

**Environmental, Social, And Governance Evaluation**

# Moody's Corp.

## Summary

Moody's Corp. provides credit ratings and assessment services; credit, capital markets, and economic research; and data and analytical tools worldwide. The company operates in two segments: Moody's Investor Service (MIS), a credit rating agency, and Moody's Analytics (MA), which provides financial intelligence and analytical tools. In 2021, MIS contributed approximately 61% of its total revenues. The company, headquartered in New York, provides ratings in more than 130 countries.

S&P Global Ratings' ESG Evaluation score of 82 for Moody's reflects a profile score of 75 and strong preparedness. As a credit rating agency and data provider, Moody's is most exposed to social risk as it relies on attracting and retaining a highly skilled and diverse pool of talent in a highly competitive and regulated space. On the environmental side, Moody's primary footprint and exposure stem from greenhouse gas (GHG) emissions associated with its energy use, with other environmental exposures slightly less material to Moody's.

We believe Moody's performs well against peers in terms of workforce and diversity evidenced by its track record of relatively low turnover and strong diversity metrics. With respect to governance, Moody's has implemented robust systems around code and values that we believe to be essential to managing legal and reputational risk.

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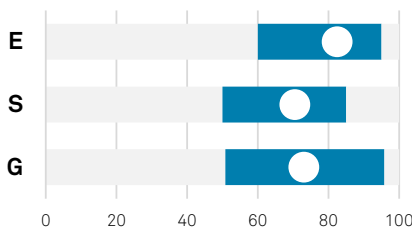
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**ESG Profile Score**

**75 / 100**



Company-specific attainable and actual scores

**Preparedness Opinion  
(Scoring Impact)**
















**Strong (+ 7)**

**ESG Evaluation**



A higher score indicates better sustainability

# Component Scores

Environmental Profile			Social Profile			Governance Profile		
<b>Sector/Region Score</b>		<b>45/50</b>	<b>Sector/Region Score</b>		<b>35/50</b>	<b>Sector/Region Score</b>		<b>31/35</b>
	Greenhouse gas emissions	<b>Leading</b>		Workforce and diversity	<b>Strong</b>		Structure and oversight	<b>Good</b>
	Waste and pollution	<b>Good</b>		Safety management	<b>Good</b>		Code and values	<b>Good</b>
	Water use	<b>Good</b>		Customer engagement	<b>Good</b>		Transparency and reporting	<b>Strong</b>
	Land use and biodiversity	<b>Good</b>		Communities	<b>Good</b>		Financial and operational risks	<b>Neutral</b>
	General factors (optional)	<b>None</b>		General factors (optional)	<b>None</b>		General factors (optional)	<b>None</b>
<b>Entity-Specific Score</b>		<b>38/50</b>	<b>Entity-Specific Score</b>		<b>36/50</b>	<b>Entity-Specific Score</b>		<b>42/65</b>
<b>E-Profile (30%)</b>		<b>83/100</b>	<b>S-Profile (30%)</b>		<b>71/100</b>	<b>G-Profile (40%)</b>		<b>73/100</b>
<b>ESG Profile (including any adjustments)</b>						<b>75/100</b>		

## Preparedness Summary

Moody's has built capabilities in sustainability and technology in anticipation of growth opportunities in both areas. Moody's strategy involves maintaining and strengthening its solid market position within the relatively consolidated credit ratings space while successfully expanding into newer analytics and data markets including sustainability-related solutions. Moreover, Moody's has invested heavily into its own sustainability strategy and performance, contributing to the "strong" preparedness assessment.

### Capabilities

Awareness	<b>Excellent</b>
Assessment	<b>Good</b>
Action plan	<b>Good</b>

### Embeddedness

Culture	<b>Excellent</b>
Decision-making	<b>Good</b>

## Preparedness Opinion (Scoring Impact)

**Strong (+ 7)**

## ESG Evaluation

**82**<sub>/100</sub>

Note: Figures are subject to rounding.

# Environmental Profile

83/100

## Sector/Region Score (45/50)

Moody's provides data, analytics, and credit ratings to various participants in the financial markets. Business services companies generally have low direct resource consumption, and primary environmental exposures are driven by energy consumption in office operations and scope 3 emissions in their value chains. The sector generally faces relatively insignificant waste, water, and land use impacts.

## Entity-Specific Score (38/50)

Note: Figures are subject to rounding.

				
Greenhouse gas emissions	Waste and pollution	Water use	Land use and biodiversity	General factors
<b>Leading</b>	<b>Good</b>	<b>Good</b>	<b>Good</b>	<b>None</b>

Despite having relatively low exposure to GHGs, Moody's has taken a comprehensive approach to decarbonization across its value chain. The company's primary exposure lies in its indirect Scope 3 emissions, the bulk of which stem from purchased goods and services, though Moody's current GHG intensity is below that of sector peers across both direct and indirect emissions. Moody's directly addresses its direct and indirect exposure through various Science Based Targets Initiative aligned targets, including a target aiming to increase GHG reduction targets in its supply chain spend. Further bolstering the score are Moody's efforts to lead the industry on various climate action, including the early adoption of a Say-On-Climate initiative and the abatement of historical GHG emissions from 2000-2018 through offset purchases aligned with the company's internal offset quality criteria, practices which we view as innovative in its sector. Moreover, Moody's offers a suite of climate focused products which we believe contribute positively to decarbonizing the broader economy.

The company has negligible waste generation and water consumption associated with office operations, which we view as less material. Moody's began reporting waste data in 2019, with a total of 1,119 tons produced. Of that, 83% was recycled, which is a relatively high proportion among industry peers that report. As with most peers, the company does not report water consumption or discharges, but water usage is not a material factor for this sector. The company's direct waste and water exposure further decreased during 2020 during the COVID-19 pandemic.

Moody's benchmarks sustainability among its customers by including ESG factors into its core products (credit ratings and research) and by expanding its offering of ESG research and data solutions, especially regarding climate risk. We expect the data, benchmarks and analytics derived through its ESG products could over time create a virtuous circle with issuers taking steps to improve their ESG practices to the extent that investors and market participants place value on these metrics.

# Social Profile

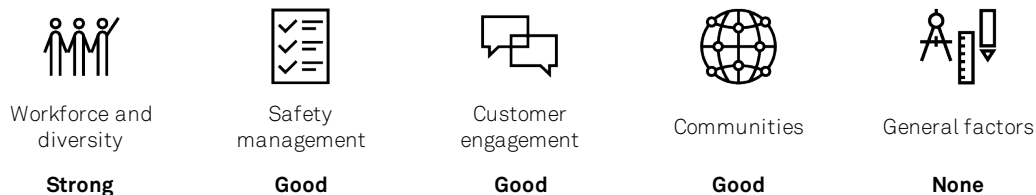
71/100

## Sector/Region Score (35/50)

The most relevant material social risks in the professional services industry relate to the management of human capital and customer relations. Key topics within these categories include workforce diversity and customer engagement.

## Entity-Specific Score (36/50)

Note: Figures are subject to rounding.



**Diversity and inclusion are an integral part of Moody's culture.** The company has a target of 50% minimum representation of women globally at all entry level positions as well as several other targets including gender and racial minority representation targets at senior levels, which we view as ahead of peers globally. Moody's has also explicitly included progress against its workforce metrics in the variable compensation of the top 60 leaders in the organization, which we view as a strong initiative. Moreover, the company has a larger proportion of women in its total employee base (41%) and management positions (35%) than peers. Given the aggressive targets coupled with compensation-based accountability for those targets, we expect diversity metrics will continue to improve over time.

**Recruitment and retention of skilled employees is a key value driver for Moody's.** Employee engagement (scored 76 in 2020) and average spend on training and development (\$676 per employee) remain higher than its peers. Since the COVID-19 pandemic, Moody's has instituted more frequent employee engagement surveys to measure employees' satisfaction and mental well-being, allowing the company to adapt quickly to accommodate the changing workplace environment. As a result, Moody's expanded its benefits program to include more flexible work options and health benefits designed to increase employee satisfaction and retention. Such benefits have become commonplace in the sector, but Moody's was among the early implementers.

**Moody's recognizes the value of stakeholder engagement to understand their diverse perspectives, address their needs, and fuel its innovation initiatives.** Moody's is exposed to reputation, regulation, and litigation risk however these risks have moderated somewhat following significant new regulations and a legal settlement in 2017. Moody's stakeholders include its investors, clients including debt issuers, capital markets investors and financial market intermediaries, news media, and policy makers. We believe the company maintains adequate engagement with its stakeholders through one-on-one interactions, participation in conferences, and surveys. Over time, stakeholder engagement has allowed it to develop and expand its product portfolio, especially for the Moody's Analytics business. In addition, as a regulated entity, Moody's policies and procedures are informed by applicable laws and regulations

# Governance Profile

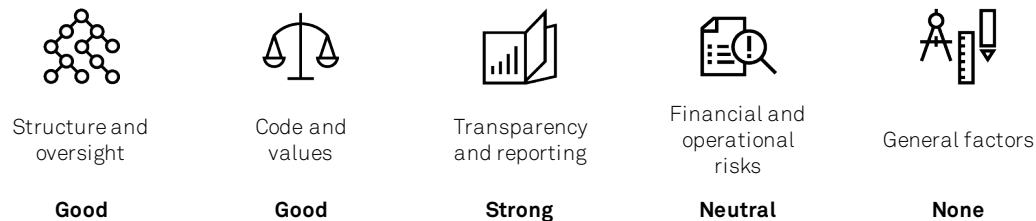
73/100

## Sector/Region Score (31/35)

We base the company's governance profile sector/region score on its domicile in the U.S., which has relatively high governance standards characterized by a stable political system, strong rule of law, a powerful judiciary, and effective checks and balances.

## Entity-Specific Score (42/65)

Note: Figures are subject to rounding.



**Moody's governance features an effective board composition and practices that align with regional peers.** The 10-person board features split chairman and CEO roles, good board engagement (more than 90% average meeting attendance), and average diversity by gender (27% women). Directors have an array of skills, backgrounds, and relevant experience, which support the company's strategy especially as it diversifies into sustainability-oriented products with the broader financial services sector. Every independent board member sits on the audit, compensation and the governance and nominating committees, a unique structure that offers the benefit of breaking down communication gaps between board members but comes with the risk of overburdening directors.

**Reputation and credibility are key to the Moody's credit ratings business.** Moody's maintains a values framework outlined in detailed business and professional codes of conduct that address material governance risks including conflicts of interest, fraud, fair dealing, and the separation of Moody's ratings business from its investor services branch. These topics are particularly relevant to this sector as the issuer pay credit ratings model has historically and continues to draw regulatory scrutiny due to its potential to create a conflict of interest. Moody's has established a track record of maintaining a strong corporate culture, partly driven by its initiatives such as mandatory employee trainings, policies, procedures and use of internal audits to ensure the presence of a common understanding and consistent application of its code of conduct and to minimize operational risk in managing ratings errors and data privacy.

**Financial and ESG disclosure and reporting practices compare favorably to global peers, covering a wide array of financial and nonfinancial metrics, policies, and governance information.** Moody's has a track record of releasing detailed annual sustainability reports prepared in accordance with Global Reporting Initiative (GRI) standards and began reporting per the Sustainability Accounting Standards Board (SASB) in 2018 and the Task Force on Climate-Related Financial Disclosures (TCFD) frameworks in 2017. The company's financial disclosures are in line with those of peers with no major restatements.

# Preparedness Opinion

**Strong**  
(+ 7)

Preparedness

Low

Emerging

Adequate

**Strong**

Best in class

**Moody's has built capabilities in sustainability and technology in anticipation of growth opportunities in both areas.** Moody's strategy involves maintaining and strengthening its solid market position within the relatively consolidated credit ratings space while successfully expanding into newer analytics and data markets including sustainability-related solutions. Moreover, Moody's has invested heavily into its own sustainability strategy and performance, contributing to the "strong" preparedness assessment.

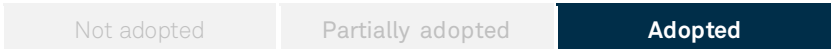
**Moody's was an early adopter in acquiring and building quantitative analytic tools for its Moody's Analytics clients and for internal use to complement its credit ratings processes.**

Moreover, Moody's has made several acquisitions to augment its data and analytics capabilities and expand its product offering over the last decade. These include private company and nonfinancial data, and analytical tools that utilize AI and machine learning to derive risk assessments and enable automation and know your customer (KYC) initiatives for its clients. Further, it has positioned itself to benefit from the growth in credit markets in countries such as China, where credit markets are currently less mature than the U.S., but present good long-term growth opportunities. Expansion into ESG-related products that are still somewhat nascent but growing rapidly is also an example of the company's management acting decisively toward investing in an area that could support long-term growth. As the financial data services sector continues its pivot toward sustainability-related offerings, Moody's has enhanced its own corporate ESG reporting while simultaneously increasing the ESG and sustainability products it offers, supported by its acquisitions of sustainability service providers such as Vigeo Eiris, Four Twenty Seven, and SynTao Green Finance. The company's new sustainability-related products currently account for an immaterial, but rapidly growing share of overall revenues.

**As a knowledge-driven company, Moody's strives to maintain a robust corporate culture that prioritizes compliance, risk management, and analytic discourse.** The MIS segment typically recruits analysts at junior levels that learn about credit risk, compliance, and risk management from experienced senior analysts within the organization, allowing them to build their skillset over time and learn the corporate culture. In addition, Moody's has created channels such as innovation teams through which employees are encouraged to identify, pilot test new ideas, and share their successes and challenges with decision makers. Incentives to innovate for employees include recognition, access to growth opportunities, increased sense of product ownership, and access to senior leaders. We believe Moody's fully understands its culture is key to managing the firm's risk and reputation and positioning it for long-term success. Moody's also communicates strategy in line with its culture to a broad set of external stakeholders via thought leadership and corporate communications.

# Climate-Related Financial Disclosure

**TCFD Recommendations Alignment Assessment:**



We assessed to what extent the entity has adopted the Financial Stability Board's Taskforce on Climate-related Financial Disclosures' (TCFD) recommendations. We do not opine on the quality of the entity's disclosure or the climate change scenario assumptions, if any, but rather comment on the number of disclosures made, based on the TCFD's suggested disclosure list.

Based on publicly available information, in our opinion Moody's Corp. has adopted the TCFD recommended disclosures. In its TCFD report, the company describes both the board and management's role in overseeing climate-related risks and opportunities. The report also details the climate risks and opportunities Moody's faces over various time horizons and describes some of the company's risk mitigation strategies in accordance with those risks. Moreover, the company discloses a robust accounting of its GHG emissions and progress towards its decarbonization targets.

Governance	Strategy	Risk management	Metrics and targets
Description of the board's oversight of climate-related risks and opportunities.	Description of the climate-related risks and opportunities identified over the short, medium, and long term.	Description of the organization's processes for identifying and assessing climate-related risks.	Disclosure of the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
<b>Adopted</b>	<b>Adopted</b>	<b>Adopted</b>	<b>Adopted</b>
Description of management's role in assessing and managing climate related risks and opportunities.	Description of the impact of climate-related risks and opportunities on the organization's businesses, strategy and financial planning.	Description of the organization's processes for managing climate-related risks.	Disclosure of scope 1, 2 and, if appropriate, 3 GHG emissions, and the related risks.
<b>Adopted</b>	<b>Adopted</b>	<b>Adopted</b>	<b>Adopted</b>
	Description of the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Description of how processes for identifying, assessing and managing climate-related risks are integrated into the organization's overall risk management.	Description the targets used by the organization to manage climate-related risks and opportunities and performance against targets.
	<b>Adopted</b>	<b>Adopted</b>	<b>Adopted</b>

# Sector And Region Risk

<b>Primary sector(s)</b>	Services
	U.S.
	U.K.
<b>Primary operating region(s)</b>	Brazil
	France
	India

## Sector Risk Summary

### Environmental exposure

The services sector includes consumer services (including for profit and not for profit education providers) as well as distribution, environmental, facilities, professional, and general support services. Companies typically have little to no manufacturing or industrial operations and are not resources-intensive. Environmental risk in the business services subsector is low given companies' overall minimal exposure to the effects of energy consumption and greenhouse gas emissions, waste and water management, air and land pollution, and toxicity. Fuel consumption and associated costs can be more material for distribution or facility services companies, although high route densities often mitigate this. Climate change is a minor risk for companies sensitive to food input costs, energy and fuel costs, or weather patterns. The education subsector carries similarly minor environmental effects, and exposure is generally limited to energy consumption and localized severe weather changes or natural disasters that affect educational facilities. Sustainability and energy-efficiency upgrades to buildings continue to decrease the subsector's energy and emissions footprint.

### Social exposure

The services sector faces modest inherent social risks, but the heterogeneity of business models and end-markets can result in considerable variation in social risk factors faced by individual firms at the margins. Companies may be labor-intensive, with employees operating potentially hazardous equipment or on dangerous sites, which heightens safety management risks. Others may operate in the knowledge economy with primarily desk-based personnel, resulting in minimal safety risks. They may manage confidential data, have exposures to consumer behavior and demographic shifts, which present customer and engagement, and community, risks. Very few providers have heightened risks across multiple social factors, and sector fragmentation is likely to cause less severe manifestations than may occur in more consolidated industries. Human capital and safety management and consumer behaviors are the most common social risks faced by sector participants. While workforce mismanagement can disrupt operations, work stoppages or shortages occur less frequently than many other sectors as union employment is uncommon among service companies, interruptions are not as costly, and employees are often easily replaced. Safety management, another risk for labor-intensive operators, is particularly critical for security providers whose staff are subject to dangerous working conditions, though these companies have protocols to minimize the frequency and severity of most high-risk events. Shifting consumer preferences can present both opportunities and risks--for example, the transition to ecommerce has disrupted companies serving brick-and-mortar retailers, but has also created opportunities for virtual service providers. Other companies must deal with the increasing influence of millennial consumers and the declining influence of baby boomers on



services relating to lifestyle. Breaches of data protection and cybersecurity are becoming increasingly pervasive and damaging. As the frequency and severity of hackings increases, companies need to invest in technology to stay ahead of sophisticated hackers. The effect of pandemics on business services is moderate, with considerable variation across service lines and business models. For example, labor-intensive on-site services such as catering and staffing are a lot more susceptible to outages caused by quarantine measures than consulting, legal, or insurance services, much of which can be provided remotely. Pandemic effects can also vary markedly across end-markets, even where business models are similar. The education sector shares some similarities with business services, such as exposure to human capital management. However, education services companies are more exposed to workforce interruptions than business services given their skilled labor base and propensity to cause more disruption to operations with any stoppages, especially where employees are heavily unionized. Also, factors such as demographic changes, the social debate around affordability of higher education, and the potential impact of policy changes and geopolitical issues play a large role in shaping the overall risk profile of the education sector globally. However, we believe the education sector provides opportunities and supports social cohesion, and this essential service ensures strong customer demand, some inelasticity in service need, and government and philanthropic support, which mitigate some of the social risks aforementioned. Pandemics have material effects on the education subsector, varying across institutions. Quarantine measures affect operating revenue (particularly auxiliary revenues and state appropriations for public universities) and may impact research funding. A switch to entirely online learning may further pressure the value proposition of a college degree. Institutions best equipped to quickly pivot between online and in-person learning, and maintain a strong value proposition, may face less pandemic-related pressure relative to peers without these characteristics.

## Regional Risk Summary

### United States

With robust institutions and rule-of-law standards, the U.S. demonstrates many strong characteristics but lags several other countries with respect to ESG regulations and social indicators. Income inequality is higher than in other OECD countries and has been so for over a century. Social services are similarly less generous than in most wealthy countries. Governance is characterized by a very stable political system, strong rule of law, a powerful judiciary, and effective checks and balances. Conditions of doing business are generally high. The U.S. follows a rules-based approach to corporate governance focused on mandatory compliance with requirements from the major exchanges (NYSE and NASDAQ) as well as legislation. State corporate law is also a key source of corporate governance, particularly Delaware where over half over all U.S. listed companies and close to 70% of Fortune 500 companies are incorporated. Exchanges mandate high standards of corporate governance. The NYSE requires companies listing on its exchange to have boards made up of a majority of independent directors and have separate remuneration and nomination committees. However, formal requirements on ESG reporting are not as established as they are in European countries. While a growing number of companies have an independent chair, the combination of CEO and chair roles is still popular. This can undermine management oversight. Remuneration continues to be a contentious point because U.S. executive pay dwarves global pay levels. The CEO-to-worker pay ratio is ever-increasing, leading to social tensions and shareholder criticism. The U.S. ranks 25 out of 180 on Transparency International's 2020 Corruption Perception Index.

### United Kingdom

The U.K. benefits from strong institutions and corporate governance practices. This includes robust and independent institutions and high rule-of-law standards, as well as very low actual

and perceived levels of corruption. Governance guidelines are primarily based on the U.K. Code of Corporate Governance published by the Financial Reporting Council (FRC) and updated in 2018. The revised and strengthened code provides a broad set of recommendations including executive remuneration and board composition, follows a comply-or-explain model, and is widely regarded as best practice internationally. The recent version strengthened provisions on the role of the audit and nomination committees, chair tenure, and stakeholder engagement. An updated version of the U.K. Stewardship Code published by the FRC also came into effect on Jan. 1, 2020. It sets out principles for investors. Overall levels of corporate disclosure on ESG are strong and the country benefits from a very active institutional investor base, which has been fuelling the demand for better disclosure and corporate engagement. Legislation that took effect in 2019 will also require pension funds to disclose the financial risks they face arising from ESG factors. The U.K. ranks 11 out of 180 on Transparency International's 2020 Corruption Perceptions Index.

## Brazil

Brazil's regulations and complex federal and state tax codes impose heavy compliance costs on businesses and encourage informality and tax evasion. Most of the workforce remains in the informal sector and poverty has been rising. High-level government corruption has created a strong public backlash and led to several political and business leaders being jailed under the Lava Jato investigations. In terms of corruption, Brazil is in the bottom half of South American countries, ranking 94 out of 180 on Transparency International's 2020 Corruption Perceptions Index, improving from the previous year. The judicial system, which operates at federal and state levels, can make applying laws complex and slow. While Brazil has comparatively strong laws and regulations, particularly on corporate governance, the main issue is implementation. We expect this to strengthen following recent significant improvements such as stronger B3 stock exchange listing rules on governance (Novo Mercado segment), new governance guidelines for state-owned enterprises, and greater shareholder-rights protection. For instance, instruction 614 from the Brazilian Securities Exchange Commission (CVM) which came into effect on Jan. 1, 2020, improves shareholders' rights in relation to the election of directors. Concentrated ownership is common and the use of multiple-class share structures with unequal voting rights may negatively affect minority shareholders. The Brazilian Institute of Corporate Governance's Corporate Governance Code is the best practice reference document in the market. It is not mandatory, but since 2017 companies must report on its recommendations on a comply-or-explain basis. Despite improvements to board independence and diversity, Brazil lags developed markets. There are limited formal requirements for ESG disclosure, but companies, particularly large ones, tend to report widely on their environmental and social efforts.

## France

France is among the most advanced countries in terms of ESG regulations, including mandatory disclosures and reporting sustainability indicators. Overall, corporate governance is in line with advanced economies' standards. In addition to the EU Non-Financial Reporting Directive's recommendations requiring the disclosure of ESG data, French companies must also disclose the social and environmental consequences of their activities under domestic law (Grenelle Act), the financial risks they face from climate change, and their remediation strategies (Energy Transition Law). Under article 173 of the Energy Transition Law, institutional investors must disclose the ESG factors incorporated in their investment policies and their contribution to the energy and ecological transition. Under the law Pacte, which came into effect in May 2019, companies must consider environmental and social issues when developing their strategy. The strong regulatory framework is complemented by the Afep-Medef Code, the corporate governance recommendations from AFG (the French Asset Management Association), and the recommendations from the Financial Markets Authority. All three provide non-binding guidance for best practice on governance and pay. Despite waves of privatization, the state remains an important player in the French capital markets as a shareholder of several large, listed

companies. On diversity, the Copé-Zimmermann Law has required listed companies to reach at least 40% female board membership since 2017 in a bid to reach parity. France ranks 23 out of 180 on Transparency International's 2020 Corruption Perceptions Index.

## India

India's social standards remain low by global standards, with significant inequality. The judiciary is among its strongest institutions. The public has considerable faith in its judicial institutions and the court system enjoys robust independence. India's corruption levels are average compared globally but have been gradually improving thanks to its strong democratic institutions. India ranks 86 out of 180 on Transparency International's 2020 Corruption Perception Index. India's corporate governance framework is based on the 2013 Companies Act and the Securities Exchange Board's (SEBI's) regulations. Since 2018, SEBI has been implementing the Kotak governance committee's recommendations to improve practices at listed companies. In January 2020, SEBI also submitted recommendations to the regulator to overhaul the governance regime of related-party transactions, to improve disclosure and oversight, and broaden the range of transactions. New regulations for banks and financial institutions from the Reserve Bank of India will take effect in October 2021. These will limit tenure for board directors and specify best practices for committees. Board diversity has increased particularly since the 2013 Act mandated all listed companies have at least one female director. Board effectiveness and succession planning are issues. Large boards often comprise directors sitting on multiple boards, which may affect their attendance and effectiveness of participation. Furthermore, many board members have had long tenures, curbing the introduction of new board members, but this will likely improve because retirement is pushing succession planning and creating more churn. ESG reporting has strengthened and more companies are improving their disclosures. Regulators like the Bombay Stock Exchange (BSE) have made ESG disclosures mandatory for the top 500 companies listed on the BSE and National Stock Exchange.

# Related Research

- The ESG Risk Atlas: Sector And Regional Rationales And Scores, July 22, 2020
- Our Updated ESG Risk Atlas And Key Sustainability Factors: A Companion Guide, July 22, 2020
- Environmental, Social, And Governance Evaluation: Analytical Approach, Dec. 15, 2020
- How We Apply Our ESG Evaluation Analytical Approach: Part 2, June 17, 2020

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