the achievement of the Company's strategic and operative objectives; formulating appropriate polices and monitoring and reporting frameworks to support effective management of important risks; reviewing and evaluating the effectiveness of management processes and action plans to address such risks; advising on and recommending to executive management any significant actions or initiatives that they believe are necessary to effectively manage risk; and seeing that activities of discrete risk management disciplines within the Company are appropriately coordinated.

Risks and opportunities are prioritized based on financial and operational materiality. Climate change risks have not been determined to be material to the Company.

b. **Describe the organization's processes for managing climate-related risks.**
The Moody's Credit Strategy & Standards group is managed by the MIS Chief Credit Officer and is responsible for reviewing and approving credit rating methodologies and oversees MIS' broader climate-related research program.

c. **Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.**
Various business group ERM subcommittees report into the leadership of the ERM function, which in turn reports into the MCO ERM Committee and then to the Board. In addition, the Chief Risk Officer is engaged in climate-related risk identification, assessment and management. The assessment of climate-related risks and opportunities is integrated into a multi-disciplinary company-wide risk management process.

Metrics and Targets

a. **Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.**
No disclosure available.

b. **Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.**
2016 Scope 1 emissions: 171 metric tonnes CO2
2016 Scope 2 emissions (location-based): 21,346 metric tonnes CO2
2016 Scope 2 emissions (market-based): 21,676 metric tonnes CO2
2016 Scope 3 emissions: 6,520 metric tonnes CO2 for business travel

The Methodology used for Scope 1 and 2 emissions is the World Resources Institute (WRI)/World Business Council for Sustainable Development (WBCSD) Greenhouse Gas Protocol.

GAS	REFERENCE
CO_2	IPCC Fifth Assessment Report (AR5 - 100 year)
CH_4	IPCC Fifth Assessment Report (AR5 - 100 year)
N_2O	IPCC Fifth Assessment Report (AR5 - 100 year)

The Methodology used for Scope 3 emissions is DEFRA 2016 Factors for Business Air Travel; without Radiative Forcing. Adjusted for AR5 GWPs

c. **Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.**
Targets are set for credit rating methodology updates, climate-related research and ESG-related products on a multi-year basis.

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