

Making sense of ESG ratings and rankings

Investors increasingly rely on ESG (environmental, social, and governance) ratings when making investment decisions. In fact, investors often rank ESG ratings above a company's own disclosures as a useful source of information on corporate ESG performance.¹

With more than 600 ESG ratings published globally,² each with its own methodology, scoring, and target audiences, it can be hard to know which to focus on, or which truly influence your reputation or access to capital. And given ratings are relative to peer performance, improving outcomes means keeping ahead of the competition. Standing still is not an option.

So, which ratings matter most to your company, and how do you go about improving them? With nearly 20 years helping clients understand and improve performance on ESG ratings, we prepared this guide to introduce a few well-known ratings and how they might inform your ESG strategy.

FRAMEWORKESG HELPS EXECUTIVES CUT THROUGH THE ESG NOISE

FrameworkESG is a specialty consulting firm that helps companies—from privately held firms to large, global brands—reduce risk, build trust, and create long-term value for all stakeholders.

We help executives cut through the ESG noise, to simplify the complexities of managing ESG risk and opportunities for the C-suite.

Our research has been cited by Bloomberg, Forbes.com, Harvard Business School professors, and the American Institute of CPAs.

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The 8 ratings included in this brief are used by many leading investors, asset managers, analysts, and other financial experts



The importance (and limitations) of ESG ratings

When we started our firm almost 20 years ago, our first focus was on helping our clients navigate the new and emerging world of ESG frameworks. Over the past decade, from MSCI to DJSI to V.E, we have seen the **number of ratings and rankings**, not to mention disclosure standards and frameworks, multiply, often confusing companies and investors alike.

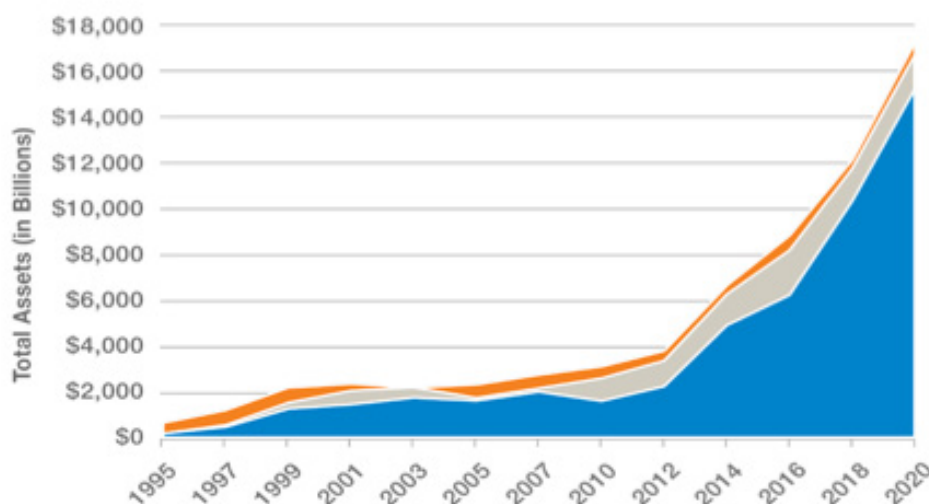
ESG performance is not synonymous with performance on ratings and rankings. But stakeholders, including investors, hungry for information about organizations' ESG performance, continue to incorporate these third-party comparisons and "stamps of approval" into their analyses and assessments, which in turn will continue to raise the stakes on companies to address and to perform better on them.

Bottom line, significant capital is influenced by ESG ratings.

ESG DATA MATTERS TO YOUR INVESTORS

- \$1 of every \$3 of funds under professional management in the US invested via sustainable investing strategies, totaling \$17.1 trillion³
- 42% Growth in sustainable investing in the US from 2018 to 2020 alone⁴

SUSTAINABLE INVESTING GROWTH IN THE U.S. (BILLIONS) 1995-2020



SOURCE: US SIF Foundation.

- 95%+ of institutional asset owners have integrated or are considering integrating sustainable investing within their portfolios⁵

Because individual raters define their own ESG weighting criteria then aggregate diverse ESG data to measure company efforts against them, it's not surprising that different raters' assessments of the same company can vary significantly⁶ and that they may sometimes include inaccuracies.⁷

Even investors who use ratings data may not interpret them at face value. For example, more than 75% of investors report using two or more ratings. Nearly 60% use their own internal ESG ratings, which typically leverage data from the rating agencies while calculating their own proprietary scores.⁸

In fact, inconsistencies across ratings schemes are a source of consternation among companies and investors alike. Given the important role of ESG ratings in investment decision making, regulators such as the International Organization of Securities Commission are considering stepping in to add consistency and comparability across them.⁹

Despite these challenges, we believe ESG ratings are here to stay.

How do we get started on understanding and improving performance on ESG ratings?

We know from our work with companies from across industries that identifying and improving performance on the ratings that matter is a complex undertaking. And the path will differ for each company.

In our years of experience advising leading companies, we find it is best to use ratings analysis as one of the compass points in charting a course, and to evaluate the picture each of the ratings provides in the aggregate, rather than attempting to tackle each one as a discrete goal. For example, we work with companies to






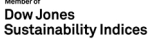

- Evaluate—and verify the accuracy of—each rating individually, with a focus on gaps and opportunities that are realistic to address in the near- to mid-term.
- Overlay the findings of each evaluation to identify common gaps across the set of ratings, which serve as an important barometer for where the company has work to do.

- Consider ratings outcomes within the context of stakeholder priorities for your industry, your company's objectives, and your material ESG issues.
- Select reporting frameworks and mechanisms (such as [GRI](#), [SASB](#), or [TCFD](#)) best suited to the volume, frequency, and type of data that will have the overall impact you seek. Incorporate needed practices or policies into your strategic planning to be addressed over time. Your company website is the most important source that raters use to evaluate the company against their methodology.

While a modest boost may be achievable quickly by sharing data already on hand, significant and sustained improvement requires commitment to improving integration of ESG issues into decision making and strategy and transparency on topics investors care about most.

Let's dig into 8 ratings that you might consider for your ESG strategy.

QUICK COMPARISON OF THE ESG RATINGS IN THIS DOCUMENT

	 MSCI	 ISS ESG ESG CORPORATE RATING	 ISS ESG E&S QUALITY SCORE	 Bloomberg	 V.E. PART OF Moody's ESG Solutions	 Member of Dow Jones Sustainability Indices Powered by the S&P Global CSA	 CDP DISCLOSURE INSIGHT ACTION
Sources	Public disclosures Media Third-party databases	Public disclosures Media	Public disclosures Company data	Public disclosures	Public disclosures	Questionnaire (by invitation only)	Questionnaire (by invitation only)
Timing of assessments	Annually, ongoing monitoring	Annually, ongoing monitoring	Annually, aside from company-submitted corrections	Ongoing basis as data becomes available	Annually	Annually	Annually
Company review offered	Yes	Yes	Yes. Companies can submit data at any time	Yes	Yes	Yes, at a price for companies submitting the questionnaire	Yes, at a price for companies submitting the questionnaire
Among the management firms known to subscribe*¹⁰	Alliance Bernstein, BlackRock, Macquarie Group, State Street, Vanguard, Wellington	Alliance Bernstein, Wellington, State Street	Alliance Bernstein, Wellington, State Street	Alliance Bernstein, BlackRock, Morgan Stanley, State Street	AXA, State Street	BlackRock, State Street	AXA, Bank of America, BNP Paribas, Fidelity, Goldman Sachs, UBS

* Not a comprehensive list.



MSCI ESG Research, launched in 2010, is one of the largest independent providers of ESG ratings. MSCI provides ESG ratings for over 8,500 companies and more than 650,000 equity and fixed income securities.

Rating approach

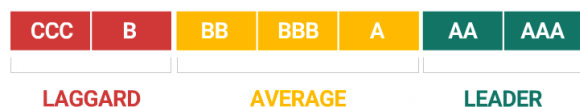
MSCI assesses the performance of a company on more than 30 ESG issues through public data, including media sources, government and NGO datasets, and a company's own disclosures. Rated companies receive both an exposure and management score on the topics deemed material to them.

Only issues that MSCI deems material to a company are scored. A risk is material to an industry when it is likely that companies in a given industry will incur substantial costs in connection with it. MSCI ESG Ratings research aims to answer the following questions:

- Of the negative externalities that companies in an industry generate, which issues may turn into unanticipated costs for companies in the medium- to long-term?
- Conversely, which ESG issues affecting an industry may turn into opportunities for companies in the medium- to long-term?

Scoring

AAA (leader) to CCC (laggard)



Companies scored

8,500 companies (14,000 issuers including subsidiaries).

Company involvement

MSCI's ESG corporate communications team engages with companies for verification and data quality control prior to the annual publication of their ESG Ratings report.

Why pay attention to MSCI's ESG Rating

MSCI serves 99 of the 100 largest money managers, and MSCI ESG Ratings are the basis for 1,500+ MSCI ESG Indexes.¹¹

Investors have selected MSCI as one of the most useful ratings for sustainable investment and corporate governance research.¹²

MSCI makes its ratings **publicly available**. They are also available through platforms such as Barra, RiskMetrics, FactSet, POINT, StyleResearch, Aladdin, and MSCI's platforms.

For more information on MSCI, visit their [website](#).



The ISS ESG Corporate Rating provides relevant and forward-looking ESG data and performance assessments. Based on a comprehensive view of materiality, companies are assessed against a standard set of universal ESG topics as well as additional industry-specific topics.

Rating approach

Drawing on an overall pool of more than 700 indicators, ISS ESG applies 100 ESG-related indicators per rating. Differentiated weighting scenarios ensure that the topics most material for a given business model or sector are taken into account.

ISS ESG's Prime Status signifies the company as an ESG leader. Prime thresholds vary by industry. The ESG Corporate Rating monitors controversies, deducting points from the final rating score if a company is involved in significant current controversies.

Scoring

A+ to D-

Companies assessed

9,600 issuers, including full coverage of major stock indices (developed and emerging markets), and important small- and mid-caps in developed markets drawn from sectors with strong links to sustainability.

Company involvement

A dialogue with the rated issuers is carried out once every two to three years. Additionally, corporate issuers are welcome to send in information regarding ESG issues for consideration at any time.

Why pay attention to ISS ESG Corporate Rating

ISS Ratings are considered high quality and useful by investors.¹³

Aligned to sustainable development frameworks, including the UN Global Compact, Sustainable Development Goals, UN Principles for Responsible Investment.

Rating methodology is third-party quality accredited by ARISTA.

For more information on ISS-oekom's Corporate ESG rating, visit their [website](#).



Institutional Shareholder Services (ISS) is a well-respected provider of ESG data to institutional investors. The E&S Disclosure Quality score measures the depth and extent of environmental and social disclosures for more than 4,700 publicly traded companies.

Ratings approach

The E&S Disclosure QualityScore is covers 380 environmental and social factors which vary by industry group. ISS publishes a Governance QualityScore that considers 200 factors related to board structure, compensation and remuneration, shareholder rights, and audit and risk oversight.

The E&S Disclosure QualityScore provides a more holistic ESG evaluation for use alongside the Governance pillar. It measures the depth and extent of a company's environmental and social disclosures. Credit is not given for non-public information. E&S scores do not impact ISS's benchmark proxy voting recommendations.

Scoring

1 to 10 (decile). Decile scores represent a relative measure based on the raw scores of peer companies within an industry. A score of 1 indicates the highest level of disclosure and 10 indicates no disclosure at all, and in the ratings scheme indicates a higher level of risk.

Companies assessed

4,700 publicly traded companies across 24 industry groups. Industry groups use Global Industry Classification Standard (GICS).

Company involvement

Companies are invited to review, verify, and provide feedback on the information behind their ISS QualityScores through ISS' Data Verification platform.

Why pay attention to Disclosure QualityScore?

Factor selection and sector allocation reflect leading disclosure standards and frameworks, such as the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB) standards and the Task Force on Climate-related Financial Disclosures (TCFD).

The E&S scores appear alongside the Governance score on the ISS Benchmark Proxy Analysis.

Score is considered by investors a leading indicator for company governance.¹⁴

For more information on ISS-oekom's E&S Disclosure QualityScore, visit their [website](#).

Bloomberg

Around 11,500 public companies are assessed by Bloomberg, a leading financial data aggregator and research provider for investors, on the robustness of their public ESG disclosures.

Rating approach

Bloomberg began assessing ESG disclosures in 2009. As an aggregator of public ESG disclosures, Bloomberg measures the level of a company's transparency. Bloomberg does not measure the quality of a company's disclosure or its performance on KPIs.

Bloomberg covers more than 120 ESG indicators and does not customize its approach by industry or sector.

Scoring

100 (most transparent) to 0 (least transparent).

Companies assessed

11,500 public companies in more than 100 countries, generally ranging from mid- to large cap.

Company involvement

After the analyst review, companies are invited to review, verify, and provide feedback to Bloomberg for consideration.

Why pay attention to Bloomberg

The Bloomberg Terminal is the investor platform with the largest global market share.

Approximately 18,000 investors use Bloomberg's ESG data, an increase of over 200% since 2012.

For more information on Bloomberg's ESG scores, visit their [website](#).

** For more information, please see FrameworkESG's "DataSlice" on Bloomberg.*



Sustainalytics, a Morningstar company, is a leading global provider of ESG and corporate governance research and ratings, covering more than 6,500 companies across 42 sectors globally.

Rating approach

In late 2018, Sustainalytics launched its ESG Risk Ratings. The rating measures a company's exposure to industry-specific ESG risks versus how well a company manages those risks. Unique to the ESG Risk Rating is an "unmanageable risk" score, which recognizes that not all ESG risk can be lessened by management practices alone. The company report also includes an assessment of controversies related to ESG issues.

Company ratings are categorized across five risk levels: negligible, low, medium, high, and severe. A company's risk is measured against its industry peers and against the global universe of companies.

Scoring

0 (negligible) to 100 (severe)

Negl	Low	Med	High	Severe
0-10	10-20	20-30	30-40	40-100

Companies assessed

Sustainalytics' ESG Risk Ratings span more than 12,000 companies and cover 20 material ESG issues, with detailed information on 138 sub-industries.

Company involvement

Companies are invited to review and verify their rating report prior to its annual publication.

Why pay attention to Sustainalytics

Sustainalytics has formed strategic relationships with a number of investment managers and other research parties, including including BNY Mellon.¹⁵

Sustainalytics is consistently rated as one of the highest quality and most useful ratings among investors and experts¹⁶ and is used by BlackRock and Vanguard, among others.¹⁷

To learn more about Sustainalytics' ESG Risk Ratings, visit their [website](#).



PART OF
Moody's ESG Solutions

V.E, formerly Vigeo Eiris, has been part of Moody's ESG Solutions since 2019. V.E is a global provider of ESG solutions to the investor and issuer communities, as well as public and non-profit organizations.

Ratings approach

V.E assesses the performance of more than 5,000 companies on an ESG framework of six Domains (Corporate Governance, Business Behavior, Environment, Human Rights, Human Resources, Community Involvement) and up to 38 ESG criteria (including Corruption, Executive Remuneration, Energy, and Non-Discrimination). ESG subjects considered to pose risks to stakeholders and/or the company are weighted more heavily.

Three well-known indices include the Euronext V.E Indices, the CAC 40® Governance index, and the V.E Best Emerging Market (EM) Performers ranking.

Scoring

— to ++

Companies assessed

5000+ companies.

Company involvement

Companies are given an opportunity to provide input into their rating.

Why pay attention to V.E

Methodology is certified to the latest ISO 9001 quality management standard.

Methodology is grounded in international standards, including frameworks from the UN, ILO, and the Global Compact.

For more information on V.E and related indices, visit their [website](#).

Member of

Dow Jones Sustainability Indices

Powered by the S&P Global CSA

The DJSI is the longest-running sustainability benchmark, assessing the largest global companies on ESG performance, and is considered to be one of the most prestigious.

Ratings approach

The DJSI is based on an analysis of corporate economic, environmental, and social performance, assessing issues such as corporate governance, risk management, branding, climate change mitigation, supply chain standards and labor practices. It includes general as well as industry-specific sustainability criteria for each of the 60 industries defined according to the Industry Classification Benchmark (ICB).

S&P Dow Jones Indices and SAM invite thousands of the world's largest publicly traded companies to participate in their Corporate Sustainability Assessment (CSA), which rates companies on their disclosure and performance on industry-specific material issues, arriving at a Total Sustainability Score.

The highest scoring companies from the CSA are selected into a DJSI index. DJSI indexes are created on both a global and regional level. Companies that do not choose to fill out the CSA are still assessed based on public disclosure.

Scoring

Total ESG scores range from 0-100, with 100 representing best performance.

Companies assessed

In 2020, more than 3,500 publicly traded companies were invited to participate.

Company involvement

Companies complete the CSA.

Why pay attention to the DJSI

The DJSI is widely considered one of the most prestigious ratings. Investors consider it one of the most useful and high-quality ratings.¹⁸

CSA scores are the basis for the Dow Jones Sustainability Indices. Investors can invest directly in any of 29 indices.

For more information on the DJSI and the CSA, visit S&P's [website](#).

** For more information, please see [FrameworkESG's "DataSlice" on DJSI](#).*



CDP, formerly known as the Carbon Disclosure Project, collects voluntarily disclosed data in three programs—climate change, water, and forests. In 2020, more than 9,600 companies and 750 cities, states, and regions disclosed through CDP.

Ratings approach

CDP runs a global disclosure system comprised of the world's most comprehensive collection of self-reported environmental data that enables companies, cities, states and regions to measure and manage their environmental impacts. Companies voluntarily respond to climate change, water, and forests questionnaires, often at the request of specific investors or customers. CDP rates companies only on information that is reported in the questionnaire.

Scoring

A+ to D– (F, if a company is invited and chooses not to respond)

Companies assessed

Participation is voluntary and questionnaire-based. More than 9,600 companies respond to CDP's climate change, water, and forests questionnaires.

Company involvement

Companies provide information directly via the CDP questionnaire. Only data provided in the questionnaire is assessed.

Why participate in CDP

Investors rank CDP highly for the quality and usefulness of its ESG data.¹⁹

Nearly 600 investors with over US\$110 trillion in assets and 200+ large purchasers with over US\$5.5 trillion in procurement spend request companies to disclose their environmental data through CDP.

The process of disclosure improves visibility and can strengthen processes internally, which in turn can improve environmental performance. Research indeed indicates a link between CDP and performance. For example, the STOXX index (based on the CDP A List database) have consistently outperformed other top global companies since 2012.²⁰

For more information on CDP, visit their [website](#).

MORE INSIGHTS FROM FRAMEWORKESG



FRAMEWORKESG'S GUIDE TO ESG FRAMEWORKS

To help companies understand the often-confusing universe of ESG standards, scoring systems, and ratings we have compiled the most important into one handy, sortable guide.



UNDERSTANDING THE DJSI (INFOGRAPHIC)

Learn what companies can gain from a DJSI listing, and what questions to ask before considering whether to submit a questionnaire.



BEHIND THE BLOOMBERG ESG DISCLOSURE SCORE

Learn how a Bloomberg ESG disclosure score is calculated, and how your company can improve its score.



HOW WALL STREET COLLECTS AND USES ESG METRICS

Businesses are often surprised to discover how much capital is influenced by ESG. Learn how investors are using your ESG data.

ABOUT FRAMEWORKESG

FrameworkESG is a specialty consulting firm that helps companies—from privately held firms to large, global brands—build trust, reduce risk, and create long-term value for all stakeholders.

Our clients are represented in the Fortune 100, S&P 500, and the Dow Jones Sustainability Indices, and we are strategic counsel to the U.S. Network of the United Nations Global Compact. FrameworkESG is a

woman-owned business certified by the WBENC and a certified Great Place to Work®.

For more information on how FrameworkESG supports companies in tracking investor priorities, reducing risks and exposure, or responding to shareholder resolutions, among other ESG matters, contact Victor Melendez, Managing Director | Chief Growth Officer, at vmelendez@frameworkESG.com.

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ENDNOTES

- 1 SustainAbility, [Rate the Raters \(2020\)](#)
- 2 SustainAbility, [Rate the Raters \(2020\)](#)
- 3 US SIF Foundation, [Report on US Sustainable and Impact Investing Trends](#)
- 4 Ibid.
- 5 Morgan Stanley, [Sustainable Signals](#)
- 6 See, for example, SSRN, [Aggregate Confusion: The Divergence of ESG Ratings](#)
- 7 See, for example, ACCF, [Ratings that Don't Rate](#)
- 8 Squarewell Partners, [The Playing Field](#)
- 9 See, for example, [IOSCO consults on ESG Ratings and Data Providers](#)
- 10 Examples only. See also Squarewell Partners, [The Playing Field](#)
- 11 See [MSCI](#)
- 12 SustainAbility, [Rate the Raters \(2020\)](#)
- 13 Ibid.
- 14 Ibid.
- 15 BNY Mellon, [BNY Mellon introduces ESG advisory services for its depository receipts clients](#)
- 16 SustainAbility, [Rate the Raters \(2020\)](#)
- 17 Squarewell Partners, [The Playing Field](#)
- 18 SustainAbility, [Rate the Raters \(2020\)](#)
- 19 Ibid.
- 20 CDP, [CDP's Comment on sustainable corporate governance](#)