

# ESG Ratings

## Methodology Enhancements 2018 – 2019 Research Cycle

June 2018

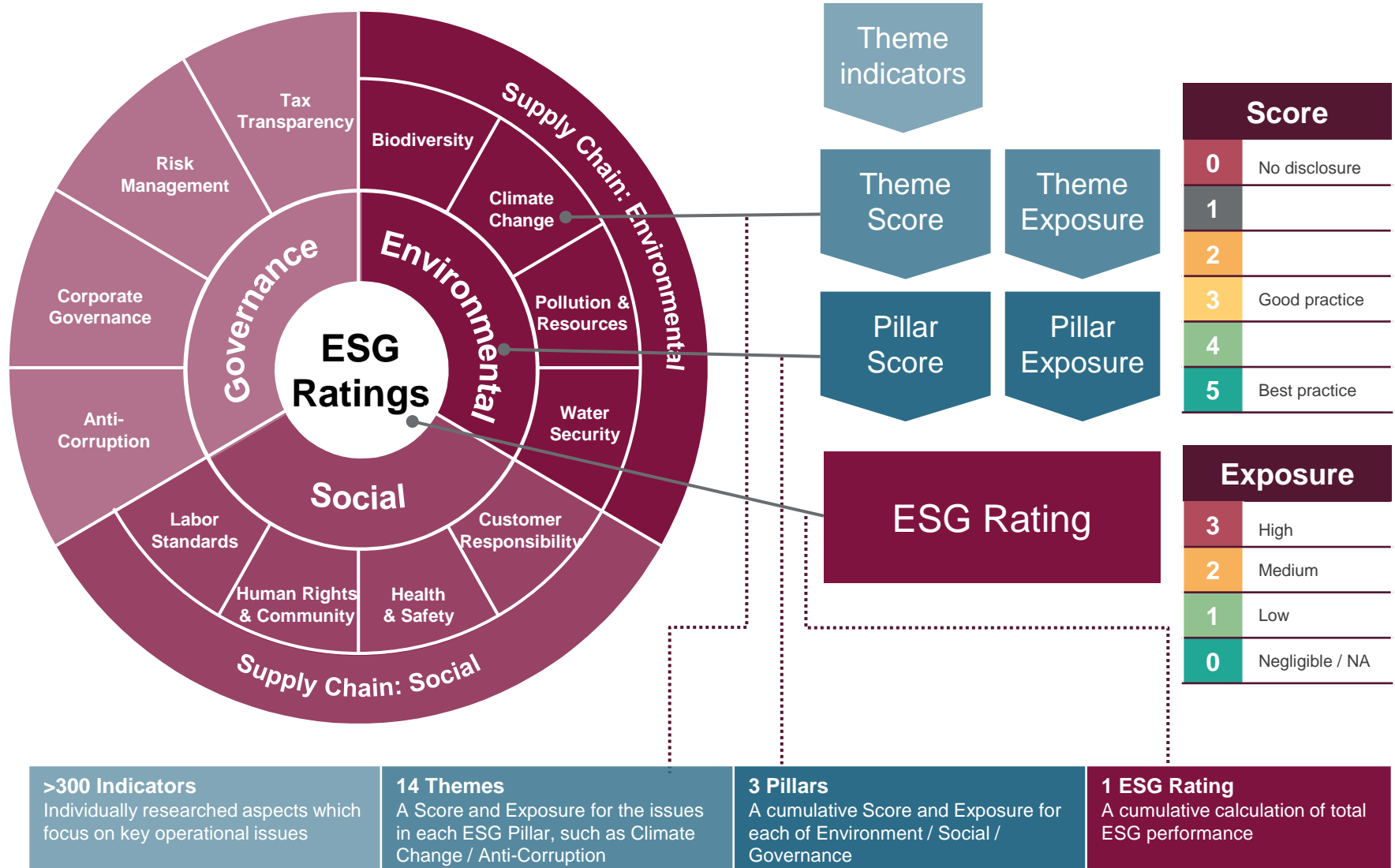
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# ESG - How do companies operate?



# ESG methodology enhancements 2018

For 2018 – 2019 Research Cycle

## Environmental Pillar

Biodiversity (EBD) No changes

Water Security (EWT) Major enhancements to improve relevance for investors and better align with other disclosure frameworks

Pollution & Resources (EPR) No changes

Climate Change (ECC) 3 new indicators applicable to high impact subsectors aligning with Climate Action 100

Environmental Supply Chain (ESC) No changes

## Social Pillar

Customer Responsibility (SCR) No changes

Health & Safety (SHS) No changes

Human Rights & Community (SHR) No changes

Labour Standards (SLS) 2 new indicators

Social Supply Chain (SSC) 2 new indicators

## Governance Pillar

Anti-Corruption (GAC) No changes

Corporate Governance (GCG) 1 new indicator

Risk Management (GRM) No changes

Tax Transparency (GTX) No changes

# Water Security Theme (EWT)

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## Background and summary

Investors are increasingly interested in water related information to screen investment risk. In order to align to such interests, enhancements to FTSE Russell's ESG Ratings Methodology for the 2018-2019 research cycle has given extra focus on the Water Security Theme.

The Water Security Theme was updated to focus on governance, strategy, risk management, metrics and targets. Water Security will also focus on withdrawal and discharge over consumption.

The Water Security Theme will now be better aligned with disclosures such as CDP, WBCSD and GRI.

Summary of changes made are as follows:

- Update to the High/Medium Exposure categories based on ICB® Subsectors.
- Update to Primary Impact Countries.
- 8 new indicators to all sectors which are applicable to Water Security Theme.
- 2 changes (leading to 4 indicators) to current indicators regarding target and water accounting.
- 12 new sector specific indicators focusing on sectoral financial materiality.
- 9 deleted indicators.
- Theme name change from Water Use to Water Security.

# Water Security Theme

## Updated Subsector Exposure

Primary Impact Subsector	Secondary Impact Subsector	All other Subsectors
0533 Exploration & Production	2357 Heavy Construction	
0537 Integrated Oil & Gas	3722 Durable Household Products	
0587 Alternative Fuels	3724 Nondurable Household Products	
1353 Commodity Chemicals	3763 Clothing & Accessories	
1357 Specialty Chemicals	3765 Footwear	
1733 Forestry	3767 Personal Products	
1737 Paper	4533 Health Care Providers	
1753 Aluminum	4535 Medical Equipment	
1755 Nonferrous Metals	4537 Medical Supplies	
1757 Iron & Steel	4573 Biotechnology	
1771 Coal	4577 Pharmaceuticals	
1773 Diamonds & Gemstones	5753 Hotels	
1775 General Mining	5757 Restaurants & Bars	
1777 Gold Mining	8677 Hotel & Lodging REITs	
1779 Platinum & Precious Metals	9572 Computer Hardware	
2353 Building Materials & Fixtures	9574 Electronic Office Equipment	
3357 Tires	9576 Semiconductors	
3533 Brewers	2757 Industrial Machinery	
3535 Distillers & Vintners	2791 Business Support Services	
3537 Soft Drinks	2799 Waste & Disposal Services	
3573 Farming, Fishing & Plantations	3726 Furnishings	
3577 Food Products	3728 Home Construction	
3785 Tobacco	5557 Publishing	
7535 Conventional Electricity	9535 Internet	
7573 Gas Distribution	2723 Containers & Packaging	
7575 Multi-utilities	7537 Alternative Electricity	
7577 Water	8633 Real Estate Holding & Development	
	8671 Industrial & Office REITs	
	8672 Retail REITs	
	8673 Residential REITs	
	8674 Diversified REITs	







# Water Security Theme

## Updated Primary Impact Countries

Primary Impact Countries		
Antigua and Barbuda	Lebanon	South Korea
Afghanistan	Lesotho	Spain
Australia	Libya	Syria
Barbados	Malta	Tajikistan
Barhain	Mexico	Trinidad & Tobago
Comoros	Mongolia	Turkmenistan
Cyprus	Morocco	UAE
Dominica	Oman	Uzbekistan
East Timor	Pakistan	Western Sahara
India	Palestine	Yemen
Iran	Qatar	
Israel	Saint Lucia	
Jamaica	Saint Vincent and the Grenadines	
Jordan	San Marino	
Kazakhstan	Saudi Arabia	
Kuwait	Singapore	
Kyrgystan	Somaliland	



# Water Security Theme Indicators

Legend	Indicator type	Indicator description	Applicability:		
			Subsectors	Exposure:	New?
EWT13	Qualitative	Policy or commitment on water use reduction which: a. Addresses the issue b. Includes commitment to reduce water use or improve efficiency			N
EWT24	Quantitative	Water management plan (including water recycling system): a. Company discloses and details its water management plan at the company level/site specific b. Company discloses the number and/or proportion of sites with a water management plan			Y
EWT06	Qualitative	Detailed disclosure of action(s) taken to reduce water withdrawal/consumption: a. Applied to specific sites b. Applied throughout the company			N
EWT25	Qualitative	Does the company engage with its stakeholders at water stressed sites			Y
EWT08	Qualitative	Works with all stakeholders to reduce water withdrawal/consumption by: a. Participation in specific local or global Initiatives b. Collaboration with other companies operating at same sites such as making use of water waste streams as inputs (industrial ecology)			N
EWT26	Quantitative	Water-stressed/scarce regions: a. Company has identified it operates in water-stressed regions b. Company discloses the number and/or proportion of facilities, assets, production, revenue in water-stressed regions			Y







Source: FTSE ESG Data Model 5<sup>th</sup> Research Cycle (2018/19)

# Water Security Theme Indicators

Legend	Indicator type	Indicator description	Applicability:		
			Subsectors	Exposure:	New?
EWT27	Quantitative	Water withdrawals/consumption in water stressed regions.			Y
EWT28	Qualitative	Financial quantification of: a. Costs associated with water-related risks b. Investment in R&D to mitigate water-related risks			Y
EWT29	Quantitative	Does the company disclose the number of incidents of non-compliance with water quality/quantity permits, standards and regulations			Y
EWT30	Quantitative	Three years of total water discharge data is disclosed by destination - Ocean - Surface water - Subsurface / well - Off-site water treatment - Beneficial / other use - Total			Y
EWT31	Quantitative	Three years of total water withdrawal data is disclosed by source: - Surface water from rivers, lakes, natural ponds - Groundwater from wells, boreholes - Used quarry water collected in the quarry - Municipal potable water - External wastewater - Harvested rainwater - Sea water, water extracted from the sea or the ocean - Total			Y

Source: FTSE ESG Data Model 5<sup>th</sup> Research Cycle (2018/19)

# Water Security Theme Indicators

Legend	Indicator type	Indicator description	Applicability:		
			Subsectors	Exposure:	New?
EWT32	Quantitative	Three years of facilities' water withdrawal data – for companies not disclosing company's overall data			Y
EWT33	Quantitative	Three years of facilities' water discharge data – for companies not disclosing company's overall data			Y
EWT07	Qualitative	Independent verification of water use data: a. Independent verification by third party b. International assurance standard used and level of assurance declared			N
EWT34	Qualitative / Quantitative	Time-specific target(s) to reduce water consumption/withdrawal at the company level: a. Unquantified targets b. Quantified targets			Y
EWT35	Qualitative / Quantitative	Time-specific target(s) to reduce water consumption/withdrawal at the specific sites impacted by water stress: a. Unquantified targets b. Quantified targets			Y
EWT09	Qualitative	Disclosure of results measured against previously set and disclosed quantified targets: a. Applied at specific sites b. Applied throughout the company			N

Source: FTSE ESG Data Model 5<sup>th</sup> Research Cycle (2018/19)

# Water Security Theme Indicators

## Sector Specific – Oil & Gas

Legend	Indicator type	Indicator description	Applicability:		New?
			Subsectors	Exposure:	
EWT36	Quantitative	Three years of hydraulic fracking chemicals (tonnes / litres / m3)	533 Exploration & production* 537 Integrated Oil & Gas*		Y (not rated)
			*Only companies carrying out activities involving exploration and production will be assessed for this indicator		
EWT37	Quantitative	Three years of water consumption / withdrawal intensity to extract hydrocarbon (m3/boe)	533 Exploration & production* 537 Integrated Oil & Gas*		Y (not rated)
			*Only companies carrying out activities involving exploration and production will be assessed for this indicator		
EWT38	Quantitative	Three years of water consumption / withdrawal intensity to refine oil (m3/boe)	533 Exploration & production* 537 Integrated Oil & Gas*		Y (not rated)
			*Only companies involved in refining will be assessed against this indicator		
EWT39	Quantitative	Three years of discharge of oil to water (tonnes / litres /m3)	533 Exploration & production 537 Integrated Oil & Gas		Y (not rated)
EWT40	Quantitative	Number or percentage of hydraulic fracturing sites/wells	533 Exploration & production* 537 Integrated Oil & Gas*		Y
			*Only companies carrying out activities involving exploration and production will be assessed for this indicator		

Source: FTSE ESG Data Model 5<sup>th</sup> Research Cycle (2018/19)

# Water Security Theme Indicators Sector Specific – Water Utilities

Legend	Indicator type	Indicator description	Applicability:		
			Subsectors	Exposure:	New?
EWT16	Qualitative	Policy or commitment by the Water Utility on leakage reduction which: a. Addresses the issue b. Includes commitment to reduce leakage or improve efficiency	7577 Water		N
EWT20	Qualitative	Detailed disclosure by the Water Utility of action(s) taken to reduce water leakage: a. Applied to specific sites b. Applied throughout the company	7577 Water		N
EWT23	Quantitative	Three years of total water supply data is disclosed by the Water Utility	7577 Water		N
EWT15	Qualitative	Reclaimed water used for potable drinking water: a. Description of reclaimed water used for drinking water b. Quantification of reclaimed water used for drinking water	7577 Water		N

Source: FTSE ESG Data Model 5<sup>th</sup> Research Cycle (2018/19)

# Water Security Theme Indicators




## Sector Specific – Other Sectors

Legend	Indicator type	Indicator description	Applicability:	
			Subsectors	Exposure: New?
EWT41	Quantitative	Three years of power generation water withdrawal / consumption intensity (m3 / kwh)	7535 Conventional Electricity 7537 Alternative electricity	Y
EWT42	Quantitative	Three years of mining production water consumption / withdrawal intensity (m3 / tonne of ore)	1775 General Mining 1777 Gold Mining 1771 Coal	Y
EWT43	Quantitative	Three years of COD load / tonne product.	1733 Forestry 1737 Paper 2353 Building Materials & Fixtures 3533 Brewers 3537 Soft Drinks	Y (not rated)
EWT44	Quantitative	Three years of water consumption / withdrawal intensity (m3 / tonne paper or pulp)	1733 Forestry 1737 Paper	Y (not rated)
EWT45	Quantitative	Three years of cement production water intensity (m3 / tonne cement produced or cementitious materials)	2353 Building Materials & Fixtures* *Only companies involved in cement/clinker production will be assessed against this indicator.	Y
EWT46	Quantitative	Three years of beverage production water intensity (m3/litre produced)	3533 Brewers 3537 Soft Drinks	Y
EWT47	Quantitative	Three years of food production water intensity (m3 / tonne of food produced)	3577 Food products	Y

Source: FTSE ESG Data Model 5<sup>th</sup> Research Cycle (2018/19)

# Water Security Theme Indicators

## 9 Deleted indicators

Legend	Indicator type	Indicator description	Applicability:	
			Subsectors	Exposure:
EWT05	Qualitative	Risk assessment regarding water issues in water stressed locations for: a. Potential new operations or projects (due diligence) b. Existing operations or projects		
EWT11	Quantitative	Three years of total water use data is disclosed		
EWT12	Quantitative	Percentage of water recycled (non-potable) for use in own operations		
EWT17	Qualitative	Time-specific target(s) by the Water Utility to reduce leakage: a. Unquantified, process targets b. Quantified targets	7577 Water	
EWT18	Qualitative	Disclosure by the Water Utility of: a. Operations in water-stressed environments b. Water abstraction in water-stressed environments	7577 Water	
EWT19	Qualitative	Risk assessment by the Water Utility regarding water issues in water stressed locations for: a. Potential new operations or projects (due diligence) b. Existing operations or projects	7577 Water	

Source: FTSE Russell

# Water Security Theme Indicators

## 9 Deleted indicators

Legend	Indicator type	Indicator description	Applicability:	
			Subsectors	Exposure:
EWT21	Qualitative	Independent verification by the Water Utility of water use data: a. Independent verification by third party b. International assurance standard used and level of assurance declared	7577	Water
EWT22	Qualitative	Progress by the Water Utility against quantified targets to reduce leakage: a. Applied to specific infrastructure b. Applied throughout the company	7577	Water
EWT14	Qualitative	Disclosure of initiatives to reduce customer water use: a. Description of planned initiatives b. Results of implemented initiatives	7577	Water



Source: FTSE Russell



# Labour Standards Theme (SLS) Enhancements

# Labour Standards Theme (SLS) Enhancements

To reflect the trend on diversity the following 2 indicators have been added to the theme.

legend	Indicator type	Indicator description	Applicability: Subsectors	Exposure:
SLS32	Quantitative	Percentage of global staff with a disability.		
SLS33	Quantitative	Percentage of women in the global workforce.		

# Social Supply Chain Theme (SSC) Enhancements

# Social Supply Chain Theme (SSC) Enhancements

To reflect focus on animal welfare the following indicator has been added for companies in the food and pharmaceutical sectors.

Legend	Indicator type	Indicator description	Applicability:		
			Subsectors	Exposure:	
SSC56	Qualitative	Supplier policy addresses animal welfare:	3573	Farming, Fishing & Plantations	
		a. Statement addressing the issue / comply with local laws	3577	Food Products	
		b. Policy / Principles / Code	5337	Food Retailers & Wholesalers	
			5757	Restaurants & Bars	
			4577	Pharmaceuticals	
			4573	Biotechnology	

The following indicator has been added for companies in the banking sector.


Legend	Indicator type	Indicator description	Applicability:		
			Subsectors	Exposure:	
SSC57	Qualitative	Evidence of green or sustainable bond issuance and lending mechanism:	8355	Banks	
		a. Evidence of at least one green / sustainable bonds / lending mechanism.			
		b. Evidence of multiple green / sustainable bond issuances or of multiple lending mechanisms.			

Source: FTSE Russell

# Corporate Governance Theme (GCG) Enhancements

# Corporate Governance Theme (GCG) Enhancements

To reflect growing focus on equal opportunities the following indicator has been added to the Theme.

legend	Indicator type	Indicator description	Applicability: Subsectors	Exposure:
GCG50	Quantitative	Percentage of women on the Executive committee or equivalent.		

Source: FTSE Russell

# Climate Change Theme (ECC) Enhancements

# Climate Change Theme (ECC) Enhancements

The following 3 indicators have been added to the Theme for high impact subsectors.

Legend	Indicator type	Indicator description	Applicability: Subsectors	Exposure:
ECC73	Qualitative	The company discloses: <ol style="list-style-type: none"> <li>Its memberships of trade associations that engage on climate-related issues.</li> <li>Its involvement in these trade associations.</li> </ol>		
ECC74	Qualitative	The company has a stated policy or commitment to ensuring: <ol style="list-style-type: none"> <li>Consistency between its climate change policy and the positions taken by the trade associations of which they are members.</li> <li>For responding appropriately in those instances where the trade association position is significantly weaker than or contradicts that of the company.</li> </ol>		
ECC75	Qualitative	Does the company's remuneration for senior executives incorporate climate change performance? <ol style="list-style-type: none"> <li>CEO.</li> <li>At least one other senior executive.</li> </ol>		

Source: FTSE Russell



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