Moody's

MOVING THE AGENDA

For hitting the ground running and catering to insatiable investor demand for ESG information by launching five new business lines, creating an international team and doubling headcount while launching a raft of new ESG products and services, Moody's is IFR's ESG Opinion Provider of the Year.

IFR AWARDS 2021

Exponential growth in sustainable finance created a scramble behind the scenes to support soaring demand, while the increasingly central role of ESG opinions in investment decision-making prompted calls for greater regulatory oversight through what became an eventful 2021.

Demand for second-party opinions for ESG-labelled bonds far outstripped ESG ratings agencies' capacity in early 2021, leading to longer waiting times for companies queuing to raise sustainable finance.

"I think the market knew it was going to be a big year for second-party opinions and ESG-labelled debt issuance. I don't know that everyone fully appreciated just how big it would be," said Patrick Mispagel, global head of sustainable finance at Moody's ESG Solutions.

Moody's decided to invest heavily and launched five business lines to solidify the firm's structure after the acquisitions of Vigeo Eiris and Four Twenty Seven in 2019 and took steps to enhance products and data delivery options and deepen analytical expertise.

Moody's ESG Solutions consists of Climate Solutions, ESG Measures, Sustainable Finance, Index Solutions and SME Solutions, which aim to identify ESG risks and opportunities, strengthen sustainability plans and respond to emerging regulatory disclosure requirements.

The Sustainable Finance segment saw huge demand, being the home for second-party opinions of green, social and sustainability-linked bonds and loan standards. ESG Measures, which looks at issuer ratings, and Climate Solutions, which deals with physical and transition risk, were also busy.

First-quarter volume of ESG-labelled debt exceeded expectations and Moody's quickly put a plan in place to double its analytical staff. The firm set up a US team and invested heavily in Asia and strategically in Europe to supplement VE's foothold in France.

Moody's also kicked off a review of processes to ensure that methodology was being interpreted to give consistent SPOs regardless of location and this positioned the firm well for the surge in sustainability-linked bonds during 2021.

Headcount nearly doubled in 2021 to more than 530 people across 18 offices globally and is set to reach 750 in 2022.

Moody's also launched new products including the SFDR principal adverse impact dataset in June to help market participants meet the requirements of the EU's Sustainable Finance Disclosure Regulation. The EU Taxonomy Alignment Screening followed in October after Moody's built the new service from scratch.

Moody's is focusing on data disclosure and consistency in 2022 to prepare for greater regulation using artificial intelligence and other tools to automate its platform for future growth, contribute to the market's evolution and advance the sustainability agenda.

"We understand that the coverage on which we need to provide the information is constantly growing and we want to address this challenge," said Ludovic d'Otreppe, senior vice-president of ESG Analytics.

Moody's set very ambitious sales targets for 2021, aiming to double the number of SPOs that it provided in 2020, but comfortably cruised past that goal and is expecting continued growth in 2022.

"Certainly the SPOs really stand out in terms of the magnitude of growth and we certainly expect that to continue," Mispagel said.

Moody's completed more than 140 SPOs in 2021, bringing its total to around 450, with a strong corporate focus. Highlights include the European Union's green bond, the UK DMO's green Gilt, and Ford Motor's sustainable financing framework (all of which have won IFR Awards).

Moody's also validates market standards including the Climate Bonds Initiative's verification scheme and Nasdaq Green Equity Transition designations, and caters for companies that want to link financings to an ESG score.

The firm's ESG Measures unit also saw strong demand for its core ESG Assessments due to its rigorous "double materiality" methodology which measures the ESG impact on shareholders and also consumers, supply chain participants, local communities, and the environment.

Tessa Walsh

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