

# **MSCI ESG Ratings Methodology: Business Ethics Key Issue**

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## Introduction

This document provides essential information on the components of the Business Ethics Key Issue to enable users of ESG Ratings to understand how our outputs are determined. Business Ethics is a Key Issue in the Governance Pillar of the MSCI ESG Ratings model. Companies are evaluated on their oversight and management of business ethics issues such as fraud, executive misconduct, corrupt practices, money laundering, or antitrust violations.

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

**Exhibit 1: MSCI ESG Key Issue hierarchy**

3 Pillars	10 Themes	33 ESG Key Issues
Environmental	Climate Change	Carbon Emissions
		Climate Change Vulnerability
		Financing Environmental Impact
		Product Carbon Footprint
	Natural Capital	Biodiversity & Land Use
		Raw Material Sourcing
		Water Stress
	Pollution & Waste	Electronic Waste
		Packaging Material & Waste
		Toxic Emissions & Waste
	Environmental Opportunities	Opportunities in Clean Tech
		Opportunities in Green Building
		Opportunities in Renewable Energy
Social	Human Capital	Health & Safety
		Human Capital Development
		Labor Management
		Supply Chain Labor Standards
	Product Liability	Chemical Safety
		Consumer Financial Protection
		Privacy & Data Security
		Product Safety & Quality
	Stakeholder Opposition	Responsible Investment
		Community Relations
	Social Opportunities	Controversial Sourcing
		Access to Finance
		Access to Health Care
		Opportunities in Nutrition & Health

3 Pillars	10 Themes	33 ESG Key Issues
Governance	Corporate Governance	Board
		Pay
		Ownership & Control
		Accounting
	Corporate Behavior	Business Ethics
		Tax Transparency

## Business Ethics Key Issue Score

The Key Issue Score is based on the aggregation of the following Key Metrics using the methodology described in Section 3.5.4, Calculating Governance Scores, of “ESG Ratings Methodology.”

Each Key Metric evaluates a specific aspect of a company’s governance risk profile.

Some Key Metrics are relevant only to companies with specific governance characteristics stemming from ownership type, management structure or other factors.

## Key Metrics

### Category: Policies & Practices

#### Oversight of Ethics Issues Key Metric

##### Definition

Indicates the company's governance body (board-level committee, C-suite or executive committee, or special task force or risk officer) responsible for oversight of business ethics and corruption issues.

**Typical Scoring Contribution:** Variable, based on disclosure of management practice:

- Board level committee, C-suite or executive committee: 0.0.
- Special task force, or risk officer, or Corporate Social Responsibility / Sustainability team: -0.7.
- No disclosure, but operates in geographies where such practices are common: -1.0.
- No disclosure: -1.4.

## Bribery and Anti-corruption Policy Key Metric

### Definition

Indicates if the company has a policy on bribery and anti-corruption in place and the scope of that policy.

**Typical Scoring Contribution:** Variable, based on disclosure of management practice:

- Detailed formal policy on bribery and anti-corruption: 0.0.
- General statements of commitment to address bribery and corruption: -0.7.
- No disclosure, but operates in geographies where such practices are common: -1.0.
- No disclosure: -1.4.

## Anti-Corruption Policy for Suppliers Key Metric

### Definition

Indicates the scope of the bribery and anti-corruption policy in place for suppliers.

**Typical Scoring Contribution:** Variable, based on disclosure of management practice:

- All suppliers are required to have anti-corruption policies and programs to verify compliance: 0.0.
- All suppliers are required to have anti-corruption policies: -0.7.
- Policy covers selected suppliers: -1.0.
- No evidence: -1.4.

## Whistleblower Protection Key Metric

### Definition

Indicates whether the company has disclosed a whistleblower policy that provides whistleblowers with protection from retaliation.

**Typical Scoring Contribution:** Variable, based on disclosure of management practice:

- Policy provides whistleblowers with protection from retaliation: 0.0.
- No evidence: -1.4.

## Employee Training on Ethical Standards Key Metric

### Definition

Indicates the scope of employee training on anti-corruption and business ethics standards.

**Typical Scoring Contribution:** Variable, based on disclosure of management practice:

- Programs covering all employees (including part-time) and contractors: 0.0.
- Programs covering all permanent employees (excluding part-time and contractors): -0.7.
- Programs covering all security providers: -0.7.
- General statements on employee training on ethical standards: -1.0.
- No evidence: -1.4.

## Regular Audits of Ethical Standards Key Metric

### Definition

Indicates the frequency and scope of audits related to anti-corruption and business ethics.

**Typical Scoring Contribution:** Variable, based on disclosure of management practice:

- Audits of all operations at least once every three years: 0.0.
- Audits of selected operations at least once every three years: -0.7.
- Evidence of audits but no specific details / audits conducted but not on a regular schedule: -0.7.
- Minimum practices expected based on domestic industry norms: -1.0.
- No evidence: -1.4.

## Anti-Money Laundering (AML) Policy Key Metric

### Definition

Indicates the scope of a company's policy on anti-money laundering and know your customer.

**Typical Scoring Contribution:** Variable, based on disclosure of management practice:

- Policy and implementation strategy articulated: 0.0.
- Evidence of policy but no disclosure of implementation: -0.7.
- Not disclosed: -1.4.

## Category: Risk & Controversies

### Corruption Risk Exposure & Controversies Key Metric

#### Definition

Indicates the company's exposure to business activities or geographies facing a higher incidence of corruption and involvement in ongoing corruption-related controversies.

**Typical Scoring Contribution:** Variable, based on percentage of operations in medium- and high-risk geographies, high-risk business segments, government ownership (percentage) and controversy type & assessment.

Range: 0 to -7.0

Refer to the Corruption Risk Exposure Deduction Key, below, for details on corruption risk exposure deduction.

Refer to the Corporate Behavior Controversy Deduction Key, below, for details on corruption-related controversy deduction.

### Business Ethics Controversies Key Metric

#### Definition

Indicates the company's involvement in anticompetitive and business ethics controversies.

**Typical Scoring Contribution:** Variable, based on controversy type and assessment:



Range: 0 to -7.0

Refer to the Corporate Behavior Controversy Deduction Key, below.



## Corruption Risk Exposure Deduction Key

% of operations in medium- and high-risk geographies	% of operations in high-risk business segments	≥20% government ownership	<20% government ownership	No evidence of government ownership
20% or more	50% or more	-4.00	-2.60	-2.00
	Less than 50%	-1.20	-1.20	-1.20
Less than 20%	50% or more	-0.60	-0.60	-0.60
	Less than 50%	0.00	0.00	0.00

\*The Corruption Risk Exposure Deduction is based on the maximum of deductions from the Corruption Risk Exposure & Controversies Key Metric, above.

## Corporate Behavior Controversy Deduction Key

Assessment	Type	Deduction
Very Severe	Structural	-7.0
	Non-structural	-4.0
Severe	Structural	-3.6
	Non-structural	-2.4
Moderate	Structural	-1.8
	Non-structural	-1.2
Minor	Structural	-0.6
	Non-structural	0.0
Event	Non-structural	0.0

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