

# **MSCI ESG Business Involvement Screening Research, Global Sanctions, and Sustainable Impact Metrics Methodology Summary Guide for Corporate Issuers**

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**Contents**

Introduction ..... 3

Overview of MSCI ESG BISR, Global Sanctions and Sustainable Impact Metrics ..... 3

    MSCI ESG BISR ..... 3

    Global Sanctions..... 4

    MSCI ESG Sustainable Impact Metrics ..... 5

Frequently Asked Questions ..... 7

    General Questions ..... 7

    Business Involvement Screening Research (BISR)..... 7

    Global Sanctions..... 11

    Sustainable Impact Metrics (SIM) ..... 11

## Introduction

This guidance document provides a summary of the **Business Involvement Screening Research (BISR), Global Sanctions and Sustainable Impact Metrics (SIM)** methodologies used by MSCI ESG Research, and a list of frequently asked questions about this research.

For questions pertaining to the either ESG Research reports or our company interaction process more generally, please refer to our [General FAQ](#).

ESG Issuer Communications ([esgissuercomms@msci.com](mailto:esgissuercomms@msci.com)) is the main point of contact for all companies in the MSCI ESG Research coverage universe.

## Overview of MSCI ESG BISR, Global Sanctions and Sustainable Impact Metrics

### MSCI ESG BISR

MSCI ESG Business Involvement Screening Research is a screening service that enables institutional investors to manage environmental, social, and governance (ESG) standards and restrictions reliably and efficiently.

The screening service supports investors looking to identify all global publicly traded companies and select bond issuers that are involved in activities such as the production of controversial weapons or tobacco products, or those that violate religious screening mandates such as Catholic or Islamic Values.

Using this screening service, investors can also comply with investment mandates regarding global sanctions on investments in regions such as Sudan and Iran, and with international conventions on land mines and cluster munitions.

**Approach:** MSCI ESG BISR and Global Sanctions research involves a full review of company-level business activities, such as manufacturing, production, distribution, and service provision, in the following areas of involvement:

- Adult Entertainment
- Alcohol
- Gambling
- Pork
- Tobacco
- Music
- Cinema
- Hotels
- Cannabis
- Abortion Provider
- Abortifacients
- Contraceptives
- For Profit Healthcare
- For Profit Prisons
- Fur
- Animal Welfare
- Genetic Engineering
- Biocides
- Stem Cells
- Breast Milk Substitutes
- Conventional Finance

- Predatory Lending
- Defense and Weapons
- Firearms
- Landmines
- Cluster Munitions
- Nuclear Power
- Palm Oil

MSCI ESG Research provides a profile of each company’s specific business involvement through the BISR report. The company profile includes details on the company’s tie to a specific activity, any related corporate actions in the last three fiscal years and ownership information if the company has ties to a specific business activity through a subsidiary or parent company.

Where available information is sufficiently reliable (e.g., company regulatory disclosures or information released by government agencies), we also provide either the reported (if disclosed) or estimated percentage of total revenue derived from the business activity in question.

For additional information on BISR and the specific categories, please refer to the [Methodology Overview](#).

## Global Sanctions

Investors might be subject to U.S. Federal and State legislation, which mandates investment restrictions or divestment from U.S. sanctioned countries and U.S. designated terror states. The Global Sanctions screens are designed to serve investors looking to identify companies that may not meet their respective investment mandates.

To inform investors on Global Sanctions, we review business activities in the following countries in accordance with relevant regulations (as of August, 2021).

- Burma
- Cuba
- Iran
- North Korea
- Sudan
- Syria
- International Business (e.g., Northern Ireland, AFL-CIO, Russia-Ukraine, etc.)

## MSCI ESG Sustainable Impact Metrics

MSCI ESG Sustainable Impact Metrics (SIM) is a screening service designed to identify companies that derive revenues from products and services with positive impact on the society and the environment.

**Approach:** The MSCI ESG Sustainable Impact Metrics framework includes six Environment Impact categories and seven Social Impact categories, all of which are derived from the themes of the UN Sustainable Development Goals (UN SDGs) as determined by MSCI ESG Research.

### Exhibit 1: MSCI Sustainable Impact Metrics Taxonomy

Pillar	Themes	Categories
Environmental Impact	Climate Change	Alternative energy Energy efficiency Green building
	Natural Capital	Sustainable water Pollution prevention and control Sustainable agriculture
Social Impact	Basic needs	Nutrition Major disease treatments Sanitation Affordable real estate
	Empowerment	SME finance Education Connectivity – Digital divide

Provided below are brief explanations of business activities included for SIM under each thematic category.

#### Climate change:

- Alternative Energy – Products or services that support the transmission, generation, plant development, and storage of renewable energy derived from solar, small scale hydro (25 MW), wind, geothermal, waste-to-energy, and biofuels.

- Energy Efficiency - Products and services that support the maximization of productivity in labor, transportation, power, and domestic applications with minimal energy consumption.
- Green Building - Design, construction, redevelopment, retrofitting, or acquisition of green-certified properties such as LEED, BREEAM, and equivalents.

**Natural Capital:**

- Sustainable Water - Products, services, infrastructure projects and technologies that resolve water scarcity and water quality issues, through minimizing and monitoring current water demand, improving the quality and availability of water supply to improve resource management in both domestic and industrial use.
- Pollution Prevention and Control - Products, services, infrastructure projects, and technologies that reduce volumes of waste materials through recycling, minimizes the introduction of toxic substances, and offers remediation of existing contaminants, such as heavy metals and organic pollutants.
- Sustainable Agriculture - Forest and agricultural products that meet environmental and organic certification requirements to address significant biodiversity loss, pollution, land disturbance, and water overuse.

**Basic Needs:**

- Nutrition – Products classified under the “basic food” category, as defined by Choices International<sup>1</sup>. These products include such as dairy, milk, poultry, cereal, nuts, seeds, grains, fruits and vegetables.
- Major disease treatment - Manufacture and sale of products used to treat the world’s major diseases as defined by the World Health Organization (WHO).
- Sanitation - Manufacture and sale of basic sanitation products. Personal hygiene products for basic hygienic needs and not simply for beauty/cosmetic applications or luxurious use.
- Affordable Real Estate – Development, lease, and sale of residential and commercial properties devoted to being managed under social rent, homes affordably priced for the low-income segment, residences for the elderly, affordable student housing, and commercial spaces for Small and Medium Enterprises (SMEs).

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<sup>1</sup> The Choices criteria are the result of a nutrient profiling method. For more information on Choices International refer to their website ([choicesprogramme.org](http://choicesprogramme.org)).

**Empowerment:**

- SME Finance – Loans provided to micro, small and medium-sized enterprises (MSMEs).
- Education – Sale of education-related products and services used for primary, secondary, undergraduate, and post-graduate studies.
- Connectivity (Digital Divide) - Products and services that provide or support internet access for people in the Least Developed Countries (LDCs) as defined by the United Nations.

Due to their complexity, we do not include all components used in some technologies mentioned above. Our focus is on major components that provide critical and essential functions to the whole system. As such, we exclude components like bolts, nuts, wires, etc.

## Frequently Asked Questions

### General Questions

**1. Where and how can I access our company’s BISR, Global Sanctions and Sustainable Impact Metrics Report?**

Issuers can access their respective flags for all three assessments in their MSCI ESG BISR reports through the Issuer Communications Portal.

Issuers can also receive their respective BISR reports through our data verification process, where issuers will have an opportunity to review the data collected by MSCI ESG Research.

**2. How will this report affect our ESG Ratings?**

At present, limited and relevant information from the MSCI ESG Sustainable Impact Metrics are used in MSCI ESG Ratings assessment. For more information about the MSCI ESG Ratings Methodology, kindly review the [MSCI ESG Ratings methodology summary guide](#) for issuers.

### Business Involvement Screening Research (BISR)

**3. How do you source the information found in our BISR report?**

We use publicly available information for the BISR report. These include disclosures found in company websites, annual reports, sustainability reports, investor presentations, and regulatory filings. Information found released by government agencies, select nongovernmental organization (NGO), media sources, and financial data providers may also be used as references in the report.

We proactively reach out to companies if an involvement is determined but publicly available company references are limited.

**4. How do you compute the revenue of products and services flagged for a business involvement?**

MSCI ESG Research relies on publicly available information in determining the revenue percentage from business activities included in the coverage universe. In the absence of exact revenue figures for a covered business activity, an estimation approach is applied.

The revenue estimation approach varies by screen and by industry, but we follow a consistent process. First, the reported business segment of the business involvement activity is identified. Next, the other activities in that segment(s) are determined and considered in order to calculate the estimated revenue for said business involvement activity. In the absence of information indicating otherwise, we assume that product lines contribute equivalent proportions of revenue.

**5. Our revenues from the specific business activities are minimal enough that we do not specify them in our public disclosure. In this case, can we share internal sources of information?**

While we request that involvement disclosures are supported by publicly disclosed documents, we understand that corresponding estimated involvement revenues will not necessarily be publicly available due to regulatory restrictions or company strategy concerns. However, through our data verification process, we will review any information you provide and update your company’s BISR profile in accordance with the MSCI ESG Research’s methodology.

**6. Some parts of the BISR report indicate a categorization of “Ownership Of” and “Ownership By”. What do these terms mean?**



Ownership involvement categories are intended to identify companies with indirect involvement to a business activity, either through a parent company or a subsidiary.

Companies that own 20 to 49.99% of a company with direct involvement are flagged for “Ownership Of”. Ownership of less than 20% will not be tracked for involvement.

Companies that are 50% or more owned by a company with direct involvement are flagged as “Ownership By”. Companies that are not majority owned (>=50%) will not be tracked for involvement.

**7. What is the difference between “Retailer”, “Distributor”, and “Supplier”?**

“Retailer” refers to companies that sell products directly to the end customer

“Distributor” refers to companies that are involved in the wholesale of a finished product

“Supplier” refers to a manufacturer of raw materials used in the production of a product.

**8. We have ceased the operations for one of our business activities that qualifies within the involvement coverage of BISR, so why does your report still indicate involvement in the specific screen?**

If there is no conclusive evidence of either continued involvement or a discontinuation of involvement in a subject activity, MSCI ESG Research retains a company’s involvement flags for up to three years. After this period, if there is no evidence of continued involvement, MSCI ESG Research considers the company no longer involved.

**9. What is the financial threshold to which a business activity will be categorized in your report?**

MSCI ESG Research also provides revenue percentages for companies with ties to certain types of business activity. The list of business activities where we provide such revenue information is identified on page 3 of this document.

For such categories, where there is direct company involvement in the business activity, no revenue threshold is applied. However, clients who use our data may apply minimum thresholds in their investment decisions in accordance with their requirements or mandate.

**10. Our company’s main line of business are hotels and restaurants, how did you arrive at your revenue figures for the Pork and Alcohol screens?**

In the absence of sufficiently disclosed information, whenever applicable, we may apply standard industry-specific revenue streams or sales breakdown in conjunction with our general revenue estimation process.

**Hotels** – Based on observed industry activities, more than half of hotel revenues is estimated to be derived from accommodations and less than half is attributed to food, beverage and other services. Products offered under the food and beverage segment is further divided into three categories: food, non-alcoholic beverages, and alcoholic beverages. The main revenue source of the restaurants is assigned to food, both alcoholic and non-alcoholic beverages are estimated to derive a small percentage of revenue.

**Restaurants** – Products offered in restaurants are divided into three categories: food, non-alcoholic beverages, and alcoholic beverages. Based on general revenue breakdown for restaurants, the main revenue source of the restaurants is assigned to food; and each of alcoholic and non-alcoholic beverages are estimated to derive a lesser percentage of revenue. This revenue distribution may vary according to restaurant types.

**11. What are the criteria used to characterize products or services as “controversial lending practices”?**

We identify companies that provide products and services associated with controversial lending practices, such as payday loans, installment loans, pawn loans, title loans, tax refund anticipation loans, and doorstep loan. The factors considered in the identification of controversial lending products include but are not limited to, short term loans (30 days or loan terms less than 1 year) and Annual Percentage Rates exceeding 100%, including fees.

**12. What are the products covered by the Fur screen?**

Our definition of fur includes the production and/or retail of products with fur. We consider all types of animal fur, including but not limited to, beaver, chinchilla, mink, rabbits, fox, seals, raccoon dogs, as well as, shearling and sheepskin/lambskin.

**13. What business activities are included in the Stem Cell – Use of Fetal Cell Lines factor?**

The Use of Fetal Cell Lines factor identifies companies that use fetal cell lines for the development of vaccines, therapeutic proteins, gene therapy, and other biologics. This factor covers the usage of HEK 293, MRC5, WI-38, WI-26, RA273, and PER.C6 among others. These fetal cell lines are not stem cells, but are derived from a fetus and then replicated to create cell lines that can be used in perpetuity.

**14. What is the difference between the Use of Fetal Cell Lines and Fetal Tissue Research factors?**

The Use of Fetal Cell Lines factor covers the use of specific cell lines including HEK 293, MRC5, WI-38, WI-26, RA273, PER.C6, etc. These fetal cell lines are not stem cells but were derived from a fetus at one point in time which were cultured to be used in perpetuity by companies. On the other hand, Fetal Tissue Research includes the use of stem cells derived from fetal tissue. Unlike the Use of Fetal Cell Lines, this factor requires an ongoing or periodic harvest of human fetal tissue.

**Global Sanctions**

**15. When does MSCI ESG Research conduct updates for the Northern Ireland screen?**

Companies eligible under the Northern Ireland screen review are usually updated during Q4 of every year.

Prior to that, we usually send eligible issuers the annual Northern Ireland Fair Employment inquiry. However, the schedule changed as of 2019 due to the revised publication schedule of reference documents from the Equality Commission for Northern Ireland.

**Sustainable Impact Metrics (SIM)**

**16. Our company provides investments for our host communities and our operations are engaged in environmentally-sound technology. Are these qualified for SIM?**

Philanthropic investments, corporate social activities, and operational systems are not included in the scope of our methodology. The focus of SIM is to identify companies providing products and services that have positive impacts on the society and the environment.

**17. Our company offers financing services for SIM-related products and services, are these qualified for SIM?**

Currently, financial institutions are only credited for SIM under the SME financing screen, as other financing for SIM-related products are excluded as per our methodology.

However, we are constantly reviewing our methodology and, in the future, such business activities may be included.

**18. The BISR data verification report states that our company only derived 0.05% of revenues for Affordable Real Estate or SME Finance, why is that so?**

In the absence of sufficiently disclosed information, we attempt as a minimum to capture evidence of companies' involvement in sustainable solutions. Such involvement is captured by assigning a very small percentage of a revenue (0.05%) to the category where we were able to find evidence of involvement.

**19. How can we improve our SIM assessment?**

In order to avoid any perceived conflict of interest, MSCI ESG Research does not provide any advisory or consulting to companies on how they can improve assessments for the BISR Report.

If you think your products and services qualify for SIM, please ensure that relevant information is disclosed on your company website and public disclosures.

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