

# **MSCI ESG Ratings Methodology: Community Relations Key Issue**

MSCI ESG Research LLC

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## Introduction

This document provides essential information on the components of the Community Relations Key Issue to enable users of ESG Ratings to understand how our outputs are determined. Community Relations is a Key Issue in the Social Pillar of the MSCI ESG Ratings model. Companies are evaluated on their management of local community relations and policies on human rights.

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
Environment	Climate Change	Carbon Emissions
		Climate Change Vulnerability
		Financing Environmental Impact
		Product Carbon Footprint
	Natural Capital	Biodiversity & Land Use
		Raw Material Sourcing
		Water Stress
	Pollution & Waste	Electronic Waste
		Packaging Material & Waste
		Toxic Emissions & Waste
		Opportunities in Clean Tech
	Environmental Opportunities	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
		Responsible Investment
	Stakeholder Opposition	Community Relations
	Social Opportunities	Controversial Sourcing
		Access to Finance
		Access to Health Care
Governance	Corporate Governance	Opportunities in Nutrition & Health
		Board
		Pay

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

## Risks associated with this Key Issue

- Operational disruptions or loss of market access due to community opposition.
- Loss of formal and social license to operate.
- Litigation by landowners and other affected parties.

## Community Relations Key Issue Score

The Community Relations Key Issue Score evaluates the company's level of exposure to, and management of, risks on this Key Issue. The Key Issue Score is based on the Exposure Score and the Management Score using the formula below. The Exposure Score and the Management Score are combined such that a higher level of exposure requires a higher level of demonstrated management capability in order to achieve the same overall Key Issue Score.

$$KI_i = 7 - (\max(EXP_i, 2) - MGMT_i)$$

Where:

- $KI_i$  is the Key Issue Score for company  $i$ .
- $EXP_i$  is the Exposure Score for company  $i$ .
- $MGMT_i$  is the Management Score for company  $i$ .

## Community Relations Management Score

The Community Relations Management Score evaluates the company's ability to manage its exposure to risks on this Key Issue. It is based on an average of the scores associated with each of the Management Score categories listed below, modified by Controversies. These scores are derived from data points that are

scored on a 0-10 scale, with 10 corresponding to best practice and 0 corresponding to lack of management. Refer to Section 3.3, Analyzing risk management, of “ESG Ratings Methodology” for additional details. Sources are company disclosures except where otherwise indicated. The following formula is used to calculate the Community Relations Management Score - Excluding Controversies:

$$MGMT_{CRE,i} = \frac{CID_{CRE,i} + CHR_{CRE,i} + DOB_{CRE,i}}{3}$$

Where:

- $MGMT_{CRE,i}$  is the Community Relations Management Score - Excluding Controversies for company  $i$ .
- $CID_{CRE,i}$  is the Community Impact and Disturbance Score for company  $i$ .
- $CHR_{CRE,i}$  is the Conflict and Human Rights Score for company  $i$ .
- $DOB_{CRE,i}$  is the Distribution of Benefits Score for company  $i$ .

The following data points, without constituting an exhaustive list, are representative of the inputs to the Management Score and are used in the Management Score calculation:

## Management Score category: Community Impact and Disturbance Score

- **Commitment to refrain from operating in protected areas.**  
**Definition:** Indicates whether a company has made a commitment to avoid operating in high-conservation areas, such as World Heritage sites or areas of cultural significance.
- **Company conducts community impact assessment prior to settling in new areas.**  
**Definition:** Indicates whether a company conducts community impact assessments in line with the principles of Free, Prior and Informed Consent (FPIC) or whether there is any evidence of community engagement prior to developing in new areas.
- **Indigenous peoples policy.**

**Definition:** Indicates whether the company has a policy to minimize community impacts on indigenous people and their traditional way of life.

- **Local community engagement approach.**

**Definition:** Indicates whether a company's approach to local community engagement includes proactive programs, such as grievance reporting mechanisms and formal community engagement channels.

## Management Score category: Conflict and Human Rights Score

- **Company monitors the effectiveness of its human rights policy.**

**Definition:** The extent of monitoring to measure the effectiveness of human rights policies, and whether the company commits to targets or reports progress against human rights targets.

- **Employee training on human rights protection.**

**Definition:** Indicates whether the company has employee training programs on human rights.

- **Ethical conduct policy covers contract security providers.**

**Definition:** Indicates whether a company has a formal business ethics policy that applies to contract security providers and whether that policy is supported by auditing to ensure compliance.

- **Human rights policy.**

**Definition:** Indicates whether a company has adopted a formal human rights policy and whether that policy is aligned with the United Nations Declaration of Human Rights.

- **Violence and conflict policy.**

**Definition:** Indicates whether the company has a formal policy or informal commitment related to violence and conflict.

## Management Score category: Distribution of Benefits Score

- **Local procurement policy.**

**Definition:** Indicates whether a company has a policy to support local suppliers or prioritize purchases that support local communities.

- **Programs to support local communities.**

**Definition:** A company's investments in community projects (including local infrastructure, hospitals and education) and philanthropic programs to support local communities.

## Controversies

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

- Human rights controversies.
- Community impact controversies.
- Indigenous peoples controversies.

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

## Community Relations Exposure Score

The Community Relations Exposure Score evaluates the company's exposure to risks on this Key Issue. It is based on the Business Segment Exposure Score only. The Business Segment Exposure Score is scored on a 0-10 scale, with 10 corresponding to the highest risk and 0 corresponding to the lowest risk. Refer to Section 3.2, Analyzing risk exposure, of "ESG Ratings Methodology" for additional

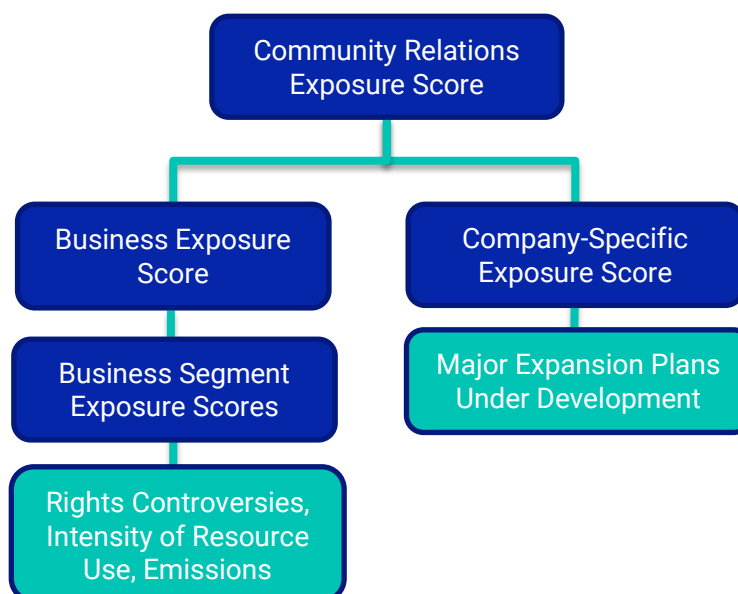
details. The following data sources and methodologies are used in the Exposure Score calculation:

$$EXP_{CRE,i} = BUS_{CRE,i} + COM_{CRE,i}$$

Where:

- $EXP_{CRE,i}$  is the Community Relations Exposure Score of company  $i$ .
- $BUS_{CRE,i}$  is the Business Exposure Score of company  $i$ .
- $COM_{CRE,i}$  is the Company-Specific Exposure Score of company  $i$ .

#### Exhibit 2: Exposure Score components





## Business Exposure Score

The Business Exposure Score is a weighted average of the Business Segment Exposure Scores of a company's business segments. Scores are weighted by the proportion of a company's total assets in each business segment,<sup>1</sup> using the following formula to calculate the Business Exposure Score:

$$BUS_{CRE,i} = \sum_{j=1}^{n_i} w_{Asset,i,j} BSE_{CRE,j}$$

Where:

- $BSE_{CRE,j}$  is the Business Segment Exposure Score for business segment  $j$ .
- $w_{Asset,i,j}$  is the weight of business segment  $j$  for company  $i$  based on the contribution to total company assets.
- $n_i$  is the number of business segments of company  $i$ .

## Business Segment Exposure Score

The Business Segment Exposure Score of a business segment is based on a mapping of the business segment as disclosed by the company to a corresponding business activity. MSCI ESG Research uses the Standard Industrial Classification (SIC) system along with industry-specific adjustments to define business activities. The score associated with a business activity is used to calculate a Business Segment Exposure Score. Each Segment Exposure Score is determined as follows:

$$BSE_{CRE,j} = \frac{HR_j + 0.5(LD_j + \text{Max}(WS_j, TE_j))}{2}$$

Where:

- $HR_j$  is the Human Rights Controversies Score for business activity  $j$ .
- $LD_j$  is the Land Disturbance Score for business activity  $j$ .

<sup>1</sup> The percentage of assets is typically calculated as the company-reported asset value of the segment divided by the total asset value. In certain cases, industry-specific metrics are used to calculate the percentage of assets, such as power generation, production volume or reserve value. In cases where neither segment assets nor a relevant industry-specific proxy is available, the percentage is calculated based on segment revenue.

- $WS_j$  is the Water Stress Score for business activity  $j$ .
- $TE_j$  is the Toxic Emissions Score for business activity  $j$ .

The Human Rights Controversies Score of a business activity is determined by the percentage of companies involved in a human rights-related controversy assessed as Moderate to Very Severe among all the companies with the same primary business activity.<sup>2</sup> Refer to Section 3.3.2, Controversies cases, of “ESG Ratings Methodology” for details on how the severity of controversy cases is assessed.

The Land Disturbance Score of a business activity is derived from a qualitative assessment of each business activity and its land-use implications for community relations.

The Water Stress Score of a business activity is derived from a component of the Water Stress Key Issue Score, the Business Segment Exposure Score on that Key Issue of a business activity. For details on how that score is calculated, see the Business Segment Exposure Score section of “MSCI ESG Ratings Methodology: Water Stress Key Issue.”

The Toxic Emissions Score of a business activity is derived from a component of the Toxic Emissions & Waste Key Issue Score, the Business Segment Exposure Score on that Key Issue of a business activity. For details on how that score is calculated, see the Business Segment Exposure Score section of “MSCI ESG Ratings Methodology: Toxic Emissions & Waste Key Issue.”

## Company-Specific Exposure Score

The Company-Specific Exposure Score is determined by a qualitative assessment of whether a company has major expansion plans under development. If the company has major expansion plans underway, it receives a Company-Specific Exposure Score of 1, otherwise it gets a score of 0.

## Data Sources

The following sources are used to determine the Community Relations Exposure Score:

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<sup>2</sup> The primary business activity of a company is the industry, as defined by the Standard Industrial Classification (SIC) System, that is the largest contributor to its total assets.

Environmental Protection Agency's (EPA's) Toxics Release Inventory, National Emissions Inventory, and Risk-Screening Environmental Indicators; U.S. Economic Census; The International Earth Rotation Service's (IERS), Comprehensive Environmental Data Archive (CEDA); water withdrawals per USD capital compiled by MSCI ESG Research; World Resources Institute (WRI) Aqueduct; M.M. Mekonnen and A.Y. Hoekstra, "The green, blue and grey water footprint of crops and derived crop products," *Hydrology and Earth System Sciences* 15, no. 5 (2011): 1,577-1,600; Refinitiv; MSCI ESG Research; company disclosures; Environmental Protection Agency (EPA).

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