

Scorecard

MSCI ESG Ratings

About MSCI ESG Ratings

COVERAGE OF COMPANIES

8,500

LAUNCH DATE

1972¹

FOCUS

Company ESG scores

LINK:

<https://www.msci.com/our-solutions/esg-investing/esg-ratings>

MSCI ESG Ratings Score

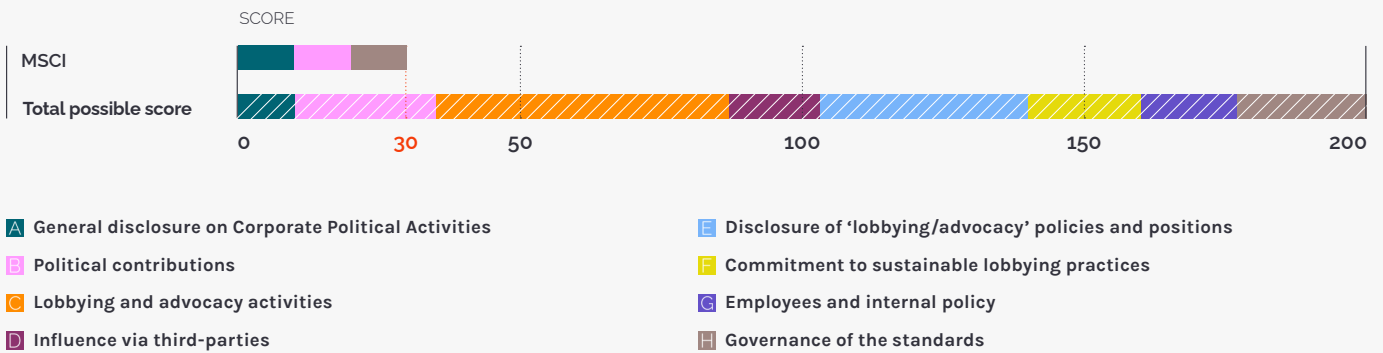
Tracker Rank and Score for MSCI

The score is out of a total of 200 and the rank describes the standards position in the 27 standards assessed by the Tracker.



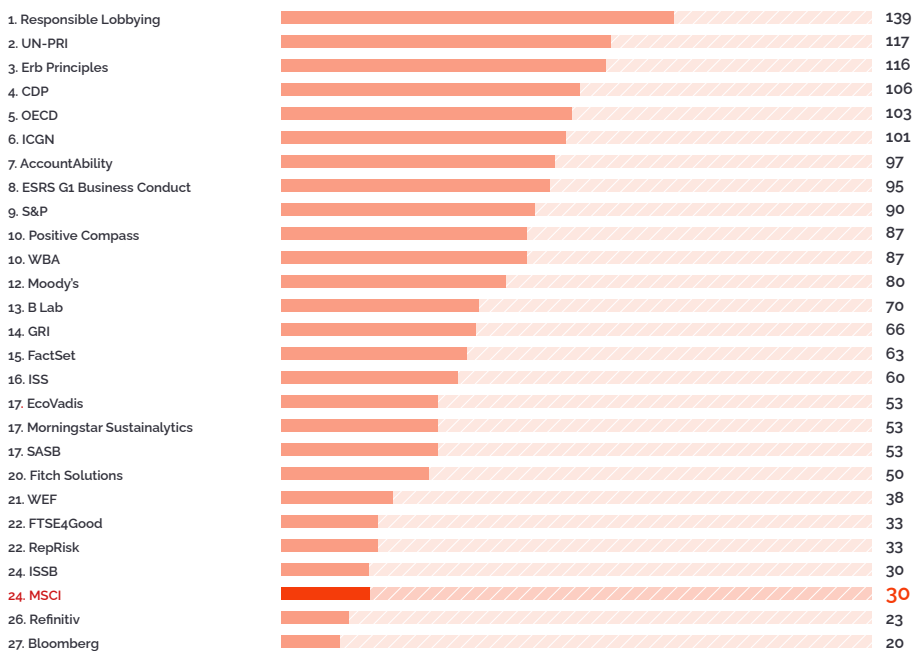
Rank 24 /27

Category scores of MSCI



*Categories where the standard received no points do not appear in the colour-coded graph

Rank and scores for all standards



Description

According to MSCI, their ESG Ratings aim to measure a company's resilience to long-term, financially relevant ESG risks, and to provide an assessment of company performance. Companies with the highest ratings are those assessed as best managing their exposures to those material ESG risks and opportunities.² MSCI ESG Ratings use a rules-based methodology designed to measure a company's resilience to long-term, industry material ESG risks.

The ratings are generated using machine learning and natural language processing tools augmented with a team of over 200 human analysts. There are 27 Environmental and Social Key Issues, and industries are evaluated on a selection of two to seven of these key issues. Key Issue selection is based on an annual review of underlying data and a review by analytical staff. Companies are researched and then rated on a 'AAA' to 'CCC' scale according to their exposure to industry-material ESG risks and an assessment of their ability to manage those risks relative to peers.³

The MSCI methodology identifies ESG Key Issues for each of the 163 sub-industries defined by the Global Industry Classification Standards (GICS).⁴ The Environmental and Social Key Issues vary between industries and are selected based on the extent to which the business activities of the companies in each industry generate large environmental- or social-related externalities. Within the wider ESG assessment framework, a Governance Pillar Score provides an absolute assessment of a company's overall governance that uses a universally applied 0-10 scale. Starting with a 10, the Governance Pillar Score is based on the sum of deductions derived from Key Metrics included in the Corporate Governance metrics group, including Ownership & Control, Board, Pay and Accounting, and Corporate Behavior (comprising Business Ethics and Tax Transparency) Themes. This is the area of the framework where The Good Lobby expected analysis of corporate political activities to be more complete.

Score summary

MSCI's ESG ratings methodology received a Tracker score of 30 out of a possible total of 200. This reflects the MSCI methodology's limited assessment of corporate political activities. The methodology receives basic points in Tracker Category A for assessing corporate political activities, but otherwise does not approach assessment of other areas of corporate lobbying conduct in a consistent or comprehensive manner.

As with their peers, MSCI tracks adverse incidents, covered in Tracker Category H, but given the unclear framework on corporate political activities and lobbying conduct, it is not clear how consistently the MSCI methodology captures lobbying risks and associated adverse incidents. MSCI ESG Research highlights its "dedicated team of ESG analytical personnel who identify and assess on an ongoing basis the severity of controversy cases that involve companies in the ratings universe."⁵ Yet the underlying framework does not clearly identify lobbying, so it appears that this issue is not tracked by research analysts.

A controversy case is defined as an instance or ongoing situation in which company operations and/or products allegedly have a negative environmental, social

and/or governance impact. According to MSCI, cases include alleged company violations of existing laws and/or regulations to which they are subject; or an alleged company action or event that violates commonly accepted international norms, including but not limited to norms represented by global conventions such as the United Nations (UN) Global Compact.⁶

Opportunities for improvement

The MSCI ratings methodology would be enhanced with the addition of detailed questions on corporate political activities, across each of the 8 Tracker categories. Given the firm's globally influential role in capital allocation via its index families, and important leadership efforts in ESG ratings and systems, more progress in consistently assessing corporate political activities could help improve standards across the market.

In particular, the Key Metrics Category on 'Policies & Practices Oversight of Ethics Issues' should enable more systematic analysis on lobbying tissues. This MSCI metric covers the company's governance bodies, including board-level committees, C-suite or executive committees, or special task forces and risk officers responsible for oversight of business ethics and corruption issues. The scoring of this metric is based on disclosure of management practice, and varies by company.⁷

MSCI's lower score and lack of data on corporate lobbying conduct in their ESG methodology is striking, given their size and influential role in the market. MSCI functions as an ESG data clearinghouse, but like its large peers, it plays a significant role in allocating global capital via the investment indexes that are built on these methodologies.⁸

Endnotes

- 1 MSCI notes that MSCI ESG Research, through its predecessor companies, IRR, KLD, ISS, Innovest and GMI Ratings, has been providing ESG research as far back as 1972. See: <https://www.msci.com/documents/1296102/1311232/ESG+ADV+2A-03.pdf/49ba55aa-b739-428c-b32d-87580eb4aeaa>
- 2 MSCI (2023) 'ESG Ratings Methodology:' <https://www.msci.com/documents/1296102/34424357/MSCI+ESG+Ratings+Methodology+%28002%29.pdf>
- 3 'MSCI ESG Ratings:' <https://www.msci.com/documents/1296102/15233886/MSCI-ESG-Ratings-Brochure-cbr-en.pdf/7fb1ae78-6825-63cd-5b84-f4a411171d34?t=1572865945980>
- 4 GICS is the global industry classification standard jointly developed by MSCI and S&P Global Market Intelligence. In 2023, the GICS structure was revised as part of an annual review process: <https://www.msci.com/our-solutions/indexes/gics>
- 5 See 3.3.2 Controversies cases in 'ESG Ratings Methodology' <https://www.msci.com/documents/1296102/34424357/MSCI+ESG+Ratings+Methodology.pdf>
- 6 'MSCI ESG Ratings Methodology: Business Ethics Key Issue:' <https://www.msci.com/documents/1296102/34424357/MSCI+ESG+Ratings+Methodology+-+Business+Ethics+Key+Issue.pdf/d7e91694-2a87-5e83-1d3e-0edeac063dc7?t=1666182592623>
- 7 'MSCI ESG Ratings Methodology: Business Ethics Key Issue' at p.5
- 8 The MSCI index family is designed to represent equity markets around the world, MSCI Market Cap Weighted Indexes are used by thousands of asset managers, pension funds, hedge funds and banks as benchmarks for more than USD \$11 trillion of assets. See: 'Global indexes: delivering the modern index strategy: <https://www.msci.com/documents/1296102/1636401/GlobalIndexes-June-2017.pdf/93929113-eae5-4c13-96d1-6eddf28a3f02#:~:text=Designed%20to%20represent%20equity%20markets,USD%2011%20trillion%20of%20assets2>

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