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Introduction

Purpose of this document

We want to thank all participating companies and other stakeholders for contributing to the perpetual evolution of the CSA. The invaluable feedback and expert insights that we receive are essential to maintain a methodology that drives new thoughts about sustainability concepts and strategies to deliver real impact.

This document provides an overview of:

- Our approach and our procedures implemented to optimize our assessment methodology and solutions
- A selection of major changes to the 2022 CSA methodology
- Explanations of the rationale behind the changes made
- Observations on how companies performed on these new or updated topics

As in previous years, you have access to a series of webcasts on the newly introduced questions. Our sustainability experts will discuss the findings and will answer questions from companies. Register or watch a replay of the 2022 CSA webcasts, including the 2022 CSA Methodology Updates webcast.

More information about the CSA methodology can be found on our website.

Methodology Review Approach

Annually, following the announcement of the CSA results of the previous year’s assessment, the CSA is reviewed with two objectives in mind:

- **Capture emerging trends:** Adjustments are made to the questions and their relative weights to capture new sustainability trends and issues that are expected to have an impact on companies’ competitive landscape. This annual update ensures that we focus on the relevant financially material intangible factors which have demonstrated clear correlations to past financial performance. Incorporating these updates into the CSA methodology development process allows the ESG analysis to remain focused on financially material factors.

- **Remove questions that are no longer material:** We aim to reduce the overall number of questions in the questionnaire. We remove questions that are no longer of material significance to companies, or address topics that have become common practice and thus no longer distinguish leading companies. This has allowed us to introduce new general and industry-specific criteria. Thanks to these deletions and additions, we guarantee that our assessment raises the corporate sustainability bar and challenges companies in their thinking about long-term risks and opportunities.
Addressing the Reporting Burden

In dialogue with companies, we consistently hear about reporting fatigue – an issue that we take seriously and have been addressing for several years. Our continued efforts to reduce the burden on companies responding to the CSA incorporates various measures:

- We strive to cut down the length of the questionnaire. Each year, we delete numerous questions (see Methodology Review Approach above).
- We have focused on aligning our methodology with international reporting standards, including GRI, SASB, and CDP to ensure that companies do not need to report the same data in different ways for different audiences.
- We have clarified our approach to public supporting evidence and broken down our expectations around references and comments. Only documents that are truly relevant to the questions being asked should be attached.

In this spirit, this year we have deleted or simplified several questions. For example, within the Energy Mix criterion, we have deleted the question on Oil Sands and Fossil Fuel Exposure, which applied to the OGX industry. This topic is now covered within other questions within the criterion. Within Operational Eco-Efficiency, the question on “Energy Use” has been deleted, and now all companies now answer the updated “Energy Consumption” question. Within the Strategy to Improve Access to Drugs or Products criterion, we have deleted the question on Access to Medicine Strategy Reporting, which applied to BTC and DRG industries. This topic has now been covered more succinctly within new questions, and the name of the criteria has been changed to “Access to Medicine.”

Methodology Updates Summary

For the 2022 CSA, we continued to align our methodology not only with our own research of the most financially material topics, but also with widely accepted sustainability reporting frameworks such as GRI, SASB, and CDP. This helps to streamline the questionnaire, improve clarity and data consistency, and address the growing reporting burden faced by companies. Of course, we also introduced new questions to further challenge companies on emerging risks and opportunities.

As shown in Table 1 below, there were 8 major methodology changes in the past 12 months and 5 minor changes. This led to 16 new and 15 updated questions overall.

In the “Environmental” dimension, major updates centered around four themes: circular fashion, climate strategy, decarbonization strategy, and energy mix.

- Circular fashion is a new criterion that aims to guide companies in their transition towards circular business models and assess their performance on this topic.
- Climate Targets updates focus on capturing Net Zero Commitments and further aligning with the Science Based Targets initiative (SBTi) and the Task Force on Climate-Related Financial Disclosures (TCFD) framework.
- Decarbonization Strategy is another new criterion and aims to capture the actions Financial Institutions are taking to manage the impact of their lending and investing activities on climate.
- Energy Mix impacts oil and gas upstream & integrated companies only, and changes focused on capturing business involvement in controversial business activities such as offshore Arctic drilling or shale oil.

Minor Environmental dimension updates touched on biodiversity, electricity generation, environmental policy and management systems, and operational eco-efficiency.
In the “Social” dimension, major updates are in the fields of occupational health and safety, access to medicine, and sustainable marketing & brand perception.

- Updates to Occupational Health & Safety centered on capturing companies’ policies, commitments and programs.
- Access to Healthcare has been updated to focus on the programs undertaken on this topic by biotechnology companies, pharmaceuticals, healthcare care providers, and healthcare equipment suppliers.
- Within the Sustainable Marketing & Brand Perception criterion, several questions were renamed, and the layout was updated to better capture data.

In the Social dimension, there was also a minor update to the criteria on Talent Attraction & Retention.

In the “Governance and Economic” dimension, Business Ethics underwent an update to the Codes of Business Conduct criteria to assess if companies in all sectors are members of the UN Global Compact. As compared to last year’s methodology updates, there are far more new and updated questions this year - and because we seek to keep this document digestible for our readers, we would to focus on those criteria updates that we consider most interesting and relevant for the majority of our audience. The criteria are explained and outlined in more detail in the Major Methodology Updates section, and are highlighted in red in Table 1.

Table 1
List of updated criteria in the 2022 cycle grouped among three major ESG dimensions.

<table>
<thead>
<tr>
<th>Updated Criteria</th>
<th>Questions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Governance &amp; Economic Dimension</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Codes of Business Conduct</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td><strong>Environmental Dimension</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Circular Fashion</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Climate Strategy</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Decarbonization Strategy</td>
<td>9</td>
<td>0</td>
</tr>
<tr>
<td>Operational Eco-Efficiency</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Electricity Generation</td>
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<td>1</td>
</tr>
<tr>
<td>Energy Mix</td>
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<td>5</td>
</tr>
<tr>
<td>Environmental Policy &amp; Management Systems</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Biodiversity¹</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Social Dimension</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Occupational Health &amp; Safety</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Access to Healthcare</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Sustainable Marketing &amp; Brand Perception</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>16</td>
<td>15</td>
</tr>
</tbody>
</table>

¹Biodiversity: No changes were made to the questions in this criterion. However, the criterion has been added the questionnaire of 32 industries. The industries were selected based on the direct impact of their owned operational activities and/or their supply chain, as well as industries which have an indirect impact and/or dependency on ecosystem/abiotic services.

To learn more, visit here.
Clarified Expectations of Public Disclosure

Supporting documents are required for some questions so that we can verify the answers provided. Over the past years, we have increased the number of questions requiring publicly available data and supporting evidence. This answers investors' general demand for greater transparency and more readily available information. As such, we clarified our expectations around public disclosure, marking a specific subset of questions with one of two designations:

- **This question requires publicly available information:** Questions marked with this designation require publicly available information. If you include information (that is not publicly available) which our analysts cannot access in the public domain, we will not assess your response and no points will be awarded for this question: our assessment for this question is based upon your public disclosure of the information requested. Publicly available information should be directly accessible through navigation from your company's own website or a related website (e.g., subsidiary, affiliate). As of 2022, information disclosed on a selected number of external websites is considered publicly available information (e.g., CDP submissions).

- **Additional credit will be granted for relevant publicly available evidence:** For questions marked with this designation, we ask for publicly available information, if available. We encourage you to provide evidence that is publicly available for these questions and will grant additional credit for relevant publicly available evidence provided. However, these questions do not require publicly available supporting evidence, and you are welcome to share non-public documents as references.

We intend that questions in the latter category ("where publicly available evidence grants additional credit") gradually shift towards the first category, requiring then public evidence. We see the Corporate Sustainability Assessment as a useful tool to promote corporate disclosure on underreported or emerging sustainability topics – to the benefit of companies' shareholders, investors, and other stakeholders. Over the years, we have received positive feedback from companies reaffirming this role. Over time, we plan to continually increase the scope of corporate sustainability disclosure.

Data Quality

Sustainability data is increasingly being used by investors to measure the impact of their investments. To provide meaningful sustainability data and enable better-informed investment decisions, data needs to be precise and comparable. Therefore, we adapt our data definitions as global reporting measurement and reporting standards develop. We would like to remind companies that the quantitative data provided must meet the definitions given in the question information texts. Any deviations from these established definitions must be clearly explained in the comment field.

It remains essential that companies each year:

- consult the information texts, and
- read the question texts carefully to review what has changed from one year to the next.

Please make sure that:

- data is reported in the specified units given in the question, and
- any conversions to these units are performed correctly.

Reporting and collecting high-quality sustainability data is the critical first step towards ensuring that ESG information becomes more widely accepted and used by the investment community. If you have any inquiries or doubts regarding data operationalization, please do not hesitate to contact our dedicated helpline: csa@spglobal.com
General Guidance Updates

Question Information Fields & the Company Comment Field

We regularly include individual text fields within the question layout to allow companies to provide explanations or descriptions if we require these to assess the data provided.

The information written in these fields should:

- relate specifically to the data reported,
- be in line with the exact question asked, and
- not be used to provide additional comments describing related initiatives, etc.

Furthermore, regarding the comments left in the field available at the bottom of each question, we kindly ask companies to minimize the length of comments provided. We ask you to follow a few guiding principles for the main company comment field:

- providing explanatory comments should be the exception rather than the rule,;
- additional comments should primarily be used to explain changes in data, calculation methodologies, or why a question does not apply to your business model. If the data provided does not fit the format of the question asked, you can use the comment field to explain how the data may differ, and
- be brief and to the point. Please ensure that the information provided specifically relates to the question and reported data.

The company comment section does not directly contribute to the final score of any given question unless a company fails to provide the information requested in the question layout itself, and yet manages to provide that information in the company comment (thus resulting in our analysts using this additional information to give the company credit). Finally, long comments do not equal better scores.

Supporting Evidence, Documents, and References

Please ensure that the attached documents and public references (weblinks) are necessary and relevant for the analyst to understand your response to each question.

Please be as specific as possible in terms of the page number and sections of the relevant documents.

For questions where we do not explicitly require evidence, you may attach documents in the document library, but we do not guarantee we will review them.

To learn more, visit here.
Non-English Documents

We recognize that many CSA participants are based in non-English speaking countries, and often their base of operations may also be concentrated in these countries. Nevertheless, the official language of the CSA is English. ESG Research team is currently supported by a translation team for publicly available company documents. This approach shall be kept in the future. However, for non-public documents provided to support your CSA answers, we continue to rely on clear translations and summaries of foreign-language texts to verify your answers and supporting evidence provided, as stated in our Language Policy.

Holding Companies

Holding companies may be presented with challenges unique to their business model and segmentation, and it may be the case that ESG data consolidation is recommended. Irrespective of if ESG data consolidation takes place, holding companies should use their own information and references for Corporate Governance and Materiality, and any Group Policies also applicable to the holding's subsidiaries.

If the holding company's revenues stem almost entirely from a single subsidiary, data and references from the subsidiary can be used to answer the CSA, except for the questions outlined above. Throughout the questionnaire, coverage should be adjusted accordingly.

In the case that the holding company's revenues stem from several subsidiaries, there is no collective reporting and ESG data consolidation is not suitable, data and references from the most relevant subsidiary can be used to answer the CSA, except for the questions outlined above. Coverage should be adjusted accordingly throughout the questionnaire, and the same subsidiary should be used.

In the case that the holding company's revenues stem from several subsidiaries, there is no collective reporting, but ESG data consolidation is suitable, data and references from the most relevant subsidiaries, up to 4, can be used to answer the CSA, except for the questions outlined above. For questions where ESG data consolidation is not suitable (qualitative questions), information from a single subsidiary should be used. Throughout the questionnaire, coverage should be adjusted accordingly, and the same subsidiaries should be used throughout the questionnaire.
In 2022, like every year, we have reviewed the question- and criterion-level weights for all 61 industries that we cover. This enables us to increase the focus on industry-specific material issues and truly capture the industries’ heterogeneity. Sector-specific indicator weights are applied to their respective ESG dimensions. The indicators are reviewed each year based on their financial materiality within each industry and prioritized according to their expected magnitude and the likelihood of their impact on corporate value drivers: growth, profitability, capital efficiency, and risk.

**Question Scoring**

The maximum score for each question is 100. The various answer options within a question are scored individually or in combination, with the total sum resulting in a maximum of 100 points.

Removing or adding options to a question may impact the weight of each question component and thus the overall scoring of the question. Therefore, it is important to carefully review each question every year, as new elements may have been added, or previous options removed. Examples of the major changes to questions will be discussed in the section Major Methodology Updates.

**Criterion Scoring**

Criterion scores are determined by a weighted sum of question scores. As previously described, adding or removing questions within a criterion will shift the weight of individual questions, and therefore impact the criterion score.

Hence, it is possible that a criterion score can change, even if the answers provided to the individual questions have not changed from one year to the next. This can be due to question deletions, new questions, or if the underlying scoring scheme at the question level has changed.

**Weights**

As part of our effort to increase transparency towards companies, S&P Global publicly discloses the criterion weights for all industries on the [CSA website](https://www.csaindex.com). The weightings of both individual questions and criteria are subject to annual review. The review is based on the materiality of each topic to an industry and question introduction or deletion. As a result, criterion scores may change due to a change in the underlying question weights. When introducing new criteria, S&P Global aims to set the weight of these criteria low in the initial years. This allows companies to adjust to the new concepts and improve their data collection and reporting systems in these areas.

**Scoring Variations**

**TRANSPARENCY/DISCLOSURE VS. PERFORMANCE SCORING**

Changes in scores can result from a change in the scoring approach, moving from “disclosure” scoring towards “performance” scoring.

- “Disclosure” scoring awards points for qualitative or quantitative information without placing any value judgment on the answer. For example, if the questionnaire asks for the share of female managers, the score could be driven by the company’s ability to report the number of women in management, indicating that this is something the company is actively tracking (disclosure).

- “Performance” scoring, the score would be driven by the actual number of female managers, measured against the total number of managers (performance). When introducing new questions asking for quantitative information, the initial focus is typically on disclosure scoring, awarding points to companies that can disclose relevant information. Then, as data collection and reporting mature over time, performance scoring may be introduced to capture a trend or measure a company’s performance relative to peers.
PUBLIC VS. NON-PUBLIC INFORMATION

In several questions, we ask companies to provide documents to support their responses. Considering the growing demand for accountability and transparency, our methodology increasingly focuses on assessing publicly available information. Questions that require public information, or where more credit is awarded for public availability are clearly marked.

There may also be questions where we do not require public information. Companies may instead provide internal documents to support and verify their answers.

LINEAR PEER GROUP SCORING VS. COMPANY HISTORICAL PERFORMANCE

Linear performance scoring measures a company’s performance relative to industry peers. Company historical performance is not related to the peer performance but only to the company’s absolute or relative progress over time.

Below is an overview of the different types of scoring used. Please note that “transparency” and “performance” refer to the scoring approach used for that specific question. One specific question can include either transparency, performance, or a combination of the two elements. Ultimately one Total Sustainability Score will be calculated, consisting of both transparency and performance components.

<table>
<thead>
<tr>
<th>Scoring Type</th>
<th>Description</th>
<th>Sample Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transparency</td>
<td>Public Disclosure</td>
<td>• Human Rights Commitment</td>
</tr>
<tr>
<td></td>
<td>Availability of Qualitative or Quantitative information</td>
<td>• Largest Contributions &amp; Expenditures</td>
</tr>
<tr>
<td>Performance</td>
<td>Scoring of Qualitative or Quantitative data based on pre-defined thresholds or expectations</td>
<td>• Board Structure</td>
</tr>
<tr>
<td></td>
<td>Trends scoring on a company’s own performance over time</td>
<td>• Human Rights Assessment</td>
</tr>
<tr>
<td></td>
<td>Linear peer-group scoring</td>
<td>• Human Capital Return on Investment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Lost-Time Industry Frequency Rate</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Employee Turnover Rate</td>
</tr>
</tbody>
</table>
Percentile Ranks

In addition to the ESG scores, companies receive a percentile ranking. As the CSA methodology is continuously being developed and question and criterion weightings may shift over time, the percentile ranks are a useful tool to track performance against industry peers. It shows the relative performance rather than the absolute performance of the company, as the percentile rank indicates the share of companies with lower or equal ESG Scores at the relevant level. ESG Scores and Percentile Ranks are industry specific. For example, if a company has a percentile ranking of 95 for a specific criterion, this means that the company scored equal to or higher than 95% of the companies in its industry.

Scores and Percentile Ranks are provided at the question, criterion, dimension, and total ESG Score-level. Percentile Ranks are calculated based on the CSA results for all companies that (will be) assessed in the relevant Base Year (April to March). As of 2022, S&P Global ESG Scores are released in monthly waves starting in September. Therefore, S&P Global is taking a new approach to the calculation of Percentile Ranks, using ESG Scores for the selected Base Year and if not yet available the previous Base Year. In order to publish the ESG Scores as early as possible and still provide meaningful benchmarking, especially with regards to a company's Percentile Rank, we are using a company's 2021 ESG Score (if available) as the best available estimate for their 2022 ESG Score if it is not yet available. Users need to keep in mind that the CSA methodology is updated every year and ESG Scores from different years are not fully comparable, especially at total or dimension level. In the CSA portal company users can identify the share of companies where a 2022 ESG Score is already available, and for which share of companies benchmarking statistics would still rely on ESG Scores 2021.

To learn more, visit [here](#).
Major Methodology Updates

Circular Fashion

The Textiles, Apparel and Luxury Goods industry is one of the most polluting worldwide, and at its current pace, is set to take an even greater share of the world’s carbon budget by 2050. In 2019, the global fashion industry produced around 2.1 billion tons of GHG emissions, representing 4% of the global total or the equivalent of the combined annual emissions of France, Germany, and Great Britain, according to a McKenzie and Global Fashion Agenda report. Beyond its carbon emissions, the fashion industry has a significant impact on water pollution, soil erosion, and landfill waste. In order to follow the 1.5-degree pathway and align with the world’s ambitions of net zero emissions by latest 2050, the global apparel industry needs to fundamentally change the way it operates. Fashion leaders worldwide have already come together at COP24 to sign the Fashion Industry Charter for Climate Action, renewed at COP26, and committed to significant action.

Adopting circular business models will be critical in achieving those goals. Today only 1% of clothing is being recycled back into clothing, while 73% goes straight to landfill (Fashion for Good). Beyond the environmental and social impacts, this represents a loss of revenues for companies as well as a waste of inherent value. Closing the loop by collecting, repairing, reselling, lending and finally recycling products will offer fashion brands and retailers the opportunity to recreate value from already existing products, while opening the door to new customer groups and revenue avenues. Furthermore, as governments and institutions are starting to take action to minimize the impact of the fashion industry, early adopters of circular models will position themselves as leaders and avoid compliance costs in the future.

Criterion Update

This complete criterion was added to the CSA in 2022 and was introduced in the questionnaire of the Textiles, Apparel & Luxury Goods industry only. The criterion aims to assess the companies' commitment and programs that have in place to accelerate the transition from a linear to a circular business model, where products and materials are circulated at their highest value and returned safely in the biosphere when they are no longer in use, minimizing waste generation and pollution along the entire value chain. Whilst the "Circular Fashion Commitment and Programs" questions assesses the level of ambition and coverage of the companies' circular fashion strategies, the “Circular Fashion Indicators” question assesses how companies are performing in terms of total volume of post-consumer items collected, repaired or recycled as a result of the circular programs implemented.

Figure 1 shows the average scores for each question within the Circular Fashion criterion. The score of the industry is particularly low for all three questions, which demonstrates that Textiles, Apparel and Luxury Goods companies are still at the early stages of this transition and have not yet scaled solutions to redesign the way clothes and fashion goods are made, used and recirculated. The lower average score on Circular Fashion Indicators shows that despite the level of Circular Fashion ambition and projects are ramping up, companies are not yet able to demonstrate and quantify their level of efficacy and maturity.
**Circular Fashion Commitment**

This question assesses the companies’ group-wide commitments to integrate circular fashion principles, such as design strategies for cyclability aimed at prolonging the lifespan of products and/or facilitating the repairing and recycling processes, increase volume of post-consumer items collected and resold through circular business models as well as increasing the share of items recycled into the same product type (closed-loop recycling), for example garments made from recycled post-consumer textile fibers. Although these commitments are intrinsically reflected in the programs adopted (assessed in the program question), the assessment of this first question is focused on the overall aspirations and principles guiding the group-wide circular fashion strategy.

*This question was added to the CSA in 2022 and applies to Textiles, Apparel and Luxury Goods (TEX)*

**Findings**

Out of the companies assessed in the Textiles, Apparel & Luxury Goods, 31% have a public commitment in place to integrate circular fashion principles across their operations, which shows how the industry starting to be able to fully demonstrate the level of ambition and commitment required to ensure a better integration of circular practices into their business models.

As shown in Figure 2, the two most frequent circular fashion principles that companies have committed to integrate are: (1) increasing the share of items made from recycled post-consumer textile fibers (23%) and (2) implementing design strategies for cyclability (26%). This shows how companies have started to hold themselves accountable for their products’ end of life at the design stage and committed to recapture the value of discarded products and materials into new collections via closed-loop recycling, minimizing the use of virgin inputs. The chart also highlights that only few companies have committed to increase the number of post-consumer products collected through take-back schemes (14%) and resold through re-commerce platforms (10%), chasing a fast-paced growing resale market.

**Figure 2**

Percentage of companies committing to Circular Fashion Principles
Major Methodology Updates

Circular Fashion Programs

This question assesses the companies' programs and initiatives implemented to accelerate the transition towards a circular fashion with the involvement of different stakeholder groups across different parts of the value chain. Such programs are aimed to reduce the temporality of the collection to ensure products stay relevant for longer, avoid or minimize the destruction of pre- and post-consumer products, reduce plastic microfibers' shedding during the use phase as well as allowing customers to repair their products and increase their awareness on product care best-practices to maximize their products’ lifespan. This question also assesses if companies are allocating R&D resources towards circular fashion and participate in cross-industry coalitions, a crucial pre-requisite to advance the development of industry-wide solutions which cannot be fulfilled individually and reach the scale needed to sustain the model and its commercial viability.

This question was added to the CSA in 2022 and applies to Textiles, Apparel and Luxury Goods (TEX)

Findings

Overall, 44% of the companies assessed have programs in place to accelerate the transition from a linear to a circular business. Figure 3 shows the percentage of Textiles, Apparel & Luxury Goods companies that have programs in place to integrate circular fashion principles into their business model. The most frequently adopted program by the companies assessed (29%) is to reduce, recycle or reuse unsold goods to avoid their destruction. This is aligned with the increased public scrutiny on how companies are dealing with unsold inventory that could potentially lead to reputational damage, the necessity to catch up with the unfolding of Extended Producer Responsibility policies (EPR) across different countries and the opportunity to use such products as feedstock to re-commerce programs.

Figure 2 also highlights that more than 1/5 of the companies assessed (23%) have identified opportunities to partner up with different actors in the value chain to build circular fashion solutions and started to allocate R&D resources to advance the development of recycling technologies and circular fibers, much needed to increase the % of recycled fibers into new products. However, the industry also presents the opportunity to accelerate the circular transition by keeping items relevant for longer (reducing the temporality of collection by enhancing emotionally durable design) and educate costumers on how to use their products more sustainably and make them last longer.
**Circular Fashion Indicators**

This question assesses how companies are measuring and disclosing key metrics to track their progress on the circular fashion programs and initiatives captured in the previous question. Companies are expected to provide data on weights of post-consumer items collected through take back schemes, total volumes of products repaired and/or resold through circular business models, as well as the total weight of post-consumer items recycled into the same product type (closed-loop recycling), such as garments made from recycled post-consumer textile fibers.

*This question was added to the CSA in 2022 and applies to Textiles, Apparel and Luxury Goods (TEX)*

**Findings**

Figure 4 shows the percentage of Textiles, Apparel & Luxury Goods companies that are tracking and disclosing circular fashion indicators. Not surprisingly, 16% of the companies assessed are reporting on at least 1 indicators/metrics, which shows, that the industry is only starting to track and measure the performance of circular fashion programs and initiatives in place.

**Figure 4**

**Percentage of disclosure per Circular Fashion indicator/metric**

To learn more, visit [here](#).
Climate Strategy

All industries are likely to be impacted by climate change to at least some degree. Thus, companies need to develop strategies commensurate to the scale of the challenge for their industry and the regions they operate in. While most focus on the risks associated with a changing climate, some seek to identify and seize the business opportunities linked to this global challenge.

The questions in this criterion have been developed in alignment with the CDP methodology. The EU Action Plan for Sustainable Finance and its EU Taxonomy Regulation have also been considered in the development of this criterion. Additionally, many of the questions in this criterion are aligned with the Task Force on Climate-related Financial Disclosure (TCFD). While the disclosure recommendations are voluntary, investor demand for companies to report in line with TCFD is growing and governments are starting to move toward requiring TCFD disclosures through regulations.

Criterion Update

This criterion was updated in 2022 to include a new question on companies’ commitments to net-zero emissions. In addition, the question on TCFD disclosure added in 2021 has been updated.

Figure 5 shows the average scores for the TCFD disclosure question split by industry.

The materials, energy, and utility sectors display the highest average results out of all industries, utilities being the highest at an average of 71 points. A higher level of TCFD disclosure suggests a higher priority to transparently produce high-quality climate-related financial information to meet industry best practices and stakeholder expectations. Average scores are lowest for health care, communication services, and information technology companies, suggesting that companies in these sectors can significantly improve their disclosure of climate-related risks and opportunities.

Figure 5 also shows the average score for the Net-Zero Commitment question split out by sector. Energy, Industrials, and Materials score just over 10 points for this question while the healthcare sector has the lowest average score at 9 points. The low average score on this question suggests that only some companies within these sectors are sufficiently publicly disclosing detailed and actionable plans to reach their Net-Zero commitments or do not have a Net-Zero commitment. The Real Estate, Consumer Staples, and Utility sectors have the highest average Net-Zero Commitment score, meaning that companies within these sectors have a higher level of publicly available, credible disclosures surrounding their Net-Zero commitments. Nevertheless, having a credible and actionable Net-Zero Commitment presents ample opportunity for improvement for companies across all sectors.
Major Methodology Updates

Net-Zero Commitment

Companies are increasingly adopting net-zero targets in order to align their activities with the aim of limiting global temperature rise to 1.5°C above pre-industrial levels. Due to the lack of common understanding of the definition of net-zero, the Science Based Targets initiative (SBTi) has developed a global science-based standard for companies to set net-zero targets. The purpose of this question is to find out if a company has made a net-zero commitment, how well it is aligned with the science-based targets and what activities are planned to reach the target. This question follows the criteria and definitions of the SBTi Net-Zero Standard. This question was added to the CSA in 2022 and applies to 58 industries.

Findings

About 34% of companies in the DJSI and ESG Indices universe had a net-zero commitment in 2022. As shown in Figure 6, companies in carbon-intensive sectors such as airlines, oil & gas, electric utilities, automotive, construction materials, and steel are leading the way in setting net-zero commitments. Interestingly, more than 50% of companies in the personal products, water utilities, and tobacco industries have also set net-zero commitments.

Figure 6
Percentage of companies by industry with a net-zero commitment (top 15 industries)

Figure 7 show most of the net-zero commitments disclosed by companies are not currently science-based - that is, they are not ambitious enough to limit global warming to 1.5C. However, it is encouraging that 6% of companies already have a science-based target validated by the Science-based Targets Initiative (SBTi) and that an additional 6% of companies have committed to seek validation from the SBTi in the short-term. Ambition in climate action is still insufficient to reach the Paris agreement goals, but we expect the trend of net-zero commitments to increase over the next years.
Major Methodology Updates

Figure 7
Percentage of companies with Net-Zero Commitments

Achieving net-zero involves acting over three dimensions. Firstly, companies need to prioritize deep decarbonization of their own operations (Scope 1+2) and within their value chain (Scope 3) to try to reduce their emissions to as close to zero as possible. Secondly, they need to neutralize any residual emissions that cannot be abated with permanent carbon removals from technological or natural solutions (investing in permanent carbon removals/neutralization). Along their net-zero journey, companies are also expected to purchase carbon credits (e.g. offsets) to help other parts of the economy decarbonize.

Figure 8 shows that 18% of companies have implemented or are planning to implement initiatives to reduce emissions in their own operations, 10% of companies are planning to act on their value chain emissions, and 15% of companies are not disclosing emissions reductions activities despite having set a net-zero commitment. Permanent carbon removals seem to not yet be part of most companies’ net-zero strategies, while purchases of offsets are slightly more frequent and part of more than 9% of companies’ strategies. Overall, slightly more than half of the companies that have set a net-zero commitment have a net-zero strategy that includes at least decarbonization of their own operations. Undoubtedly, companies will need to design more comprehensive net-zero strategies in the next few years if they want to achieve the net-zero commitments they have made.

Figure 8
Percentage of companies with a Net-zero strategy

With emissions reduction activities that reduce Scope 2 & 1 emissions
18%

With emissions reduction activities that reduce Scope 3 emissions
10%

Without emissions reductions activities planned
15%

Planning to invest in permanent carbon removals
5%

Planning to use offsets as part of the net-zero strategy
9%
TCFD Disclosure

Demand for climate-related disclosure from investors has increased significantly since the release of the TCFD recommendations in 2017. In addition, public sector leaders have also noted the importance of transparency on climate-related issues within financial markets. Climate-related risk is increasingly the subject of new reporting requirements, such as the European Non-financial Reporting Directive 2014/95/EU, which embeds regulatory guidance based on the TCFD recommendations. Many national governments and public sector organizations formally support the TCFD, and some have started to issue regulations making TCFD disclosure mandatory. Delay in applying the TCFD framework may not only result in not meeting investors’ needs but also in compliance costs. This question focuses on whether a company applies the TCFD framework in the management of climate-related risks and opportunities.

This question has been updated to cover all 11 TCFD recommendations to allow more granular assessment of companies’ progress. In addition, the question name has been changed from Climate Risk Management to TCFD Disclosure.

This question applies to all industries (61)

Findings

While 38% of companies are not yet applying the TCFD framework in managing climate-related risks and opportunities, 8% have committed to apply it in the future and 54% do already integrate it. Out of the companies that integrate the framework, Figure 9 shows the percentage of companies disclosing information on each of the 11 TCFD recommendations. As could be expected, most companies that apply the framework report information on all requirements.

For instance, more than 90% of companies report on the governance area, responding to the recommendations related to board oversight (93%) and management’s role in assessing and managing climate-related risks and opportunities (91%). However, the lowest percentage can be observed in the strategy area, specifically in the recommendation to use scenario analysis to test the resilience of a company’s strategy, reported by only 74% of companies applying the TCFD framework. A potential reason could be the complexity of using scenario analysis.

Finally, the metrics & targets area is also a challenging area for companies. This could be explained by some companies not reporting the metrics and targets used in a structured way in the TCFD sections of their public reporting, but rather in a scattered way in other sections of their reporting.

Figure 9

Percentage of disclosure of each TCFD recommendation

To learn more, visit here.
Decarbonization Strategy

While financial institutions emit low levels of greenhouse gases to run their operations, they finance the emissions of other companies through their loans, investments, and insurance underwriting activities. These ‘financed emissions’ can be up to 700 times higher than direct emissions.

As the urgency of transitioning to a low-carbon economy increases, the global financial system needs to take drastic measures to cut their fossil fuel financing and set realistic and meaningful net zero commitments. Failure to cut funding to carbon intensive sectors, with high environmental, social, and climate impacts, may lead to heightened physical risks, regulatory risks, reputational risks, and stranded asset risks among others.

Criterion Update

This is a new criterion introduced in 2022 which applies to the three financial industries: Banks, Diversified Financial Services and Capital Markets, and Insurance.

It aims to capture the actions financial institutions are taking to reduce the impact of their financing, investing and underwriting activities on the climate over the long and intermediate term through net-zero target setting and the development of policies to phase-out and cease fossil fuel financing. It also captures the current contribution of financial institutions to climate change by asking for disclosure on their scope 3 financed emissions.

Figure 10 shows the average criterion score achieved by companies in each region. Europe is notable for leading the way with an average criterion score of 19, followed by Asia Pacific and Latin America where companies scored an average of 8. North America was the lowest scoring region, with companies scoring an average of four. The large lead of European countries can be attributed to the more comprehensive legislative and regulatory environment for European financial companies on climate finance, and with the United States Securities & Exchange Commission developing its own regulations we would expect the performance of North American companies to catch up in the coming years.

Figure 11 shows the average scores achieved in the individual questions comprising the Decarbonization Strategy criterion. The highest scores were achieved in the two questions focusing on disclosure of scope 3 financed emissions, with a marginally higher score achieved in the absolute emissions question (60) than the emissions intensity one (59). This is an encouraging start, bearing in mind the maxim “you can’t manage what you don’t measure”. However, target-setting, and to an even greater extent the policies to limit financing to fossil fuels which will help companies reach net-zero, are further behind, demonstrating that more focus is now needed on the mechanisms through which financial institutions will reduce and eventually eliminate their scope 3 financed emissions.
Major Methodology Updates

Net-Zero Targets for Financed Emissions

The most material impact on climate by financial institutions is through their investments and lending activities, which is why they are increasingly expected to set both net-zero and intermediate targets. Validation of these targets by organizations such as the Science-Based Targets Initiative (SBTI), are key in differentiating responsible commitments from greenwashing. Hence, this question assesses and compares the net-zero and intermediate emission reduction targets from financed emissions as publicly reported by financial industry companies.

This question was added to the CSA in 2022 and applies to the three financial industries: Banks (BNK), Diversified Financial Services and Capital Markets (FBN), and Insurance (INS).

Findings

Overall, the setting of net-zero targets for financed emissions is not yet a widespread practice, and even less so for intermediate emissions reduction targets. Just under a quarter of companies have publicly disclosed on net-zero targets for their scope 3 financed emissions, with 16% of companies having publicly available intermediate targets to guide their path towards net-zero. This low level of target setting indicates limited recognition on the part of financial institutions of their role in helping the world reach net-zero. However, with the Science-Based Targets initiative releasing guidance for the financial sector in August 2022, we expect to see an increase in the number of financial institutions setting targets in the coming year.

Among the companies setting net-zero targets for their scope 3 financed emissions, 2050 was overwhelmingly the most popular target year with 92% of companies setting targets to reach net-zero by 2050, in line with the targets seen in many other industries and from governments too. 2040 was the next most common year, with 5% of companies having a target. Net-zero targets for 2045 and 2060 were equally popular, with 1.4% of companies selecting each.

Overall, the financial industry is not demonstrating itself to be significantly less ambitious than other industries with net-zero commitments, while the ability of financial institutions to reach net-zero before 2050 is necessarily limited by the fact that they rely on the economies they finance, insure, and invest to reach net-zero first. This underscores the importance for financial institutions of engaging with portfolio companies on decarbonization strategies to help them meet their own net-zero targets.

Figure 12
Percentage of companies that have set net-zero and intermediate targets for financed emissions

Figure 13
Frequency of Net-Zero Target Years

To learn more, visit here.
Major Methodology Updates

Scope 3 Financed Absolute Emission and Scope 3 Financed Emission Intensity

It is estimated that financed emissions are over 700 times larger than reported operational emissions of financial institutions\(^2\). The financial sector must sharply decrease their year-on-year emissions to ensure that they are doing their part to cut global greenhouse gas emissions.

Understanding and measuring the climate impact of financial portfolios helps companies in the financial sector create additional transparency for stakeholders. It helps them better manage climate-related risks and develop climate-friendly financial products. Measuring absolute emissions gives financial institutions a baseline for climate action in alignment with the Paris Agreement. Emission intensity metrics allow financial institutions and investors to benchmark or compare companies, sectors, and/or portfolios to one another since the information collected is normalized.

This question was added to the CSA in 2022 and applies to the three financial industries: Banks (BNK), Diversified Financial Services and Capital Markets (FBN), and Insurance (INS)

Findings

Under a quarter of companies assessed (approximately 21%) disclosed scope 3 financed absolute emissions or scope 3 financed emissions intensity. Most companies disclosing emissions had the information available in their public reporting, accounting for 18% of all companies assessed, while 4% of all companies disclosed their scope 3 financed absolute emissions in the CSA but without the information available in their public reporting. The figure was slightly lower for scope 3 financed emissions intensity, where 16% of all companies provided the data in public reporting. The picture is less encouraging with regards to third-party verification, with only 7% of companies disclosing scope 3 financed emissions which had been third-party verified. While the relatively high rate of public reporting is good news for transparency, higher rates of third-party verification of scope 3 financed emissions data would make these disclosures more robust.

Figure 14
Percentage of companies providing data on Scope 3 Financed Emissions, with third-party verification, and public reporting

Of the companies disclosing their scope 3 financed absolute emissions, the greatest number (51%) were able to break this Information down into different sectors or Industries, reflecting a wider trend for the decarbonization activities of financial Institutions to focus on particularly carbon intensive industries and activities such as coal, oil & gas, aviation, or building materials. 43% of companies disclosing scope 3 emissions were able to break down the Information into different asset classes. Breaking down the source of scope 3 financed emissions into asset classes or sectors can be useful to companies seeking to decide where to target their decarbonization strategies and policies.

Figure 15
Percentage of companies with data providing a breakdown by different categories

\(^2\)https://www.cdp.net/en/articles/media/finance-sectors-funded-emissions-over-700-times-greater-than-its-own

To learn more, visit here. 22
Coal Financing Policy

While coal has contributed to the development of economies around the world, it is also responsible for the largest proportion of global greenhouse gas emissions. Research also shows that the share of uncompetitive coal plants worldwide is set to increase. By 2030, about half of the global thermal coal capacity could be loss-making, and by 2040, 72% will be unprofitable. Financial institutions, in both developed and developing countries, must reduce their exposure to thermal coal by 2030 in line with 1.5°C emission pathways. Not doing so may expose financial institutions to the risk of stranded assets, the detrimental impact of climate change, and other reputational and regulatory risks.

As such, financial institutions are expected to establish policies and relevant targets that highlight their commitment to phase out financial support to coal by 2030.

This question was added to the CSA in 2022 and applies to Banks (BNK) and Diversified Financials Services and Capital Markets (FBN).

Findings

Of the companies for which the Coal Financing Policy question was applicable, 28% indicated they had a policy which met the CSA requirements, of which 43% included a global phase-out commitment for financing in coal. Figure 16 shows the frequency of years provided by companies by which they will phase out financing of coal. The International Energy Agency says there can be no new coal-fired power stations if the 2050 net-zero goal is to be met; 20% of policies indicate that coal financing will be phased out before 2030, with 40% setting 2030 as the latest year. Unfortunately, this leaves a significant minority of companies committing to phase-out coal financing by even later, with 32% committed to 2040.

The Coal Financing Policy question assesses whether policies include elements to cease project finance and general corporate finance for coal companies that are expanding for three different coal activities: mining, power, and infrastructure. Figure 17 shows the percentage of companies with policies where ceased financing for each type of financing and coal activity is included. Across the three coal activities, policies ceasing project finance are much more common, with 21% of companies having policies which end project finance for coal power plants. However, policies that included ceased general corporate financing for expanding coal companies were much less common; only 6% of companies have such policies for coal power and coal mining. Without such provisions, coal financing policies can still permit the financing of more coal capacity.
Major Methodology Updates

Coal Investment Policy

While coal has contributed to the development of economies around the world, it is also responsible for the largest production of global greenhouse gas emissions. Research also shows that the share of uncompetitive coal plants worldwide is set to increase. By 2030, about half of the global thermal coal capacity could be loss-making, and by 2040, 72% will be unprofitable. Financial institutions, in both developed and developing countries, must reduce their exposure to thermal coal by 2030 in line with 1.5C emission pathways. Not doing so may expose financial institutions to the risk of stranded assets, the detrimental impact of climate change, and other reputational and regulatory risks.

As such, financial institutions are expected to establish policies and relevant targets that highlight their commitment to phase out financial support to coal by 2030.

This question was added to the CSA in 2022 and applies to the three financial industries: Banks (BNK), Diversified Financial Services and Capital Markets (FBN), and Insurance (INS)

Findings

21% percent of companies answering the Coal Investing Policy question had a policy that met CSA requirements, of which 33% included a phase-out commitment for coal investments. The frequency of years indicated by which coal investing will be phased out is a more pessimistic picture than for coal financing, with a clear majority, 43% of policies, indicating that coal investments will be phased out by 2040, which is clearly in contravention of the IEA statement calling for no new coal-fired power stations. Only 26% of companies had committed to phase out coal investments by 2030.

Figure 18
Frequency of years provided for global phase out of coal

Figure 19 shows the percentage of companies with policies which include ceased investing for the three different coal activities. Similarly to the coal financing policy question, coal mining and coal power are much more popular in policies than coal infrastructure. With 8% and 7% of policies respectively including ceased investments in coal power and coal mining companies, and only 3% of companies including coal infrastructure, coal investing policies are still limited in their impact because they do not yet cover the entire value chain and production cycle of coal, meaning financial institutions can still be exposed to stranded assets such as coal processing plants and the trains, ships and trucks used to transport coal.

Figure 19
Coal Investing Policy Percentage of companies with policies including ceased investing for different activities
Coal Re/Insurance Underwriting Policy

While coal has contributed to the development of economies around the world, it is also responsible for the largest production of global greenhouse gas emissions. Research also shows that the share of uncompetitive coal plants worldwide is set to increase. By 2030, about half of the global thermal coal capacity could be loss-making, and by 2040, 72% will be unprofitable. Financial institutions, in both developed and developing countries, must reduce their exposure to thermal coal by 2030 in line with 1.5C emission pathways. Not doing so may expose financial institutions to the risk of stranded assets, the detrimental impact of climate change, and other reputational and regulatory risks.

As such, financial institutions are expected to establish policies and relevant targets that highlight their commitment to phase out financial support to coal by 2030.

This question was added to the CSA in 2022 and applies to Diversified Financials Services and Capital Markets (FBN), and Insurance (INS).

Findings

In a similar picture to the results for coal financing, policies limiting the provision of underwriting services to projects associated with coal are more popular than policies limiting underwriting services to coal companies more broadly. Among insurance companies, however, policies limiting underwriting to coal mining projects are marginally more common than policies limiting underwriting to coal power projects, perhaps reflecting that insurers perceive the underwriting of coal mining projects to be more risky than coal power projects because of the more localized environmental and social impacts of coal mines, especially those employing open-pit or mountaintop removal methods.

Figure 20
Percentage of Companies with policies covering ceased underwriting for different types of underwriting and coal

Figure 21 shows the percentage of companies with different types of thresholds, relative or absolute, for the different types of coal activity. Relative thresholds, where the company will not provide underwriting services for companies deriving more than the specified percentage of their revenue from coal, were most common option for policies for both coal mining (16% of companies had one) and coal power (nearly 15% of companies), and they were the only option available for coal infrastructure where just over 5% of companies had one in their policy. The preference for relative thresholds could be explained by the fact that they allow insurers to still provide underwriting services to coal companies that are diversifying but not necessarily shrinking their coal business. Conversely, such an approach means that the thresholds have a more limited effect on the underwritten emissions, since they allow coal use to grow as long as it is by less than revenues grow.

Figure 21
Percentage of Companies with different types of Coal Underwriting Thresholds

To learn more, visit here.
Unconventional Oil & Gas Financing Policy

Currently emissions from coal, oil, and gas in production would push us beyond the 1.5°C level and likely into a 2°C scenario – global carbon dioxide emissions must be halved in order to even have a 50% chance at limiting global warming to 1.5°C. In addition to the $3.5 trillion annually needed in investments in low-carbon and energy-efficient technologies, financial institutions (FIs) are also expected to introduce policies to cancel and/or limit their fossil fuel financing. The Science Based Targets initiative currently recommends a “disclosure, transition, and phase-out approach” which includes an “end all financial support (excluding decarbonization or transition to zero-carbon alternatives) to existing coal assets by 2030 and to existing oil and gas assets by 2040”.

This question was added to the CSA In 2022 and applies to Banks (BNK) and Diversified Financials Services and Capital Markets (FBN).

Findings

Figure 22 shows the percentage of companies with policies that include ceased project financing for the five different types of oil & gas. Arctic oil & gas and tar sands are the most popular types of oil & gas to have this restriction in place, with 10% and 9% of companies respectively including these elements in their policies. Shale Oil & Gas is the next most frequent type of oil & gas, with 6% of companies including ceased project finance for shale in their policies. The low number of policies covering ceased project finance for Liquified Natural Gas (LNG) derived from unconventional oil & gas resources can be attributed to the fact that natural gas is viewed by many as a necessary transition fuel to a lower carbon economy, however this should not preclude scrutiny of the provenance of LNG to ensure its environmental and social impacts are as low as possible.

Figure 23 shows the percentage of companies with phase-out commitments for the five different types of oil & gas. Arctic oil & gas and tar sands are again the most likely types of oil & gas to be represented in this policy aspect, however overall policies with phase-out commitments are much less common than policies which exclude project finance, with at most 1.5% of companies having policies that include at least one phase-out commitment. Compared with the number of companies with phase-out commitments for coal financing (12%), it is clear that financial institutions still view unconventional oil & gas as an activity they can finance for years to come.

To learn more, visit here.
**Unconventional Oil & Gas Investment Policy**

Currently emissions from coal, oil, and gas in production would push us beyond the 1.5°C level and likely into a 2°C scenario – global carbon dioxide emissions must be halved in order to even have a 50% chance at limiting global warming to 1.5°C. In addition to the $3.5 trillion annually needed in investments in low-carbon and energy-efficient technologies, financial institutions (FIs) are also expected to introduce policies to cancel and/or limit their fossil fuel financing. The Science Based Targets initiative currently recommends a “disclosure, transition, and phase-out approach” which includes an “end all financial support (excluding decarbonization or transition to zero-carbon alternatives) to existing coal assets by 2030 and to existing oil and gas assets by 2040”.

*This question was added to the CSA in 2022 and applies to the three financial industries: Banks (BNK), Diversified Financial Services and Capital Markets (FBN), and Insurance (INS)*

**Findings**

Figure 24 shows the percentage of companies with policies excluding investments in new projects for the five different types of unconventional oil & gas. In contrast to the same data point for financing policies, tar sands is the type of oil & gas most likely to be excluded in investment policies, with 5.9% of companies including such an element in their policies.

Figure 25 shows the percentage of companies with relative thresholds, where they will not invest in companies deriving more than the specified percentage of their revenue from the different types of oil & gas. As with excluding investments in new projects, tar sands proves the most popular type, followed by Arctic and Shale oil & gas. Companies are more likely to have relative thresholds for investing than provisions for excluding investments in projects, and are also more likely to have relative thresholds for investing than for financing (for tar sands for example, 9% of companies have a relative threshold for investing, while only 4% of companies have a threshold for financing). This difference can be attributed to the fact that investing tends to be more focused on whole companies rather than individual projects.

**Figure 25**

Percentage of companies with relative thresholds for different types of oil & gas

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To learn more, visit [here](#).
Major Methodology Updates

Unconventional Oil & Gas

Underwriting Policy

Currently emissions from coal, oil, and gas in production would push us beyond the 1.5°C level and likely into a 2°C scenario – global carbon dioxide emissions must be halved in order to even have a 50% chance at limiting global warming to 1.5°C. In addition to the $3.5 trillion annually needed in investments in low-carbon and energy-efficient technologies, financial institutions (FIs) are also expected to introduce policies to cancel and/or limit their fossil fuel financing. The Science Based Targets initiative currently recommends a “disclosure, transition, and phase-out approach” which includes an “end all financial support (excluding decarbonization or transition to zero-carbon alternatives) to existing coal assets by 2030 and to existing oil and gas assets by 2040”.

This question was added to the CSA in 2022 and applies to Diversified Financials Services and Capital Markets (FBN), and Insurance (INS)

Findings

Figure 26 shows the percentage of companies with policies that exclude underwriting new projects for the different types of unconventional oil & gas. Policies covering tar sands projects are the most common, with 10% of companies having such policies. Arctic oil & gas is the next most likely type of oil & gas to be excluded, with 6% of companies having such policies. Policies covering ultra-deep-water projects are more popular among Insurers than among companies answering the financing and Investing questions, with 2.5% of companies excluding these projects in their underwriting policies, compared with 0.75% in investing and financing policies, which likely reflects the real-world experience of insurers with the risks posed by such projects demonstrated by the Deepwater Horizon explosion and spill.

Figure 27 shows the percentage of companies with phase-out commitments for the different types of unconventional oil & gas. Tar sands is notably the most common type subject to a phase-out commitment, although overall the numbers are low with only 2.5% of companies committing to phase-out underwriting for tar sands. Only one company had commitments to phase out underwriting for the four other types of unconventional oil & gas.

Figure 26
Percentage of companies with policies excluding new projects

Figure 27
Percentage of companies with phase-out commitments for each unconventional oil & gas

To learn more, visit here.
Operational Eco-Efficiency

Reducing the overall environmental footprint of companies in both the manufacturing and services sectors is crucial, as the risks of financial and reputational costs linked to environmental litigation increase. The key focus of this criterion is on the inputs and outputs of business operations. It assesses trends in natural resource consumption and the production of environmental waste products specific to each industry.

Criterion Update

The major update in this criterion has been that the “Indirect Greenhouse Gas Emissions (Scope 2)” question now allows companies to report both location-based and market-based emissions. A number of minor changes have also been implemented this year:

- The “Energy Consumption” question has been updated to simplify reporting for companies.
- The “Energy Use” question was deleted, and all companies now answer the updated “Energy Consumption” question.
- The “Waste Disposal” question has been updated by deleting the total waste generated, revising the definition of recycled waste in line with other reporting standards, and capturing additional specific waste disposal methods.
- The “Hazardous Waste” question has been updated in line with “Waste Disposal” question.
- The “Ash & Gypsum Waste” and “Mineral Waste” questions were updated in line with other waste-related questions in the criterion.

Figure 28 below shows that Utilities scored highest in Scope 2 emissions. This result Scope 2 emissions come from purchased electricity, steam, heating, or cooling, which are activities tied to the core business of most companies in the utility sector. Scope 2 emissions are considered “indirect” emissions because the location of generation is generally outside the reporting company’s direct control.
**Major Methodology Updates**

**Indirect Greenhouse Gas Emissions (Scope 2)**

Producing more with less material is essential for many industries affected by the growing scarcity of natural resources. Operational Eco-Efficiency enhances competitiveness in terms of cost reductions and reduces environmental liabilities. It also enables companies to be better prepared for future environmental regulations. The key focus is on inputs and outputs of business operations and the assessment of trends in the consumption of natural resources and the production of environmental waste products specific to each industry. This question captures indirect (Scope 2) emissions of companies in this perspective.

The Scope 2 Guidance of the GHG Protocol mandates companies to report their Scope 2 emissions using both of two different types of accounting methodologies, called location-based and market-based emissions. In line with such requirements, the CSA allows now to simultaneously discloses both sets of emissions in its “Indirect Greenhouse Gas Emissions (Scope 2)” question.

As per the Protocol definitions, the location-based method should capture the average emissions intensity of grids on which energy consumption occurs, whereas the market-based method is used to account for Scope 2 emissions from the electricity that companies have purposefully chosen to acquire on the market, or their lack of choice.

The Protocol requires companies to disclose both inventories at the same time, even if companies have not purchased any market instruments or contracts that can be used to determine their market-based emissions; in the latter case, companies should use the residual mix emission factors provide by their electricity suppliers; if such data is not available, the market-based inventories of companies should be the same as their location-based.

*This question applies to all industries (61)*

**Findings**

Despite the guidelines offered by the Protocol, we have registered differences in the willingness or ability of companies to disclose both inventories for their Scope 2 emissions.

The figure below shows the ten countries with the highest of companies disclosing on both market-based and location-based 2021 missions in the latest Assessment, considering more than 5200 assessed companies. The analysis accounts only for the countries that had at least 10 incorporated companies that were part of the assessed universe. The number of assessed companies per country is visible in brackets.

![Figure 29](image_url)

It is clear from this information that the understanding of market-based Scope 2 accounting is highly developed in the European Union, where market-based instruments such as the Guarantees of Origin have been implemented more than two decades ago.
As such, it seems that the country of incorporation (and, by extension, the countries of operation) makes a bigger difference in the ability or willingness of companies to report location-based and market-based data as prescribed by the GHG Protocol. While some industries have higher share of companies reporting such information, no overall sector is particularly better or worse in disclosing such information compared to the others.

Figure 30
10 CSA Industries with highest share of companies disclosing both location-based and market-based Scope 2 emissions

Figure 30
10 CSA Industries with lowest share of companies disclosing both location-based and market-based Scope 2 emissions
Energy Mix

Presently, oil and gas production and reserves are still the key drivers for value creation and future earnings (share price performance) in the Oil & Gas sector. Nevertheless, fossil fuel companies are under intense pressure to decarbonize their business models and investors have already started to divest from certain activities such as oil sands and arctic drilling in this sector. The sustainability of the business model, both in the short and the long terms, is assessed within this context, looking at the current production mix, reserves mix, and investment in cleaner energy alternatives.

Criterion Update

Two questions within this criterion were updated to capture additional information regarding oil and gas production from sources considered to be controversial due to their linkage to higher environmental risks, as well as to outline a clearer picture of what kind of alternative energy investments companies have already done and intend to pursue by 2030. These changes are reflected in the questions “Oil & Gas Production” and “Renewable Energy Production”.

Figure 31 below shows the average score for oil and gas companies regarding their Energy Mix. We observe that renewable energy production remains a challenge for Oil and Gas companies.
Oil & Gas Production

The oil & gas industry is amongst the most emissions intensive, with the production and use of oil & gas accounting for over half of global greenhouse gas emissions associated with energy consumption. Oil & gas companies are coming under increasing pressure to demonstrate portfolio resilience and adapt business models to align with a low-carbon energy transition. The overall energy mix of companies is a key factor for successful decarbonization of the business model. We look to identify companies which have a high proportion of gas in their portfolio and assess their exposure to controversial fossil fuel resources and operations associated with higher costs, carbon-intensity and environmental risks.

The second table of this question has been updated to allow the disclosure of production values from ultra-deep water drilling and offshore arctic drilling, on top of the disclosure for oil sands and tight oil & gas, shale oil & gas, already possible in the previous version of the Assessment. Additionally, companies can now disclose further information regarding the revenue generated from each of these activities.

This question applies to Oil & Gas Upstream & Integrated industry (OGX).

Findings

The data provided publicly and privately by companies show that, out of the 56 companies considered in the analysis, “tight oil & gas, and shale oil & gas” was the most common form type of development in which they were engaged during fiscal year 2021, with 38% of companies involved. Both oil sands and ultra-deep water drilling were part of the business activities of 19% of the company, whereas only 3% of the companies reported any involvement in Offshore Arctic drilling.

Substantial differences exist on a regional level. While in North America (NAM), the most common form of activity among the listed four is extraction of tight and shale oil & gas, most of the companies involved in ultra-deep-water drilling are incorporated in Europe (EUR). Similarly, only a number of companies incorporated in Europe have disclosed (publicly or privately) that they are engaged, or they acquired licenses for, off-shore Arctic drilling. No companies incorporated in Asia Pacific (APA) nor Latin America (LAM) has disclosed production or development from such Offshore activities.
When considering the production values that companies were willing to publicly or privately disclose, tight and shale oil & gas contributed to the largest amount of millions of barrels of oil equivalent (MBOE). On one side, this might indicate that overall, companies are more engaged with this type of production; on the other hand, this value might be influenced by the ability or willingness of companies to report other types of production data, such as ultra-deep water drilling, which is classified as the second most reported source of production among the four categories. Finally, no production data was disclosed for offshore Arctic drilling. In this case, we can assume that inability or unwillingness to report such data played a pivotal role, since some companies reported to be indeed engaged in this activity.

**Figure 34**

*Total hydrocarbon production in FY2021 (in million BOE) for each activity*
Renewable Energy Production

Science-based approaches to managing climate change, such as that outlined by the IPCC, point to a long-term need to substitute fossil fuels with renewable sources of energy. This has potentially major implications for business models in the energy sector. Through this question, we assess how companies that produce fossil fuels are beginning to prepare for this eventualty by investing in renewable energy sources for third-party consumption.

The updates for this question regard the expansion of the number renewable energy sources that companies can report on. Additionally, whereas last year companies could report only on production from these sources, this year the question’s scope has been enlarged to allow for the possibility to report data on current installed capacity by source, as well as the target capacity that companies intend to install by 2030, again by source.

This question applies to Oil & Gas Upstream & Integrated industry (OGX). Please note this ESG topic applies to other industries but this document only discusses the updates on the question applicable to Oil Upstream & Integrated Industry.

Findings

Of the 56 assessed companies, the source with the largest reported amounts is wind energy, with more than 40 TWh of production reported. Second to that, there is hydroelectric energy, with overall more than 20 TWh produced in 2021. Other sources make up the third largest overall disclosed amount; they might include “waste” energy in jurisdictions where the latter can be classified as renewable, as well as renewable energy from co-generation.
Finally, some companies have privately or publicly disclosed their 2030 capacity target by source. It does not surprise this picture reflects the current capacity situation for Oil & Gas companies, with most of the disclosed planned capacity being directed in solar energy, and with the second source by planned capacity being wind energy. Once again, not all companies that disclosed current capacity have also disclosed planned installations and also the difference between the current and target capacity for hydro. Over, the picture that we obtain is that the field of wind energy seems to be the current winner in terms of current overall renewable production from oil & gas companies, whereas solar appears as the most likely investment in for additional capacity development. As such, these companies seem focused on two of the most developed technologies which, at the same time, can be easily scaled up.

Figure 37
2030 Target capacity (MW)
Major Methodology Updates

Occupational Health & Safety

Poor occupational health and safety (OHS) performance has a direct negative impact on labor costs through lower productivity. Moreover, it can also affect a company’s reputation, impact staff morale or increase operating costs through fines and other contingent liabilities. Our key questions focus on Key Performance Indicators (KPIs) for a company’s own operations, and for its suppliers and their performance against industry benchmarks. Industry-specific questions additionally focus on training, audits and transparency. Industries operating in areas where HIV/AIDS is widespread are also expected to support their employees and minimize the risks of disruption to their business activities.

Criterion Update

Two new questions have been introduced in 2022 in the OHS criterion: OHS Policy as well as OHS Programs. These two additions allow for further alignment of the criterion with the expectations set in the OHS most relevant international standards (ILO and ISO 45001).

Also, in order to further align with the changes introduced with these two new questions, the already existing question on OHS Governance Oversight has been reviewed to consistently cover the governance aspects of Occupational Health & Safety systems.

Figure 38 shows the average scores for the three updated OHS questions - OHS Policy, Programs, and Governance Oversight. These questions apply to sectors except for a few industries, such as airlines, telecom, software, and IT services. The overall low average scores on OHS Policy and Governance Oversight, compared with a higher average score for OHS Programs, demonstrate that companies still need to improve their OHS management systems and governance, even if they have some programs in place.
OHS Policy

The purpose of this question is to identify companies that have an active commitment towards occupational health and safety in line with the most relevant international OHS standards. The policy needs to be company-specific with a company-wide commitment and not just for a single site, business unit, or project.

The OHS policy should cover a set of commitments that capture the long-term direction of the organization in terms of health and safety. It sets out the company’s approach to health and safety and establishes in a clear way what the company expectations towards employees and other interested parties are.

The OHS policy provides an overall commitment, as well as a necessary framework for the organization to set its objectives and take actions to achieve the intended outcomes of the OHS management system.

The commitments included in the policy are then reflected in the processes companies establish to ensure a robust, credible, and reliable OHS management system. Therefore, an OHS commitment is a previous and necessary step on what to build further measures.

The OHS policy should set the direction for effective health and safety management. Board members need to establish a health and safety policy that is much more than a document – it should be an integral part of the organization’s culture, of its values and performance standards.

This question was added to the CSA in 2022 and applies to 54 industries.

Findings

Figure 39 shows the percentage of companies disclosing their OHS policy as per the various commitments expected in an Occupational Health and Safety policy. While most companies have a public OHS policy, companies do not tend to be specific on their actual commitments toward employees’ health and safety. For instance, only around 17% of companies have a commitment to set up OHS targets and implement specific action plans on OHS.

A larger number of companies have a commitment to comply with international OHS standards and continuously improve their health and safety systems.

To learn more, visit here.
OHS Programs

Poor occupational health and safety (OHS) performance has a direct negative impact on labor costs through lower productivity. Lower performance not only poses a threat to a company’s reputation and staff morale but also results in increased operating costs in the form of fines and other contingent liabilities. With this question, we aim to find out how a company ensures effective management of health risks/issues and to identify companies that have dedicated programs to Occupational Health and Safety.

The OHS programs should cover a set of actions that ensure a robust, credible, and reliable OHS management system. It aims at providing tools to assess and improve performance in the prevention of workplace incidents and accidents via the effective management of hazards and risks in the workplace.

This question was added to the CSA in 2022 and applies to 54 industries.

Findings

Figure 40 shows the percentage across industries of disclosure for each aspect of the OHS Programs question. Similarly to the OHS Policy question, while the percentage of companies that publicly disclose having an OHS management system is above those who do not, the disclosure on each specific aspect of it varies significantly. The figure shows that the topic less often reported relates to the prioritization and integration of action plans with quantified targets to address OHS risks, followed by information about the evaluation of progress in reducing/preventing health issues/risks against the targets set.

OHS training is however the most reported aspect in the context of health and safety management systems, followed by information about OHS risk assessments.
OHS Governance Oversight

Board members need to establish a health and safety policy that is much more than a document – it should be an integral part of your organization’s culture, of its values and performance standards. With this question, we aim to find out how a company ensures effective governance of health risks/issues. In the CSA 2022 this question was improved to better capture the accountability and oversight of the implementation of OHS.

This question applies to 15 industries.

Findings

Figure 41 shows the percentage of companies in the different sectors to which this question applies. Data shows that OHS governance information is still not widely available. While there is a higher percentage of companies with a top management representative being accountable for and overseeing OHS management implementation, aspects like Boards of Directors receiving frequent updates on OHS management or the integration of OHS performance into remuneration frameworks of top management are still under-reported.
Access to Healthcare

Globally, patients face constraints in accessing the appropriate medication, treatment, or service crucial to treat their illness. Sustainability leaders in the healthcare sector are taking innovative steps to engage with these social issues by improving access to drugs, products, and services. In turn, these companies benefit from the opportunity to expand their own credibility/reputation, their corporate and product brands, and the market penetration of their products and services. Our questions focus on the measures (e.g., partnerships and initiatives) that companies take to increase the accessibility of healthcare products and services, and how this translates in quantifying reach.

Criterion Update

The Access to Healthcare criterion (previously named Strategy to Improve Access to Drugs or Products) was significantly updated for the 2022 CSA. The intent of these updates was to focus on companies’ initiatives towards improving access to healthcare through programs and partnerships, and how companies of the Biotechnology (BTC) and Pharmaceuticals (DRG) company measure their performance within the topic. This criterion was also added to two healthcare industries: Health Care Equipment & Supplies (MTC) and Healthcare Providers and Services industry (HEA).

The average criterion score in 2022 varied among industries, with DRG scoring the highest average and BTC the lowest. DRG had an average score of 25, and as the most mature in this field, it is expected that DRG companies have some sort of activity towards improving access to healthcare. The topic is also of importance to HEA, where access is material to the industry and is growing in importance, as was seen during the COVID pandemic. MTC and BTC, on the other hand, are less mature in this topic, with other topics often considered more material, however it is clearly still a relevant topic, and likely one to become of more importance in the future.

Figure 42
Average Access to Healthcare Criterion Score

To learn more, visit here.
Access to Healthcare Programs

Patients are often unable to access health treatment, and it is becoming a growing concern globally. This social issue provides healthcare industries with an opportunity to design and implement initiatives that provide patients with access to medicines and products. Sustainability leaders in these industries are taking innovative steps to engage with these issues, and in turn are benefiting from the opportunity to expand their own credibility (and reputation), their corporate and product brands, and the market penetration of their products and services. We ask this question to see if companies in this industry have strategies in place to actively address the issue of access to drugs and products.

The topic of access to healthcare programs is approached with three different questions depending on the industry. Their names are Access to Healthcare Programs (Products), Access to Healthcare Programs (Products & Drugs), and Access to Healthcare Programs (Products) for MTC (Healthcare equipment and supply), both BTC (Biotechnology) and DRG (Pharmaceuticals), and HEA (Healthcare providers and services), respectively.

Findings

All three questions have sub-options related to industry-specific initiatives, and DRG has the most companies with some form of initiative related to access, with 54% of companies. HEA is the one with the lowest number, with 32% of companies providing an initiative for access to healthcare. Just below half of MTC and BTC companies organize programs for access.

Figure 43
How many companies have at least one initiative for access?
In addition to the list of industry-specific initiatives, all three questions have two sub-options related to reporting on targets - one related to whether the company reports on targets associated with access, and the other on whether progress of said targets are reported. DRG had the most companies providing both targets and progress on targets, with 15% of companies, while the other industries had lower percentages of companies, from 5-10% either reporting on targets or on target progress.

On the other hand, donations are the least common program type, likely due to approval requirements and/or regulations related to potential issues with liability. Usually such donations are done through other non-governmental organisations and require registrations, making it a less appealing initiative type for the industry.

Previously named Approach to Accessibility of Drugs & Products, in the 2021 CSA, this question was only applicable to MTC, and was updated in 2022 to include the most pertinent programs for improving access to healthcare. The question includes the aforementioned options on reporting on targets, as well as three access to healthcare program types. The results from the CSA show that the majority of Health Care Equipment & Supplies (MTC) companies do not have any information on programs for access to healthcare, as it is still less mature in this topic compared to other topics that the industry may consider more material at this stage.

The most common programs are product innovation and initiatives for vulnerable populations and/or least developed countries (LDCs). Product innovation is a clear priority for MTC, as development of their devices/products can be key for improving access, as ease in use or administration is key for access to MTC products. Initiatives aimed at vulnerable populations and/or LDCs are also common as it is the type of activity most closely associated to improving access to healthcare. In the CSA, vulnerable populations are defined as individuals who are of low-income, underinsured, children, elderly, racial or ethnic minorities, or those with certain critical medical conditions. As for LDCs, we use the United Nations List of LDCs.

The Access to Healthcare Programs (Products & Drugs) question uses the Access to Healthcare Programs (Products) question as a foundation, adding other programs specific to the pharmaceuticals (DRG) and biotechnology (BTC) industries. Compared to MTC and HEA, more companies are involved in at least one of the initiatives for access to healthcare, with over half of the assessed DRG companies providing such information, and just under half for BTC. DRG had higher responses than BTC likely due its patient-focus and maturity of the topic. While it is common for DRG companies to have patient assistance programs or drug donations, it is only more recently that BTC companies have been focusing on access.

Similar to MTC, most DRG and BTC companies target vulnerable populations/LDCs and the least common initiatives are product donations, presumably for similar reasons. Patient assistance and reimbursement support programs are also high, with companies being involved in reimbursement schemes or other financial help. This is a key activity for both industries, as it is the most direct manner the company can help patients have access to their drugs or products, and is of particular relevance to BTC, as that is the initiative which the largest percentage of companies participate in within the industry.
Product innovation and research on neglected tropical diseases (NTD) are less commonly found for both industries, likely based on the nature of companies’ business models. Regarding NTD, not all BTC and DRG companies are involved in the research of those diseases. Similarly, for innovation, in order to improve access, an initial solution must be available first, as treatment drives innovation. For example, during the COVID pandemic, vaccines were needed globally. The first solutions were effective however required extremely low temperatures for storage. Although it was not optimal for transportation or storage, it was the first option for preventing the disease.

Once more research was done, innovation allowed for better storage solutions, and there is potential for further innovation to other methods of application, such as pills, which would allow for easier method of application, without the infrastructure and personnel. As such, some companies may be focused on the first part of this process, finding a treatment, so product innovation is less relevant to their business.

The responses for ‘Others’ varied, but the most common were related to research on orphan drugs and rare diseases, as research for these are usually limited, significantly affecting individuals with such illnesses having access to any form of treatment.

Figure 46
BTC and DRG responses for Access Programs

<table>
<thead>
<tr>
<th>Initiative for vulnerable populations or LDCs</th>
<th>Research to develop new medicines for neglected diseases</th>
<th>Product innovation</th>
<th>Product or drug donations</th>
<th>Initiative for vulnerable populations or LDCs</th>
<th>Patient Assistance and reimbursement support</th>
<th>Reporting on process of targets</th>
<th>Reporting on targets associated with access</th>
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</table>
Major Methodology Updates

Similar to the question for BTC and DRG, the Access to Healthcare Programs question uses the Access to Healthcare Programs (Products) question as a foundation, adding other programs specific to the Healthcare Providers and Services industry (HEA). For HEA companies, just over one third of assessed companies have an initiative to improve access to healthcare. The main reason is likely because HEA focuses on patient reach over access to healthcare. Although reporting on targets and progress of targets was relatively low for all 4 industries, it is the lowest for HEA companies, whereby only 1.6% of companies that have any program also report on these. Other topics are likely considered more material, so although they are involved in some relevant initiatives, it may be to meet targets in patient reach rather than on increasing access.

Providing digital tools or virtual care options are the initiatives most commonly found in HEA companies. This had been increasing due to global digitalization and was further cemented during the pandemic, when telehealth grew and healthcare providers needed to be accessible to people despite lockdowns and distances. Increased locations and mobile units are also common initiatives provided by HEA companies, which is of particular benefit for communities in remote areas, where access to a hospital or pharmacy is less feasible. These two activities are examples of simultaneously increasing both patient outreach and access to healthcare.

On the other hand, although some companies are also involved in advancing policies or negotiating for lower drug prices, it was less common than the previous two programs. This could also depend on the business model, size, and influence of companies.

Figure 47
Which initiatives are most common for HEA companies?

![Figure 47](chart.png)

To learn more, visit [here](https://example.com).
Major Methodology Updates

Impact on Access to Healthcare

Patients are often unable to access health treatment, and it is becoming a growing concern globally. This social issue provides healthcare industries with an opportunity to design and implement initiatives that provide patients with access to medicines and products. Sustainability leaders in these industries are taking innovative steps to engage with these issues, and in turn are benefiting from the opportunity to expand their own credibility (and reputation), their corporate and product brands, and the market penetration of their products and services. We ask this question to see if companies in this industry track the impact of their programs towards access to healthcare.

This question aims at assessing the effectiveness of the policies and programs in reaching patients with low-cost access. It enables the alignment of the CSA metrics with the Global Investors for Sustainable Development (GISD) Sector-Specific Metrics, and most of all, it determines if companies track their performance in access to healthcare. As with any forward-looking ESG topic, we began by assessing programs and initiatives for access to healthcare. This year we introduced measurements for performance, due to our continuous aim to assess values and better quantify companies’ impact.

This question was added to the CSA in 2022 and applies to Biotechnology (BTC) and Pharmaceuticals (DRG).

Findings

The results show that 22% of DRG companies and 11% of BTC companies report on these values. Despite a low number of companies reporting, we can calculate a 301% average increase in the last 4 years for low-cost access, and 53% increase in total patients reached. DRG had higher increases than BTC, though also larger sample size. The question collects data for 4 years, in order to provide a more complete picture on trend. As it is the first time this question is asked, not all companies have the complete 4 years of Information, for these calculations we have included those with at least 3 years.

Figure 48
Growth in number of patients reached

<table>
<thead>
<tr>
<th></th>
<th>DRG (10)</th>
<th>BTC (6)</th>
<th>Total DRG (10)</th>
<th>BTC (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-Cost Access</td>
<td>301%</td>
<td>89%</td>
<td>53%</td>
<td>43%</td>
</tr>
<tr>
<td>Total Patients Reached</td>
<td>428%</td>
<td>54%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

To learn more, visit here.
Major Methodology Updates

DRG has higher score averages than BTC, as BTC tends to be more involved in innovation and R&D, while DRG covers that too but is also highly patient-focused, usually more so than BTC. In terms of regions, Africa and Latin America have low averages due to small sample size and because of maturity in this field. Companies in Africa and Latin America may not yet be measuring these values as much as the other regions, as strategies for access are still starting in those regions.

When dividing by region, European DRG companies are clearly disclosing such information more. This could be because they also have more ongoing programs and initiatives (as seen in the programs question before), but also because of interest from stakeholders, competitive advantage, and at times, legal requirements. Africa and Latin America are the regions with the fewest companies disclosing such information, partly due to sample size, but also as it supports the response from the programs questions, whereby they seem to have fewer initiatives. Similarly, in the current climate, it may be less of a priority or competitive advantage to track this data, even if the company has programs for improved access.

An aspect to note is that in lower income countries, the trend is that BTC and DRG companies enable governments to increase access to healthcare, however their participation in these areas is less prominent, as improving access to healthcare is left more to the government. With this, companies from these areas may be involved in aspects of improving access but are unable to track and report the actual number of people impacted as it is done through governments such as ministries of health.

This question is currently private (it does not require public reporting) but we expect it to become public, once more companies start tracking and publicly reporting this information.

With heightened interest from stakeholders, we also expect the values to increase, aiming for higher numbers of total patients reached and higher percentages of low-cost access patients.
Major Methodology Updates

Sustainable Marketing & Brand Perception

A brand is a living business asset. It differentiates a company’s products from those of its competitors and encourages customer loyalty. Indeed, the brand conveys the values and long-term strategy of the organization. Marketing is the means by which the brand can be depicted. Therefore, the two elements cannot be dissociated.

Customers are now more than ever seeking companies to demonstrate sustainable values and achievement. Ethical marketing follows this logic by providing accurate and adequate information about the brand and its environmental and social impact. This in return leads to an increased perception of the sustainability of the brand among customers. The positive outcome of this perception is the customer retention and gain which is directly linked to revenue growth. On the other hand, if this approach is not adopted or respected it can lead to reputational risks or fines.

Criterion Update

The Sustainable Marketing and Brand Perception criterion (previously named Brand Management) was significantly updated for the 2022 CSA. The topic of brand management and brand perception remains very important for investors therefore the revision clarifies and extends the scope of information captured. The intent of this update was to focus on the type of commitment companies make on ethical marketing and advertising and whether companies are tracking their brand perception consistently.

Figure 51 displays the average criterion score per industry in 2022. Overall, the scores across the 13 industries assessed are low which shows that Sustainable Marketing and Brand Perception remains an area in which development is needed. The highest scoring industry is Personal Products (37) and the lowest is Restaurants and Leisure Facilities (5). In part, the low criterion score per industry is due to many companies stating they were unable to respond publicly. It is also due to the number of companies within an industry being smaller or larger than others, thus changing the average score attributed to that industry. For example, in Personal Products, this criterion applies to 31 companies however for Retailing, an industry with an average score of 11, this criterion applies to 206 companies. It is expected the average criterion score per industry will improve as companies reflect the fact that sustainable marketing and managing brand perception is a competitive differentiator.

Figure 51
Average criterion score per industry

Air Airlines 20
AUT Automobiles 21
BVG Beverages 11
CNO Casinos & Gaming 8
COS Personal Products 20
CSV Diversified Consumer Services 2
DFH Household Durables 8
HOU Household Products 17
LEG Leisure Equipment & Products 5
PUB Media, Movies & Entertainment 4
REX Restaurants & Leisure Facilities 4
RTS Retailing 6
TEX Textile Apparel & Luxury Goods 8

To learn more, visit here.
Ethical Marketing & Advertising

Having a clear commitment to pursuing ethical marketing helps to maintain trust between the company and the customer. This element of trust is essential to ensure customer loyalty which has a direct impact on revenue. It also allows companies to avoid key reputational and financial (i.e. fines) risks as some forms of marketing are unlawful.

This was a new question for 2022 and focuses on asking companies if they have a publicly available worldwide commitment for ethical marketing and advertising practices. This commitment can include providing accurate and balanced information, rejecting exaggerated claims, protecting vulnerable market segments and abstaining from disinforming customers on competitors’ products.

This question was added to the CSA in 2022 and applies to 13 industries.

Findings

743 companies were asked to answer this question. Only 156 (21%) of those companies to whom the question applied, responded that they have a commitment to ethical marketing and advertising practices and that their commitment contained at least one of elements as shown in Figure 52.

From the data collected and analyzed in 2022, we have found that 19% of companies assessed have a commitment which states they will provide accurate and balanced information about their products. 11% commit to protecting vulnerable market segments such as children or market illiterates. However only 7% of companies assessed have a commitment to reject exaggerated claims about the social and environmental impacts of their work. Examples of exaggerated claims can include using statistics in a misleading way or stating without appropriate substantiation that the product or service extends to the whole sustainability performance of the company, group or industry, or referring to terms such as “environmentally friendly,” “green,” or “sustainable,” without qualification etc.

Figure 52

Companies with a worldwide commitment for ethical marketing and advertising practices

<table>
<thead>
<tr>
<th>Commitment in place</th>
<th>No commitment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Protect vulnerable market segments (i.e. children, market illiterates etc.)</td>
<td>11%</td>
</tr>
<tr>
<td>Reject exaggerated claims about the social and environmental impacts of our work</td>
<td>7%</td>
</tr>
<tr>
<td>Abstain from disinforming customers on competitors’ work/product</td>
<td>7%</td>
</tr>
<tr>
<td>Provide accurate and balanced information about our company’s products/services</td>
<td>19%</td>
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</table>
From the 156 companies that disclosed they do have a commitment and what the contents of that commitment are, Retailing is the industry who most frequently provide this information (Figure 53) publicly and concentrate on providing balanced information about their product to consumers (Figure 53).

They are closely followed by Beverages, where companies that have a commitment concentrate on protecting vulnerable market segments as is to be expected based on this industry’s product.

A public commitment to reject exaggerated claims about the social and environmental impacts of their work is one of the least committed to elements across all industries as shown in Figure 54 despite companies facing increased scrutiny from both regulators and investors following recent high-profile cases of exaggerated environmental claims.

It is a key area for companies to show progress in “walking the talk” and the symbiotic relationship that is needed between sustainability and communications teams where environmental and social metrics and impacts are understood and communicated honestly with stakeholders.

To learn more, visit [here](#).
Brand Management Metrics

Customers are increasingly expecting companies to move towards a more sustainable way of conducting business. The perception of how sustainable a brand is can even drive customer choice. Therefore, being perceived as becoming more sustainable is key to retaining customers but also attracting new ones and ensuring business growth. On the other hand, a bad perception of a brand’s sustainability can lead to reputational and financial risks, as customers can move away from the brand. Thus, it is essential to understand how customers perceive the brand in terms of sustainability and how this impacts the company’s performance.

A question on Brand Management Metrics has existed in the CSA in some form for the past 6 years. The previous objective of the question was to gather information on the internal commitments a company had to support and sustain a brand’s strength. As of 2022, this question has evolved to reflect the increasing number of stakeholders who take an interest in how the concept of sustainability impacts a brand and company’s overall performance. Companies are now asked if they track the progress of brand perception on sustainability topics and whether the results of this are analyzed to show how a brand is perceived on sustainability topics impacts business performance. This notable addition of Key Performance Indicators ensures that tangible information on how a brand is perceived to be performing on sustainability topics can be linked to overall business performance as shown in Figure 55.

Findings

Only 15% of companies are tracking the evolution of customer brand perception through a survey which includes sustainability topics, as shown in Figure 55. This activity is more dominant in Europe with 26% of companies assessed that are headquartered in the region disclosing that they track the progress of their brand perception and how it impacts business performance.

Figure 55
Companies that track the evolution of customer brand perception through a survey which includes sustainability topics

This question applies to 13 industries
From the 15% of companies that track the evolution of customer brand perception through a survey, data shows Airlines, Automobiles, Casinos and Gaming and the Personal Products sectors are more likely to carry out these out asking customers questions such as but not limited to “Do you choose our brand because you believe it to be more sustainable?” or “Do you believe our brand does the right thing for the planet/society?”. It is interesting to see that Airlines (45%) and Automobiles (40%) are aware of the purchasing habits of customers changing with increased focus placed on the carbon footprint of a flight and the advent of electric vehicles for example.

By understanding how much value a customer places on the sustainability of a brand, it can be a material differentiator in a competitive market. Retailing along with Textiles, Apparel and Luxury Goods do not appear to be prioritizing understanding how their customers associate their brand with sustainability however this is expected to increase particularly with increased awareness from customers on greenwashing by brands combined with increased regulations and associated penalties.

Figure 56
Industry level disclosure on tracking brand performance metrics related to sustainability
Companies who track the progress of their brand perception are also asked what the results of that have been and the weight that has been given to sustainability topics. This reflects the percentage of business growth/performance related to brand perception. For example, a company may have calculated that brand perception improvement is responsible for 2% of sales growth in the last fiscal year as more customers switched to using the brand.

When analyzed, only 7% of companies (47) assessed could confirm that a statistical analysis of their brand perception survey is performed. From this 7%, similar to the industries that have a public commitment to ethical marketing and advertising, Retailers are the industry that perform highly, followed by Beverages, Automobiles and Airlines. Moreover, it is most common to link brand perception to Revenue Growth/Decrease or Market Share Growth/Decrease however Sales Volume Growth/Decrease does not feature for many industries.

Figure 57
Industries that link brand perception to overall business performance
**Business Ethics**

The criterion evaluates the Codes of Conduct, their implementation and the transparent reporting on breaches, as well as the occurrence of corruption & bribery cases and anti-competitive practices. Since the 2022 CSA cycle, this criterion also covers whether the company is a participant or signatory to the United Nations Global Compact (UNGC). The UNGC is a voluntary initiative to encourage businesses to align their strategies and operations with 10 principles of sustainability and the Sustainable development Goal (SDG).

**Criterion Update**

The criterion was updated in 2022 to include a new question on the UNGC to assess whether companies are participants or signatories of one of the most relevant international standards on sustainability and corporate responsibility. 2022 CSA results shows that across all industries, on average, 28% of companies were found to be signatories to the UNGC.

**UN Global Compact Membership**

The UNGC is a reference point for investors to apprehend which companies are truly committed to sustainable growth. Being a participant or signatory of the UNGC requires a public commitment of the company's CEO and the yearly release of a Communication on Progress. Therefore, this question aims to verify whether companies have taken this important public stance, regardless of their size.

*This question was added to the CSA in 2022 and applies to all industries except Tobacco.*

**Findings**

As seen in Figure 58, among those that are currently actively engaged in the UNGC, the Chemical sector is the one with the highest number of UNGC members, followed by the Banks industry and Real Estate.

**Figure 58**

UNGC Participation among CSA companies

**Figure 59**

10 Top UNGC Industry Signatories
Outlook 2023

We continuously develop our methodology to ensure that our CSA remains an insightful and meaningful tool to understand companies' performance in the most material ESG topics within their industries. For 2023, we will continue to focus our attention on further aligning the CSA – where appropriate – with global reporting standards and frameworks. For several years we have been mapping our assessment and corresponding data requirements to standards to ensure that we reduce the reporting burden for companies. We continue to engage with global ESG reporting standard setters and initiatives and closely monitor the developments of frameworks such as the TCFD, the EU Non-Financial Reporting directive and the EU Taxonomy. Moreover, we continue our collaboration and dialogue with CDP to ensure alignment on important topics.

As we further develop the methodology for 2023, we will keep this alignment in mind to ensure that we can benefit from the growing amount of sustainability information available in the public domain. Our assessment methodology remains focused on integrating ESG trends that are deemed financially material and assessing companies on their performance and preparedness on ESG issues. We endeavor to make the CSA more focused, more financially relevant, and more differentiated.

We look forward to engaging with you via our ongoing webcast series, and as always, we welcome your feedback and suggestions that ensure that we continue to develop the CSA in a way that creates value for you and your stakeholders.
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