

ERM VIDEO INSIGHTS

Transcript of Steve Dreyer and Mark Beasley

Managing Environmental, Social, and Governance (“ESG”) Risks

Mark: Hello, my name is Mark Beasley; I’m the Deloitte Professor of Enterprise Risk Management and Director of the ERM Initiative in the Poole College of Management at North Carolina State University. I’m very pleased to have Steve Dreyer here with Standard and Poor’s. Steve, I understand that S&P is particularly wanting more exposure to how entities are thinking about environmental, social, and governance risk. Can you give us a little background of why S&P is particularly interested in that?

Steve: Our credit ratings are aimed at investors, bond investors, and more and more they are asking us what role do these kinds of risks play in our analysis? And the short answer is they really don’t currently play a big role. Because of the time frame, over which of ESG (environmental, social, governance) risk tend to play out, well beyond our normal forecast horizon, if you will. So we are looking for a way, and we have proposed a potential way, of separately looking at ESG risk and reporting on that distinct from the credit rating itself. And then the investor can use it as a tool.

Mark: So it would be actually reported on? The ESG rating, I guess?

Steve: Yeah, we are calling it an assessment, but that’s the idea. We, earlier this year, we signed on to the United Nations principles for responsible investing statement on ESG and credit ratings, I think I have that right. These are the world’s largest institutional investors, basically declaring that an ESG is an important issue and that there should be more disclosure around it. They specifically asked credit rating agencies to kind of step up and say more about what it is we know or should know about these kinds of risk. So that was part of the thinking too, to respond to that commitment.

Mark: Now, some may come back and say, “I think we already provide that disclosure.” So to what extent might someone argue that with a social, corporate social responsibility reports, those kind of things, that maybe it’s there?

Steve: Yeah, in fact our own corporate responsibility people are working with us as we design, what might be a new reporting service, to make sure it doesn’t unduly cause them problems. Because they themselves have to respond to it. But the way we are looking at it, is responding to investors who look at us as an independent evaluator. We talk to probably 6,000 entities: companies, governments, other entities that we rate around the world, every year, once a year, face to face meetings, to talk about how they run their business, risks, financial performance and so forth. So it provides us a unique insight, I think, into how companies think about all types of risk, but certainly ESG being among them. And we can also look at company’s overtime because we meet with them year after year. We think that puts us in a unique position to be able to opine on these risks. I have to say though that, and maybe this is your next question, well you guys are no environmental experts, and that’s true. So we recognize that we have to, in order to

assess the information provided to us, have to bring in some other sources, some other expertise, particularly in social and environmental risk.

Mark: As you're beginning to have these conversations, and exposing this thought of looking at environmental, social, and governance risk, what is your initial sort of observation about how companies are thinking about ESG?

Steve: Well I think there's a number of different perspectives. I think from an employee-moral perspective it's becoming more and more important, recruiting. There's sort of a matriarch aspect to it. I've already mentioned that investors are asking more about it, so if they are asking us then presumably they are interested in investing in, or at least factoring these sets of risks in their investments. So companies want to be responsive to that, both their equity and bond investors. And of course just regulations and other kinds of constituencies, communities who are all kind of providing some kind of pressure, if you will, on companies to think more about these things.

Mark: Well Steve, thank you for shedding a little bit of insight about what S&P is thinking in the ESG space and it will be fun to sort of watch as the future unfolds and how this evolves, so thank you for your time today.

Steve: Pleasure.