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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**.

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 together 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.

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

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.

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. **Full Update:** This is the most important phase, which can generate the most significant score changes resulting from the full assessment.
2. **Post-Full 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 ESG controversies.

Preparation for Full Update

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

Industry/Subindustry Classification

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

Companies should take note of the industry/subindustry classification we have assigned to them. To check these details, sign into the Issuer Gateway and review the information within the home page. If a company believes they have been placed in the wrong industry, the company can provide details using the [Subindustry Review Form](#). Email the form to: issuer.relations@morningstar.com.

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 full Risk Rating update.

Not understanding which criteria Morningstar Sustainalytics is looking for when assessing management practices leads to delays in the full 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 use the Document Upload feature of the Issuer Gateway to submit new supporting evidence. For guidance on this process, please refer to resources within the [Information Center](#).

The process for submitting **Data Validation** comments during the Full Update depends on the [ratings framework](#) we assign to a company. See *the summary table on page 8*.

FULL UPDATE	
Comprehensive Ratings Framework	Core Ratings Framework
<p>To submit comments during the full update period, use the Management Indicator Response Template.</p> <ul style="list-style-type: none"> ➤ The template is available in the Downloads section of a company's Issuer Gateway account. 	<p>To submit comments during this period, refer to the following instructions:</p> <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 Material ESG Issues to see a list of associated Management Indicators. ➤ Select any Management Indicator/s you wish to comment on and click "Add Comment". Comment on all that apply. Save each comment. ➤ To submit your Saved Comments for review, please go to the tab labelled Communications Log. ➤ From there, check that you have commented on all the relevant indicators and then select Submit Ticket to post your batch of comments for review by Sustainalytics' ESG Research Team.
POST FULL UPDATE	
<p>Morningstar Sustainalytics encourages companies to review their ESG Risk Rating after the full update has been completed. We will send an email notification when the update has been posted on the Issuer Gateway. Companies can submit comments online via the Issuer Gateway. See instructions in the table above.</p> <ul style="list-style-type: none"> • Updates based on new documentation. We will review and process these at our (the Research Team's) discretion. • Corrections based on previously reviewed documents. We will review and update these promptly. 	

ESG RISK RATING FULL UPDATE – COMPREHENSIVE RATINGS FRAMEWORK

Data Validation – Review of Management Indicator Feedback Report

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.

- Download Management Indicator Feedback Report (PDF). The report is available on the Issuer Gateway, in the download tab of the Documents Section.
- 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.
- Issuers must email their completed 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.
- Corporate clients (i.e., companies with a license to use the ESG Risk Rating) must email their completed template to the Corporate Experience Team: corporate.experience@morningstar.com.
- The Issuer Relations Team (issuers) and the Corporate Experience Team (corporate clients) will mediate all communications between a company representative and the Research Team.

ESG RISK RATING FULL UPDATE – CORE RATINGS FRAMEWORK

Data Validation – Review Updated Assessments

Morningstar Sustainalytics will alert companies via email that the Data Validation period has commenced. We encourage companies to use the [Information Center resources](#) to familiarize themselves with the research process and any requirements 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 review all comments and determine next steps regarding question submissions to the ESG Risk Rating Research Team.

POST-FULL UPDATE

The Post-Full 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 ESG Controversies.

Additional Questions

In general, if a company has additional questions for the Research Team, contact the [Issuer Relations Team](#), which 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 can access the details and submit comments via their Issuer Gateway account.

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 \(sustainalytics.com\)](#).

Contacting Morningstar Sustainalytics

- Companies can email the Morningstar Sustainalytics **Issuer Relations Team** at: issuer.relations@morningstar.com.
- Corporate clients (i.e., companies with a license to use the ESG Risk Rating) can email the **Corporate Experience Team** at: corporate.experience@morningstar.com

Access to Research Analysts

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

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