

MSCI ESG Controversies and Global Norms methodology summary guide

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June 2020

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INTRODUCTION

ESG Issuer Communications is the main point of contact for all companies in the MSCI ESG Research coverage universe. This guidance provides a summary overview of the ESG Controversies methodology and a list of frequently asked questions about this research. For questions pertaining to the either ESG Research reports and our company interaction process more generally, please refer to our [General FAQ](#). This document will be updated periodically.

MSCI ESG CONTROVERSIES AND GLOBAL NORMS OVERVIEW

MSCI ESG Controversies identifies and assesses controversies that impact: Company operations; governance practices; and/or products and services that allegedly violate national or international laws, regulations, and/or commonly accepted global norms. The evaluation framework used in ESG Controversies is designed to be consistent with international norms represented in numerous widely accepted global conventions, including the Universal Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Global Compact. MSCI ESG Controversies assessment is a standalone and independent assessment despite sharing similar indicators to MSCI ESG ratings assessment.

The ESG Controversies analytical framework organizes controversies within the three pillars of Environment, Social, and Governance. Each sub-pillar consists of a set of Key Performance Indicators (KPIs), which are not data points or inductors but, themes under which associated controversies are assessed. All assessed controversy cases are associated with at least one KPI such as biodiversity and land use, child labor, etc. A complete, analytical framework underpinning MSCI ESG Controversies is as below.

Figure 1: MSCI ESG Controversies Assessment Framework

ENVIRONMENT PILLAR	SOCIAL PILLAR			GOVERNANCE PILLAR
ENVIRONMENT	HUMAN RIGHTS AND COMMUNITY IMPACT	LABOR RIGHTS & SUPPLY CHAIN	CUSTOMERS	GOVERNANCE
Biodiversity & Land Use	Impact on Local Communities	Child Labor	Product Safety & Quality	Bribery & Fraud
Energy & Climate Change	Human Rights Concerns	Collective Bargaining & Unions	Anticompetitive Practices	Controversial Investments
Supply Chain Management	Civil Liberties	Discrimination & Workforce Diversity	Customer Relations	Governance Structures
Water Stress	Other	Labor Management Relations	Marketing & Advertising	Other
Toxic Emissions & Waste		Supply Chain Labor Standards	Privacy & Data Security	
Operational Waste (Non Hazardous)		Health & Safety	Other	
Other		Other		

MSCI ESG Research analysts identify new controversy cases and update existing cases by researching company public documents, media sources, and nongovernmental organization (NGO) publications. For each new case, analysts examine the following:

- The appropriate Key Performance Indicator (KPI) that covers the controversy
- The severity of the case
- The status of the case - concluded or ongoing
- The type of case - whether or not a controversy is based on underlying management problems at the company

Using this framework, MSCI ESG Research analysts check global, regional and national news sources on a daily basis for significant new controversies or serious developments in existing controversies for all companies in the coverage universe.

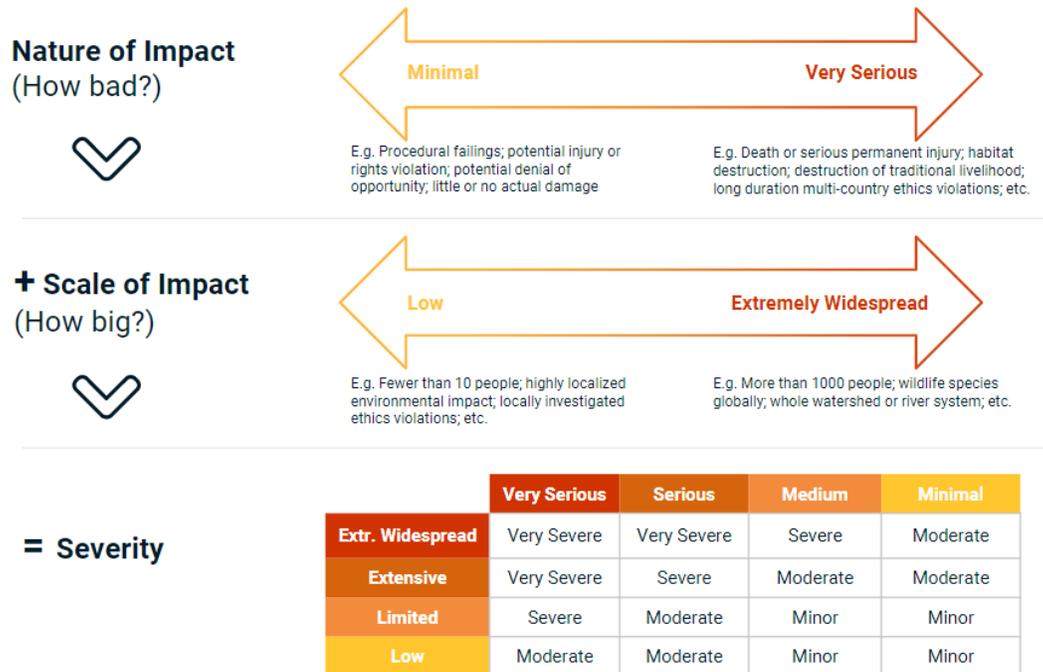
FREQUENTLY ASKED QUESTIONS

1. HOW ARE CONTROVERSIES ASSESSED? HOW ARE THE SEVERITY LEVELS DETERMINED?

Each controversy is assessed for the severity of its impact on society or the environment (not only on company operations) and consequently rated Very Severe, Severe, Moderate, or Minor.

To reach these assessments, each case is analyzed along two dimensions: the **nature of impact** and the **scale of the impact**. These are then combined to reach an initial determination of severity, with multiple possible scenarios able to yield the same severity assessment through various combinations of scale and nature of impact. Please see illustrations below, excerpted from the MSCI ESG Controversies methodology.

Figure 2: Controversy Assessment Framework



Source: MSCI ESG Research

While the initial severity assessment is determined by a controversy case’s placement on the matrix, there may be extenuating circumstances or

exacerbating circumstances that may warrant a final assessment that is severe under the methodology. The most severe cases undergo further review by senior methodology committees. Further, ratings analysts can provide assessment in defining a case as structural or non-structural, for its extended impact in ratings assessment.

2. FOR HOW LONG IS A CONTROVERSY CASE DEEMED ONGOING? WHAT INFORMATION IS REQUIRED TO CONSIDER A CONTROVERSIES CASE CONCLUDED?

A controversy is considered “ongoing” if the last known case development does not indicate a definitive resolution of the controversy. For example, community protests around a company facility have been recurring with no indication that the underlying issues have been addressed, or legal action against the company is continuing to work its way through the courts. On the other hand, a case is considered Concluded if the controversy has been resolved, closed, or withdrawn. For example, the company has paid a settlement to close a regulatory action or a lawsuit has been dismissed and not appealed.

Controversies analysts monitor controversies developments daily using our news database to update the case according to status. As a simple example: if an individual lawsuit filed in October 2017 was settled by the company in October 2018, this will result in the conclusion of the controversy. Conversely, if the October 2018 case update only referred to a change in court jurisdiction, then this indicates that the lawsuit (and controversy) is still ongoing.

A controversy status can also change from ongoing to concluded and vice versa on the basis of new developments. For example, a case believed to be Concluded could be reassessed as ongoing if it were to be reopened, for example in the form of a new appeal filed with the courts, or a separate government agency launched an investigation for the same issue.

Individual controversy cases for which a recent update has not been found via the daily updates process are still periodically reviewed. Even if there has been no change to a severe ongoing case throughout the year, a targeted review of the case is conducted annually. If for two consecutive years we do not find any other information, we would consider that severe ongoing case as concluded. For Moderate cases, where no other updates appear in our data news database alerts over three years, then the case would generally be archived after a targeted review.

3. ONE OF THE CONTROVERSIES LISTED FOR OUR COMPANY HAS CONCLUDED. HOW LONG WILL IT REMAIN ON OUR COMPANY REPORT?

Concluded Controversies: A ‘Concluded’ controversy retains its final severity assessment for one year from the date of conclusion, at which point it is upgraded by one severity level (e.g. from Severe to Moderate). The following year the case will be upgraded again or be archived, depending on the severity level. For example, a Severe case becomes Moderate one year after it was concluded. After a year as a Moderate case, it becomes Minor. After a year as a Minor case, it is archived (removed).

Minor Controversies: All Minor controversies are archived after one year, regardless of status, unless developments warrant a downgrade to a more severe assessment.

Very Severe Controversies: Very Severe controversies that have concluded will only be upgraded if certain criteria are met. These conditions include factors such as a company’s response to the controversy and the lack of new allegations or developments related to the same issue. Likewise, a Very Severe controversy may be upgraded before it is concluded if the company has taken aggressive steps to remediate the situation and avoid future recurrences. Upgrades, downgrades, and reaffirmation of a Very Severe assessment all undergo internal review processes.

4. WHY IS THERE MORE THAN ONE CONTROVERSY FOR THE SAME INCIDENT/SITUATION?

A controversy can have more than one case when it impacts different stakeholders in sufficient number or area.

This approach is taken for two reasons. First, it allows us to follow different impacts which may have different resolution processes. This also allows us to trigger multiple relevant KPIs which is useful for clients who have particular focus areas, as well as for our Global Norms screens which also have focus areas. Each of these triggers different Global Norms screens. The appendix lists all Global Norms Screens.

5. WHY ARE SOME COMPANIES GIVEN A RED FLAG FOR ESG CONTROVERSIES BUT NOT A FAIL SIGNAL UNDER THE GLOBAL COMPACT COMPLIANCE SCREEN?

ESG Controversies cover a broad range of ESG controversies, some of which fall into topic areas not considered under certain global norms. Thus, not all Severe or Very Severe controversies we cover will necessarily trigger a Watchlist or Fail signal in the Global Norms screens.

In the example of a company with a Very Severe/Red flag under the Labor Rights – Health & Safety category, the company does not fail our Global Compact screen because the United Nations Global Compact (UNGC) does not consider employee safety. Other issues not covered by the UNGC include (but are not limited to): certain deleterious working conditions, product safety, anti-competitive practices, accounting improprieties, and other types of business ethics violations.

The company in this example would pass our **Labor Compliance Core** screen for the same reason—the screen looks only at controversies related to collective bargaining, discrimination, child labor, and forced labor.

The example company would fail the **Labor Compliance Broad** screen which covers the same issues as Labor Compliance Core in addition to working conditions, wages and hours, and health and safety. It would also fail our **Human Rights Compliance** screen.

6. WHY IS OUR KEY PERFORMANCE INDICATOR (KPI) SCORE LOWER THAN THE LOWEST SCORED CASE WITHIN THAT KPI?

The KPI score is derived from the lowest scoring controversy case under the KPI unless there is a pattern. If the KPI has a pattern of controversies (three or more non-Minor, ongoing cases), the KPI score is derived from the lowest scoring individual controversy case score minus one additional point. This approach is designed to add more nuance.

7. HOW DOES MSCI ESG RESEARCH ASSESS THE RELIABILITY OF DATA SOURCES?

The MSCI ESG Research team uses a variety of sources such as company documents, regulatory information, news articles, and NGO and industry reports. Sources are selected based on data reliability and reputation. Data reliability is

determined by the type of source. Information from national and state regulators, government agencies, other regulatory bodies, and companies themselves is considered to be the most reliable. For news sources, the reputation of a source is determined with the help of our primary data providers Lexis Nexis and Factiva, established data houses for news accumulation, as a supplemental source for local language sources. Lexis Nexis and Factiva provide a classification of sources that is used as a first point of reference by the team. A total of 4,000 sources are currently being used with analysts reviewing an average of 70,000 articles every month.

Information received from primary sources, company filings, major global, regional and national newspapers and reputable NGOs is considered reliable. For smaller sources, the research team will look to corroborate the content. When the team encounters an unknown or previously unused source, analysts attempt to obtain additional sources, to source check the information or conduct background research.

8. ARE ESG CONTROVERSIES INCORPORATED INTO MSCI ESG RATINGS?

While every controversy case in the MSCI EGS Controversies report may signal reputational risk, not every controversy is judged to pose material ESG risks; therefore, not every controversy impacts a company’s overall MSCI ESG rating. Where relevant, controversy cases are incorporated into a company’s ESG Ratings report and may impact its rating. A deduction (0 to -5.0 points) from the risk management section is assigned based on the severity and type of controversies facing the company in the relevant Key Issue.

	Structural	Non-Structural
Very Severe	-5.0	-3.0
Severe	-2.5	-1.7
Moderate	-1.3	-0.8
Minor	-0.4	-0.0

9. HOW DOES MSCI ESG RESEARCH CONSIDER A COMPANY'S RESPONSE IN THE CONTROVERSY ASSESSMENT?

We welcome feedback anytime via our feedback processes/channels and our teams review and include updates per MSCI ESG Controversies methodology. In addition, many company comments are incorporated in the dedicated Company Response sections on the MSCI ESG Controversies report. There may also be updates to severity assessment and status, but this is evaluated on a case-by-case basis, depending on the information and supporting documentation provided by the company.

APPENDIX

The UNGC consists of ten principles guiding corporate behavior in the following areas:

- Human Rights
- Labor
- Environment
- Corruption

More detailed information can be found on the UNGC website:
www.unglobalcompact.org

Topics not covered within Global Norms Screening for UNGC compliance, because they are not addressed by the UNGC principles, include (but are not limited to) employee health and safety, working conditions not explicitly addressed by the UNGC, product safety, anti-competitive practices, accounting improprieties, and other types of business ethics violations. Global Norms Screening also does not address the absence of positive initiatives, focusing only on involvement in controversies that may represent a violation of the UNGC.

UNGC Focus Area	MSCI Screen Content Summary
Human Rights	General human rights concerns, indigenous peoples rights, civil liberties, disputed territories issues, environmental incidents that harm local livelihoods
Labor	Child labor, forced labor, union and collective bargaining issues, discrimination
Environment	Issues related to energy and climate change; impact on land, water, and air; impact on habitats and ecosystems; water stress; operational waste issues; and environmental issues in the supply chain including sourcing of high impact raw materials; controversial funding or investment in projects with high environmental impact
Corruption	Bribery and corruption

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