

## **Russia MSCI ESG Government Rating downgraded from B to CCC**

**March 8, 2022**

MSCI ESG Research has downgraded Russia's ESG Government Rating from B to CCC (the lowest rating) with immediate effect, following the downgrade from BBB to B on February 28, 2022. This move reflects the further financial isolation of Russia in the last week and that we see higher uncertainty around key metrics because annual input data used in our model do not yet capture Russia's invasion of Ukraine. This change is effective immediately. We have also added Sovereign Watch assessments to our Ukraine ESG Government Rating, but its rating remains unchanged at BB.

### **Russia's ESG Government Rating**

MSCI ESG Research has downgraded the ESG Government Rating of Russia from B to CCC with immediate effect due to extraordinary circumstances.

Since the downgrade to B on February 28, we have observed further heightening of Russia's 'Economic Environment' and 'Financial Governance' risks based on the widening domestic impact of international sanctions and financial isolation on Russia's economy. These include but are not limited to: 1) the decision by US, UK, Canada, France, Germany, Italy and the European Commission to prevent the Russian central bank from using its international reserves (valued at USD 630bn in January 2022); 2) sanctions placed on Russian individuals and companies by the US, the EU, and other countries; 3) the barring of seven major Russian banks from the SWIFT payments system; and 4) the withdrawal of major international companies, including Visa, MasterCard, BP, KPMG, PwC and HSBC. Further, we consider that some of the historic quantitative data used in our methodology are no longer accurate indicators for the level of risk faced by Russia on these key ESG issues, which has created a higher degree of uncertainty, and therefore risk, for these metrics.

We have therefore adjusted Russia's 'Economic Environment' and 'Financial Governance' scores downward to zero, in line with its 'Political Governance' score, leading to an overall ESG Government Rating downgrade to CCC. The score for remaining categories covering 'Natural Resources', 'Environmental Externalities and Vulnerabilities', and 'Human Capital' are unchanged.

### **Ukraine's ESG Government Rating**

MSCI ESG Research continues to monitor the impact of the invasion on Ukraine for risks to sustainability and competitiveness. We have added a number of Sovereign Watch assessments in light of the severity, intensity and unprecedented nature of Russia's invasion of Ukraine, the imposition of martial law, the large number of refugees, and the significant economic and human impact of the conflict on Ukraine. However, these have not resulted in a change in the rating, which remains at BB with a Negative outlook.

The Sovereign Watch assessments for Ukraine include 'Very Severe' assessments under the 'Political Governance' Risk Exposure and Risk Management categories (Governance pillar) and 'Very Severe' assessments under the 'Human Capital' and 'Economic Environment' Risk Exposure categories (Social pillar). The Environmental pillar score remains unchanged. These assessments will remain under active monitoring.