

ESG Risk Ratings – Methodology

Addendum

Descriptions of Material ESG Issues

Version 2.0

01 November 2023

Methodology & Product Architecture

MEI.0.CG Corporate Governance

Corporate Governance focuses on the frameworks, systems, processes and practices that determine how a company is operated and controlled. This includes, for example, the structure and composition of the company's board, management remuneration and shareholder rights. The emphasis is on ensuring accountability and transparency throughout the company and promoting the alignment of the interests of shareholders, management, directors and employees.

MEI.0.SG Stakeholder Governance

Stakeholder Governance focuses on the broader societal responsibility of companies beyond generating profits for their shareholders. To ensure long-term financial success, companies must also maintain the trust and support of additional stakeholders, such as employees, customers, political entities and the general public. This includes, for example, commitments to global corporate responsibility principles, adoption of whistleblower programmes, transparency in tax disclosure, and policies on bribery and corruption. Prioritizing Stakeholder Governance promotes a culture of ethical and responsible corporate behaviour, enabling companies to create long-term value by fostering a sustainable and equitable business environment.

MEI.1 Access to Basic Services

Access to Basic Services focuses on the management of access to essential products or services such as health care services and products to disadvantaged communities or groups.

MEI.4 Business Ethics

Business Ethics focuses on the management of general professional ethics, such as tax avoidance, anti-competitive practices and intellectual property issues, as well as bribery and corruption. Ethical misconduct such as fraud, conflicts of interest, money laundering, sanctions violations, etc. are also covered here. Additional subindustry-specific topics – such as medical ethics, animal welfare and arms trade – are included where relevant. Ethical considerations related to direct or indirect involvement with corrupt governments, dictatorial regimes or organizations that have a track record of human rights abuses may also be included here for some subindustries, if the company's products or services are at risk of being used to facilitate human rights violations, for example.

MEI.5 Community Relations

Community Relations focuses on how companies engage with local communities (including indigenous peoples) through community involvement, community development and/or measures to reduce negative impacts on local communities.

MEI.6 Data Privacy and Cybersecurity

Data Privacy and Cybersecurity focuses on risks to personal information and/or cybersecurity and how companies manage these risks. Where personal information is collected, stored or processed, emphasis is placed on privacy practices and programmes, as well as related cybersecurity management. Separately, some industries are targets of cyberattacks, due to the damage that disruption poses to economies or societies. Where this distinct type of risk is material, the MEI focuses on cybersecurity, including cybersecurity programmes, critical infrastructure security and technology product security. Some industries lie at the intersection of both data privacy and cybersecurity and this MEI assesses how companies manage both of these risks.

MEI.7 Emissions, Effluents and Waste

Emissions, Effluents and Waste focuses on the management of emissions and releases from a company's own operations to air, water and land, excluding GHG emissions. Depending on the subindustry, emphasis is put on one or several of these waste streams.

MEI.8 Carbon – Own Operations

Carbon – Own Operations refers to a company's management of risks related to its own operational energy use and GHG emissions (scope 1 and 2). It also includes parts of Scope 3 emissions, such as transport and logistics. It does not include emissions in the supply chain or during the use phase/end-of-life cycle of a product.

MEI.8.PS Carbon – Products and Services

Carbon – Products and Services refers to a company's management of the energy efficiency and/or GHG emissions of its services and products during the use phase. This does not include carbon risks related to financial services, which are considered within MEI.17 ESG Integration – Financials.

MEI.9 E&S Impact of Products and Services

E&S Impact of Products and Services refers to the management of environmental or social impacts of products or services, including: inherent characteristics of input materials, both positive and negative, and impacts during use, disposal and recycling. E&S Impact of Products and Services may include carbon impacts if Carbon – Products and Services is not regarded as a material ESG issue for the subindustry.

MEI.12 Human Rights

Human Rights focuses on how companies manage and respect fundamental human rights within their own operations. Emphasis is on measures taken to protect civil and political rights as well economic, social and cultural rights, including child and forced labour.

MEI.12.SC Human Rights – Supply Chain

Human Rights – Supply Chain focuses on a company's management of fundamental human rights issues occurring in its supply chain. For subindustries that rely on conflict minerals, this also includes a company's handling of conflict minerals in its supply chain.

MEI.13 Human Capital

Human Capital focuses on the management of human resources. It includes the management of risks related to scarcity of skilled labour through retention and recruitment programmes, and includes career development measures such as training programmes. Additionally, it includes labour relations issues, such as the management of freedom of association and diversity issues, as well as working hours and minimum wages.

MEI.14 Land Use and Biodiversity

Land Use and Biodiversity focuses on how companies manage the impact of their operations on land, ecosystems and wildlife. Topics covered include land conversion, land rehabilitation and forest management, as well as the protection of biodiversity and ecosystems.

MEI.14.SC Land Use and Biodiversity – Supply Chain

Land Use and Biodiversity – Supply Chain focuses on how companies manage the impact of their suppliers' operations on land, ecosystems and wildlife.

MEI.16 Occupational Health and Safety

Occupational Health and Safety focuses on the management of workplace hazards affecting a company's own employees and on-site contractors. Where relevant, the issue may also include HIV/AIDS programmes.

MEI.17 ESG Integration – Financials

ESG Integration – Financials includes all ESG integration activities by financial institutions that are either driven by financial downside risk considerations or by business opportunity considerations. This issue includes an institution's own current assets, including direct investments, corporate credits or stakes in project financing, as well as assets managed for clients. Product offerings can span a wide spectrum of product types, starting with ESG investment funds, microfinance products, etc. The issue also includes the consideration of ESG criteria in real estate investments, such as green building initiatives.

MEI.18 Product Governance

Product Governance focuses on how companies manage their responsibilities vis-à-vis clients (quality and/or safety of their products and services). Emphasis is put on quality management systems, marketing practices, fair billing and post-sales responsibility. For Media companies, this issue also includes the management of content-related standards, such as journalistic standards and the protection of sources (Media Ethics).

MEI.19 Resilience

Resilience focuses on the financial stability and the management of related risks in the financial services industry, with emphasis on compliance with capital requirements. This issue applies to financial institutions that pose systemic risks and therefore potential external costs to society in case of bailouts by taxpayers

MEI.21 Water Use - Own Operations

Water Use – Own Operations focuses on how a company uses water in its production processes and how well it manages related risks. Risks broadly stem from a company's operational dependence on water for the production of goods or services, geographic water availability, as well as competing needs for water, driven by it being a shared resource. Responsible water use at a company's own operations includes conducting water risk assessments to identify facilities in hotspot areas, water efficiency and engagement with stakeholders in order to build water resilience at the catchment level.

MEI.21.SC Water Use - Supply Chain

Water Use – Supply Chain focuses on how a company manages risks related to water stress within its supply chain. Risks broadly stem from a reliance on raw materials that require large amounts of freshwater to produce. Responsible water use within a company's supply chain includes conducting water risk assessments to identify suppliers in hotspot areas and engaging with suppliers to improve their water efficiency and build resilience.

MEI.22 Raw Material Use

Raw Material Use focuses on how efficiently and effectively a company uses its critical raw material inputs (excluding energy and petroleum-based products, and water) in the production process and how well it manages related risks. These risks stem from the increased demand for raw materials that are key to the low-carbon transition and increased scrutiny on the environmental impact of a company's production processes. Responsible use of raw materials includes best practices such as recycling programmes, eco-design, circularity and substitutes for scarce resources.

Change Log

Version	Date	Initiator	Main items that changed	Comment / Rationale
2.0	01-Nov-23	ESG Risk Ratings Enhancements 2024	Added new MEIs. Updated enhanced MEIs. Removed MEIs not used anymore. Added change log to file.	Overview of new set of MEIs used for the ESG RR which will go live in May 2024.

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