

Rate the Raters Phase Five

Questionnaire for Raters

FTSE4Good Index Series

February 2012/2013

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.

0 Rating Overview

0.1.1 Rating Name

FTSE4Good Index Series

This submission is regarding the FTSE4Good Index Series. Please see the separate submission for the FTSE4Good ESG Ratings (Environment, Social and Governance).

Point of clarification: The FTSE4Good Index Series selects companies based on exposure risk-relative inclusion criteria, meaning that companies need to meet certain specific criteria requirements which differ based on their business activities. ***Please note when referring to risk throughout this document, we refer to exposure risk to ESG factors.*** This is an absolute threshold approach where the threshold is set at a challenging but achievable level, which will be specific for each company depending on their exposure risk categorisation¹. It is not an assessment that is made relative to other companies or a score that allows high scores in one area to offset those elsewhere. Transparency is a key feature of the index, and the approach above supports this as the inclusion criteria for each company is very clear. All of the

¹ *Please note when referring to risk throughout this document, we refer to exposure risk to ESG factors.*

information on the criteria indicators and requirements that companies need to meet for inclusion are set out publicly on the FTSE4Good website at www.ftse.com/ftse4good

0.1.2 Please describe the primary objectives and motivations for your rating

The primary objective of the FTSE4Good Index is to provide a tool for investors looking to identify companies that meet globally recognised environmental and social standards, and to facilitate investment in those companies.

In addition:

- 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. In addition the indices provide a mechanism to encourage and facilitate dialogue with companies regarding improvements in their environmental and social practices.

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

A measure of success or impact of the FTSE4Good Index is its use by investors. FTSE has over 80 clients who have used the FTSE4Good Indices to create tracker funds, structured products, an ETF, and for benchmarking purposes. In addition to these direct clients, many asset managers use the FTSE4Good inclusion criteria and review results as a benchmark to engage with companies in their own portfolio.

Other measures or impacts are related to the contribution that the FTSE4Good Index has made to the global debate on responsible investment (RI) and corporate environmental and social practices.

For example:

- **Contribution to RI:** FTSE was one of the organisations that developed the six principles of the UN-backed Principles of Responsible Investment (PRI) and was a founding signatory. FTSE has also facilitated collaborative engagement on the FTSE4Good Index with other asset managers through the PRI. As a result several Singaporean companies moved to meet the FTSE4Good Index criteria, in a region of the world that is not at the forefront of sustainability practices. FTSE is also a founding member of Sustainable Investment Forums (SIFs) around the world, and works with a variety of investor organisations to progress responsible investment such as UNEPFI.
- **Contribution to CR:** FTSE develops new FTSE4Good criteria on a regular basis in-line with the evolving expectations regarding corporate environmental, social and governance practices. The criteria are designed to be challenging but achievable, based on international standards, built on broad consultation across stakeholders, transparent, rules-based and objective. The independent FTSE4Good Committees oversee this process. Once new criteria are developed, companies that are in the index but do not meet the new criteria are given a specific period of time to demonstrate that they meet the criteria. This is typically 12-18 months in a phased implementation program. FTSE has an engagement program to help the companies understand what is required of them by when. Note that companies outside the index must meet the criteria in full before they can be included in the index. Since 2002 when an in-house engagement program was established, FTSE has had continuous communication and dialogue with companies, and on average has a 60% success rate in companies meeting the various inclusion criteria for FTSE4Good. Over 400 companies who were not meeting criteria initially have moved to meet new criteria by the appropriate deadlines. This spans all the FTSE4Good criteria issue themes from rolling out ISO14001 across a larger proportion of a company's operations through to introducing stronger anti-bribery policies and policing mechanisms. There

has also recently been a PhD examining the impact of the FTSE4Good Series on corporate behavior².

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

Investors: The FTSE4Good Index is primarily aimed at investors (both institutional and retail) who want to incorporate environmental and social risk management into their investments. Investors can use a variety of FTSE's responsible indices to minimise environmental and social risk in their portfolios (*see diagram below*).

Additional applications of the FTSE4Good Index include use by non-FTSE clients (ie neither FTSE nor its research partner EIRIS charge for these services):

- Companies: The FTSE4Good Index is a reference tool for companies. It provides them with a transparent and evolving global corporate responsibility standard to aspire to and surpass. Inclusion can serve as a reputational badge amongst a company's peers, and many that are in the FTSE4Good Index publish the FTSE4Good Index logo on their websites.
- Others: In addition, the FTSE4Good Index is used on occasion by a variety of organisations and NGOs who are looking to identify responsible companies with whom to work or partner with.

1. As a basis for tracker funds 2. As a starting universe for actively managed funds 3. To benchmark performance of investor's own funds 4. As a general barometer for SRI funds 5. Used by investors for their own engagement 6. Inclusion an indicator for reputation management and informal use by investors for stock selection	Investor use
7. Framework for management 8. Use as a "reputational" badge in stakeholder communications	Company use
9. List of eligible partners for NGOs	NGO use

² **Using the FTSE for Good indices to change corporate behaviour:** *Review of Slager, C. (2010) "What gets measured gets managed? Responsible Investment Indices and responsible corporate behaviour."* (Working Paper, International Centre for Corporate Social Responsibility, University of Nottingham Business School). Review by Robert Kropp. http://www.unpri.org/files/Synopsis_2_August_Slager_v1.pdf

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 the information in relation to the FTSE4Good Index is transparent and hence publicly available on the FTSE website (*see below*).

Home page:

http://www.ftse.com/Indices/FTSE4Good_Index_Series/index.jsp

FTSE4Good Criteria:

http://www.ftse.com/Indices/FTSE4Good_Index_Series/F4G_Download_Page.jsp

Ground Rules:

http://www.ftse.com/Indices/FTSE4Good_Index_Series/Index_Rules.jsp

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 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 additions and deletions to the index, 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/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 this form of services to companies being assessed.

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

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 Index is 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 and 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 for many companies, rather than best practice for a few companies
- **Approval:** The Criteria Committee and the Policy Committee approve the criteria.
- **Implementation:** The criteria are launched on the FTSE4Good website. Companies that are in the FTSE4Good Index are given a period of time and a phased timetable to meet the criteria. Companies outside the index need to meet the criteria in full before being admitted into the index.
- **Communication:** Companies that do not meet the criteria are contacted and enter a specialised communication programme with FTSE (see next section).

FTSE4Good Criteria Development



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.

In the instance that new criteria has been developed, or existing criteria has been enhanced, it is announced by Press Release, and usually events are held to which companies are invited. Those companies that are affected then enter the a communication programme..

FTSE4Good Communication

The following is an outline of the FTSE4Good communication programme (see below):

- **Contact:** The FTSE ESG unit contacts all companies in the FTSE4Good Index that are affected (i.e. do not meet the new criteria). This is done in the first instance by letter, then followed up by e-mail, telephone, and in some cases, meetings. Initially both the CEO and Director of Investor Relations (or Sustainability/CR Director if such a post exists) are contacted. Follow-up is usually with investor relations but can be with a range of functions depending on who in the company is responsible for this area.
- **Information:** The company is advised of the new criteria, what they need to do, and the timeline in which they must meet the new criteria.

- **Continuous Communication:** FTSE then engages with the affected companies, and is in ongoing dialogue to help them keep on track to meet the criteria by the final deadline, so as to avoid being removed from the index.
- **Assessment:** During the period of communication, the company submits various pieces of information, data and evidence. FTSE’s research provider, EIRIS, then conducts an assessment and provides detailed feedback.
- **Timeline:** Companies who are already in the index and need to meet the newly introduced criteria are generally given a 12-18 month period to meet the implement the necessary policies to meet the criteria. Companies who are not in the index must meet the criteria in full before being included.
- **Company progress:** The company’s progress is reviewed by the FTSE4Good Policy Committee. If the communication process eventually identifies that a company cannot, or is not willing to meet the criteria, it is advised that this may lead to removal from the index.
- **Deletion:** Companies are given plenty of notice in advance in case they can rectify the situation, or provide evidence that our researchers are not aware of, that they are meeting the criteria. If they are unable to demonstrate they meet the criteria by the relevant deadline then they will be deleted and are then informed of the decision before the public press release and technical notice is issued. Note that in some instances the FTSE4Good Policy Committee have approved deadline extensions for companies where they provide a written commitment from their CEO or senior executive and/or have provided credible evidence that they have made progress and will meet the criteria within a short period of time.
- **Success Rate:** FTSE has had on-going communication and dialogue with companies through the process set out above. There is a 60% success rate in companies originally identified as not meeting criteria changing their practices and demonstrating compliance (this represents over 400 instances).

Roles in the FTSE4Good Engagement Program



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 Index Series is placed under the direction 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:

- Act as an independent judge of the ability of constituent companies to meet the FTSE4Good Index Series criteria;
- Oversee the consultation process undertaken to develop criteria;
- Approve criteria revisions or new criteria.

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, the Criteria Development Subcommittee and to assist in the surprisingly challenging and complex area of infant formula and foods, a specialist committee to advise and oversee the breast milk substitutes criteria has also been created.

http://www.ftse.com/Indices/FTSE4Good_Index_Series/Index_Rules.jsp

FTSE4Good Index Review and Company Selection (*see diagram below*)

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

- **Companies are reviewed.** Ongoing company research assessments by FTSE’s research provider EIRIS and the results of FTSE’s Engagement Program are reviewed by the Policy Committee.
- **Decisions are made** as to which companies are to be included in the FTSE4Good Index, and whether any are to be deleted.
- **Announcement:** It is not until the FTSE4Good Policy Committee has met and decisions have been made that the companies to be added and deleted are announced.



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.

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: Nuclear Power Generators and Replacement of Exclusion with Criteria

- **Exclusions:** At launch in 2001, the FTSE4Good Index requirements contained a range of exclusions for certain sectors, in line with investor requirements at the time. Exclusions included tobacco, weapons, and nuclear power generation.
- **Market Consultation:** A market consultation was carried out in late 2007 to gather views and consensus about removing negative activity screens and new areas where criteria should be developed. A key result was very strong feedback that the nuclear power exclusion should be replaced by specific positive selection criteria.
- **Criteria Development:** (See section 1.3 .1. for a full description of the process), FTSE then went through the criteria development process with the FTSE4Good Criteria Committee, including extensive consultation with experts, and a further public web-consultation develop the criteria.
- **Exclusion Replaced with Criteria.** The FTSE4Good Nuclear Power criteria were recently approved by the FTSE4Good Policy Committee and launched, replacing the existing exclusion. http://www.ftse.com/Indices/FTSE4Good_Index_Series/Downloads/FTSE4Good_Nuclear_Power_Criteria.pdf

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 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 Subcommittee 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/Indices/FTSE4Good_Index_Series/Downloads/F4G_Criteria.pdf

Other examples of the above where in response to issues raised by third parties the Committee has approved changes to the methodology/criteria relate to the treatment of AWB on countering bribery, and meat processing companies and human rights. In addition the FTSE4Good Policy Committee (and its sub-committees) hears appeals by companies if they 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.

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

2 Inputs

2.1 Information Sources

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

Please note that research and company assessments for the FTSE4Good Index and ESG Ratings are carried out by EIRIS (Experts In Responsible Investment Solutions).

EIRIS uses two main sources of information:

- Public: Company reports, publications, documents and websites. For external information they also use various and selected press sources and NGOs for their Convention Watch service
- Non-Public: EIRIS contacts the companies direct to request additional information

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.

EIRIS employs more than 60 staff at offices around the world.

<http://www.eiris.org/about-us/eiris-team.html>

In addition to overseas offices, EIRIS has a global network of research partners to further extend our research coverage and keep us abreast of responsible investment issues at the local level.

The EIRIS partner network includes research organisations in Australia, France, Israel, Germany, Spain and South Korea.

The EIRIS partner network

CAER - Corporate Analysis. Enhanced Responsibility (Australia) www.caer.org.au

- CAER was established in 2000, and offers responsible investment research services to investors on a broad range of environmental, social and governance criteria. CAER's database covers the top 300 companies in Australia by market capitalisation, companies that move in and out of the ASX on a regular basis, smaller listed companies invested in by research clients, and the NZ50. CAER is an independent not-for-profit organisation based in Canberra. Through its

links with international research bodies, CAER is able to offer clients consistent ESG research coverage of investment markets in Australia and around the globe.

Fundacion Ecologia y Desarrollo (EcoDes) (Spain) www.ecodes.org

- An established Spanish non governmental organisation in the field of environment and development, EcoDes branched out into ethical investment research in 1997. The research function was originally established to supply data to an environmental fund set up by EcoDes, but has now expanded to provide data on Spanish companies to EIRIS and other research partners. EcoDes have matched their strong environmental research skills with an expansion into social and economic research.

Imug – Institut fur Markt-Umwelt-Gesellschaft (Germany) www.ethisches-investment.de

- Imug – in English ‘Institute for Market, Environment and Society’ – was set up in 1992 primarily as an environmental research body. It soon branched out into producing ethical shopping guides for consumers, ethical investment research for green and ethical funds, and producing reports on corporate environmental and social performance for NGOs, government and others. Its staff of 20 provide both consultancy and corporate performance research. Imug supplies EIRIS with data on German and Austrian companies.

Ecovalores- Ecovalores (Mexico) www.ecovalores.org

Ecovalores is a not-for-profit organisation dedicated to expanding responsible investment (RI) through research and outreach. It carries out environmental, social and corporate governance research of publicly listed companies, research and rating services for investors in non-listed companies and communication of RI and environmental economic topics. Formed from an interdisciplinary team, Ecovalores is a member of the UNGC and ICGN and also works closely with the Instituto Tecnológico Autónomo de México, the Instituto Tecnológico de Monterrey, la Universidad del Medio Ambiente, el Colegio de México, Sustainability UK, the Natural Step and the Caux Roundtable, amongst others.

Greeneye (Israel) www.greeneye.co.il

- Greeneye is the primary provider of independent research into the social, environmental and ethical performance of companies in Israel. Greeneye advises the financial sector on assimilating environmentally considerate thinking and incorporating environmental criteria into decision making on investment, finance and insurance issues. Greeneye is EIRIS' research partner in Israel and is the environmental advisor to the Maala CSR Tel Aviv Stock Exchange Index.

KOCSR (Korea CSR Research Services) (Korea) www.kocsr.com

- KOCSR is a provider of corporate responsibility research on Korean companies and is partially owned by CCSR. KOCSR researches Korean companies for EIRIS.
- Economistas sin Fronteras (Spain) www.ecosfron.org
- Economistas sin Fronteras is a sales partner providing EIRIS with products and services for Spanish investors.

<http://www.eiris.org/about-us/eiris-global-network.html>

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

EIRIS' aim is to provide the most up-to-date and relevant research.

- The EIRIS research cycle is an annual cycle.

- EIRIS aims to research company information just after the company's CR/Sustainability Report is published to obtain up to date information.

http://www.eiris.org/companies/eiris_survey.html

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

Research: EIRIS contact the companies

FTSE4Good: If after further attempts by EIRIS to obtain information directly from the company, information is still not available, the company does not meet the FTSE4Good criteria requirements.

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).

EIRIS contact the companies for research (see above)

FTSE has a variety of ways of interacting with companies, which includes:

- Constituent companies: Constituent companies in the FTSE4Good Index are sent an annual certificate of membership with FTSE4Good Index updates. Companies are invited to contact FTSE for a copy of the FTSE4Good logo for display on their websites, or contact FTSE with any queries. Companies that are new constituents of FTSE4Good are informed after the index review.

Communication Program: See section 1.3.2. for details.

- Outreach: Companies not included in the FTSE4Good Index are often very keen to get into the FTSE4Good Index. In such circumstances, FTSE helps them understand what they need to do to meet the criteria. These dialogues can be by telephone, letter, e-mail, or meetings.

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

It varies depending on sector, subject and region.

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

FTSE4Good: See Index Review summary March and September

EIRIS research the companies' public information first, then contact the companies to request additional information. EIRIS will send the companies their "Company profile" so they can also check the information researched and held by EIRIS. This is designed to help reduce the burden on companies.

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?

Various forms of verification underpin the research and company information:

1.a EIRIS Research Process

EIRIS follows the Voluntary Quality Standard promoted by the Association for Independent Corporate Sustainability & Responsibility Research (www.csrr-qs.org).

1.b EIRIS Policies

Details of the various policies EIRIS has in place to underpin research quality are listed below: <http://www.eiris.org/about-us/eiris-policies.html>

- Independence policy and report
- Confidentiality policy
- Stakeholders policy
- Code of conduct policy
- Environment

1.c FTSE4Good Criteria Verification

Some FTSE4Good criteria require verification. For example the FTSE4Good Environmental Management Criteria contain requirements for independent verification of the company's sustainability report.

1.d FTSE4Good Company Verification

FTSE has commissioned verification of a company. In September 2010 the FTSE4Good Policy Committee approved the new FTSE4Good Breast Milk Substitutes Marketing Inclusion Criteria. Subsequently a company met the criteria and was added to the FTSE4Good Index at the March 2011 review. A key requirement of the criteria following inclusion in the index is third party verification. PricewaterhouseCoopers (PwC) carried out a verification of the company. The key findings were then published in a letter from Mark Makepeace, FTSE's Chief Executive. Subsequently a workshop was held to review the results and the process itself. The meeting was held under Chatham House Rules, and a report summarising the findings is published on the website at http://www.ftse.com/Indices/FTSE4Good_Index_Series/FTSE_BMS_Criteria.jsp

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

The EIRIS research methodology was recently awarded AI CSRR certification. The Voluntary Quality Standard promoted by the Association for Independent Corporate Sustainability & Responsibility Research (www.csrr-qs.org).

<http://www.eiris.org/about-us/eiris-policies.html>

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?

EIRIS team experience is up to 20 years and can be found on:

<http://www.eiris.org/about-us/eiris-team.html>

3.1.2 Describe your approach to ongoing training and industry education for your analysts.

EIRIS has an ongoing training program for the research teams. This includes:

- Internal: EIRIS conducts ongoing in-house training to ensure sharing of knowledge and consistency in approach.
- External : EIRIS research team members attend external events (conferences, seminars, workshops etc.) to keep their knowledge up to date while contributing to the debate on RI/ESG.

3.1.3 On average, how many companies do your analysts cover each year?

It varies depending on sector, subject and region. For FTSE4Good purposes they are researching approximately 2500 companies.

3.2 Quality Management

3.2.1 Describe your approach to ensuring quality control throughout the ratings process. Is this process documented or codified?

EIRIS follows the Voluntary Quality Standard promoted by the Association for Independent Corporate Sustainability & Responsibility Research (www.csrr-qs.org).

Extract from the AI CSRR Voluntary Quality Standard (http://www.csrr-qs.org/pdf/CSRR_QS_2_1_FINAL.pdf)

Section 9: Quality Management System

- Define and document policy and objectives for, and commitment to, quality, and ensure that this policy is understood, implemented and maintained at all levels in the organization.
- Operate an effective quality system appropriate to size, and the type, range and volume of work performed.
- The quality system shall be fully documented. There shall be a Quality Manual fully describing the processes, protocols and routines (to be followed by analysts).
- Designate a person, who irrespective of other duties shall have defined authority and responsibility for quality assurance. This person shall have direct access to top management.
- The quality system shall be maintained to ensure it is up to date.
- Maintain a system for control of all documentation relating to activities. Ensure that:
 - The current issues of the appropriate documentation are available to all relevant staff;
 - All changes of documents or amendments to documents are covered by the correct authorization and processed in a manner which will ensure timely availability;
 - Superseded documents are removed from use throughout the organisation, but one copy is filed for a determined period;
- Other parties, as necessary, are notified of changes.

- Carry out a system of planned and documented internal quality procedures to verify compliance with the criteria of this standard and the effectiveness of the quality system. The personnel performing the audits shall be suitably qualified, and/or adequately trained.
- Documented procedures for dealing with feedback and corrective action whenever discrepancies are detected in the quality system and/or in the performance of the services and requirements.
- Review the quality system at appropriate intervals to ensure its continuing suitability and effectiveness. The results of such reviews shall be recorded.
- Demonstrate that a process of continuous improvement is being implemented for the Quality Management System.

3.2.2 Have your research systems or processes been certified, assured or verified by an external organization?

See previous section 2.3.2

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 FTSE4Good criteria requirements are designed to ensure they focus on material issues specific to each company. As stated before, the FTSE4Good Index criteria apply a risk matrix that determines the criteria that need to be met for index inclusion. 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 threshold applied. The higher the risk the tougher the entry inclusion criteria.

FTSE4Good Index Criteria: designed to be risk relative and material

ENVIRONMENTAL MANAGEMENT	Low Impact	Medium Impact	High Impact
Policy	X	X	X
EMS		X	X
Reporting			X

CLIMATE CHANGE	Medium Operational	High Operational	High Product
Policy & Governance	X	X	X
Disclosure	X	X	X
Management & Strategy		X	
Performance		X	X

HUMAN & LABOUR RIGHTS	Low Impact	Op's Countries of Concern	Global Resource Sector
Policy (ILO/UN/OECD)	X	X	X
Management System		X	X
Report & Impact Assessment			X

SUPPLY CHAIN LABOUR	High Risk	Sectors
Policy (4 Core ILO Conv's)	X	Consumer Products: Retailers
Management System	X	Household Goods & Textiles
Reporting	X	Food Producers & Processors

COUNTERING BRIBERY	Low Impact	Medium Impact	High Impact
Policy	Future	TBC	X
EMS		TBC	X
Reporting			X

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 Index Criteria:

http://www.ftse.com/Indices/FTSE4Good_Index_Series/F4G_Download_Page.jsp

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?

For the FTSE4Good Index Series, all companies from the base eligible universe who are assessed as meeting the relevant criteria are included in the index in an absolute threshold manner. This takes a different approach from a best-in-sector approach, as all companies who meet the challenging but achievable criteria are included in this a more diversified responsible investment index.

See also the answers to 3.3

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

Yes –as outlined 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.

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 ESG 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 ESG 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.

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

Most inclusion and exclusion 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.

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 Index 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.
- Where EIRIS identifies that a company is no longer meeting existing FTSE4Good criteria the company is provided with a year to demonstrate compliance, during which FTSE engages directly to confirm the information and to provide an opportunity for the company to improve.
- In addition 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.*)

FTSE has commissioned verification of companies. In September 2010 the FTSE4Good Policy Committee approved the new FTSE4Good Breast Milk Substitutes Marketing Inclusion Criteria. Subsequently a company met the criteria and was added to the FTSE4Good Index at the March 2011 review. A key requirement of the criteria following inclusion in the index is third party verification. PricewaterhouseCoopers (PwC) carried out a verification of the company. The key findings were then published in a letter from Mark Makepeace, FTSE's Chief Executive. Subsequently a workshop was held to review the results and the process itself. The meeting was held under Chatham House Rules, and a report summarising the findings is published on the website at http://www.ftse.com/Indices/FTSE4Good_Index_Series/FTSE_BMS_Criteria.jsp

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: FTSE ESG Unit is in communication 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.
- Constituent Companies: Constituent companies in FTSE4Good are sent an annual certificate with FTSE4Good Index updates. 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 an engagement 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 ESG 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.

There are various opportunities for companies to see their assessments in the FTSE4Good system. See *previous sections 4.1.1 and 1.3.1 on the FTSE Engagement Program* for more detail, but in overview:

- Research: Companies are able to see their “Company Profile” researched and held by EIRIS.
- Communication Program: The FTSE ESG Unit is in communication 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.
- Constituent Companies: Constituent companies in FTSE4Good are sent an annual certificate with FTSE4Good Index updates. Companies are invited to contact FTSE with queries.

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 Index 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.