

# **MSCI ESG Controversies and Global Norms Methodology – Process**

MSCI ESG Research

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## MSCI ESG Controversies overview

This document outlines key principles and procedures applied in supporting publication and maintenance of MSCI ESG Controversies and Global Norms. MSCI ESG Controversies is designed to provide timely and consistent assessments of ESG-related controversies, whether actual or alleged, involving publicly traded companies and fixed income issuers in our coverage universe. MSCI ESG Global Norms screens leverage MSCI ESG Controversies Flags to identify publicly traded companies and fixed income issuers involved in controversies that may constitute a breach of those global norms and conventions. Please refer to “MSCI ESG Controversies and Global Norms Methodology” for key definitions, scoring criteria, and other aspects of the methodology.

## ESG Controversy assessment process

### ESG Controversies sources

MSCI ESG Research relies only on public sources to assess companies’ involvement in controversial events or activities that may lead to conflicts or disputes with internal and external stakeholders (e.g., employees, consumers, public activist groups, local communities, etc.).

Examples of external public sources include:

**News media:** Major global news publications, including local language sources across a range of markets, local news publications, newsletters and magazines accessed through online databases such as LexisNexis

**Multilateral and non-governmental organizations (NGOs):** press releases and reports published by NGOs and multilateral organizations.

**Government data:** Press releases and published reports from government agencies.

**Legal materials:** legal journals, court records.

MSCI ESG Research does not use social media publications (e.g., Facebook, Twitter) as a source. However, with many companies switching from RSS news feeds to Twitter notifications, we monitor social media for references to external publications that meet our source criteria.

Source criteria for publications include:

- Availability of a formal editorial policy.
- At least 5-year tenure of publication.

- No evidence of involvement in Severe or Very Severe controversies related to content quality.

## Interactions with companies

MSCI ESG Research is committed to providing objective representation of controversial situations that balances external viewpoints with companies' responses. MSCI ESG Research does not act in a journalistic or investigative capacity. As such, we do not fact-check or evaluate the merit or validity of the allegations put forward in the public sources cited in our company ESG Controversies reports. Rather, our role is to provide information about the types and extent of allegations companies might be facing based on public controversies. For this reason, in reviewing relevant materials pertaining to individual cases, we typically also take the following steps:

- **Review corporate documents:** annual reports, sustainability reports, press releases and securities filings for any additional details pertaining to the controversy.
- **Provide corporate issuers with free access to the latest company ESG Controversies reports** through company-initiated automated alerts to flag the latest report updates.
- **Invite companies to review our publicly available MSCI ESG Controversies and Global Norms Methodology documents and company ESG Controversies reports** through our dedicated online ESG portal, the MSCI ESG Issuer Communications Portal.
- **Include companies' responses** to company ESG Controversies reports shared through publicly available statements as well as through communication with MSCI ESG Research. In line with MSCI's methodology and process, we will review all additional publicly available information a company wishes to share with us in connection to the allegations, and provide a short summary of the response in the ESG Controversies report. Upon a company's request, an official company statement may be incorporated into the company's ESG Controversies report verbatim (subject to a 5,000-character limit, plain text format). We reserve the right to decline inclusion of the company statement into the report.
- **Respond to company-initiated requests** for more information through a dedicated, global ESG Issuer Communications team.

## Cases review and monitoring

ESG Controversies related to companies within the MSCI ESG Controversies coverage universe (the MSCI ESG Controversies and Global Norms coverage universe is determined by issuers' inclusion in certain equity and fixed income indexes) are monitored, updated and published frequently based on publication schedule and availability of new information. ESG controversy assessments, scores and flags can change as part of the research and update processes.

**Daily monitoring** On a daily basis, analytical staff scan global, regional and national news sources as well as government and NGO reports for significant new ESG controversies or material developments in existing ESG controversies for companies in the coverage universe. Updates to company ESG Controversies reports are prioritized according to the severity of ESG controversies and company size.

**Targeted reviews:** ESG controversy cases for which no new information is found via daily monitoring are subject to a scheduled targeted review. The timing of these reviews is determined by the Severity assessment level of existing cases.<sup>1</sup> For example, Very Severe Red Flag cases are typically reviewed on a quarterly basis, while the rest of Very Severe and Severe cases are typically reviewed annually. Cases with Moderate and Minor severity are not subject to a targeted review.

## Quality review processes and escalations

MSCI ESG Research LLC (ESG Research) uses a committee structure to provide oversight and governance for the design, calculation and maintenance of ESG Research methodologies.

The consistency of ESG controversies assessments and scoring based on MSCI ESG Controversies and Global Norms Methodology is ensured through ongoing peer review and MSCI ESG Controversies Methodology Committee (CMC) reviews. The CMC has direct oversight of the content of the company ESG Controversies reports and of the consistent application of the methodology.

The ESG Methodology Committee (EMC) oversees and supervises the CMC and is an escalation point for the CMC for subjects related to changes to the ESG Controversies and Global Norms methodology or research process.

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<sup>1</sup> MSCI ESG Research assesses controversy cases based on Severity (Very Severe, Severe, Moderate, Minor), Role of the company (Direct or Indirect), and Status of the case (Ongoing, Partially Concluded, or Concluded). The combination of these assessments results in an ESG Controversy Case Score and a corresponding color Flag. A Red Flag indicates a company's Direct involvement in a Very Severe case that is considered to be Ongoing due to unresolved disputes. For further details, please refer to "MSCI ESG Controversies and Global Norms Methodology."

The ESG Assessment Committee (EAC) presides over methodology application cases escalated by the CMC or otherwise critical company-, sovereign- or industry-specific applications of ESG Research methodologies.

The following situations require CMC review and approval:

- Review new and existing Very Severe controversy cases resulting in a Red Flag with the final assessment subject to approval by the EAC.
- Confirm that appropriate processes are applied in reviewing and approving assessment of Orange Flag cases and Severe or Very Severe cases with a score changes of 3 points, either up or down.
- Review and approve proposals for MSCI ESG Controversies and Global Norms Methodology; methodology changes are subject to approval by the EMC.
- Review and escalate deviations from standard assessment methodology or overrides of controversy case assessments to the EAC.
- Review and approve the additions to controversy case categories and corresponding mapping to international Global Norms and conventions included in the scope of MSCI ESG product solutions (e.g., the United Nations Global Compact Principles).
- Review and approve changes to data sources (news and academic publications, NGOs, industry organizations, and government sources).

In case of exceptional circumstances that may limit or reduce access to relevant or reliable input data or proposals, the CMC may decide to change its internal documentation and processes. Such circumstances could include, but are not limited to, significant geopolitical conflicts, market upheaval, force majeure or a similar extraordinary situation escalated by the EMC, the EAC, or the Global Head of ESG Research. MSCI ESG Research will inform clients in the event of any such change or adjustment and communicate the planned implementation timing and method.

## **Corporate actions and ESG Controversy assessments that implicate a related entity**

## Monitoring of corporate actions and related changes

The coverage universe may change due to coverage expansions initiated by MSCI ESG Research and due to changes in index constituents. Updates are made on an ongoing basis to reflect any corporate actions and changes to index constituents.

### Additions to MSCI Indexes in the ESG Controversies coverage universe

- We aim to assess additions to the MSCI World Index, the MSCI Emerging Markets Index or the MSCI USA Investable Market Index (IMI) within one quarter of their inclusion in the relevant index.
- We aim to assess additions to any other indexes in the ESG Controversies coverage universe within two quarters of index inclusion.

### Spin-offs

- If the new entity is a constituent of the MSCI World Index, the MSCI Emerging Markets Index, the MSCI USA IMI or any other indexes in the ESG Controversies coverage universe, we aim to research and assess it as a standalone entity within one quarter of the spin-off announcement.

### Acquisitions

- If an acquiring company has an existing company ESG Controversies report, the acquiring company's assessment will consider the newly acquired entity within one quarter of the acquisition announcement.

### Mergers:

- If a merger creates a new entity that is on the MSCI World Index, the MSCI Emerging Markets Index, the MSCI USA IMI or any other indexes in the ESG Controversies coverage universe, it will be researched and assessed within one quarter.

### Name changes

- The name of a company as listed in the MSCI ESG platforms will reflect the new name as of the following month. However, the body of the company's ESG Controversies report will continue to refer to its original name until the next full review.
- When a company is removed from ESG Controversies' coverage universe — for example, due to turnover in index constituents or corporate actions — the

company's ESG Controversies report will no longer be available on the MSCI ESG platforms.

## Treatment of cases following corporate actions

### Acquisitions

- When a company acquires another company, it typically inherits all of the acquired company's ESG controversy cases, subject to the following rules:
- If the acquiring company inherits the liability, the Severity assessment of the case is unchanged and the Role the acquiring company is assessed as Direct.
- If the acquiring company does not inherit the liability, the Severity assessment of the case is unchanged, but the Role of the acquiring company is assessed as Indirect.
- If a company acquires from another company a unit that has one or more ESG controversies associated with it, the acquiring company inherits those cases, subject to the same rules stated above.

### Divestitures

- When a company sells to another company a unit that has one or more ESG controversies associated with it, the company retains the associated cases, subject to the following rules:
- If the selling company retains the liability associated with the case, the Severity assessment and the company's Direct Role remain unchanged.

If the selling company does not retain the liability associated with the case, the severity assessment remains the same, but the company's Role may be changed to Indirect. Depending on additional criteria reviewed for case remediation, divestment from controversial operations may lead to a change in the case Status to Partially Concluded.

### Jointly owned projects

- For ESG controversies involving projects or operations with multiple owners, if an entity has 30% ownership or higher or is a primary operator in a joint venture project, it is assessed as having significant control and would be noted as Directly involved in related controversies. Co-owners with less than 30% ownership are assessed as Indirectly involved in related controversies.



## Flagging controversies that implicate a related entity

Where multiple entities in the same corporate tree are separately included in the ESG Controversies coverage universe, one key question is whether a given entity should be flagged for controversies that implicate a parent, subsidiary or other related entity.

- Controversies are assessed at the lowest possible level within the corporate tree.
- Holding companies may or may not inherit controversies assessments of their subsidiaries based on an assessment of the ownership ties between the entities within the corporate tree. Whether the controversy will be applied to the holding company (the investing entity) depends on the level of ownership and the severity of the case (see Exhibit 1).
- Cases do not generally flow downwards, i.e., a controversy case at the investing entity is not added to subsidiaries or associates.
- Exception:** Cases at the investing entity assessed as Very Severe may be added to subsidiaries or associates if there is a compelling reason to do so. The role of the associated entity in the controversy will then be determined based on the specific case details.
- Note:** MSCI offers data inheritance as an option. Where that option is selected, financing companies and other subsidiaries may inherit a case from a parent entity where the inheriting entity is not assessed on a standalone basis.

### Exhibit 1: Adding a case to an investing entity from an associated entity

Ownership stake of investing entity in associated entity		What is the Severity of the controversy for the associated entity?	Would the controversy be added to the investing entity?	How would the Role of the investment entity be assessed?
≥50%	The investing entity has a 50% or more stake in the business entity subject to controversy	Any	Yes	Direct
≥20% and <50%	The investing entity has less than a 50% but at least a 20% stake in the business entity subject to controversy	Very Severe	Yes	If ≥ 30% = Direct If <30% = Indirect
		Severe Moderate, or Minor	No	n/a
<20%	The investing entity has less than a 20% stake in the business entity subject to controversy	Any	No	n/a



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