

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

## Contents

<b>Introduction.....</b>	<b>3</b>
<b>Business Ethics Key Issue Score.....</b>	<b>4</b>
<b>Key Metrics .....</b>	<b>4</b>
Category: Policies & Practices .....	4
Oversight of Ethics Issues Key Metric.....	4
Bribery and Anti-corruption Policy Key Metric.....	4
Anti-Corruption Policy for Suppliers Key Metric.....	5
Whistleblower Protection Key Metric.....	5
Employee Training on Ethical Standards Key Metric .....	5
Regular Audits of Ethical Standards Key Metric .....	6
Anti-Money Laundering (AML) Policy Key Metric .....	6
Category: Risk & Controversies .....	6
Corruption Risk Exposure & Controversies Key Metric .....	6
Business Ethics Controversies Key Metric .....	7
<b>Corruption Risk Exposure Deduction Key.....</b>	<b>7</b>
<b>Corporate Behavior Controversy Deduction Key.....</b>	<b>8</b>
<b>Contact us .....</b>	<b>9</b>
<b>Notice and disclaimer .....</b>	<b>10</b>

## 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 (e.g., 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 evidence: -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 evidence: -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.
- 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.
- 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<sup>1</sup>

### 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

---

<sup>1</sup> For details of the assessment of controversies, see the "MSCI ESG Controversies and Global Norms Methodology" document.

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 <sup>2</sup>	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

<sup>2</sup> The controversy type distinguishes instances of systematic and repetitive allegations suggesting a pattern of corporate behavior. A controversy assessed as Structural notes that there is evidence of an underlying problem at the company — poor culture, or lack of adequate governance and oversight — that is responsible for or contributed to the occurrence of the controversy. A controversy assessed as Non-structural refers to cases where the controversy appears to have come about because of misfortune or rogue employees rather than poor culture or governance failures.



## Contact us

### About MSCI

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 50 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process.

### About MSCI ESG Research Products and Services

MSCI ESG Research products and services are provided by MSCI ESG Research LLC, and are designed to provide in-depth research, ratings and analysis of environmental, social and governance-related business practices to companies worldwide. ESG ratings, data and analysis from MSCI ESG Research LLC are also used in the construction of the MSCI ESG Indexes. MSCI ESG Research LLC is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc.

To learn more, please visit [www.msci.com](http://www.msci.com).  
[msci.com/contact-us](http://msci.com/contact-us)

### AMERICA

United States	+ 1 888 588 4567 *
Canada	+ 1 416 687 6270
Brazil	+ 55 11 4040 7830
Mexico	+ 52 81 1253 4020

### EUROPE, MIDDLE EAST & AFRICA

South Africa	+ 27 21 673 0103
Germany	+ 49 69 133 859 00
Switzerland	+ 41 22 817 9777
United Kingdom	+ 44 20 7618 2222
Italy	+ 39 02 5849 0415
France	+ 33 17 6769 810

### ASIA PACIFIC

China	+ 86 21 61326611
Hong Kong	+ 852 2844 9333
India	+ 91 22 6784 9160
Malaysia	1800818185 *
South Korea	+ 82 70 4769 4231
Singapore	+ 65 67011177
Australia	+ 612 9033 9333
Taiwan	008 0112 7513 *
Thailand	0018 0015 6207 7181 *
Japan	+ 81 3 4579 0333

\* toll-free

## Notice and disclaimer

This document is research of informational purposes only and is intended for institutional professionals with the analytical resources and told necessary to interpret any performance information. Nothing herein is intended to promote or recommend any product, tool or service.

This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the "Information") is the property of MSCI Inc. or its subsidiaries (collectively, "MSCI"), or MSCI's licensors, direct or indirect suppliers or any third party involved in making or compiling any Information (collectively, with MSCI, the "Information Providers") and is provided for informational purposes only. The Information may not be modified, reverse-engineered, reproduced or disseminated in whole or in part without prior written permission from MSCI. All rights in the Information are reserved by MSCI and/or its Information Providers.

The Information may not be used to create derivative works or to verify or correct other data or information. For example (but without limitation), the Information may not be used to create indexes, databases, risk models, analytics, software, or in connection with the issuing, offering, sponsoring, managing or marketing of any securities, portfolios, financial products or other investment vehicles utilizing or based on, linked to, tracking or otherwise derived from the Information or any other MSCI data, information, products or services.

The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. NONE OF THE INFORMATION PROVIDERS MAKES ANY EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION (OR THE RESULTS TO BE OBTAINED BY THE USE THEREOF), AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH INFORMATION PROVIDER EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.

Without limiting any of the foregoing and to the maximum extent permitted by applicable law, in no event shall any Information Provider have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits) or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not by applicable law be excluded or limited, including without limitation (as applicable), any liability for death or personal injury to the extent that such injury results from the negligence or willful default of itself, its servants, agents or sub-contractors.

Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results.

The Information may include "Signals," defined as quantitative attributes or the product of methods or formulas that describe or are derived from calculations using historical data. Neither these Signals nor any description of historical data are intended to provide investment advice or a recommendation to make (or refrain from making) any investment decision or asset allocation and should not be relied upon as such. Signals are inherently backward-looking because of their use of historical data, and they are not intended to predict the future. The relevance, correlations and accuracy of Signals frequently will change materially.

The Information should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. All Information is impersonal and not tailored to the needs of any person, entity or group of persons.

None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), any security, financial product or other investment vehicle or any trading strategy.

It is not possible to invest directly in an index. Exposure to an asset class or trading strategy or other category represented by an index is only available through third party investable instruments (if any) based on that index. MSCI does not issue, sponsor, endorse, market, offer, review or otherwise express any opinion regarding any fund, ETF, derivative or other security, investment, financial product or trading strategy that is based on, linked to or seeks to provide an investment return related to the performance of any MSCI index (collectively, "Index Linked Investments"). MSCI makes no assurance that any Index Linked Investments will accurately track index performance or provide positive investment returns. MSCI Inc. is not an investment adviser or fiduciary and MSCI makes no representation regarding the advisability of investing in any Index Linked Investments.

Index returns do not represent the results of actual trading of investible assets/securities. MSCI maintains and calculates indexes, but does not manage actual assets. The calculation of indexes and index returns may deviate from the stated methodology. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the index or Index Linked Investments. The imposition of these fees and charges would cause the performance of an Index Linked Investment to be different than the MSCI index performance.

The Information may contain back tested data. Back-tested performance is not actual performance, but is hypothetical. There are frequently material differences between back tested performance results and actual results subsequently achieved by any investment strategy.

Constituents of MSCI equity indexes are listed companies, which are included in or excluded from the indexes according to the application of the relevant index methodologies. Accordingly, constituents in MSCI equity indexes may include MSCI Inc., clients of MSCI or suppliers to MSCI. Inclusion of a security within an MSCI index is not a recommendation by MSCI to buy, sell, or hold such security, nor is it considered to be investment advice.

Data and information produced by various affiliates of MSCI Inc., including MSCI ESG Research LLC and Barra LLC, may be used in calculating certain MSCI indexes. More information can be found in the relevant index methodologies on [www.msci.com](http://www.msci.com).

MSCI receives compensation in connection with licensing its indexes to third parties. MSCI Inc.'s revenue includes fees based on assets in Index Linked Investments. Information can be found in MSCI Inc.'s company filings on the Investor Relations section of [msci.com](http://msci.com).

MSCI ESG Research LLC is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc. Neither MSCI nor any of its products or services recommends, endorses, approves or otherwise expresses any opinion regarding any issuer, securities, financial products or instruments or trading strategies and MSCI's products or services are not a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such, provided that applicable products or services from MSCI ESG Research may constitute investment advice. MSCI ESG Research materials, including materials utilized in any MSCI ESG Indexes or other products, have not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body. MSCI ESG and climate ratings, research and data are produced by MSCI ESG Research LLC, a subsidiary of MSCI Inc. MSCI ESG Indexes, Analytics and Real Estate are products of MSCI Inc. that utilize information from MSCI ESG Research LLC. MSCI Indexes are administered by MSCI Limited (UK) and MSCI Deutschland GmbH.

Please note that the issuers mentioned in MSCI ESG Research materials sometimes have commercial relationships with MSCI ESG Research and/or MSCI Inc. (collectively, "MSCI") and that these relationships create potential conflicts of interest. In some cases, the issuers or their affiliates purchase research or other products or services from one or more MSCI affiliates. In other cases, MSCI ESG Research rates financial products such as mutual funds or ETFs that are managed by MSCI's clients or their affiliates, or are based on MSCI Inc. Indexes. In addition, constituents in MSCI Inc. equity indexes include companies that

subscribe to MSCI products or services. In some cases, MSCI clients pay fees based in whole or part on the assets they manage. MSCI ESG Research has taken a number of steps to mitigate potential conflicts of interest and safeguard the integrity and independence of its research and ratings. More information about these conflict mitigation measures is available in our Form ADV, available at <https://adviserinfo.sec.gov/firm/summary/169222>.

Any use of or access to products, services or information of MSCI requires a license from MSCI. MSCI, Barra, RiskMetrics, IPD and other MSCI brands and product names are the trademarks, service marks, or registered trademarks of MSCI or its subsidiaries in the United States and other jurisdictions. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and S&P Dow Jones Indices. "Global Industry Classification Standard (GICS)" is a service mark of MSCI and S&P Dow Jones Indices.

MIFID2/MIFIR notice: MSCI ESG Research LLC does not distribute or act as an intermediary for financial instruments or structured deposits, nor does it deal on its own account, provide execution services for others or manage client accounts. No MSCI ESG Research product or service supports, promotes or is intended to support or promote any such activity. MSCI ESG Research is an independent provider of ESG data.

Privacy notice: For information about how MSCI collects and uses personal data, please refer to our Privacy Notice at <https://www.msci.com/privacy-pledge>.