

# Rate the Raters Phase Five

## Questionnaire for Raters

### FTSE4GOOD ESG Ratings

### February 2012/2013

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#### Overview of Questionnaire

The questionnaire covers five areas: Rating Overview, Governance and Transparency, Inputs, Research Process and Outputs. SustainAbility developed a methodology to evaluate raters' responses in the latter four areas, and we used this to identify the good practices and areas for improvement described in [Rate the Raters Phase III: Uncovering Best Practices](#). We have made our methodology available on our website for readers to use while reviewing the raters' responses.

#### Directions for Raters

Please use space below each question to input your answers. While we have not set a minimum or maximum number of words for your responses, please answer the questions in sufficient detail for us to understand your practices. We have included guidance notes in italics. We recognize that certain questions may not be pertinent to every rating. If you find this to be the case, please indicate this and provide a brief explanation.

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## 0 Rating Overview

### 0.1.1 Rating Name

FTSE4Good ESG Ratings

#### Overview

FTSE Group now produces two FTSE4Good Products. Both share the same criteria which are exposure risk-based<sup>1</sup>. However there are key differences:

- FTSE4Good Index Series: launched in 2001, companies have to meet environmental, social and governance (ESG) criteria thresholds for inclusion
- FTSE4Good ESG Ratings ("Ratings"): launched in 2011, companies are rated 0-5 on ESG criteria, where 0 indicates no information, 3 Good Practice (FTSE4Good Index level) and 5 Best Practice.

This submission form will focus on the FTSE4Good ESG Ratings.

Additional information on the FTSE4Good Index Series will be provided in a separate document.

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<sup>1</sup> Please note when referring to risk throughout this document, we refer to exposure risk to ESG factors

## FTSE4Good ESG Ratings Description

Below is a brief description of the FTSE4Good ESG Ratings. An overview brochure can be accessed by free registration on the following link: <http://www.ftse.com/analytics/ftse4good-esgratings/>

The Ratings consist of the following for each company :

- **6 Themes:** risks 1 low – 3 high and scores 0-5 Best Practice (scores are risk relative for ESG)
- **3 Pillars:** absolute and super-sector relative scores 0-5 and 1-10
- **1 Overall Rating:** absolute and super-sector relative scores 0-5 and 1-100

Key characteristics of the FTSE4Good ESG Ratings:

- **A comprehensive solution:** The ratings cover around 2,400 companies, including all constituents of the FTSE All World Developed Index. The six ESG criteria themes cover environmental management, climate change, human and labour rights, supply chain labour standards, countering bribery, and corporate governance.
- **Measuring risk and performance:** Companies with higher ESG risks must achieve more to obtain a high score. The ratings indicate a company's success at managing its company-specific ESG risks.
- **ESG data that's easy to 'slice and dice':** The ratings present three different levels of scores and risks. These are Theme (score and risk for the issues in each ESG pillar, such as climate change), Pillar (a cumulative score and risk for each of the ESG aspects, for example, environment), and Overall (a cumulative score of ESG performance).
- **Clear methodology and robust governance:** The FTSE4Good ESG Ratings follow clearly defined risk and performance thresholds defined in publicly available criteria. To ensure their quality and accuracy, an independent committee oversees the ratings, while leading research provider, EIRIS, conducts independent research
- **Time-tested:** The ratings are based on the successful FTSE4Good Index Series standards.
- **Evolving standards:** New themes and criteria are regularly developed through market consultations to capture emerging ESG risks.

**0.1.2 Please describe the primary objectives and motivations for your rating**

The primary objective of the FTSE4Good ESG Ratings is to provide a tool for investors to enable them to integrate Environmental, Social and Governance (ESG) factors into investment decisions and stewardship approaches. However the FTSE4Good ESG Ratings are a flexible tool with a number of applications:

- **Investors:** As a champion for sustainable investment, FTSE aims to provide investment professionals globally with the tools they need to integrate environmental and social factors into their investments. Specifically there is a growing demand for Environmental, Social and Governance (ESG) factors to be incorporated into investment decision making and stewardship. The FTSE4Good ESG Ratings provide objective ESG risk and performance data that is based on clear and easy to apply methodologies, enabling investors to integrate ESG considerations into investments and stewardship approaches.
- **Companies:** Encourage improvements and change in corporate behaviour and company performance on Environmental, Social and Governance (ESG) factors. By providing companies with their ratings, they can monitor and manage their own performance.
- **Reporting and ESG data:** By their nature, the Ratings encourage companies to achieve greater transparency in corporate ESG data, as the more appropriate information that is available, the better the companies will score. This is probably even more so than the FTSE4Good Index, because the opportunities for more information to be taken into account is greater (from the Best Practice data points), thus encouraging even greater public disclosure. In addition, the Ratings can only encourage greater transparency because the Ratings criteria are transparent themselves.

**0.1.3 How do you evaluate the impact or success of your rating? If so, how?**

Success or impact can be defined in a number of ways:

- Usage of the FTSE4Good ESG Ratings: the Ratings are well respected by the investment community, with global application. The Ratings are being used by clients in the UK and Japan, with increasing interest in Europe and the US.

**Snapshot Overview of FTSE4Good ESG Ratings Methodology**

**FTSE4Good ESG Ratings: A tool for analysis & integration**

- Over 2300 companies covered
- Evaluate ESG risk exposure
- Assess ESG performance

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**FTSE4Good ESG Risk & Scoring Framework**

Risk	Definition
3	High
2	Medium
1	Low
0	Not applicable

Score	Definition
5	Best Practice
4	Beyond Good Practice
3	Good Practice
2	Some good practice
1	Poor disclosure
0	No disclosure

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**Further information:**

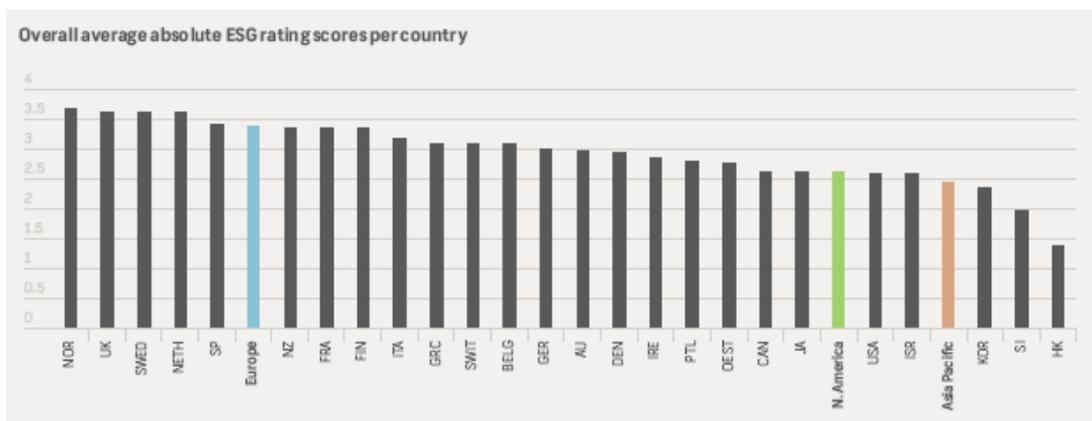
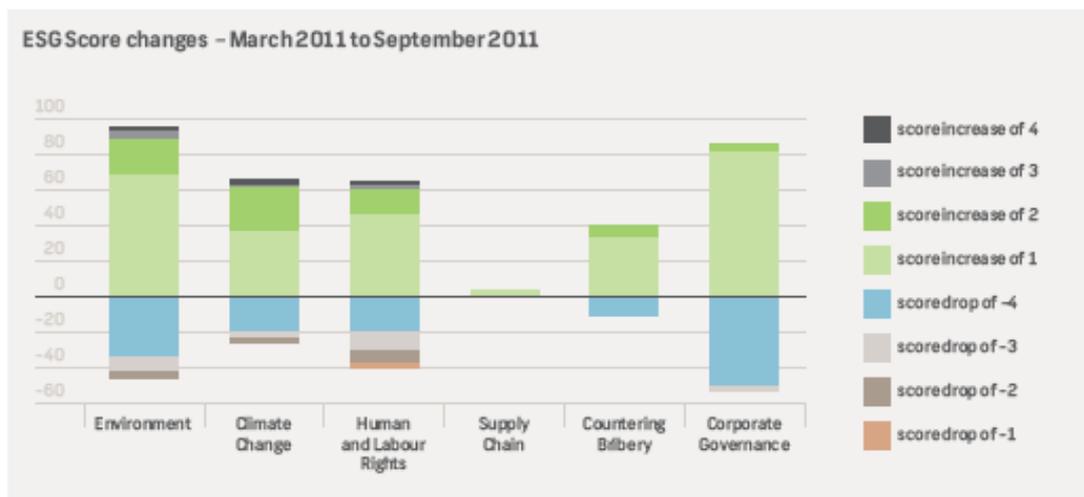
- An overview brochure and the full methodology and criteria can be accessed by free registration on the following link: <http://www.ftse.com/analytics/ftse4good-esgratings/>
- FTSE4Good ESG Ratings Ground Rules Section 5 – calculation formulae and worked

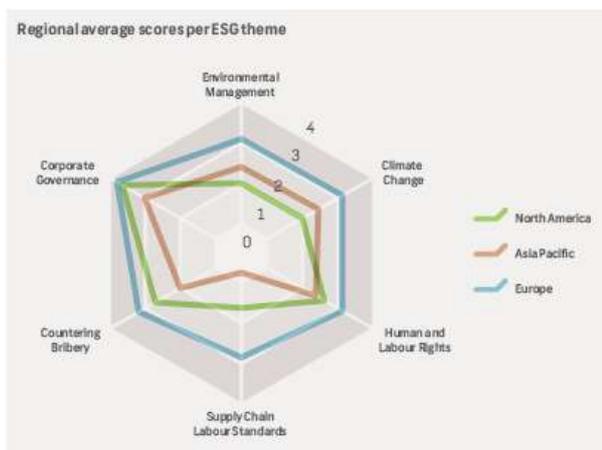
*Please note when referring to risk throughout this document, we refer to exposure risk to ESG factors*

[http://www.ftse.com/Indices/FTSE4Good\\_ESG\\_Ratings/Downloads/Ground\\_Rules\\_FTSE4Good\\_ESG\\_Ratings.pdf](http://www.ftse.com/Indices/FTSE4Good_ESG_Ratings/Downloads/Ground_Rules_FTSE4Good_ESG_Ratings.pdf)

- See also question 3 – 3.4 for the detail of company assessments.

- Change in company behavior and performance: the Ratings monitor company progress on ESG factors. General movements in scores are being observed, as can be seen in the examples below. In addition, trends in company scores can be monitored at a country and regional level.
- Case study: companies are increasingly working to increase their Rating. Several companies had very low scores when the Ratings were introduced in 2011. Once they had liaised with FTSE's engagement team to understand the criteria and methodology, the companies became very pro-active. They organised and introduced a variety of activities, including an environmental management system, and over a period of 12-18 months steadily worked to increase their scores.





**0.1.4 Please identify your audience or customer base, and, if possible how they use your rating in their decision making.**

The FTSE4Good ESG Ratings have primarily two key audiences: investors and companies.

**Investors**

The Ratings have application for a broad number of investors, including institutional investors especially pension funds, trustees, asset managers and fund managers, buy and sell-side research. The FTSE4Good ESG Ratings are designed to be used by investors for a variety of purposes below. In addition, more information can be found in the FTSE4Good ESG Ratings overview brochure at <http://www.ftse.com/analytics/ftse4good-esgratings/>

- **Manager Selection and Evaluation:** the Ratings can help institutional investors evaluate asset managers and how far they integrate ESG factors into their processes. For example, the Ratings can reveal a portfolio manager's exposure to companies with poor countering bribery scores. This allows the asset owner to raise a concern with their asset manager.
- **Engagement and Stewardship:** an increasing number of fund managers and pension funds are engaging with investee companies regarding their ESG practices. The Ratings can help them identify companies for engagement and track progress. For example, identifying high-risk companies with low scores on supply chain labour standards as priority engagement.
- **Risk Management:** the Ratings enable asset managers to identify where the greatest ESG risks exist in a portfolio e.g. companies with this highest risks and poorest scores. Through these insights, asset managers can use the Ratings to identify overall ESG risks in a portfolio, understand sources of ESG risks in a portfolio, as an additional quantitative factor in risk models, or complement other risk analytics and research
- **Research and Analysis:** the FTSE4Good ESG Ratings provide a comprehensive data set to enhance research and pre-trade opportunity analysis. Example: Identifying which ICB Supersectors have seen historic correlation between lower market beta / higher returns and environmental management scores. Examples include identifying highest scoring companies to create as investment theme, or using the human rights score to determine a buy, hold or sell decision.

- Active portfolio Analysis and Management: FTSE4Good ESG Ratings can be used to define and monitor an eligible investment universe, fuel quantitative or fundamental models and help investors meet UN PRI obligations.
- Custom Solutions: the Ratings allow asset managers to create indices, portfolios and other products by theme, pillar, geography, score, risk impact, or any combination according to investor needs. Additionally, they can help create quantitative ESG indices such as a custom index which incorporates a particular ESG risk factor into the weighting e.g. climate change.

#### Companies

Any number of the 2,400 companies that are assessed for the FTSE4Good ESG Ratings, use Ratings to:

- Monitor their own progress, year on year tracking progress in scores
- Report their own progress: companies often publish their Ratings result
- Benchmark their performance against peers in their own super-sector or selected companies.

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## 1 Governance and Transparency

### 1.1 Disclosure of methodology

#### 1.1.1 Describe how you make available the details of your methodology to the public, rated companies and other stakeholders.

All information in relation to the FTSE4Good ESG Ratings is transparent and available in the public domain on the FTSE website (*see below*).

- [http://www.ftse.com/Indices/FTSE4Good\\_ESG\\_Ratings/index.jsp](http://www.ftse.com/Indices/FTSE4Good_ESG_Ratings/index.jsp)
- <http://www.ftse.com/analytics/ftse4good-esgratings/>

### 1.2 Conflict Management

#### 1.2.1 Do you have a policy (or guidelines, standards, etc.) that addresses conflicts of interest? If so, is it disclosed publicly?

FTSE Group (FTSE) is an independent company owned by the London Stock Exchange. FTSE creates and manages over 120,000 equity, bond and alternative asset class indices. The company has offices around the world including London, Frankfurt, Hong Kong, Beijing, Shanghai, Madrid, Milan, Paris, New York, San Francisco, Sydney and Tokyo, FTSE Group works with partners and clients in more than 77 countries worldwide.

FTSE does not give financial advice to clients or companies which allows for the provision of objective market information. Independent committees review and approve all changes to the indexes to ensure that they are made objectively and without bias.

FTSE's provides investment products and neither FTSE nor its research partner provide consulting services. In addition to using an independent research provider for company

assessment an independent policy committee makes decisions regarding the Ratings of companies, and regarding new criteria development.

Committee members are chosen carefully to avoid any potential conflict of interest. Should there be any question over this, FTSE requirements would be that the committee member step out of the room or debate for that particular item.

**1.2.2 Do you disclose the relationships and independence of board members, advisory panel members, partners and/or other involved third-parties? If so, how? How do you manage conflicts of interest with these entities?**

The list of all committee members and their affiliations are available publicly on the FTSE4Good website as follows:

[http://www.ftse.com/Indices/FTSE4Good\\_Index\\_Series/Index\\_Rules.jsp](http://www.ftse.com/Indices/FTSE4Good_Index_Series/Index_Rules.jsp)  
[http://www.ftse.com/Indices/FTSE4Good\\_Index\\_Series/Downloads/CommitteeMembers.pdf](http://www.ftse.com/Indices/FTSE4Good_Index_Series/Downloads/CommitteeMembers.pdf)

The Criteria Sub-Committee works on enhancing current and developing future criteria, making proposals to the overall Policy Committee that also makes decision on company inclusions and exclusions for the FTSE4Good Index. The committees are comprised of independent members who are leading professionals or academics in the sustainability sector to ensure impartiality in decision making regarding company inclusion. Approximately half the members are from the investment community and the other half represent a range of expertise drawing from NGO, corporate and union backgrounds.

Committee members are chosen carefully to avoid any potential conflict of interest. Should there be any question over this, FTSE requirements would be that the committee member step out of the room or debate for that particular item.

**1.2.3 Do you offer for-fee services to the companies that you rate (including benchmark reports)? If yes, please describe these services. How do you avoid conflicts of interest in these situations?**

FTSE (and its research partner) does not offer these forms of services to companies being assessed.

**1.2.4 Do you have any other financial relationships (e.g. sponsorships, advertising) with companies you rate?**

The answer is no

## **1.3 Regular Review**

**1.3.1 Do you have a regular approach to updating your methodology over time? If yes, describe this approach.**

FTSE4Good Criteria Development

As legislation, international norms and stakeholder expectations are constantly changing, it is important that the criteria for the FTSE4Good Ratings are reviewed and enhanced periodically to ensure they continue to set the debate, and are aligned with international standards.

The criteria development process is overseen by the FTSE4Good Criteria Committee, and is based upon the following principles:

- International Standards
- Stakeholder Consultation
- Challenging but Achievable

The Criteria Development Process (see diagram below) is as follows:

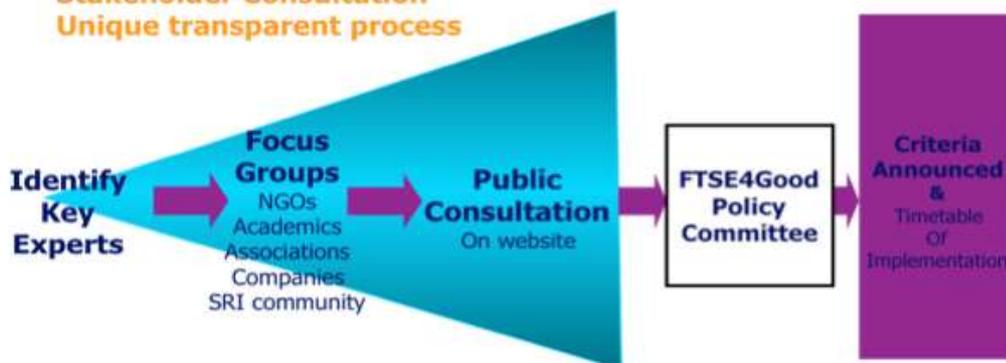
- **Key Experts:** FTSE works with key experts to identify the issues and risks that companies need to address and manage, and the international standards that need to inform the criteria. These are developed into draft criteria.
- **Focus Groups** (or key 1-1 meetings, group teleconferences etc.): The draft criteria are discussed with key stakeholders including investors, companies, industry associations, NGOs, Academics, Government/Regulators. Comments are analysed, the draft criteria revised, and reviewed by the Criteria Committee.
- **Public Consultation:** The proposed criteria are then posted on the FTSE4Good website with free access for anyone to see and comment on. Some 2,000 people are contacted and companies are invited to participate and comment.
- **Challenging but Achievable:** The results of the market consultation are analysed and the criteria revised. The final criteria are designed to be challenging but achievable.
- **Approval:** The Criteria Committee and the Policy Committee approve the criteria.
- **Implementation:** The criteria are launched on the FTSE4Good website, and companies immediately receive a Rating on the new criteria. Through the Ratings review process, companies have the opportunity to change their Rating scores twice a year.
- **Communication:** (*see next section*).

## FTSE4Good Criteria Development Process

### FTSE4Good: Evolving Standards

Criteria Development – Consensus on new criteria

**Stakeholder Consultation**  
**Unique transparent process**



#### 1.3.2 Describe how you communicate any changes in your methodologies to affected companies and other stakeholders, and how you work with them to adapt to and understand the implications of the changes.

FTSE uses a number of mechanisms to inform all stakeholders, including companies, about changes to the criteria. These include:

- **Press Release:** the new criteria are announced in a Press Release at review time, and the Press Release is located on the website. There is usually a good uptake in new information by the media as they follow FTSE4Good developments closely, and this distributes the information widely maximising the reach to stakeholders through a multiplier effect.
- **Website:** the new criteria are placed on the website, and due to the transparent nature of the product, the criteria are very detailed so stakeholders can understand the full picture.
- **Companies:** communications on new criteria are focused on companies that are more active on CSR. These are identified as those in the Ratings sister product, the FTSE4Good Index. In particular the communication program helps the companies understand the criteria. *See the FTSE4Good Index submission, question 2*
- **Events:** for companies that are more active on CSR (*see the bullet point above*) FTSE may hold seminars or webinars.

## 1.4 Stakeholder Involvement (excluding rated companies)

#### 1.4.1 Does the rating have an external and/or independent advisory body in place? If so, describe how this body is involved in the rating's construction and maintenance and the scoring, rating, or selection of companies.

FTSE4Good Policy Committee

The management and the evolution of the FTSE4Good ESG Ratings is placed under the review of the FTSE4Good Policy Committee, an independent body of experts from the fields of sustainability, fund management, academia and the business community. The FTSE4Good Policy Committee's role is to:

- Advise on the rules governing the FTSE4Good environmental social and governance (“ESG”) Ratings (‘the Ratings’).
- Oversee the framework of criteria themes, the identification of “good practice” and “best practice”, and the criteria development process generally.
- Act as an independent judge of application of the criteria to rated companies.
- Consider issues relating to specific companies or corporate actions, and advise on the interpretation of the Ground Rules.
- Provide a strategic role in advising FTSE on market factors and other trends affecting the Ratings and their development, and propose actions that might be taken accordingly.

To support the work of the FTSE4Good Policy Committee, other Sub-committees have been set-up to assist on particular aspects. These include the FTSE4Good US Advisory Committee and the Criteria Development Subcommittee.

[http://www.ftse.com/Indices/FTSE4Good\\_Index\\_Series/Index\\_Rules.jsp](http://www.ftse.com/Indices/FTSE4Good_Index_Series/Index_Rules.jsp)

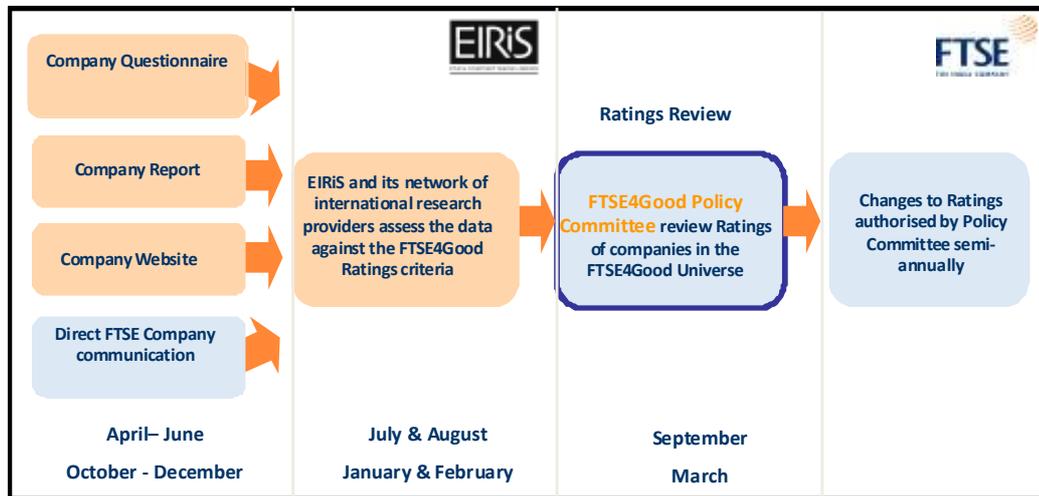
[http://www.ftse.com/Indices/FTSE4Good\\_Index\\_Series/Downloads/CommitteeMembers.pdf](http://www.ftse.com/Indices/FTSE4Good_Index_Series/Downloads/CommitteeMembers.pdf)

FTSE4Good ESG Ratings Review (*see diagram below*)

The FTSE4Good Policy Committee meets twice a year in March and September for the FTSE4Good ESG Ratings Review. The procedure is as follows:

- **Companies are reviewed.** Ongoing company research assessments by FTSE’s research provider EIRIS are reviewed by the Policy Committee.
- **Decisions are made:** as to the application of the Ratings, and changes and trends are discussed.
- **Ratings are finalised:** it is not until the FTSE4Good Policy Committee has met and decisions have been made that the company Ratings are confirmed and incorporated into the product.

### FTSE4Good ESG Ratings Review



**1.4.2 Describe how you involve / solicit feedback from external stakeholders in the development and ongoing maintenance of the rating. Please provide an example of how you revised your methodology based on stakeholder input.**

The FTSE4Good ESG Ratings were launched in April 2011. FTSE conducted a variety of stakeholder engagements during the development of the Ratings. For example:

- **Investors:** experts in responsible investment (RI) and Environment, Social and Governance (ESG) were consulted in two phases. Initially some 40 investors were consulted on the basic concepts behind the ratings. Subsequently around 10 investors were consulted in-depth on the proposed detailed methodology.
- **Companies:** FTSE carried out consultations with organisations on behalf of companies. For example, the IBLF (International Business Leaders Forum) unit on Human Rights were consulted on the Human Rights best practice criteria, as this category of requirements was new to the Ratings.
- **Other Stakeholders:** while developing the criteria, a number of market consultations were reviewed to identify additional best practice requirements. A broad range of stakeholders participate in market consultations, including investors, companies, industry associations, NGOs, government and regulators (*see question 1.3 above*).

There is a detailed consultation process in the development of new criteria and in addition to this structured approach, a range of broader feedback and recommendations that FTSE receives from a range of stakeholders, including from investors, companies and NGOs. This feedback is used by FTSE, FTSE's research providers and the Committees to test existing methodologies and criteria and consider enhancements that could be made.

Example of solicited feedback: development of Climate Change criteria:

- **Overview:** The FTSE4Good ESG Ratings are based on the FTSE4Good Index Series standards, therefore the criteria development process for the Index is highly relevant for the Ratings.
- **Market Consultation:** A market consultation was carried out to gather views and consensus about which criteria should be developed next, and the contents of those criteria. Some 250 in-depth responses were received, and there was very strong feedback that Climate Change was seen as the highest priority, with a number of comments on good practice and best practice.
- **Criteria Development:** (See question 1.3 above) FTSE then went through the criteria development process with the FTSE4Good Criteria Committee, including extensive consultation with experts and NGOs, not only on the requirements but also on which sectors were the highest risk.
- **Criteria launched:** the FTSE4Good Climate Change criteria were approved by the FTSE4Good Policy Committee and launched for the FTSE4Good Index in 2008. The launch event attracted around 200 attendees from all the stakeholder groups.
- **Climate Change Ratings:** the FTSE4Good Climate Change criteria were then developed into criteria for the Ratings, with including consultation with some experts to help confirm the new category of requirements as best practice.

Example of responding to unsolicited feedback and controversies: Forestry & Paper Companies, Indigenous Rights and Controversies Process

- **Indigenous Rights Criteria:** The FTSE4Good Human Rights criteria have requirements with regards to indigenous rights.
- **Global Resource Sector:** On introduction, the requirements regarding indigenous rights were sector specific and applied to the Global Resource Sector.
- **Forestry & Paper Sector:** It was brought to FTSE's attention by an NGO that companies in the Forestry & Paper sector can have issues regarding indigenous rights due to the nature of their business activities. In addition concerns regarding a particular company were raised.
- **Controversies Process:** The Criteria Sub-Committee considers issues such as this to examine whether it identifies a gap in the existing criteria. In this instance the committee felt there was a gap, so the criteria were modified and applied for all companies in the sector.
- **Criteria Enhanced:** Therefore the indigenous rights criteria were amended to require Forestry & Paper companies to meet the indigenous rights criteria requirements alongside the Global Resource Sector.

<http://www.ftse.com/analytics/ftse4good-esgratings/>

In addition in response to companies, the FTSE4Good Policy Committee (and its sub-committees) hears appeals by companies who feel their assessment is unsatisfactory. In these cases the Committee sometimes asks for additional independent sources of expertise for advice, and will make a decision regarding whether to uphold the EIRIS assessment or to revise the criteria or its application. In an example following Sub-Committee consideration, changes have been made such as applying differentiated human rights criteria for oil and gas contractors rather than treating them in the same manner as the operators.

**1.4.3 How do you communicate the output / summary from this engagement? For example, do you make public the stakeholder comments?**

The output that results from the feedback is made public e.g. new criteria requirements.

<http://www.ftse.com/analytics/ftse4good-esgratings/>

FTSE treats the feedback provided as confidential. Summary reports are only received by the FTSE4Good Committee.

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## **2 Inputs**

Please note that research and company assessments for the FTSE4Good Index are carried out by EIRIS (Experts In Responsible Investment Solutions). Please see the FTSE4Good Index submission for information on EIRIS in relation to these questions, and if any more information is required, please contact EIRIS direct.

### **2.1 Information Sources**

**2.1.1 Please list and describe the information sources that you utilize to develop your rating.**

**2.1.2 Please describe how this information is obtained (i.e. from publicly available documents, partner organizations, directly from companies). If your rating is based on other ratings or third-party research firms, please describe how they obtain their information.**

**2.1.3 How often do you refresh information / inputs on companies?**

**2.1.4 How do you deal with non-disclosure by companies in your rating?**

### **2.2 Company Engagement**

**2.2.1 Describe the process by which you engage / interact with the companies that you rate (i.e. frequency, nature, format).**

**2.2.2 On average, how much time do your analysts spend engaging with each rated company on an annual basis?**

**2.2.3 Please describe if and how feedback from rated companies is incorporated into your research and ratings process.**

### **2.3 Input Verification**

**2.3.1 Describe your approach to verifying the information used to assess companies. Is this approach captured in any sort of policy or guidance document?**

**2.3.2 Is external or third-party verification a consideration in assessing the quality of information sources? If so, please explain.**

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## 3 Research Process

### 3.1 Experience and Capacity of Research Team

- 3.1.1 On average, how many years of experience do your analysts (internal or contract) have working in or analyzing the industries they cover?
- 3.1.2 Describe your approach to ongoing training and industry education for your analysts.
- 3.1.3 On average, how many companies do your analysts cover each year?

### 3.2 Quality Management

- 3.2.1 Describe your approach to ensuring quality control throughout the ratings process. Is this process documented or codified?
- 3.2.2 Have your research systems or processes been certified, assured or verified by an external organization?

### 3.3 Sector Specificity

- 3.3.1 Does your rating use the same criteria and weightings for all sectors and companies? If so, explain why.

No. The criteria requirements are risk relative, therefore material to the company.

The methodology described below is set out in detail on our website at <http://www.ftse.com/analytics/ftse4good-esgratings/>

The FTSE4Good criteria requirements are designed to ensure they focus on material issues specific to each company.

- Risk: the FESG Ratings criteria apply a risk matrix that determines how significant a particular theme is for each company from not applicable to high. These vary on the theme for example for the environmental themes this is assessed on industrial sector and business activities, for human rights it is a combination of industrial sector and the extent of operations in countries with poor human rights records, for countering bribery it is a combination of industrial sector, countries of operation and whether they have significant public contracts. Rather than a simplistic sector only driven approach, different risk categories are created for each issue / theme, and these risk categories (high/medium/low) then determine the criteria requirements.
- Criteria: The higher the exposure risk the tougher the criteria requirements.

**Risks**

## Risk/Impact levels

*Principle: Companies allocated either:*

<b>3</b>	<b>High risk/impact</b>
<b>2</b>	<b>Medium risk/impact</b>
<b>1</b>	<b>Low or emerging risk/impact</b>
<b>0</b>	<b>Not applicable</b>

**Components of risk weighting include:**

- **Business exposure to issue/theme**
- **Impact on environment and society**



**Scores**

*Principle: The higher the risk / impact the more a company is required to do to achieve a higher score*

	(no risk) <b>Zero</b>	<b>One</b>	<b>Two</b>	(high risk) <b>Three</b>	<i>Risk/impact</i>	
Best ↑ <i>Strength of policies, systems and reporting</i> ↓ Worst				<b>5</b>	The greater a company's risk/impact the more they have to do to score the same as one with a lower risk/impact  Assessing: Policy Systems Reporting	
			<b>5</b>	<b>4</b>		<b>4</b>
		<b>5</b>	<b>4</b>	<b>3</b>		<b>3</b>
		<b>4</b>	<b>3</b>	<b>2</b>		<b>2</b>
		<b>3</b>	<b>2</b>	<b>1</b>		<b>1</b>
		<b>2</b>	<b>1</b>			
	<b>1</b>					



## Example – Environmental Management

	Scoring Framework (summary)		
Risk	Score 1	Score 3 =FTSE4Good	Score 5
Low (1)	Almost nothing	Basic policy	Reasonable policy Reasonable (EMS)
Medium (2)	Almost nothing	Reasonable policy Reasonable EMS	Extensive policy Detailed EMS Some performance reporting
High (3)	Basic policy Basic EMS	Good policy, wide coverage Extensive EMS Some Reporting Performance verified	Policy covers sustainability Systems wider coverage/scope Detailed Reporting All performance verified

### 3.3.2 Describe how you take into account industry and company specific issues and context.

All of the industries and risks associated with each sector are clearly outlined in the criteria, which is available publicly on the FTSE website. Although focusing only on industrial sector is an over-simplification, other factors such as countries of operation are also crucial to consider. For each different criteria (Environmental, Human and Labour Rights, Supply Chain Labour Standards, Climate Change and Countering Bribery), there are separate definitions on which companies are identified as needing to meet high, medium or low risk criteria. Based on research, sectors which are higher risk or operate in countries of high risk will need to meet different criteria in order to meet the threshold for inclusion.

FTSE4Good ESG Ratings Criteria:

<http://www.ftse.com/analytics/ftse4good-esgratings/>

## 3.4 Basis for Rating

### 3.4.1 Describe the basis for your rating of companies, including how you determine what constitutes the different degrees of performance. For example, if you grade companies on an A-F scale, how do you determine these levels?

The Ratings assessment is carried out on each company as laid out below.

The full criteria and an overview of the methodology can be found on:

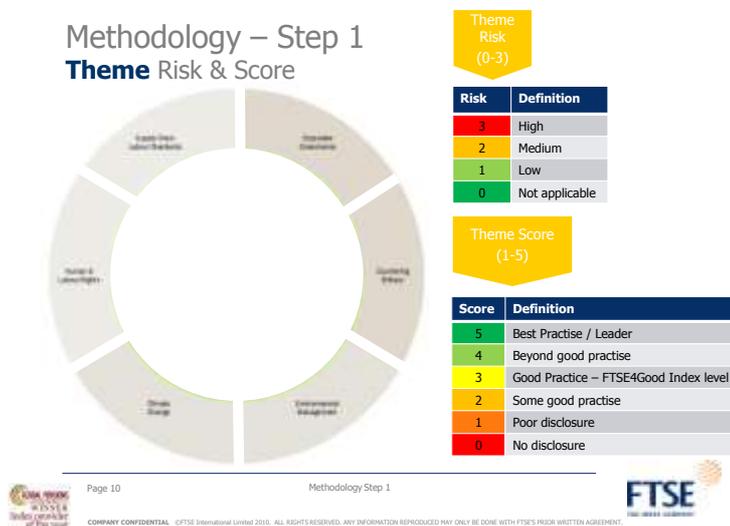
<http://www.ftse.com/analytics/ftse4good-esgratings/>

**Step 1 Theme Level Score (0-5):** Each company within the eligible universe will be assigned a risk classification of high/medium/low or not applicable for each of the six themes. Based on the assigned risk classification, companies are evaluated against the criteria for each theme, and scored between 0 and 5. A score of 3 is the level for inclusion in the FTSE4Good Index and is

referred to as 'Good Practice', and a score of 5 is considered best practice. As with all FTSE4Good Criteria, the greater the risk, the more the company has to do to score well.

**Step 2 Pillar Level Supersector Relative Score (1-10):** Using the theme level risks and scores, an aggregated score is calculated for each company at the Environmental, Social and Governance (ESG) Pillar Level. The score is readjusted to be relative to its ICB Supersector<sup>2</sup> peers, where 1 is the lowest and 10 is the highest score.

**Step 3 Overall ESG Ratings Score (1-100):** Using the ESG Pillar level risk and scores, an overall ESG Rating score is calculated for each company. The score is readjusted to be relative to its ICB Supersector peers, where 1 is the lowest and 100 is the highest score.



<sup>2</sup> The Industry Classification Benchmark (ICB) is a definitive system categorizing over 70,000 companies and 75,000 securities worldwide, enabling the comparison of companies across four levels of classification and national boundaries. The ICB system is supported by the ICB Database, an unrivalled data source for global sector analysis, which is maintained by FTSE.  
[http://www.ftse.com/Indices/Industry\\_Classification\\_Benchmark/index.jsp](http://www.ftse.com/Indices/Industry_Classification_Benchmark/index.jsp)

**Example of Risk-Relative Criteria Requirements**

**Example – Environmental Management**

	Scoring Framework (summary)		
Risk	Score 1	Score 3 =FTSE4Good	Score 5
Low (1)	Almost nothing	Basic policy	Reasonable policy Reasonable (EMS)
Medium (2)	Almost nothing	Reasonable policy Reasonable EMS	Extensive policy Detailed EMS Some performance reporting
High (3)	Basic policy Basic EMS	Good policy, wide coverage Extensive EMS Some Reporting Performance verified	Policy covers sustainability Systems wider coverage/scope Detailed Reporting All performance verified

**Risk Relative Pillar and Overall Ratings Scores**

- The 6 theme risks and scores are calculated into 3 pillars (ESG) and one overall Ratings Score.
- The risk relativity is carried through each level to the overall Ratings score.
- Below is a summary of this process, and the details of the calculations are in the Ground Rules.

**Methodology – Step 2  
Pillar Risk & Score**

Risk	Definition
3	High
2	Medium
1	Low
0	Not applicable

Score	Definition
5	Best Practise / Leader
4	Beyond good practise
3	Good Practice – FTSE4Good Index level
2	Some good practise
1	Poor disclosure
0	No disclosure

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**Methodology – Step 3  
Overall Score**

Score	Definition
5	Best Practise / Leader
4	Beyond good practise
3	Good Practice – FTSE4Good Index level
2	Some good practise
1	Poor disclosure
0	No disclosure

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FTSE4Good ESG Ratings Ground Rules Section 5 – calculation formulae and worked example

[http://www.ftse.com/Indices/FTSE4Good\\_ESG\\_Ratings/Downloads/Ground\\_Rules\\_FTSE4Good\\_ESG\\_Ratings.pdf](http://www.ftse.com/Indices/FTSE4Good_ESG_Ratings/Downloads/Ground_Rules_FTSE4Good_ESG_Ratings.pdf)

**3.4.2 Do you factor company-specific context into your rating?**

Yes – a range of contextual information beyond industrial sector is used to define risk categories, this includes countries of operation, level of revenues from different countries and products, and other factors such as level of revenues from public contracts. A range of other aspects are captured e.g. corporate actions where a company buys or sells or invests an interest in a business activity or subsidiary.

**3.4.3 Do you incorporate external norms, standards or principles (e.g. UN MDGs, GRI, UNGC, etc.) into your rating or process? If so, describe how you use these to calibrate or assess company performance.**

This is a core requirement in developing new criteria – to identify existing standards and methodologies to draw from. In order to avoid duplicating efforts both by FTSE and companies, the criteria for the responsible investment indices are built on already established international standards. For example:

- The Universal Declaration of Human Rights serves as a basis for the FTSE4Good Human Rights Criteria.
- The UN Global Compact and the Transparency International Business Guidelines on Bribery and Corruption were important in creating the criteria for Corruption and Bribery.
- The ILO Core Conventions form a part of the Supply Chain Labour Standards criteria.
- The Greenhouse Gas Protocol has informed the Climate Change criteria.
- ISO 14001 is the backbone of the Environmental Management criteria.

FTSE's Responsible Investment Unit and the FTSE4Good Criteria Development Sub-Committee consult key experts for each criteria theme. As examples in the past this has included; the International Labour Organisation standards, Ethical Trading Initiative, UNPRI, UN Global Compact, GRI, Transparency International, Amnesty, World Economic Forum (PACI), WANO, Human Rights Watch, BSI, Carbon Trust, IIGCC, CDP, the Climate Group, WWF, WBCSD, WANO, WNA, IAEA, industry bodies, OSHA, HSE, FLA to identify existing standards, initiatives, certification standards and norms that the index can draw from.

The criteria contain details of which standard is taken into consideration for which criteria:  
<http://www.ftse.com/analytics/ftse4good-esgratings/>

**3.4.4 How do you deal with unforeseen, negative company events in your ratings process (e.g. environmental incidents, ethics breaches)?**

Most company assessment decisions are made at the semi-annual Policy Committee meetings in March and September. In the case that a negative incident arises regarding a company, FTSE's research providers would investigate the claims or information relating to the event.

These situations are evaluated on a case by case basis by FTSE's independent Policy Committee usually following advice from the Criteria Development Sub-Committee to determine whether it is a one off incident or if certain areas of the criteria need enhancement. These kinds of incidents or allegations are used to inform the criteria development process.

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## 4 Outputs

### 4.1 Validation of Results

#### 4.1.1 Describe the steps you take to verify your rating results (including scores and reports) prior to their finalization.

The procedure for the FTSE4Good ESG Ratings Review of companies is as follows:

- FTSE's research providers research and deliver information on company assessments and new companies to be included or companies that can be potentially deleted at the next review. The EIRIS research methodology was recently awarded AI CSRR certification to the Voluntary Quality Standard promoted by the Association for Independent Corporate Sustainability & Responsibility Research (see *previous section 3.2.1.*)
- EIRIS ensures that all companies are sent the information that is held on them to enable companies to provide feedback and provide additional information where they feel their practices or performance have not been adequately captured.
- EIRIS compiles all the information and assessments on all 2,400 companies. The 6 themes x 3 risks, 3 ESG Pillars and 1 overall Rating are collated, and EIRIS conduct the first QC check. Changes in ratings and trends are analysed and checked, and any anomalies are checked against the research reports and database. This information is then sent to FTSE.
- FTSE's ESG Unit conducts additional QC checks on the information provided by EIRIS. The RIU then compile the research along with other information collected directly by FTSE from the engagement process.
- All of this information is presented to the independent FTSE4Good Policy Committee who meets twice a year in March and September for the FTSE4Good Index Reviews. The committee then determine whether these companies should be included or deleted (see *section 1.4 – 1.*).

#### 4.1.2 Do you give rated companies an opportunity to review draft scores or reports? If yes, describe this process, including timeframe given for review.

There are various opportunities for companies to see their assessments in the FTSE4Good system. See *previous sections including 1.3 – 2. and 4.1 – 1* for more detail, but in overview:

- Research: Companies are able to see their “Company Profile” researched and held by EIRIS.
- Communication Program: The FTSE Responsible Investment Unit is in dialogue with companies, and there would have been ongoing dialogue previous to the final review results that would include a more in depth explanation of what indicators they still needed to meet in order to meet the inclusion criteria.
- Companies: companies that are active on CSR and in the Ratings sister product the FTSE4Good Index, are sent an annual certificate with FTSE4Good Index updates, and their Rating twice per year. Companies are invited to contact FTSE with queries.

**4.1.3 Do you have a formal policy and/or process for addressing challenges or disputes presented by companies or other stakeholders?**

See *Section 1.4 (2)*. Challenges from companies on decisions of inclusion are taken on a case by case basis. FTSE aims to be firm but fair with companies, and has a communication program with companies who are working towards meeting the criteria. If a company wishes to raise a query, these are progressed with the Criteria Development Sub-Committee.

The Sub-Committee considers matters raised to FTSE by investors, companies, NGOs or other stakeholders. These are often appeals and controversies, and in a number of instances have resulted in new criteria being developed and implemented in response. There is a specific framework that is worked through in dealing with these. This includes an emphasis on having an objective and systematic process rather than dealing with one-off situations in a subjective and ad-hoc way that is relevant to only one company, but instead creating criteria and a process that is repeatable and relates to the underlying issue.

In most instances, FTSE's Responsible Investment Unit would have been in prior communication with the company. Therefore in these cases there would be a continued dialogue to discuss the decision that has been made and what they need to do to regain or retain inclusion.

**4.2 Accessibility**

**4.2.1 Describe how you disclose and explain your results to rated companies. Do you share the full details of the assessment or results? If no, explain why not.**

All companies have free access to their Ratings through two routes:

FTSE Provides the Company Ratings:

- FTSE provides companies with their Ratings after each review. This is targeted at those companies that are active on CSR and in the Ratings sister product the FTSE4Good Index, which is around 900 companies.

Companies can Request their Ratings:

All 2,400 companies that are assessed have been informed of the Ratings and that they can obtain their Rating and further information on request as outlined below. Increasingly, companies not yet in the FTSE4Good Index are using this to help them work towards improving their Ratings.

- Company Profile and Report from EIRIS: A full assessment profile of the company and its Ratings can be accessed by contacting EIRIS at [FTSE4Good@eiris.org](mailto:FTSE4Good@eiris.org). Companies can supplement this with further information on the criteria and calculation methodology is available at <http://www.ftse.com/analytics/ftse4good-esgratings/Home.aspx>
- Methodology on Website: the company Rating and report can be supplemented with Further information on the criteria and calculation methodology is available at <http://www.ftse.com/analytics/ftse4good-esgratings/Home.aspx>

- General Enquiries on Ratings to FTSE: All companies can send any enquiries about the Ratings, especially their ICB Supersector<sup>3</sup> relativity. FTSE has created a dedicated information box for this at [ftse4good@ftse.com](mailto:ftse4good@ftse.com)
- FTSE4Good ESG Benchmarking Report: If companies would like to obtain a detailed report using the FTSE4Good ESG Ratings to benchmark the company's ESG practices against their sector peers and identify areas for improvement, they can contact Haymarket.

**4.2.2 Describe how and to what extent stakeholders (other than rated companies) can access the details and results of your rating.**

The FTSE4Good ESG Ratings data files are available to clients. This is a commercial service for investors, who are our primary audience.

The list of companies in FTSE4Good is available to other stakeholders on request. Where commercial use is to be made of the data, FTSE charges for this service.

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<sup>3</sup> The Industry Classification Benchmark (ICB) is a definitive system categorizing over 70,000 companies and 75,000 securities worldwide, enabling the comparison of companies across four levels of classification and national boundaries. The ICB system is supported by the ICB Database, an unrivalled data source for global sector analysis, which is maintained by FTSE.  
[http://www.ftse.com/Indices/Industry\\_Classification\\_Benchmark/index.jsp](http://www.ftse.com/Indices/Industry_Classification_Benchmark/index.jsp)