

# **ESG Metrics** *Reference Guide*

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# Introduction

The [EU Low Carbon Benchmark Regulation](#) requires administrators of benchmarks (other than interest rate and FX) to comply with new requirements to disclose environmental, social, and governance (ESG) factors in their methodology documents and benchmark statements. The delegated regulations ((EU) [2020/1816](#) and (EU) [2020/1817](#)) for ESG disclosure (“Delegated Regulations”) are effective as of Dec. 23, 2020.

This ESG Metrics Reference Guide (Guide) provides information on the datasets used to calculate index-level ESG metrics by S&P Dow Jones Indices (S&P DJI). This Guide should be read in conjunction with the [EU Low Carbon Benchmark Regulation Disclosure Report](#). For more information on the Delegated Regulations, please refer to the “*ESG Disclosures – EU Low Carbon Benchmark Regulation*” section of the S&P DJI [Regulatory Information](#) web page.

# ESG Scores Metrics

The index-level metrics described in this section are calculated using the S&P DJI ESG Scores.

## S&P DJI ESG Scores (Internal)

S&P DJI, in association with SAM, part of S&P Global, provides ESG scores (the “S&P DJI ESG Scores”) that robustly measure companies’ financially material ESG factors. The S&P DJI ESG Scores are based on S&P Global ESG Scores, derived from the SAM Corporate Sustainability Assessment (CSA). The SAM CSA is an analysis of ESG factors, developed and enhanced since 1999, to identify companies well-equipped to recognize and respond to emerging sustainability opportunities and challenges in the global market.

SAM pursues an integrated approach to analyzing sustainability performance. An interdisciplinary team of analysts design, monitor, and refine the annual SAM CSA with the purpose of generating additional insights into companies’ value-creating and risk-mitigating ESG potential. The assessment focuses on sustainability criteria that are financially relevant to corporate performance, valuation, and security selection.

For the purposes of the SAM ESG assessment, companies are assigned to industries defined by SAM and the assessment is largely specific to each industry. SAM uses the Global Industry Classification Standard (GICS®) as its starting point for determining industry classification. At the industry group and sector levels, the SAM Industries match the standard GICS classifications, but some nonstandard aggregations are done at the industry level.

In an effort to further mitigate biases within the data used to determine the S&P Global ESG Scores, and thereby provide a stronger signal of material ESG factors, S&P DJI collaborated with SAM to further refine the score construction methodology by examining how the underlying data points collected by the SAM CSA are managed and scored. The result is the final S&P DJI ESG Score, which more accurately depicts companies’ overall ESG sensitivity relative to other companies categorized in the same industry.

Annually in March, SAM issues a SAM CSA request to over 3,400 companies based on size, region, and country. The SAM CSA uses 61 SAM Industries, derived from GICS, to analyze companies using industry-specific questionnaires that evaluate a range of financially relevant sustainability criteria. The SAM CSA analysis awards an S&P Global ESG Score to each company. Companies that fail to respond to the SAM CSA, or those outside the universe of invited companies, can still be assessed and receive an S&P Global ESG Score. In those cases, SAM analysts assess those companies using available data, and form self-assessed scores. For more information on the SAM CSA process, please refer to the SAM website: <https://www.spglobal.com/esg/csa/>.

The S&P DJI ESG Scores contain a total company-level ESG score for a financial year, comprising individual Environmental, Social, and Governance dimension scores, beneath which there are on average 21 industry-specific criteria scores that can be used as specific ESG signals.

A company’s total S&P DJI ESG Score is the weighted average of all criteria scores and their respective weights. Each individual ESG dimension score (e.g., a company’s “E” score) is the weighted average of all criteria scores and weights within a specific ESG dimension. Total S&P DJI ESG Scores range from 0-100, with 100 representing best performance.

For the purposes of the Delegated Regulations, S&P DJI considers this dataset to be **reported and modeled**: Reported data/information is used to derive the scores using a proprietary research and scoring process.

## Supporting Documents

Supporting Document	URL
S&P DJI ESG Scores Methodology	<a href="#">S&amp;P DJI ESG Scores Methodology</a>
Frequently Asked Questions: S&P DJI ESG Scores	<a href="#">FAQ: S&amp;P DJI ESG Scores</a>

S&P DJI ESG Scores Website	<a href="#">Website</a>
SAM Corporate Sustainability Assessment (CSA) Website	<a href="#">Website</a>

### **Data Dissemination**

The S&P DJI ESG Scores data are available via subscription.

For product information, please contact S&P Dow Jones Indices, <https://www.spglobal.com/spdji/en/contact-us/>.

# ESG Standards Violations and Controversies Metrics

The index-level metrics described in this section are calculated using the following datasets:

## **SAM (part of S&P Global) Media & Stakeholder Analysis (MSA) (External)**

The MSA forms an integral part of the SAM CSA and enables SAM to monitor companies' sustainability performance on an ongoing basis by assessing current controversies with potentially negative reputational or financial impacts.

SAM monitors news coverage on a daily basis of assessed companies (i.e., companies assessed as part of the CSA process) using news stories from the media and stakeholder groups compiled and screened by RepRisk. RepRisk is a leading business intelligence provider specializing in ESG issues. News stories covered by the MSA include a range of issues, such as economic crime or corruption, fraud, illegal commercial practices, human rights issues, labor disputes, workplace safety, catastrophic accidents, and environmental violations.

The main objective of the MSA process is to gain insight into management's ability to mitigate reputational risks and protect shareholder value. An MSA case is created if a company has been involved in a specific negative event for which it is considered to be responsible, and if the incident reveals that the company's actions are inconsistent with its stated policies and goals and exposes either a failure of management or of company systems and processes. In order to determine whether an MSA case should be created for a company, SAM considers the extent of the company's responsibility in the specific case, its financial materiality and timeframe of the potential case. Cases deemed extremely severe by SAM and the Dow Jones Sustainability Index Committee may result in an immediate score adjustment and possible exclusion of the company from an index. These excluded companies are those covered by this metric. For more information on SAM's MSA, please refer to the MSA Methodology Guidebook 2020 via:

[https://portal.csa.spglobal.com/survey/documents/MSA\\_Methodology\\_Guidebook.pdf](https://portal.csa.spglobal.com/survey/documents/MSA_Methodology_Guidebook.pdf).

For the purposes of the Delegated Regulations, S&P DJI considers this dataset to be **reported and modeled**: Reported data/information is used as part of a proprietary determination process that results in the dataset.

## **Supporting Documents**

Supporting Document	URL
SAM Media & Stakeholder Analysis Methodology Guidebook 2020	<a href="https://portal.csa.spglobal.com/survey/documents/MSA_Methodology_Guidebook.pdf">MSA Methodology Guidebook 2020</a>
SAM Corporate Sustainability Assessment (CSA) Website	<a href="#">Website</a>

For more information on MSA, please refer to <https://www.spglobal.com/esg/csa/csa-resources/csa-methodology>.

To contact SAM or ask a question about MSA, please visit <https://www.spglobal.com/esg/csa/contact/>.

## **GC Scores (External)**

United Nations Global Compact (UNGC) information is provided by Arabesque S-Ray®, a global sustainability data provider. S-Ray combines big data on company-reported information, daily news, and NGO campaigns in a quantitative algorithmic approach for the calculation of the UNGC score, which is based on the normative principles of the UN Global Compact: human rights, labor rights, the environment, and anti-corruption.

For the purposes of the Delegated Regulations, S&P DJI considers this dataset to be **reported and modeled**: Reported data/information is used to derive the scores using a proprietary research and scoring process, and as part of a proprietary determination process that results in the dataset.

For more information on Arabesque's S-Ray, please refer to <https://arabesque.com/s-ray/>.

### **Global Standards Screening (External)**

Sustainalytics' Global Standards Screening dataset determines some companies to be non-compliant with, or in violation of, any of the ten principles of the UNGC and Chapters of the OECD Guidelines for Multinational Enterprises.

For the purposes of the Delegated Regulations, S&P DJI considers this dataset to be **reported and modeled**: Reported data/information is used as part of a proprietary determination process that results in the dataset.

For more information on Sustainalytics' Global Standards Screening dataset, please refer to <http://www.sustainalytics.com/>.

# ESG Screening Metrics

The index-level metrics described in this section are calculated using the following datasets:

## **Product Involvement (External)**

Sustainalytics' Product Involvement dataset is used to assess the levels of involvement in, or exposure to, a variety of specific business activities often considered for screening purposes by sustainable or ESG indices.

For the purposes of the Delegated Regulations, S&P DJI considers this dataset to be **reported and modeled**: Reported data/information is used by a proprietary research process that results in the dataset, and some data are modeled or estimated based on partial company disclosures.

For more information, please refer to <http://www.sustainalytics.com/>.



# Environmental and Climate Metrics

The index-level metrics described in this section are calculated using the following datasets:

## Trucost Environmental (External)

Trucost, part of S&P Global, has analyzed the environmental performance of over 15,000 companies worldwide. Trucost's standardized greenhouse gas (GHG) emissions data provide a proxy for carbon performance. To calculate the carbon intensity of any company included in the indices, Trucost reviews company annual reports and accounts, environmental/sustainability reports, public disclosures, and corporate websites.

However, many companies do not disclose their environmental or carbon impacts. Where there is no public disclosure, Trucost employs its environmental profiling system. This proprietary Input-Output model maps the GHG impacts of business activities in 464 sectors. Trucost's broad coverage seeks to ensure that all non-disclosing companies are considered for index eligibility, not just those that disclose environmental information.

For the purposes of the Delegated Regulations, S&P DJI considers this dataset to be **reported and modeled**: Reported data/information is used by a proprietary research process that results in the dataset, and some data are modeled by Trucost in the absence of company disclosures.

For more information on Trucost's Environmental dataset, please refer to [https://www.marketplace.spglobal.com/en/datasets/trucost-environmental-\(46\)](https://www.marketplace.spglobal.com/en/datasets/trucost-environmental-(46)).

## Physical Risk Scores (External)

Trucost's Physical Risk Scores dataset assesses company exposure to physical risk at the asset-level based on a database of over 500,000 assets mapped to over 15,000 listed companies in the S&P Global Market Intelligence database. The dataset includes:

- Seven climate change physical risk indicators including heatwaves, cold waves, water stress, hurricanes, wildfires, flood, and sea level rise
- Low, moderate, and high future climate change scenarios based on the Intergovernmental Panel on Climate Change (IPCC) Representative Concentration Pathways (RCP)
- Estimates of climate change physical impacts in 2020, 2030, and 2050

For the purposes of the Delegated Regulations, S&P DJI considers this dataset to be **reported and modeled**: Reported data/information is used by a proprietary research process that results in the dataset, and some data are modeled by Trucost in the absence of company disclosures.

For more information on the physical risk scores provided by Trucost, please refer to [https://www.marketplace.spglobal.com/en/datasets/trucost-physical-risk-\(148\)](https://www.marketplace.spglobal.com/en/datasets/trucost-physical-risk-(148)).

## Trucost Sector Revenues (External)

Trucost employs an environmental profiling system as an input to its proprietary Input-Output model used to map environmental impacts of business activities to any of 464 sectors. This sector revenue data are used by S&P DJI to calculate several exposure metrics.

For the purposes of the Delegated Regulations, S&P DJI considers this dataset to be **reported and modeled**: Reported data/information is used by a proprietary research process that results in the dataset, and some data are derived using partial disclosures or modeled by Trucost in the absence of company disclosures.

For more information on the dataset, please refer to <https://www.trucost.com/>.

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