

MSCI ESG Ratings Methodology: Health & Safety Key Issue

MSCI ESG Research LLC

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Introduction

This document provides information on the components of the Health & Safety Key Issue. Health & Safety is a Key Issue in the Social Pillar of the MSCI ESG Ratings model. Companies are evaluated on their management of workplace safety and the workplace safety standards in the industries and regions in which they operate.

For additional details on the MSCI ESG Ratings Model, refer to Section 2, Data, ratings and scores, of “ESG Ratings Methodology.”

Exhibit 1: MSCI ESG Key Issue hierarchy

3 Pillars	10 Themes	35 ESG Key Issues
Environment	Climate Change	Carbon Emissions
		Climate Change Vulnerability
		Financing Environmental Impact
		Product Carbon Footprint
	Natural Capital	Biodiversity & Land Use
		Raw Material Sourcing
		Water Stress
	Pollution & Waste	Electronic Waste
		Packaging Material & Waste
		Toxic Emissions & Waste
	Environmental Opportunities	Opportunities in Clean Tech
		Opportunities in Green Building
Opportunities in Renewable Energy		
Social	Human Capital	Health & Safety
		Human Capital Development
		Labor Management
		Supply Chain Labor Standards
	Product Liability	Chemical Safety
		Consumer Financial Protection
		Insuring Health & Demographic Risk
		Privacy & Data Security
		Product Safety & Quality
		Responsible Investment
	Stakeholder Opposition	Community Relations
		Controversial Sourcing
	Social Opportunities	Access to Communications
		Access to Finance
Access to Health Care		
Opportunities in Nutrition & Health		
Governance	Corporate Governance	Board
		Pay

3 Pillars	10 Themes	35 ESG Key Issues
		Ownership & Control
		Accounting
	Corporate Behavior	Business Ethics
		Tax Transparency

Risks and opportunities associated with this Key Issue

- Decreased operational efficiency, production disruptions
- Increased costs from litigation, penalties, and fines
- Loss of access to markets or growth opportunities from negative reputational effects

Health & Safety Key Issue Score

The overall Key Issue Score is based on the Exposure Score and the Management Score using the formula below. The Exposure Score and the Management Score are combined such that a higher level of exposure requires a higher level of demonstrated management capability in order to achieve the same overall Key Issue Score.

$$\text{Key Issue Score} = 7 - (\max(\text{Exposure Score}, 2) - \text{Management Score})$$

Health & Safety Management Score

The Management Score on this Key Issue is based on an average of the scores associated with each of the categories listed below, modified by Controversies. These scores are derived from data points that are scored on a 0-10 scale, with 10 corresponding to best practice and 0 corresponding to lack of management. Refer to Section 3.3, Analyzing Risk Management, of “ESG Ratings Methodology” for additional details. The data points listed below are used in the Management Score calculation:

Management Score category: Governance and strategy

- Health & Safety (H&S) policy

- H&S policy is group-wide
- H&S policy applies to contractors
- H&S policy is enforced with auditing
- H&S is a factor in executive compensation
- Executive body responsible for H&S strategy and performance
- Percentage of company's H&S system certified to OHSAS 18001 or ISO 45001
- Company includes contractors in its H&S metrics

Management Score category: Targets

- H&S targets
 - Target year, reduction (percentage), baseline, baseline year
- Aggressiveness of target in the context of current performance
- Implementation strategy to achieve target
- Demonstrated track record of achieving targets

Management Score category: Performance

- Trend in H&S metrics
- H&S metrics vs peers may include:
 - Lost time incident rate
 - Total recordable injury rate
 - Fatalities
 - Other H&S metrics

(Sources: company disclosures)

Controversies

A controversy deduction ranging from 0 to 5 points is subtracted from the overall Management Score, based on the severity and type of controversies facing the company on this Key Issue. The following categories of controversies are used in the assessment:

- Controversial workplace accidents

For more details on how controversies are included in the MSCI ESG Ratings model, refer to Section 3.3.2, Controversies cases, of “ESG Ratings Methodology.”

Health & Safety Exposure Score

The Exposure Score on this Key Issue is based on the Business Segment Exposure Score and Geographic Exposure Score using the formula outlined in Section 3.2.2, Determining Exposure Scores, of “ESG Ratings Methodology.” The Business Segment Exposure Score and Geographic Exposure Score are scored on a 0-10 scale, with 10 corresponding to the highest risk and 0 corresponding to the lowest risk. Refer to Section 3.2, Analyzing Risk Exposure, of “ESG Ratings Methodology” for additional details. The following data sources and methodologies are used in the Exposure Score calculation:

Business Segment Exposure Score

The Business Segment Exposure Score is a weighted average of the Health & Safety risk exposure scores of a company’s business segments. Scores are weighted by the proportion of a company’s total assets in each business segment. The following sources are used to determine this 0-10 score:

- **Type of Operations:** Percentage of operations in business segments with high/moderate/low level of fatalities and industrial injuries
(Sources: Occupational Safety & Health Administration [OSHA]; U.K. Reporting of Injuries, Diseases and Dangerous Occurrences Regulations [RIDDOR]; Bureau of Labor Statistics; Refinitiv; MSCI ESG Research; company disclosure)

Geographic Exposure Score

The Geographic Exposure Score is a weighted average of the Health & Safety risk scores of the countries and regions in which a company operates. Scores are weighted by the proportion of a company's total assets in each geographic segment. The following sources are used to determine this 0-10 score:

- **Location of Operations:** Percentage of operations in countries with high/moderate/low employee fatality rates (total fatalities per 100,000 employees)

(Sources: International Labour Organization [ILO], Refinitiv, MSCI ESG Research, company disclosures)

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AMERICAS

Americas	1 888 588 4567 *
Atlanta	+ 1 404 551 3212
Boston	+ 1 617 532 0920
Chicago	+ 1 312 675 0545
Monterrey	+ 52 81 1253 4020
New York	+ 1 212 804 3901
San Francisco	+ 1 415 836 8800
São Paulo	+ 55 11 3706 1360
Toronto	+ 1 416 628 1007

EUROPE, MIDDLE EAST & AFRICA

Cape Town	+ 27 21 673 0100
Frankfurt	+ 49 69 133 859 00
Geneva	+ 41 22 817 9777
London	+ 44 20 7618 2222
Milan	+ 39 02 5849 0415
Paris	0800 91 59 17 *

ASIA PACIFIC

China North	10800 852 1032 *
China South	10800 152 1032 *
Hong Kong	+ 852 2844 9333
Mumbai	+ 91 22 6784 9160
Seoul	00798 8521 3392 *
Singapore	800 852 3749 *
Sydney	+ 61 2 9033 9333
Taipei	008 0112 7513 *
Thailand	0018 0015 6207 7181 *
Tokyo	+ 81 3 5290 1555

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