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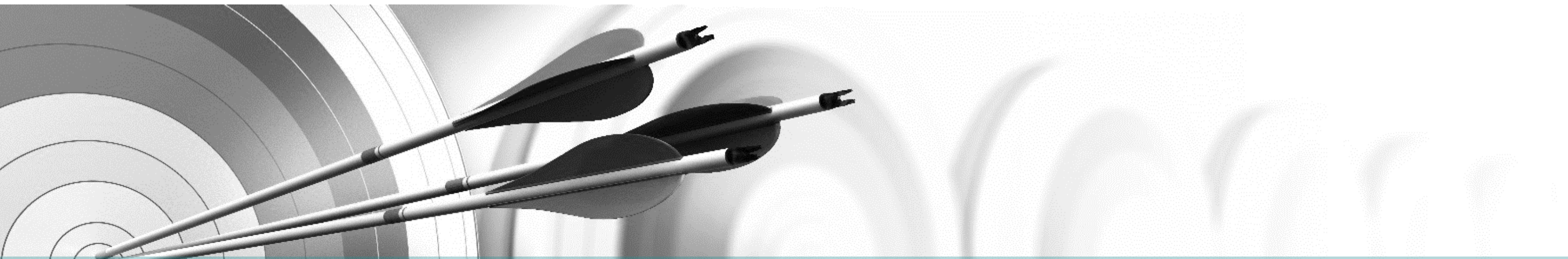

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SUSTAINABILITY IN PRACTICE:

ratings, research and proprietary models

Cosmina Amariei

Abstract. *While ESG data has come a long way, investors acknowledge multiple challenges related to materiality, reliability, and comparability. This policy brief focuses on the role of credit rating agencies (CRAs) and sustainability ratings providers (SRPs) as an essential part of the financial ecosystem. They pursue different objectives, and are currently at very different stages in terms of market development and regulatory frameworks. Looking at the experience with CRAs, policymakers and stakeholders should reflect in more depth about the optimal market structure for SRPs. There is still quite a significant amount of experimentation in this space. Hence, it might be hazardous to move too quickly on the regulatory side and risk impeding the innovation that is still taking place. Proceeding with caution might be the only 'reasonable' way forward in the new legislative cycle.*

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Context

Understanding how and why individual/aggregate environmental, social and governance (ESG) factors can impact corporate performance, and consequently portfolio construction, security selection and risk management, is essential for mainstreaming sustainable finance. In addition to developing proprietary models and engaging directly with corporates, investors have been relying extensively on mandatory financial and non-financial reporting, external ESG metrics and specialised third-party assurance. These practices can differ significantly across regions, industries and companies. However, the increasing adoption of sustainability criteria conceals a series of common underlying hurdles. While ESG data has come a long way, investors acknowledge multiple challenges related to materiality, coverage, quality, reliability, timeliness, consistency and comparability. Action 6 of the Commission's Action Plan for Financing Sustainable Growth focuses on the role of credit rating agencies (CRAs), sustainability ratings providers (SRPs) and market research services, in particular issues around methodologies, transparency and independence as well as the dynamic between incumbents and new entrants.

What drives the take-up of ESG analytics, scoring and research? What type of approaches are being used by CRAs and SRPs across asset classes, corporates and investors? Is there a difference between active and passive asset management strategies? How to avoid the under-representation of SMEs in investment portfolios? How to ensure the robustness of ESG assessments? Would third-party assurance be enough? What actions should regulators and supervisors pursue? Would a more prescriptive approach stifle innovation?

Credit ratings

Credit ratings are an opinion on the ability of an obligor to meet their financial obligations in full and on time. The key objective is to provide comparability and transparency on the relative probability of default for given entities and securities. CRAs need to make sure that their own policies and processes meet the high standards of impartiality set by the regulator. Their methodologies should provide a clear overview of what and how risks are incorporated into the rating. However, credit ratings cannot guarantee credit worthiness and do not constitute investment advice or recommendations (buy, sell, hold) or a measure of liquidity or pricing. Undoubtedly, certain sustainability factors can play a role in the ability of borrowers to pay back their debt, and therefore merit integration into credit ratings. However, there is a broader perspective of ESG that goes beyond concrete, visible, material aspects reflected in credit ratings. For example, the impact of physical climate risk is very difficult to integrate in credit ratings but can be reflected in sustainability ratings.

In practice, ESG/sustainability risks have been factored into credit ratings for a long time insofar as their impact was sufficiently visible and material. Based on information from the markets, the rated companies and third-party sources, financial forecasts usually extend up to a limited number of years. Beyond the relevant time horizon, CRAs would not normally have the ability to hardcode such metrics into the corporate credit rating process. However, the ESG dimension may still be captured under certain conditions. Long-term scenario analysis is also part of the toolbox of CRAs, and more recently the downside risks identified by the Task Force on Climate-related Financial Disclosures (TCFD). For example, working with the assumption that a given company will adapt or change to mitigate climate risk in the medium to long run entails a high degree of uncertainty in any financial analysis.

Some CRAs also started to provide separate ESG evaluations/scores that take a more holistic, stakeholder view of the company. There are factors that may not be impacting its credit quality at present but will ultimately lead to a company's ability to thrive in the medium term (5y), and this could be captured in ESG evaluations. The ESG score is different to the credit rating but one could inform the other to a certain extent. The monitoring of the impact of ESG factors is expected to evolve as more up-to-date information on the company becomes available, e.g. overall ESG exposure, preparedness to manage those risks and adjusting its corporate strategy.

In recent years, CRAs have increased their transparency and communication about the credit rating process, but also started to undertake research to examine and pinpoint exactly where ESG factors made a difference in the rating and to publish business cases with various rating actions (positive, negative, credit watch or outlook change). For example, in January 2019, S&P Global announced that it will add a separate section to about 2,000 corporate ratings reports (40% of the total, the largest companies). The objective is to highlight ESG exposure that might affect cash flow/asset position, profitability or debt levels, or business risk – how material that exposure is and the probability of a problem arising from it. A further step forward will be the release, from May 2019, of sector-by-sector peer comparison of report cards on ESG, i.e. how the ESG performance of companies compares in the credit rating context. In a retrospective series (June 2015-17), S&P Global identified around 1,325 references to ESG in the rating analysis (out of over 9,000 reports), and in 225 cases that led to a change in the rating (less than 10% of ESG scores had a material impact on the analysis).

Since the launch of the ESG in Credit Ratings Initiative in 2016, the Principles for Responsible Investments (PRI) has been working with investors and CRAs in order to enhance the transparent and systematic integration of ESG factors into credit risk analysis. So far, the initiative has been supported by more than 150 investors with nearly $30 trillion of assets under management (AuM), and 18 CRAs and PRI published a series of reports on ESG, credit risk and ratings called "Shifting Perceptions": state of play, exploring the disconnects, from disconnects to action areas.

Equity and corporates are the leading asset classes for which ESG integration has occurred in the last 15-20 years, and sovereign bonds lag far behind. Sovereigns play a key role in channelling their economies towards sustainable development pathways. They are negotiating treaties, establishing legal, financial and fiscal environments that incentivise companies to be more or less compliant with regulations, and perform more or less well on ESG issues. Sovereign and public bond issuers are also at the forefront when it comes to the infrastructure for a low-carbon and circular economy. A common understanding on sustainability issues is also necessary as they are the leading issuers of green and social bonds. The average duration of public bonds is also longer than for corporate bonds.

The link between ESG issues and financial materiality is very complex. Some rating agencies have built their business around public bond issuers and sovereigns. For example, Beyond Ratings (LSEG) developed a rating scale for sovereigns (AAA to CCC) based on aggregated scores stemming from the economic and financial profile (28 indicators) as well as the sustainability profile (50 indicators) for a given country. When mapping different countries, the sustainability scores and long-term sovereign yields (Q4 2017) show a negative correlation, meaning that governments with weak sustainability profiles present a higher risk of sovereign default, and vice-versa. The same regression analysis (Aggregate Score, R^2= 0.79; Sustainability Profile, R^2=0.77; Economic & Financial Profile, R^2=0,78; CRA Financial Ratings, R^2=0,59) also reveals that the average of the financial ratings issued by the three major CRAs is less correlated with 10y government yields that the aggregated score. This is certainly another way of looking at sovereign risk. While it does not answer all the questions, it shows that there is a real benefit in integrating ESG issues into credit rating as it provides investors with useful information.

Sustainability ratings

Over the last 10-15 years, the market for sustainability ratings has been growing rapidly, driven by more interest from the investment community, the realisation that it is valued information that supports their decisions, and more recently by demand from asset owners and retail investors that want ESG factors to be considered or that assets are invested according to their values. Depending on their business model, SRPs offer a wide range of services, from ESG research & ratings, analytics, compliance and screening to portfolio analysis, engagement/index services and so on. Large amounts of data on corporates are collected, processed and structured in order to better suit the needs of multiple users (usually wider than for CRAs).

The outputs vary from independent assessments on how companies manage ESG issues (looking both at exposure and what are they doing to address these risks) to carbon risk ratings or product development and sustainable solutions. In general, SRPs conclude enterprise-level contracts, subscription-based data via proprietary platforms or third-party distributors. The way the data are then used by clients is sometimes not known by the providers. Nonetheless, there are three typical use cases, namely helping users to manage ESG-related credit risk, identifying and selecting companies that have a positive impact (and measure or demonstrate that impact in their portfolio) and protecting client reputation by not investing in certain types of companies. Transparency among providers is also an important theme; in practice, users ask for explicit methodologies for what is measured and how. This is in order to monitor the impact of sustainability ratings on the broader financial position of the company.

In the process of setting ESG ratings, SRPs are triangulating information retrieved from annual sustainability reports, news media with which the company is associated and direct contact with the management. Their analysis determines the exposure of the company to certain ESG risks and how relevant those risks are. Furthermore, they look at how companies are managing them, i.e. internal policies and management systems but also performance data (carbon emissions, health & safety), at least to the extent that this is possible. One recurring demand is for more meaningful corporate reporting as it not always straightforward to assess whether a company is creating a positive impact or is instead exposed to sustainability risks. For example, Sustainalytics indicated challenges regarding the lack of reliable and standardised performance data disclosed by corporations to date. Only 20% of more than 10,000 companies assessed report comprehensively on Scope 1 and Scope 2 carbon emissions. Disclosure on Scope 3 carbon emissions is even less advanced.

Looking more broadly at ESG criteria, there are a multiplicity of approaches and nowhere near an industry-wide consensus. For example, the same company may be rated quite differently by various SRPs. Using a small set of different ESG vendors, Axioma examined how pervasive ESG disparities are and what drives material differences in vendor scores but also how those disparities impact portfolio construction. E scores have the highest consistency (correlations), S scores have the second highest consistency, and G scores have the least consistency. When the rank correlation for the composite ESG scores is computed across industry averages or across assets, the results give smaller correlations than the E correlations, larger correlations than the G correlations.

The ratings from different ESG rating providers can differ at times (and the same can be said to a certain extent about the for sell side analyst recommendations). However, these differences in ESG ratings outcomes should not necessarily be considered a signal of poor quality or credibility. It is worth highlighting that there is no consensus on what ESG ratings should measure, e.g. 'impact on' versus 'impact to'. It is most important that both ESG ratings providers and those offering ESG products are clear and transparent about what they are doing (what the ESG ratings do measure; what is the sustainability objective of a sustainability fund).

Some non-financial ratings agencies also try to incentivise voluntary disclosure by companies. For example, where there is no information on ESG performance, the worst rating is provided in order to encourage more disclosure (FTSE 100). The drawback is that a company with historical violations of ESG criteria can boost its ESG score by simply adopting a new disclosure practice. Another approach where there is no individual disclosure, is for the ESG rating providers to rate in line with regional and industry norms. In such cases, companies performing badly on ESG will be rated at the average of the sector. That does not necessarily mean that current practices are somewhat arbitrary or inconsistent.

Investment trends

There are a variety of approaches in the way investors pursue sustainable investment (exclusion, screening, targeting, integration). The practice started with fundamental equity analysis, followed by quantitative strategies based on ESG factors, enhanced passive investment and sustainability benchmarks. In recent years, there have been more developments in the fixed income space, partially driven by the integration of sustainability factors into credit analysis and ratings.

More broadly, the approaches can be classified into: i) negative screening or best-in-class for the purpose of alignment and reputational risk management; ii) ESG integration meaning incorporating ESG factors for the purpose of enhancing investment performance. In the academic literature, views on the ESG impact on financial performance are mixed. A similar type of debate about the role of active management started more than 20 years ago, i.e. on average, there is no contribution to performance because there are 'good' and 'bad' active managers, or, if fees are subtracted, there is no value created. However, the pressure on the active management industry is expected to continue and will only be accelerated by the 'barbelling' trend of client investments into index and illiquid alternative products.

There are also some studies indicating that ESG assessment helped reduce risk during the financial crisis. The findings on the impact of ESG on portfolio returns are even less conclusive. A recent working paper by Amundi indicates that the contribution of ESG screening on total performance is on average, between 4% and 10%, depending on the type of mutual fund. A study by MSCI shows a statistically significant causal link between ESG and performance, namely that ESG affects the valuation and performance of companies both through their systematic risk profile (lower costs of capital and higher valuations) and their idiosyncratic risk profile (higher profitability and lower exposures to tail risk), and those changes in a company's ESG characteristics (ESG momentum) may be a useful financial indicator in their own right.

Many asset managers also started allocating equity investments (also in the fixed income arena) based on factor strategies where exposure to the various styles – size, quality, momentum – is monitored. The question is whether the ESG dimension should be treated as a stand-alone factor or an additional contribution to traditional factors. There is no clear answer on this as it very difficult to assess and disentangle to what extent the exposure of the firm arises from traditional styles or ESG factors, respectively. Additional research by JP. Morgan on their proprietary tool (ESGQ) shows that when this is added to traditional investment styles such as value, growth, momentum and quality (VGMQ) results in lower volatility, higher risk adjusted returns and subsequently improved Sharpe ratios. Blackrock also released an insight into the relationship between four style factors and ESG scores. Based on a hypothetical factor in which the impact of broad market moves was stripped out, the results show that low-volatility and quality both embed a stronger tilt to high ESG scorers while momentum has modestly greater ties to lower ESG companies. There was little evidence to suggest ESG has been a factor itself. But the idea that companies with higher ESG scores exhibit quality and low-volatility characteristics is an important insight.

In the passive investment space, it is possible to simply track a large investment index without actively rebalancing the underlying portfolio. For example, a number of investors are passively tracking a sustainable index. Another option is partial replication, namely trying to replicate the broad, non-socially responsible, index, but at the same time improving the ESG score. This is possible by employing techniques of stratified sampling. The objective is to create a better representative sample that allows investors to achieve almost the same performance with a small tracking error to the traditional benchmark. For example, low-carbon strategies are very popular, and more clients are willing to go in that direction. In parallel, aspects related to corporate governance and investor relations have gained prominence in recent years. This can take the form of engaging informally with the senior management of the company and demanding changes in policies with respect to ESG. Another way is voting very actively at general meetings, trying to promote shareholder resolutions on ESG issues. At present, there is a fair degree of heterogeneity of approaches among mutual funds, as shown in this working paper by Amundi. There is no consensus at all in the way mutual funds are voting. From the demand side, retail clients have different interpretations of sustainability and sets of ethical values.

When it comes to ESG ratings, asset managers report a lack of consistency across different providers and are advocating for more standardisation in sustainability ratings; this is likely to generate agreement and drive more investor engagement. For example, recent academic research shows that the introduction of a low-carbon designation by Morningstar has led to a 3% increase in demand for these labelled funds. Another consequence was that managers of the funds not awarded the label adjusted their holdings in order to obtain it at the next evaluation round. In this case, standardisation had a positive impact on demand and the investment behaviour of mutual funds.

More generally, large companies have more resources for disclosure while SMEs are less inclined to report. At the same time, it can be argued that investors hold in aggregate the market and the market is dominated by large companies, which can lead to a certain bias by institutional investors. Most importantly, what the final investor is willing to pay for a sustainable solution compared to typical traditional instruments should also be factored in. The demand from retail investors (especially millennials) is expected to grow exponentially.

Regulatory framework

Compared to credit ratings, sustainability ratings are characterised by the market-driven process. There are no specific regulations, including self-regulations, governing the provision of sustainability ratings. The ESG/sustainability factors are clearly relevant to both sides of this debate. The key issue is a clear understanding of the final objective of the credit rating, i.e. assessing credit risk, and of the sustainability rating – assessing the overall impact of sustainability factors. The impact of sustainability on corporates is broader than assessing creditworthiness. The integration of sustainability factors into credit ratings has a narrower scope; it is primarily about their impact on creditworthiness and secondarily about portfolio allocation decisions. Sustainability ratings are to a large extent about making portfolio allocation decisions.

The CRA Regulation includes a number of disclosure requirements relating to the issuance of credit ratings. Since the CRA Regulation does not list individual factors but instead requires that all driving factors relevant in determining creditworthiness need to be considered, consequently it does not refer to or recognise ESG factors or sustainability considerations on a stand-alone basis. As a result, there is no provision in the CRA Regulation that explicitly sets out whether or how a CRA should disclose whether ESG factors were considered as part of the issuance of a credit rating. With a view to supporting Action 6 on Better integrating sustainability in ratings and market research, the Commission invited the European Securities and Markets Authority (ESMA): i) to assess current practices in the credit rating market, analysing the extent to which ESG considerations are taken into account; ii) include environmental and social sustainability information in its Guidelines on Disclosure Requirements Applicable to Credit Ratings and consider additional guidelines or measures, where necessary. ESMA has already started doing work on both, to assess the extent to which sustainability factors are taken into account into credit ratings but also driving transparency in this market when these factors are indeed incorporated.

More specifically, ESMA issued a questionnaire to a number of CRAs during Q3 2018 requesting more formal views as to how ESG factors are currently considered and disclosed as part of their credit rating issuances, in order to identify good practices. It was noted that, to date, CRAs have not been treating the consideration of ESG factors any differently from other key aspects underlying the issuance of a credit rating and that a clear identification of specific best practices regarding their disclosure is difficult. However, as the awareness of ESG factors among investors has increased in the past years, CRAs have become more transparent about how they integrate the consideration of ESG factors into their credit ratings. Some CRAs have developed stand-alone sections of their websites to collate all ESG-related guidance and research published by that CRA, while other CRAs have published dedicated guidance explaining how ESG factors are considered within their methodologies.

Furthermore, ESMA published a Consultation Paper on Guidelines on Disclosure Requirements Applicable to Credit Ratings (19 December 2018 to 19 March 2019). This Consultation Paper proposes measures in the following areas: i) to improve the quality and consistency of the information that is disclosed alongside the issuance of a credit rating in a publicly available press release; ii) guidance to improve the transparency of credit rating press releases concerning the extent to which sustainability factors have been considered as part of a credit rating. In this regard, ESMA notes that the guidance is focused on improving how the consideration of ESG factors are disclosed when they are a key underlying element of a credit rating, but it does not mandate or recommend that these factors be considered by CRAs in their creditworthiness assessments. The objective is to improve transparency as to whether ESG factors were considered and identification of those considered. Likewise, these Guidelines should not be understood as suggesting that the consideration of ESG factors is more relevant than the consideration of non-ESG factors to the creditworthiness assessment of an entity or issue. The proposed approach of these Guidelines is a set of incremental yet complementary measures for CRAs to implement, also ensuring that there is some degree of proportionality available for all CRAs. These are very early stages in the overall process; ESMA will have consider the responses it has received and a final report is expected to be published by the end of July.

However, an objective listed under Action 6 is to explore the merits of amending the CRA Regulation to mandate credit rating agencies to explicitly integrate sustainability factors into their assessments but in a proportionate way in order to preserve market access for smaller players. There are different views on this. Many argue that to the extent that sustainability factors are material, the current legal framework requires that they should already be taken into account. In essence, there is nothing at the moment that prevents sustainability factors from being incorporated in credit ratings. On the contrary, others see additional benefits in explicitly highlighting these factors in the legislation.

The CRA market remains highly concentrated, both overall and at the individual product category level. To date, none of the new market entrants have developed into a true competitor (up-to-date list of CRAs that have been registered or certified by ESMA). Despite the variety of possible remuneration models, issuer-pays remains the dominant business model. The credit rating is released or not depending on the decision of the issuer. Critics of the issuer-pays model maintain there is a potential conflict of interest when CRAs receive payment from the issuers whose securities they are evaluating. Since the financial crisis, CRAs had to abide by strict regulations to manage conflicts of interest by implementing strict policies and procedures and avoiding any potential distortions in the ratings. In practice, this means a clear division between the commercial/marketing and the analytical side. Anything that could have an influence on the impartiality and independence of credit ratings must be strictly monitored by compliance officers.

Some stakeholders insist on a return to the initial investor-pays business model. But even the investor-pays model can generate conflicts, since large investors could have an interest to push back against downgrades in their own portfolios. The incumbents argue that if the CRAs were to collectively shift from the issuer-pays to investor-pays model, investors should then be ready to pay more, in particular for R&D. As indicated in this recent study by DG FISMA on the state of the credit rating market, the real or theoretical alternatives – investor-pays, hybrid models, skin-in-the-game, platform-pays, non-profit ratings, pay-for-performance – can individually partly resolve some of the shortfalls of the issuer-pays models but not without costs. In addition, this working paper by ECB also investigated the economic viability and welfare contribution of various alternatives to issuer-paid CRAs.

Turning to sustainability assessments/ratings, there is no specific regulatory framework at EU level. In the case of some sustainability-related products, the Benchmarks Regulation is applicable (with a proposed delegated act for a new category comprising low-carbon and positive carbon impact benchmarks). Unlike the dominant issuer-pays models used by CRAs, it is investors who pay for the sustainability ratings. In order to better understand this market, DG FISMA will commission a comprehensive study to analyse methodologies and explore aspects such as the market structure of sustainability ratings and market research services, the depth and breadth of sustainability research assessments and scoring, and the independence of those research/scoring providers.

While still in 'observe and learn' mode, many of the issues in relation to credit ratings may also arise in sustainability ratings – financing models, conflicts of interest, transparency of methodologies, assurance of quality, etc. Voices in the industry, for example Afep – French Association of Large Companies, have already released a call for action with regards to the relations between companies and non-financial rating agencies, e.g. recommending the adoption of codes of conduct, more transparency requirements for methodology, policies on prevention and management of potential conflicts of interest, and transferring the onus of research onto the non-financial agencies themselves as the companies' main priority should be running their business operations. SRPs argue that what is more important is being transparent about and adequately managing any potential conflicts of interest. This can be achieved by improving interaction with the evaluated companies and engaging in more meaningful ways.

It should not come as a surprise that that the level of standardisation in the area of sustainability ratings is not comparable to that for credit ratings. Financial reporting and credit ratings have been around for decades and standards have been developed at the international level. For a more pragmatic classification, financial information is related to financial statements while non-financial information is retrieved from other ESG/sustainability narratives. Looking at the underlying information, the level of maturity of non-financial reporting is nowhere near that of financial reporting and auditing. It might be unrealistic, if not undesirable, to have something similar or analogous to International Financial Reporting Standards (IRFS) in non-financial reporting. A 'copy-paste' approach from the financial reporting space to non-financial reporting would not be ideal. Many of the issues that have arisen in the last 10 years in relation to credit ratings (standards and governance) might also arise with sustainability ratings in the future as this tool becomes more mainstream. This will also be linked to discussions on the potential of integrated reporting and the role of third-party assurance.

Moreover, the ratings debate is intimately linked to corporate disclosure and reporting. Many argue that the focus should be on corporate disclosure, clearly defined ESG objectives rather than looking at what to regulate as sustainability ratings. In this context, it is worth remembering that the Non-Financial Reporting Directive (NFRD) adopted in 2014 aims to improve the quality and quantity of information reported by large publicly listed companies on a range of ESG matters. In 2017, the Commission adopted non-binding guidelines to assist companies to apply the Directive. A targeted consultation on the update was conducted by the Commission from 20 February to 20 March 2019. It specifically sought to address climate-related information and integrate the TCFD recommendations. The technical expert group (TEG) on sustainable finance published its final report on climate-related disclosures in January 2019. In June 2019, the Commission issued an update to these non-binding, voluntary guidelines on the reporting climate-related information. In addition, the TEG released three new reports: a final report on the EU taxonomy; a final report on the EU Green Bond Standard; and an interim report on Climate Benchmarks and Benchmarks' ESG Disclosures. Together, these developments mark an important step in the development of much needed common language, tools and instruments.

At the same time, DG FISMA has been carrying out a broader fitness check on corporate reporting legislation in the broader sense since March 2018, and a report providing factual assessments will be published before the end of this legislative cycle, but any policy priorities will be left to be set by next Commission. On investor duties and disclosures, new rules are expected to introduce consistency and clarity on how institutional investors, such as asset managers, insurance companies, pension funds, or investment advisors should incorporate ESG factors in their investment and risk management processes. A workable, flexible and dynamic taxonomy at EU level would not only allow the various stakeholders to reach a common understanding but also economic activities in transition as well as those already fully sustainable to be represented.

In the various legislative proposals affecting issuers, investors, rating agencies, ESG dimensions such as 'impact to' and 'impact of', 'risk to' and 'risk from' are sometimes conflated and more clarity is needed. In practice, 'the impact of' can become the 'impact to' at one point in time in a chain reaction, e.g. greenhouse emissions, tax on carbon, capital charges for financial institutions. More generally, one could argue that these dimensions are interconnected and policy makers have started to refer to the concept of 'double materiality', i.e. the ESG impact of a company's activities and that impact in turn affecting the company itself in terms of financial materiality or the overall investment portfolio.

Policy and market implications

- It is important to distinguish between credit and sustainability ratings. These are currently at very different stages in terms of market development and regulatory frameworks. While an essential part of the financial ecosystem, credit ratings are simply one of the many variables that investors consider in their financial decision-making.

- The value proposition for sustainability ratings, i.e. pricing instruments, asset allocation and risk management, will continue to evolve for both issuers and investors as sustainable finance becomes more mainstream. More standardised disclosure from firms, and transparency on what ESG ratings measure or the objectives of investors are prerequisites.

- Looking at the experience with CRAs, policymakers and stakeholders should reflect in more depth about the optimal market structure for SRPs. There is still quite a significant amount of experimentation. What is needed is a better understanding of the building blocks of E, S, and G, and the associated market practices in sustainability ratings/scores/assessments.

- It might also be hazardous to move too quickly and risk impeding the innovation that it still taking place in the SRPs. Decisions about whether this area needs to be regulated further are highly likely in the new legislative cycle. Relevant actors will have to weigh up the different options but proceeding with caution might be the only 'reasonable' way forward.

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