

Japan FSA questionnaire about your ESG related products

Please tell us about your company's thoughts and your current efforts on the following items.

1. Basic Information

- **Business description, objective, fee model on each ESG-related product you provide (e.g. ESG-related rating, data providing services, any form of advisory services)**

Business Description

Sustainalytics is a Morningstar Company and a leading global provider of environmental, social and governance (ESG) research, ratings and data to institutional investors and companies. For 30 years, our company has been at the forefront of developing high-quality, innovative ESG products and services for global pension funds, asset managers, corporations and other leading financial institutions. Today, hundreds of the world's leading institutional investors leverage Sustainalytics' suite of ESG research and ratings products and services to support their investment strategies, from ESG integration to screening to shareholder engagement and voting. Sustainalytics' ESG research and ratings also underpin Morningstar's Sustainability Fund Ratings as well as numerous global ESG indexes and ETFs.

We also work with hundreds of companies and leading corporate investment banks to help them consider sustainability in policies, practices and capital projects. As the largest second-party opinion provider in the industry, forward thinking companies and global banks rely on our green, social and sustainable bond services to verify that bond frameworks are aligned with global bond principles. Further, our second-party opinions on green, social and sustainable bonds enable hundreds of organizations to bring credible financial instruments to market. Our flagship ESG Risk Ratings are also used by lenders to link loan terms to borrowers' ESG performance. Companies also use our ESG ratings for capital raising activities and other purposes such as marketing and communicating their sustainability efforts to internal and external stakeholders.

With 17 offices globally, Sustainalytics has more than 1,200 staff members, including 500 analysts with varied multidisciplinary expertise across more than 40 industry groups.

Objective

Sustainalytics objective is to make a positive impact by providing the data, insights and tools that help investors and companies allocate capital in ways that create a more sustainable world.

Fee Model on our ESG Products and Services

**Institutional Investors**

Sustainalytics' subscription model for its products and services considers the institutional investor client type, their use case, and ESG research, ratings, and data needs for reporting and distribution to their clients.

**Third-Party Providers**

When working with redistributors, we generally have a model that includes base fees and royalties centered on their redistribution of our ESG research, ratings and data.

## **Companies**

Sustainalytics offers second-party opinion services to companies. Our fee model for this offering is dependent on the type of project. We also offer ESG Risk Rating Licenses, where our fee model varies based on a company's use cases.

## 2. Principles and/or Policies in providing ESG-related products in light of:

### On transparency of methodologies

As a leading global provider of ESG research and ratings, Sustainalytics is proud of the level of transparency that we provide to financial market participants on how we arrive at our outcomes. We provide extensive detail on our research methodologies and underlying data to our clients. In addition, we make available on our website a wealth of information on our research and ratings process and methodology as well as our ESG Risk Ratings on more than 14,000 companies. Sustainalytics also offers companies access to a dedicated Issuer Gateway Portal where they can view their ratings reports and gain insight on our research process and methodology. They can also contact our in-house Issuer Relations team with any questions they may have about our approach.

### On quality of data and methodologies

Quality assurance is imperative to our success and allows us to ensure that our clients base their investment decisions on accurate information. As such, we abide by a set of general operating standards to ensure high-quality research and data. Details of how we assure quality in our research, methodology and data are outlined below.

### Research and Methodology Quality

- **Internal Quality Review:** All our research products, indicator and qualitative company assessments go through stringent and standardized review processes to ensure high quality research output.
- **Research Consistency:** Detailed analyst guidance documents are maintained to ensure consistency in analysis and adherence to predefined steps in the research process.
- **Update Cycle:** We aim for annual updates of management indicators for the companies we cover. Continuous updates are made as incidents occur and feed into updates of event indicators, which is not disclosure driven.
- **Company Feedback:** Issuers within our comprehensive universe of over 4,500 companies are provided our draft ESG Risk Rating Report to ensure that we base our assessments on complete and accurate information.
- **Events Oversight Committee:** An internal committee of senior research leaders review and approve significant controversy downgrades/upgrades.
- **Annual review of ESG Risk Ratings Framework:** Each year, we evaluate the selection of material ESG issues for the subindustries we cover, and review management trends over time which could lead to new qualitative and quantitative indicators and/or the reweighting of our indicators.
- **Product Steering Committee:** An internal committee is tasked to confirm product development priorities and discuss strategic product innovation issues.

### Data Quality

- **Operational Management:** Business processes and tools are in place for universe maintenance, research planning, monitoring of timely publication and tracking of production targets.
- **Productivity Tools:** Our internal research platforms and databases are continuously enhanced to ensure research data integrity as well as efficient data collection and processing.

- **Data Management:** Systems are in place for the periodic collection and verification of non-research data (e.g. company identifiers) and ensuring the integrity of all data points from back-end to front-end.
- **Automated end-of-gate quality checks:** Daily automated quality control systems are in place to ensure the accuracy and integrity of ESG Ratings pre-publication, flagging outliers and unusual patterns to avoid unwarranted rating volatility.
- **Data Delivery Systems:** Our online client portal (Global Access) and data services are maintained daily and continuously improved to give a comprehensive and accurate representation of our products.
- **Data Deliverables:** Automated and manual quality assurance checks are run on all periodic and on-off custom client deliverables.

For our second-party opinions (SPOs), we have an internal review committee that is responsible for ensuring the quality and consistency of our assessments and the alignment of those assessments with our taxonomy, addressing questionable calls around complex use of proceeds both during the sales qualification process and during the life cycle of a project. As a part of our SPO process, we have a stringent sign-off process for all SPOs before they get published and delivered to clients.

#### On mitigation and management of potential conflicts of interest

Management of potential conflicts of interest is crucial to the independence and integrity of our ESG research and ratings. That's why the way in which we manage and safeguard against potential conflicts of interest becoming real is central to our research objectivity and imperative to the good reputation we have built over the last 30 years.

We believe financial market participants should be able to easily find and interpret information on how providers manage potential conflicts of information. To that end, we make publicly available on our website our governance documents, including our Code of Ethics, Key Business Principles, and our Policy on Managing Potential Conflicts of Interest. These documents can be accessed [here](#). Having a strong culture of compliance in place along with comprehensive, easy-to-understand written processes accessible to all market stakeholders underpins our core values.

#### On communication with evaluated companies

Companies have access to Sustainalytics' analysts and can engage with them at any time. We also have a dedicated Issuer Relations team as well as an Issuer Gateway Portal that helps analysts manage their interactions with companies. We will initiate engagement with companies on the following:

##### Annual Update Feedback Process:

- **Outreach:** Sustainalytics contacts companies in our comprehensive universe of more than 4,500 companies as part of the annual update of our ESG Risk Rating Reports. An analyst contacts an issuer to solicit feedback on their research before the ESG Risk Rating Report is published. Issuers are given two weeks to review the accuracy and completeness of the data collected. If issuers provide feedback within the allotted time frame, this information is reviewed and integrated by the analyst prior to the release of the updated report to our institutional clients.

- **Post-Publishing Updates:** If an issuer does not respond within two weeks, the updated ESG Risk Rating Report is published without feedback. If the issuer ultimately provides feedback, Sustainalytics will integrate relevant data as soon as possible and republish the ESG Risk Rating Report.
- **Documentation:** The use of issuer feedback is clearly documented in the sources list of the ESG Risk Rating Reports.

**Significant ESG Controversy Assessment:**

- **Outreach:** Analysts contact an issuer if an ESG controversy is downgraded to a Category 4 or 5 (the most severe controversy levels), to provide an issuer the opportunity to review the facts and/or provide details on the management response to the controversy. Issuers are given 48 hours to review the accuracy and completeness of the data collected. The short period of time is necessary to ensure the timely update of controversy assessments to our clients.

**3. Your views on the following items**

- Please provide if you would like to highlight any important issues other than the above when we discuss code of conducts for ESG rating and data providers and the roles expected for companies and investors, etc. at the Technical Committee for ESG Rating and Data Providers.
- We note the importance of the roles to be played by investors as users of ESG rating and data services as well as companies who are the subject of evaluation and database, in order to develop the capital market in a healthy manner. Please provide if you have any thoughts or comments on this point.

Given the flow of investments that take into consideration quality ESG ratings, Sustainalytics believes it is appropriate to require ESG rating providers to seek some form of certification or accreditation from regulators, adopting a principles-based approach focused on the integrity, independence and quality of ESG ratings.

It is important to recognize that ESG ratings are one input to be considered by investors alongside multiple other data points and information that go into the investment decision process. Until such time corporate disclosure of ESG information is mandated and consistent, ESG ratings firms must work with unstructured data. Therefore, diversity of views about the relative weights of the multi-dimensional E, S and G factors exists across users of ESG ratings and should be able to vary across raters, provided that the methodologies meet transparency requirements.

We strongly believe that having access to diverse ESG ratings, based on different but transparent methodologies, are beneficial to investors.