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Data Validation for the ESG Risk Rating

Guidance for companies on reviewing and providing updates to key data.

Issuer Relations Team

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INTRODUCTION

ESG Risk Rating and Data Validation

Morningstar Sustainalytics invites all companies to validate and update the data we compile in accordance with the **ESG Risk Rating Methodology**. This includes all companies within our Standard ESG Risk Rating Universe and companies that purchase a license to use their rating for various corporate purposes (internal and/or external) including capital raising, marketing programs, and investor relations outreach.

The ESG Risk Rating research process is designed to be transparent, straightforward, and efficient. The steps in place allow companies to ask questions and clarify any research-related issues. Sustainalytics is equally committed to accountability as we are to the independence and integrity of our research outcomes and processes.

We welcome the participation of *all* companies we rate and provide the following parameters for a constructive process. We recommend that all team members and any external partners are aware of these guidelines. This will help to set expectations and ensure the team understands the process.

Please review this guidance with our [Document Guidance](#), which provides detailed requirements for the supporting evidence we will accept for your ESG Risk Rating assessment.

Morningstar Sustainalytics' Commitment to Transparency

Morningstar Sustainalytics follows a rules-based approach to ESG research. Our research process applies equally to all companies we assess regardless of a company's status as a client or non-client, large or small firm, public or private entity.

Our objective is to be transparent and to ensure that all companies are equally informed about our research process and requirements. All companies may access [our guidelines and research methodologies here](#).

Important Reminders

- Morningstar Sustainalytics does not provide consultancy services.
- Morningstar Sustainalytics expects our team members to always act professionally.
- Morningstar Sustainalytics appreciates that the representatives of the companies we assess will also act professionally during all interactions with our team members.
- Morningstar Sustainalytics' leadership reserves the right to end our dialogue with any company and/or any company's external partners whose behavior may impair the objectivity of our research or hinder the engagement process from being constructive, as outlined within this guidance.

FUNDAMENTALS

ESG Risk Rating scoring model

Morningstar Sustainalytics' ESG Research Team collects data for the ESG Risk Rating from a variety of sources, including corporate data found in the public domain or provided by companies directly.

Data Sources

Morningstar Sustainalytics Research analysts leverage the following data sources for our ESG Risk Rating research:

Corporate disclosure. Corporate website, annual reports, sustainability reports, codes of conduct, press releases and other sustainability related publications. Furthermore, we provide the opportunity for companies to provide feedback on the report before we publish it, which often results in additional corporate disclosure provided to us.

Media coverage. Daily news screening of over 60,000 media sources, including local, national, and international news sources, as well as Non-Government Organizations (NGO) and Industry Reports.

Third-party data. Some of our indicators related to geographic exposure include assessments of country risk factors that are determined by the World Bank and the World Resources Institute. These are minor contributors to overall scores.

The ESG Risk Rating scoring model is designed to capture how well a company is **managing** its current **exposure** to ESG risks.

Exposure Data

Morningstar Sustainalytics' ESG Research Team quantifies an individual company's exposure to ESG risks based on the risk assessment of a company's assigned subindustry and Exposure Beta Indicators.

Beta Indicators are divided into four categories: 1. Product & Production; 2. Financials; 3. Events; and 4. Geographic. Although it is important to understand the Beta Indicators that are relevant to a particular firm, the set of Beta Indicators in the Events category are most relevant for data validation. These indicators are tied to Events in Morningstar Sustainalytics' **ESG Controversies** product.

Management Data

Morningstar Sustainalytics' ESG Research Team quantifies an individual company's management of exposure to ESG risks by identifying the key management performance indicators.

The ESG Risk Rating methodology covers the following types of Management Indicators:

- Policy
- Programs and Management Systems
- Disclosure and Compliance
- (Quantitative) Performance

Each Management Indicator requires distinct types of supporting evidence. See additional [details here](#).

Research Updates of the ESG Risk Rating

The research process for the ESG Risk Rating has two distinct phases.

1. **Annual Full Update:** This is the most important phase, which can generate the most significant score changes resulting from the annual assessment.
2. **Post-Annual Update:** This phase follows the completion of the full research update up until the start of the next full update. Score changes during this period tend to be minor, resulting from updates of specific management indicators related to carbon and water, or to corporate governance and ESG controversies.

Preparation for Annual Full Update

Morningstar Sustainalytics encourages companies to prepare for the **Annual Full Update**. It is best to address the following key issues before the annual full update research process begins:

Subindustry Classification

Morningstar Sustainalytics assigns each company to a **subindustry group**. This classification determines both exposure scores and management indicators.

If a company believes they have been placed in the wrong industry, it is critical that the company contact Morningstar Sustainalytics during the preparation phase.

Scoring Methodology

Morningstar Sustainalytics encourages companies to review the ESG Risk Rating scoring model and methodology during the preparation period.

The **Issuer Relations Team** is available to address questions on the following issues:

- General methodology and scoring model.
- Exposure (to ESG risk) score – including definitions of beta indicators.
- Questions on the overall management scores.
- Definitions of management indicators and the scoring criteria.

Understanding the ESG Risk Rating methodology – especially the scoring criteria for management indicators – is a critical part of preparing for the annual Risk Rating update.

Not understanding which criteria Morningstar Sustainalytics is looking for when assessing management practices leads to delays in the annual update process.

Documentation

During the preparation phase, companies are encouraged to review their existing ESG Risk Rating management indicator scores and the sources cited.

If there are new, relevant documents related to a specific management indicator, Morningstar Sustainalytics requests that companies follow these instructions:

- **Public Documents:** Send links to relevant public documents to the **Issuer Relations Team**. Be sure to note which management indicator the document is a source for, and what page/section of the document is relevant.
- **Internal Documents:** Companies can use the Document Upload feature of the Issuer Gateway to submit non-public documents. For guidance on this process, please refer to the following page in the **Knowledge Hub**.

The process for submitting **Data Validation** comments during the Annual Full Update depends on the **ratings framework** a company is assessed under.

Annual Full Update

Comprehensive Framework	Core Framework
<ul style="list-style-type: none"> The optimum times to submit comments are in the preparation period and the draft update period. 	<ul style="list-style-type: none"> The optimum times to submit comments are in the preparation period and the immediate post-annual update period.
<ul style="list-style-type: none"> To submit comments during both these periods, use the Management Indicator Response Template. ➤ The template is available in the Downloads section of a company's Issuer Gateway account. 	<ul style="list-style-type: none"> To submit comments during both these periods, refer to the following instructions: <ul style="list-style-type: none"> ➤ Sign into the Issuer Gateway. ➤ Select the Research tab; Within the ESG Risk Rating section, scroll down the page to Management Indicators. ➤ Select any Management Indicator/s you wish to comment on and click "Add Comment". Comment on all that apply. ➤ To submit your Saved Comments for review, please go to the Support tab and select the Communications Log. From there, check that you have commented on all the relevant indicators and then select Submit Ticket to post your comments for review by Sustainalytics' ESG Research Team.

Post-Annual Update

- All companies, regardless of which ratings framework applies, can submit comments at any time during this period.
- Morningstar Sustainalytics will correct all factual errors. New information will be processed at the discretion of the Research Team.

Comprehensive Framework	Core Framework
<ul style="list-style-type: none"> For companies assessed under the Comprehensive Framework, comments can be submitted via email. Use the Management Indicator Response Template. 	<ul style="list-style-type: none"> For companies assessed under the Core Framework, comments can be submitted online. <i>See instructions in the table above.</i>

ESG RISK RATING ANNUAL FULL UPDATE – COMPREHENSIVE RATINGS FRAMEWORK

Data Validation

Morningstar Sustainalytics alerts companies via email that the Data Validation period has commenced.

It is critical that companies utilize the knowledge gained during the preparation phase to provide informed comments supported by relevant documentation.

- All comments on Management Indicators should be added to the Management Indicator Response Template (Excel). The spreadsheet is available on the Issuer Gateway, in the download tab of the Documents Section.
- After entering all comments, companies can mail their template to the Issuer Relations Team: issuer.relations@morningstar.com. The Issuer Relations Team will send the comments to the ESG Risk Rating Research Team for review.
- The Issuer Relations Team will facilitate and mediate all communications between a company representative and the Research Team.
- The Research Team will review, process, and respond to a company's comments.
- The Research Team will use the same Excel template to respond to each company comment. We will forward the Research Team's response to the company.

ESG RISK RATING ANNUAL FULL UPDATE – CORE RATINGS FRAMEWORK

Data Validation

Morningstar Sustainalytics will alert companies via email that the Data Validation period has commenced. It is critical that companies utilize the knowledge gained during the preparation phase to provide informed comments supported by relevant documentation.

- All comments on Management Indicators should be submitted using the online commenting functionality available on the Issuer Gateway.

- The Issuer Relations Team will submit all comments for review to the ESG Risk Rating Research Team.
- The Research Team will review, process, and respond to comments within 10 days. Responses will be posted on the Issuer Gateway.

POST-ANNUAL UPDATE

The Post-Annual Update phase refers to the period after the completion of the full research update. It lasts until the next full update process begins. Score changes during this period tend to be minor and the result of updates to specific management indicators related to carbon and water, or to corporate governance and ESG Controversies.

Additional Questions

In general, if a company has additional questions for the Research Team, contact the **Issuer Relations Team** who will review the details and seek to address the issue first.

ESG Controversies

The ESG Controversies product is updated in real time as ESG incidents occur. These incidents may be the result of legal or regulatory matters, NGO activity targeting a company's products and services, or accidents.

Data Validation of ESG Controversies is highly recommended. A company may review their ESG Controversies report by requesting it from the **Issuer Relations Team**.

Corporate Governance

Corporate Governance indicators are updated on a separate schedule from other Risk Rating management indicators. A company may review their ESG Corporate Governance report upon request. For more information on updates related to the Corporate Governance product, go to: [Corporate Governance Research FAQ \(sustainalytics.com\)](#).

Intensity Metrics

Intensity Metric indicators are updated on a separate schedule from other Risk Rating management indicators. For more information on updates related to the Intensity Metrics, go to: [Intensity Metrics \(sustainalytics.com\)](#).

GENERAL QUESTIONS

Email Alerts and the Annual Full Update

Companies in our **Standard ESG Risk Rating Universe** need to be prepared for the **Annual Full Update**. To provide companies with ample time to prepare, Morningstar Sustainalytics will send several email alerts about the upcoming annual full update.

- **Three Months.** Morningstar Sustainalytics will send an email alert three months before we start the annual full update of a company's risk rating.
- **Three weeks.** In addition, Morningstar Sustainalytics will send an email alert three weeks before we start the annual full update of a company's Risk Rating.
- **Comprehensive Ratings Framework.** For companies assessed under the Comprehensive Framework, Morningstar Sustainalytics will send an email alert when the ESG Research Team has completed the draft version of the updated management indicator scores. This marks the beginning of the two-week formal data validation period.
- **Core Ratings Framework.** For companies assessed under the Core Framework, Morningstar Sustainalytics will send an email alert when the ESG Research Team has completed their update and posted the results. This marks the beginning of the formal data validation period.

Contacting Morningstar Sustainalytics

- Companies can contact Morningstar Sustainalytics by reaching out to the **Issuer Relations Team**, which is available 24/7 5-days per week via email: issuer.relations@morningstar.com.

Companies can also contact Morningstar Sustainalytics via the **Chat window on our website**. This service is also available 24/7 5 days per week.

Access to Research Analysts

Morningstar Sustainalytics does NOT provide companies with direct access to ESG Risk Rating analysts.

The **Issuer Relations Team** handles all communications with companies. In exceptional circumstances and for a limited purpose, Morningstar Sustainalytics may arrange a call between a company and a Research analyst. However, these types of calls are rare. In-person meetings may occur at conferences or if companies visit one of Morningstar Sustainalytics' offices.

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