



**SUSTAINALYTICS**

a Morningstar company

# THE ESG RISK RATINGS

DEFINITIONS OF MATERIAL ESG ISSUES  
AND CORPORATE GOVERNANCE



# DESCRIPTIONS OF MATERIAL ESG ISSUES AND CORPORATE GOVERNANCE

## **MEI.0 Corporate Governance**

Corporate Governance comprises six pillars: Board/Management Quality & Integrity; Board Structure; Ownership & Shareholder Rights; Remuneration; Audit & Financial Reporting; and Stakeholder Governance. These six pillars represent foundational structures for the management of ESG risks.

## **MEI.1 Access to Basic Services**

Access to Basic Services focuses on the management of access to essential products or services such as health care services and products to disadvantaged communities or groups.

## **MEI.3 Bribery and Corruption**

Bribery and Corruption focuses on the management of risks related to alleged or actual illicit payments, such as kickbacks, bribes and facilitation payments to government officers, suppliers or other business partners, as well as the receipt of those payments from suppliers or business partners. If these are not material in their own right for a subindustry, these issues are handled within MEI.4 Business Ethics.

## **MEI.4 Business Ethics**

Business Ethics focuses on the management of general professional ethics, such as taxation and accounting, anti-competitive practices and intellectual property issues. Business Ethics may include Bribery and Corruption for subindustries that do not have Bribery and Corruption as a separate material ESG issue. Additional subindustry-specific topics – such as Medical Ethics and Ethics regarding the provision of Financial Services, etc. – may also be included in this issue. In addition, ethical considerations related to customer selection may also be included here for some subindustries if products or services may be used to violate Human Rights, for example.

## **MEI.5 Community Relations**

Community Relations focuses on how companies engage with local communities (including indigenous peoples) through community involvement, community development and/or measures to reduce negative impacts on local communities.

## **MEI.6 Data Privacy and Security**

Data Privacy and Security focuses on data governance practices, including how companies collect, use, manage and protect data. The emphasis is on measures taken to ensure safe and secure use and/or maintenance of customers' personally identifiable data.

## **MEI.7 Emissions, Effluents and Waste**

Emissions, Effluents and Waste focuses on the management of emissions and releases from a company's own operations to air, water and land, excluding GHG emissions. Depending on the subindustry, emphasis is put on one or several of these waste streams.

### **MEI.8 Carbon – Own Operations**

Carbon – Own Operations refers to a company's management of risks related to its own operational energy use and GHG emissions (scope 1 and 2). It also includes parts of Scope 3 emissions, such as transport and logistics. It does not include emissions in the supply chain or during the use phase/end-of-life cycle of a product.

### **MEI.8.PS Carbon – Products and Services**

Carbon – Products and Services refers to a company's management of the energy efficiency and/or GHG emissions of its services and products during the use phase. This does not include carbon risks related to financial services, which are considered within MEI.17 ESG Integration – Financials.

### **MEI.9 E&S Impact of Products and Services**

E&S Impact of Products and Services refers to the management of environmental or social impacts of products or services, including: inherent characteristics of input materials, both positive and negative, and impacts during use, disposal and recycling. E&S Impact of Products and Services may include carbon impacts if Carbon – Products and Services is not regarded as a material ESG issue for the subindustry.

### **MEI.12 Human Rights**

Human Rights focuses on how companies manage and respect fundamental human rights within their own operations. Emphasis is on measures taken to protect civil and political rights as well economic, social and cultural rights, including child and forced labour.

### **MEI.12.SC Human Rights – Supply Chain**

Human Rights – Supply Chain focuses on a company's management of fundamental human rights issues occurring in its supply chain. For subindustries that rely on conflict minerals, this also includes a company's handling of conflict minerals in its supply chain.

### **MEI.13 Human Capital**

Human Capital focuses on the management of human resources. It includes the management of risks related to scarcity of skilled labour through retention and recruitment programmes and includes career development measures such as training programmes. Additionally, it includes labour relations issues, such as the management of freedom of association and non-discrimination, as well as working hours and minimum wages.

### **MEI.14 Land Use and Biodiversity**

Land Use and Biodiversity focuses on how companies manage the impact of their operations on land, ecosystems and wildlife. Topics covered include land conversion, land rehabilitation and forest management, as well as the protection of biodiversity and ecosystems.

### **MEI.14.SC Land Use and Biodiversity – Supply Chain**

Land Use and Biodiversity – Supply Chain focuses on how companies manage the impact of their suppliers' operations on land, ecosystems and wildlife.

### **MEI.16 Occupational Health and Safety**

Occupational Health and Safety focuses on the management of workplace hazards affecting a company's own employees and on-site contractors. Where relevant, the issue may also include HIV/AIDS programmes.

### **MEI.17 ESG Integration – Financials**

ESG Integration – Financials includes all ESG integration activities by financial institutions that are either driven by financial downside risk considerations or by business opportunity considerations. This issue includes an institution's own current assets, including direct investments, corporate credits or stakes in project financing, as well as assets managed for clients. Product offerings can span a wide spectrum of product types, starting with ESG investment funds, microfinance products, etc. The issue also includes the consideration of ESG criteria in real estate investments, such as green building initiatives.

### **MEI.18 Product Governance**

Product Governance focuses on how companies manage their responsibilities vis-à-vis clients (quality and/or safety of their products and services). Emphasis is put on quality management systems, marketing practices, fair billing and post-sales responsibility. For Media companies, this issue also includes the management of content-related standards, such as journalistic standards and the protection of sources (Media Ethics).

### **MEI.19 Resilience**

Resilience focuses on the financial stability and the management of related risks in the financial services industry, with emphasis on compliance with capital requirements. This issue applies to financial institutions that pose systemic risks and therefore potential external costs to society in case of bailouts by taxpayers.

### **MEI.20 Resource Use**

Resource Use focuses on how efficiently and effectively a company uses its raw material inputs (excluding energy and petroleum-based products) in production and how it manages related risks. Though water use is a main focus, the issue can also include the management of critical raw materials that are either scarce or difficult to access, through recycling programmes, the substitution of less scarce materials and/or eco-design.

### **MEI.20.SC Resource Use – Supply Chain**

Resource Use – Supply Chain focuses on how efficiently and effectively a company manages risks related to water scarcity and raw material inputs (excluding energy and petroleum-based products) within its supply chain.

