STANDARD ETHICS

Solicited Sustainability Ratings

Complying with the future

Standard Ethics: in 3 paragraphs

- **Standard Ethics** is a London based **Self-Regulated Sustainability Rating Agency** that issues **Non-Financial Ratings**. Its clients are companies (listed and unlisted) that have applied to Standard Ethics for a sustainability rating (Applicant-pay Model). The request for a **solicited rating** (“Corporate” or “Security”) establishes a confidential relationship between the parties, and Standard Ethics does not use data collected outside the client agreement, nor does it engage in asset management activities, or advise third parties. The disclosure of any **rating action** is regulated by procedures.

- **Standard Ethics** adopts the notion of sustainability proposed to the UN in 1987 with the Brundtland Report "**Our Common Future**": "A development that satisfies the needs of the present without compromising the capacity of future generations to satisfy their own". It is a planetary theme to tackle the great climatic, social and economic phenomena, which go beyond the borders of a nation and the perimeter of a single company. For this reason, the work of Standard Ethics' analysts provides the client with a detailed picture of its positioning with respect to the sustainability and corporate governance guidelines proposed by the **UN**, **OECD** and the **European Union**.

- When entering a new national market or sector, **Standard Ethics** analyses major companies and issues them an **unsolicited rating** to create an Index that can be freely used as a benchmark. **Standard Ethics**' indices are *Open Free Sustainability Indexes*, which are self-funded, public and freely available both in their components and in the ratings given to each constituent.

Forbes / Asia

JUN 6, 2016 @ 08:02 AM 1,007 VIEWS

How The World's First Sustainability Ratings Agency Works

Ann Rutledge, CONTRIBUTOR

I write about risk and return in Asia's debt capital markets

FULL BIO

Much has been made of the optimism embedded in the Chinese word for ***crisis*** (危机). The first character means danger; the second, a dynamic, an engine or a springboard opportunity.

Many agencies or consultants provide ESG research work on behalf of investors, but the opportunity for Standard Ethics, to sell solicited ratings to corporations, was new.

Standard Ethics' business model is essentially the same one that came under intense criticism in the Crisis. Interestingly, Filippo points out the challenge of being paid by firms who ask you to judge them. "It's a hard job!"

Business model aside, Standard Ethics is unconventional and highly innovative. For one thing, it doesn't promote its own governance standard or branded CSR variables. The analysis is based on good governance benchmarks identified by the OECD, UN and the European Union, who "already have spent resources and solicited many expert minds" to establish a global code of ethics for corporate governance."

Also, instead of focusing on future "bad" events, the Standard Ethics concept encourages firms to become the best they can be through continuous improvement. The rating is a measure of the gap between the firm's CSR practice and the ideal. Filippo explains: "If a company receives an **E-** rating, the lowest in our scale, it does not mean the company is bad. It means the company is operating far from international standards and may face higher reputation risks than peers with higher ratings."

Standard Ethics Rating ® (SER)

The business model of Standard Ethics is based on the **Applicant-pay model**: it offers solicited sustainability ratings (required by the issuer). It delivers ratings with maximum independence from investors, regulators, consultants and certifiers.

The **Standard Ethics Rating** is an evaluation of the level of compliance of companies and sovereign nations on matters such as governance and sustainability as indicated by documents and guidelines published by the **United Nations**, the **OECD** and the **European Union**. By applying this methodology, **Standard Ethics**' approach can be considered as **'ethically neutral**'.

There are 3 different types of **Standard Ethics Ratings**, all of them based on a scale comprising 9 letter grades:

1. **CORPORATE**
2. **SECURITY (bond or other General-Purpose debt instruments)**
3. **COUNTRY (sovereign entities)**

EEE	EEE-	EE+	EE	EE-	E+	E	E-	F
	Excellent	Very Strong	Strong	Adequate	Low	Very Low	Unsatisfactory	
Sustainable					Not Fully Sustainable		Not Sustainable	

Proprietary algorithm used by Standard Ethics ©

To ensure accuracy and comparability, Standard Ethics does not use weights and KPIs based analyses or indicators, but uses a more sophisticated method based on its own **proprietary six-group variable algorithm**. The balance between the five "standards" is the final pre-assessment underlying the rating.

The first variable of the formula (**Fc**) is related to competition, which positively evaluates the company that competes and faces the market in an appropriate way. While it views negatively risky elements such as antitrust, investigations, fines or sanctions, tax evasion or simply a position of privilege that could, in the long run, prove problematic.

The metric of the second and third variables (**Sa** and **Mw**) is also linked to typical considerations for many long-term institutional investors and analyses the importance of sensitive aspects for minority shareholders or for new shareholders, for example, with regards to shareholder agreements (not justified by operational needs), double voting rights, the presence of a controlling shareholder, conflicts of interest, and low contendibility.

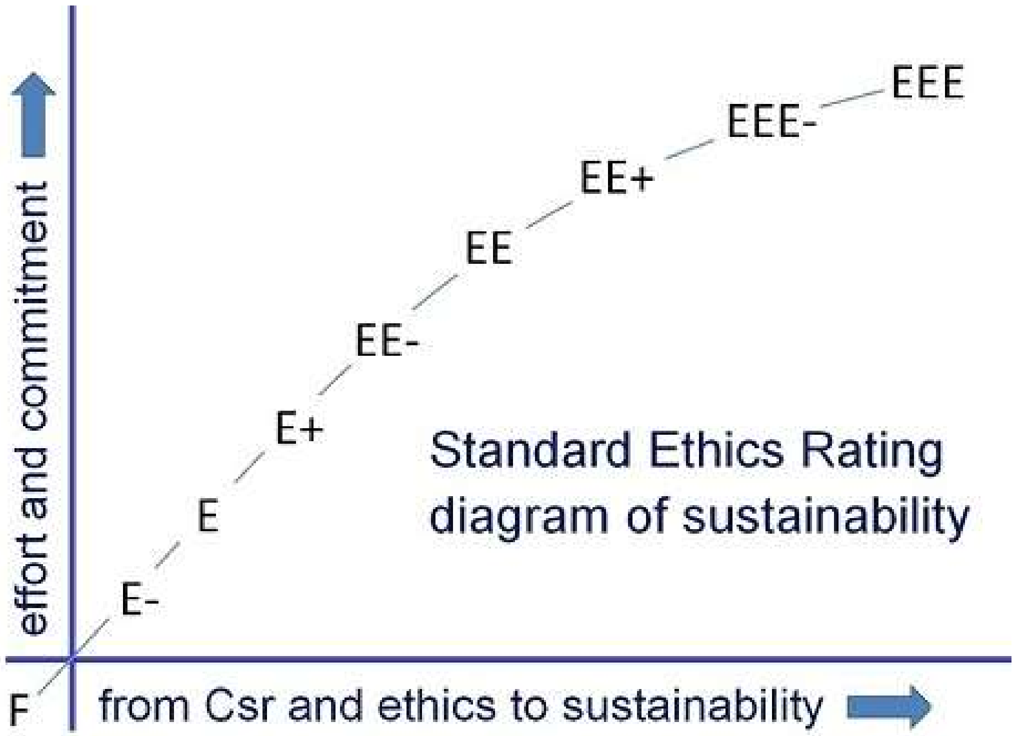
The fourth variable (**Id**) looks at managerial scope, ESG risk management and control, and governance of sustainability as well as the reporting models and the composition of the Board of Directors, including areas such as independence and gender equality.

The fifth (**Cg**) focuses on ESG factors: to see if the company is aligned with strategies such as the Paris COP21 for the reduction of climate effects or the OECD guidelines for multinational enterprises as examples.

k = Sustainability at Risk (SaR)

Standard Ethics Algorithm ©

$$\frac{(Fc_{EU}+Sa+Id_{EU\text{-}OECD}+Mw * f(Sa) * f(Id_{EU\text{-}OECD})+Cg_{UN\text{-}OECD\text{-}EU} * f(Fc) * f(Id_{EU\text{-}OECD}))}{10} + k$$

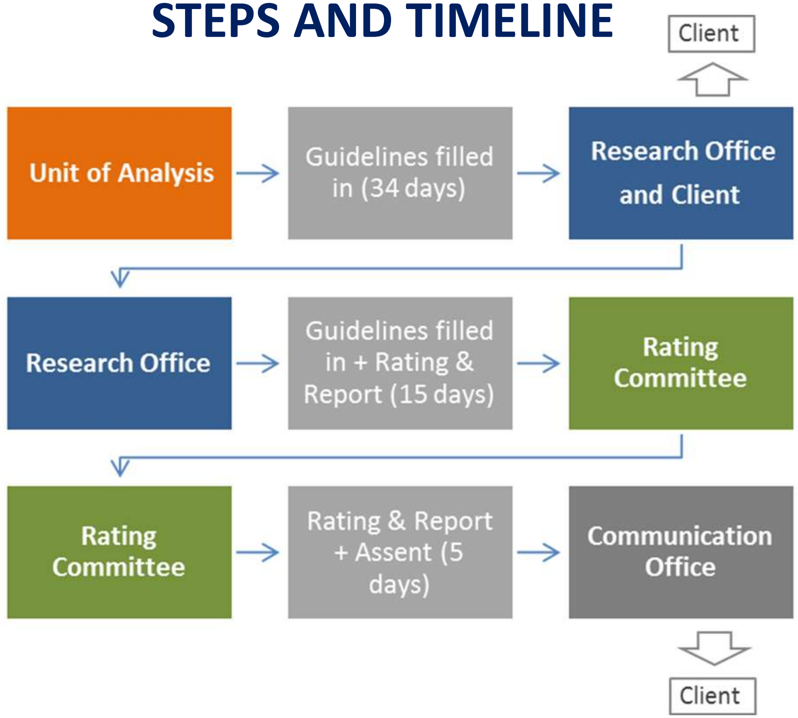


Standard Ethics Rating (SER): key aspects

Some characteristics of the solicited **Standard Ethics Rating (SER)**:

- Standard Ethics Ratings are **annual** and **renewable** and the cost depends on the size and type of Applicant
- Standard Ethics uses an **analyst-driven rating process;** different process from the questionnaire-driven process used by consultants who have to update and expand their databases. With the analyst-driven rating process, the work to be carried out does not require applicants to fill out forms and questionnaires or draft other documentation in addition to existing information. Standard Ethics analysts will gather the required data
- From the moment the Standard Ethics Rating is assigned in its solicited form, it belongs to the applicant, who has the right to decide whether or not to make its rating public
- The information gathered during the assessment is only kept for a limited period and is not used to enrich databases. Standard Ethics does not carry out consultations or research on behalf of third parties and does not use data collected for purposes other than rating
- With the issue of the rating (and subsequent updates) the applicant receives both the summary document of about 15 pages publishable internally / externally (the "Final Report") and a working document for internal use used by the team of analysts (the "Guidelines").

RATING PROCESS: STEPS AND TIMELINE



Corporate Rating: why get one?

Corporate objectives can be attained thanks to the **Corporate** Standard Ethics Ratings (SER) and relate to company strategy, governance, relations with stakeholders, communication and relations with the finance world and the credit sector or simply a process of innovation (also cultural) within the company:

- **Strategic relevance -** The analysis process, along with the reports delivered to the customer, map the positioning of the company. If appropriately used, those are useful in improving and identifying the company's sustainability strategy, in reducing reputational risk and in assessing investors' demands.

- **Governance & Compliance** – A significant part of the international voluntary sustainability and governance guidelines (which underpin the rating) will become the future national legislative requirements of OECD countries. Standard Ethics Ratings (SERs) prepare companies for these compliance procedures.

- **Investors and independent Assessment** – Publication of the Standard Ethics Final Report, which is the result of an independent, on-the-ground analysis by experienced analysts, provides investors with precise, accurate and reliable information.

- **Improved Stakeholders Relationships** – Being assisted by a rating agency during this work motivates stakeholders and employees to cooperate with their companies and to face a common and constructive challenge, by improving relationships and achieve optimum internationalization.

- **Clear Sustainability References to be used as Communication tools** – EU, OECD and UN voluntary guidelines are clearly recognized references for the economic world. The market values each effort to comply with these guidelines. In relation to other approaches to sustainability that are less measurable and comparable, corporate communication benefits in terms of incisiveness and clarity.

- **Credibility and reputation**–– Standard Ethics Ratings are a symbol of transparency because they offer comparability vis-à-vis competitors. They therefore enhance credibility and reputation with clients and shareholders.

Security Rating: why get one?

Standard Ethics believes that "***all debt must be sustainable"*** and that all fundings of industrial plans are coherent with global environmental and social policies.

In the process of issuing the **Security Standard Ethics Rating**:

- an overall assessment of the issuer is carried out
- the strategic, industrial or sustainability plans expected to be financed by rated debt instrument are then examined
- the analysis is validated with a proprietary algorithm

$$\left(\frac{(Fc_{EU}+Sa+Id_{EU\text{-}OECD}+Mw \cdot f(Sa) \cdot f(Id_{EU\text{-}OECD})+Cg_{UN\text{-}OECD\text{-}EU} \cdot f(Fc) \cdot f(Id_{EU\text{-}OECD}))}{10} + k \right) + g\,(Cg_{UN\text{-}OECD\text{-}EU})$$

An issuer with a **Security Rating:**

- is able to measure itself and its own debt;
- can improve its Sustainability strategy in the long term;
- can communicate its level of Sustainability externally;

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Important Legal Disclaimer