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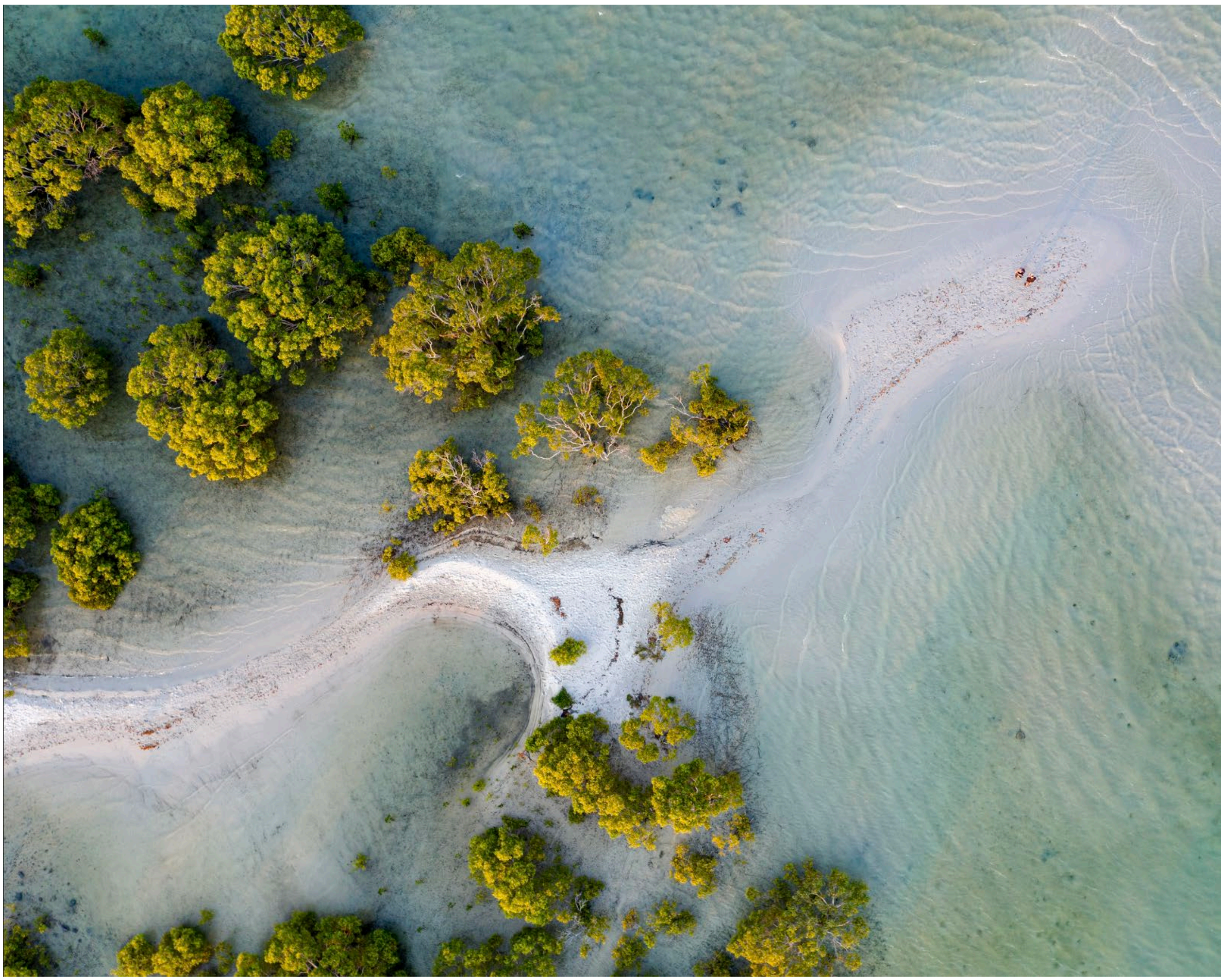
Annual Scoring & Methodology Review

Corporate Sustainability Assessment 2023



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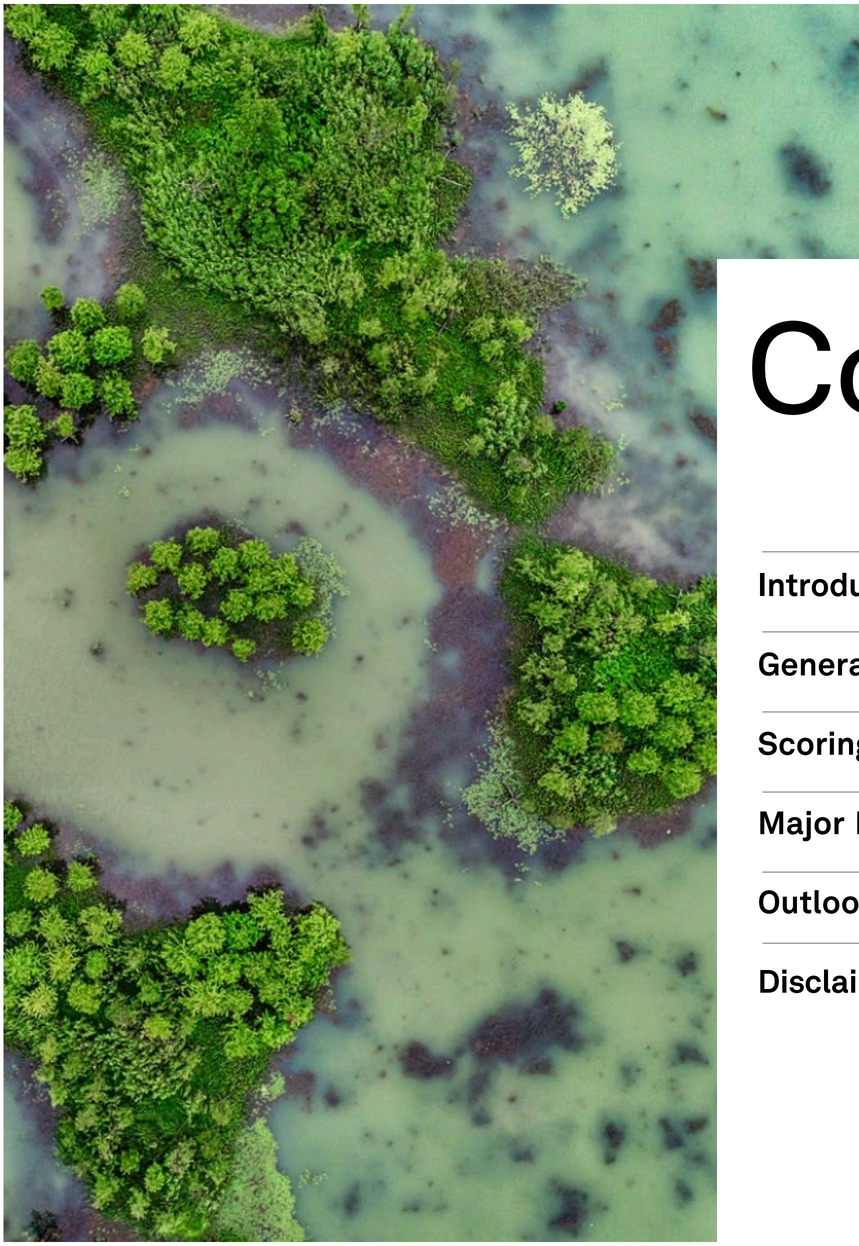

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01 Introduction

Purpose of this document

We want to thank all participating companies and other stakeholders for contributing to the continuous 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 2023 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 2023 CSA webcasts, including the 2023 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 Electricity Generation criterion, we have deleted the question on Nuclear Power Plant Performance Indicators, which applied to the ELC and MUW industry. Strategy for Emerging Markets and Genetically Modified Organisms criteria are deleted owing to very low level of response rate or lack of materiality for the applicable industries.

Within Living wage criterion, questions on Living wage of Employees, Contractors, Suppliers and Franchisees have been removed and the rest of the questions were moved to the 'Future Questions section'. To simplify and align the topics the questions within Operational Eco-Efficiency criterion were restructured into 4 criteria, Emissions, Resource Efficiency & circularity, Waste and Water.

Methodology Updates Summary

For the 2023 CSA, we continued to align our methodology not only with our own research of the most material topics, but also with widely accepted sustainability reporting frameworks such as GRI, TNFD, TCFD 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 17 significant methodology changes in the past cycle and 5 minor changes. This led to 29 new and 29 updated questions overall.

In the "Governance & Economic" dimension, major updates centered around the themes Transparency & Reporting, Materiality, Policy Influence, Risk & Crisis Management, Sustainable Finance and Supply Chain Management:

- Transparency and Reporting criterion integrates existing questions related to environmental and social assurance, introduces a new question on Sustainable taxonomies to capture company level data and simplifies Reporting boundaries questions to capture the coverage of ESG data reported by the company.
- Materiality has been updated with 3 new questions Materiality Analysis, Material Issues for external stakeholders, Materiality metrics for external stakeholders and 2 updated questions requiring public disclosure on Material issues for enterprise value creation and Materiality metrics for enterprise value creation.
- Risk & Crisis Management criterion question on sensitivity analysis has been integrated with the question that captures the overall risk management process of the company and now aligned with the standards such as COSO framework, ISO 31000.
- Policy Influence has been updated to include question on alignment of company's lobbying and trade association activity with the Paris Agreement.
- Sustainable Finance criterion structure has been updated to focus more on the business activities rather than individual business segment.
- Supply Chain Management criterion has been updated to focus on companies' practices to choose and handle their suppliers, identifying critical suppliers, process for conducting ESG related assessment and development of suppliers and to capture details on how company monitors the inputs and outputs of supplier screening process and also the outcomes of supplier assessment and development processes.

Minor Governance and economic dimension updates centered around the following topics: Business Ethics, Corporate Governance.

In the "Environmental" dimension, major updates centered around six themes Biodiversity, Climate strategy, Fleet Decarbonization, Low carbon Strategy, Mineral Waste Management and Water Related Risks

- Biodiversity criterion has been updated to align it with the reporting frameworks such as TNFD, SBTI guidance to target setting, UN CBD Post -2020 Global Biodiversity Framework and GRI Revised Biodiversity Standard.
- Climate Strategy criterion is updated to align it further with TCFD reporting framework.
- Fleet Decarbonization is a new criterion added after merging Fleet Management and Fuel efficiency Exposure and Measures criteria. The new criterion focuses on capturing information on company's GHG emissions per fleet type and how companies have different initiatives in place to decarbonize their fleets and incorporate new low carbon fuel and technologies.
- Low Carbon strategy criterion has been renamed as Automotive Use-phase Decarbonization and all questions have been updated to better focus on company's strategies to reduce carbon intensity of their vehicle portfolio.
- Mineral Waste Management criterion has been restructured and questions related to Tailings Waste Management updated and moved to new criterion 'Waste'. Tailings Waste Management criterion is bifurcated into three parts with focus on policy, program and tracking of KPIs.
- Water Related Risks criterion questions have been moved to new criterion 'Water'. The questions are updated to align it better with CDP Water scarcity questionnaire.

Minor 'Environmental' dimension updates centered around the topics Product Stewardship.

In Social Dimension the updates are centered around 5 themes Customer Relationship Management, Talent Attraction and Retention, Financial Inclusion, Responsibility of Content and Social Impacts on Communities.

- The Customer Relationship Management criterion now includes questions on tenant health and wellbeing for Real estate sector.
- Talent Attraction and Retention criterion has undergone changes in three questions related to performance appraisal method, employee engagement and employee support programs.
- Financial Inclusion criterion has been updated to align it better with standards such as ISD, IRIS+ and GRI. The criterion also focuses on company's financial inclusion commitment, related programs and performance indicators.
- The criterion Responsibility of Content is renamed as Content Responsibility and Moderation and the current questions are updated to focus on policies related to editorial independence, management of harmful contents spread via company's platform.
- Social Impact on Communities criterion updated to include ALU and STL industries and also focus on programs in place to address legitimate artisanal and small scale mining activities.

In the Social dimension minor updates centered around the following topics: Asset Closure Management and Occupational Health and Safety.

As compared to last year's methodology updates, there are more new and updated questions this year and 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 2023 cycle grouped among three major ESG dimensions.

Updated Criteria	Questions		Total
	New	Updated	
Governance & Economic Dimension			
Transparency & Reporting	1	2	3
Materiality	2	1	3
Risk & Crisis Management	1	0	1
Policy Influence	1	0	1
Sustainable Finance	3	5	8
Supply Chain Management	5	1	6
Environmental Dimension			
Biodiversity	2	2	4
Climate Strategy	1	3	4
Automotive Use-phase Decarbonization	0	4	4
Fleet Decarbonization	5	1	6
Mineral Waste Management (Now Waste)	2	1	3
Water-Related Risk (Now Water)	1	2	3
Social Dimension			
Customer Relationship Management	2	0	2
Content Responsibility and Moderation	0	3	3
Financial Inclusion	2	1	3
Talent Attraction & Retention	0	3	3
Social Impacts on Communities	1	0	1
Total	**29**	**29**	**58**

02

General Guidance Updates

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 information is included that is not publicly available no points will be awarded for this question: the assessment for this question is based upon public disclosure of the information requested. Publicly available information should be directly accessible through navigation from the 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 companies 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 companies 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.

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.

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 revenue stems 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.

Non-Listed Companies

CSA has been assessing the ESG performance of large variety of companies including non-listed companies. Non-listed companies are often not able to provide public supporting documents.

The CSA questionnaire allow non-listed companies to provide internal evidence for selective questions in the criteria Corporate Governance, Risk & Crisis Management and Tax Strategy. The information for these companies is also supplemented from the internal S&P Global database.

03

Scoring Methodology Updates

CSA's uses the Global Industry Classification standard (GICS) to determine the company's industry classification. In 2023, based on GICS changes, Real Estate industry is split into two industry groups Equity Real Estate Investment Trusts (REITS) and Real Estate Management & Development resulting in increase in the industry groups from 61 to 62. In 2023, like every year, we have reviewed the question- and criterion-level weights for all 62 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 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.

Focus on Double Materiality : In 2023, S&P global has also conducted materiality analysis for all 62 industries to identify sustainability factors driving environmental, social as well as business value. Using this analysis a materiality matrix has been created for each industry based on which the applicability and weights of sustainability criteria that are part of CSA questionnaire have been recalculated.

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. 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

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.

Modelled Scores

- As of 2023 an additional overlay has been introduced to integrate modelling into the S&P Global ESG Score. The scoring approach within the CSA allocates a '0' score to all questions where no information is disclosed to S&P Global, or where no information is found in the public domain. The outcome of this disclosure-based score is referred to as the S&P Global Corporate Sustainability Assessment (CSA) Score. To provide a more complete and holistic assessment of a company's sustainability performance, modelling approaches based on imputation are applied and aggregated into the S&P Global ESG Score to address gaps in disclosure. The purpose of this modelling approach is to emulate the performance-based scoring that could have been applied if reported data were available.

- For more information on the integration of modelling into the S&P Global ESG Scores please refer to the "S&P Global ESG Scores Methodology".

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 2
Overview of Scoring Types

Scoring Type	Description	Sample Questions
Transparency	Public Disclosure	• Human Rights Commitment
	Availability of Qualitative or Quantitative information	• Largest Contributions & Expenditures
Performance	Scoring of Qualitative or Quantitative data based on pre-defined thresholds or expectations	• Board Structure • Human Rights Assessment
	Trends scoring on a company's own performance over time	• Human Capital Return on Investment
	Linear peer-group scoring	• Lost-Time Industry Frequency Rate Employee Turnover Rate

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 2022 ESG Score (if available) as the best available estimate for their 2023 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 2023 ESG Score is already available, and for which share of companies benchmarking statistics would still rely on ESG Scores 2022.

04

Major Methodology Updates

Transparency and Reporting

Transparency in sustainability-related information and reporting produced by companies rely on providing data that is accurate, reliable and understandable by the stakeholders. To confidently use sustainability-related data and reports produced by companies, stakeholders must be able to rely on accurate information that has been collected, elaborated and presented in a transparent manner. This criterion aims to assess how companies set and communicate the reporting boundaries associated to their sustainability-disclosure, whether they certify the quality and accuracy of the disclosed data through third-party verification and assurance processes, and whether they define the eligibility and/or alignment of their business activities to relevant sustainable finance taxonomies.

Criterion Update

To evaluate the performance in this topic the criterion Transparency and Reporting has been included in 2023 to assess how companies set and communicate important information regarding their sustainability data, including reporting boundaries, the types of third-party data verification and assurance they have sought, and alignment with sustainability taxonomies emerging globally. While the question Sustainability Reporting Assurance contains elements there were already assessed in 2022, the questions Sustainability Reporting Boundaries was majorly updated, whereas Sustainability Taxonomies is a question introduced in 2023. Hence, the last two will be the subject of the analysis.

Sustainability Reporting Boundaries

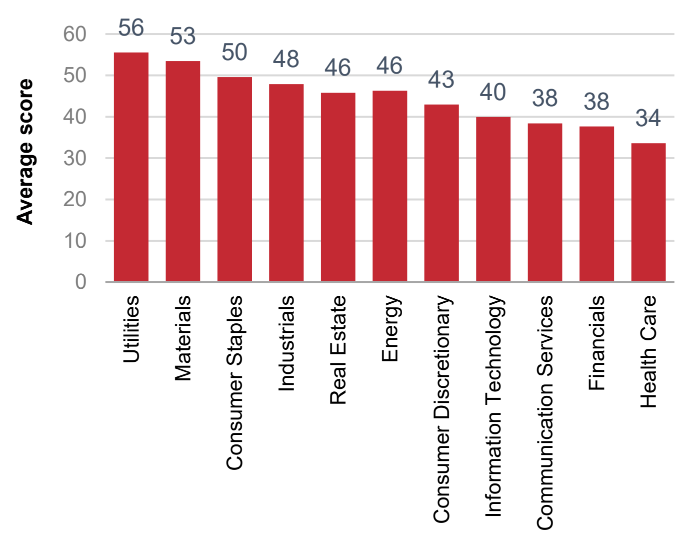
This question has been moved from the Company information section to a newly created criterion and is now scored. The question has been updated to capture the reporting scope of companies, in alignment with GRI 2-2 Entities included in the organization's sustainability reporting.

This question was updated in CSA 2023 and applies to all industries (62)

Findings

Figure 1 shows the average performance by sector for this majorly updated question in 2023. Only Utilities and Materials score higher than 50 on average, whereas all other sectors obtaining less than half of the maximum score.

Figure 1
Average score by sector for the question Sustainability Reporting Boundaries



Differences exist also by regions, as highlighted in Figure 2. Companies based in Africa are scoring higher on average, although they represent only a very small amounts of all the assessed companies in 2023. Among the geographies most frequently represented in the assessment, European companies have on average a higher score for disclosure of their sustainability reporting boundaries.

The question identifies whether companies are setting consistent reporting boundaries applicable to all their sustainability data, whether they disclose the boundaries only for a handful of metrics, or whether they give no information at all on such boundaries. Figure 3 shows how, in most sectors, companies tend to frequently have a dedicated reporting boundaries section in their sustainability, annual or integrated reports in which they disclose reporting boundaries that are consistently, hence aligning with GRI requirements for Disclosure 2-2.

Only Consumer Discretionary, Information Technology, Communication Services and Financials companies tend to most frequently disclose reporting boundaries for some individual metrics only, as opposed to disclose and apply an overall boundary-setting approach.

Figure 2
Average score by geographical region for Sustainability Reporting Boundaries

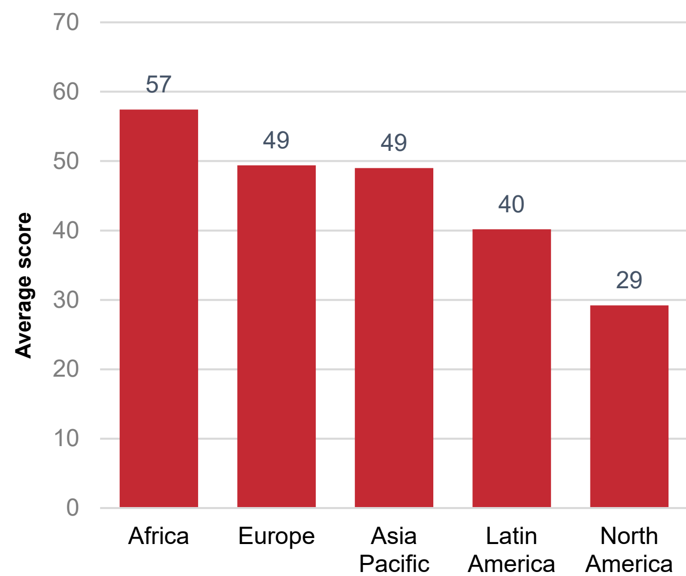


Figure 3
Percentage of companies disclosing overall sustainability reporting boundaries in a dedicated report section, versus reporting only on the boundaries for some metric per sector

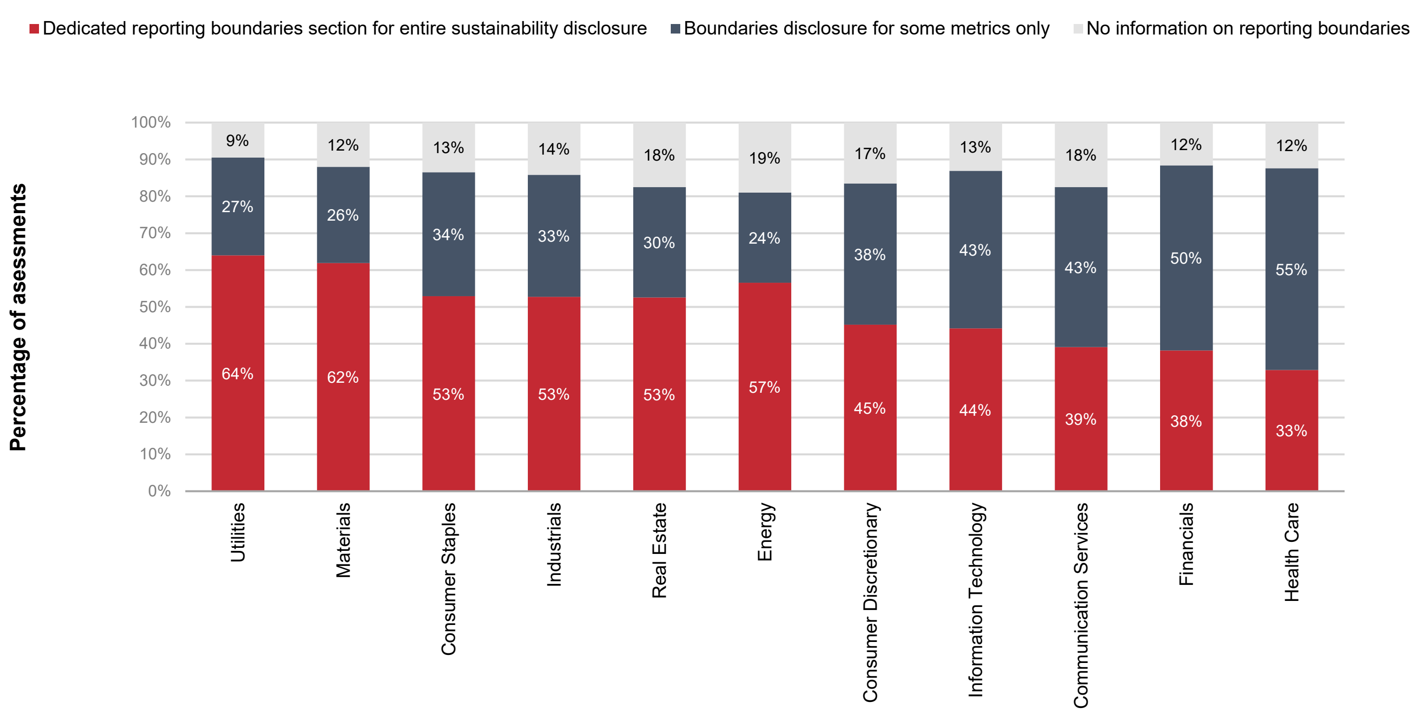
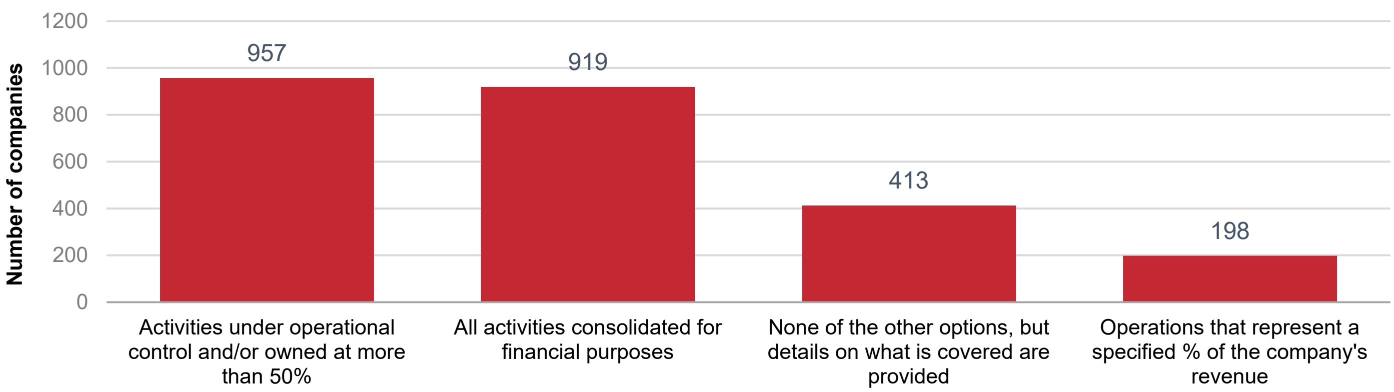


Figure 4 shows the type of boundary-setting applied by companies that have a consistent approach that is reporting in a dedicate section of their sustainability disclosure. Most companies tend to report on the same entities that they full consolidate in their financial statements, but a similarly large group of companies report only on activities over which they have operational control (or that they own at 50% or more). A smaller group of companies uses a revenue coverage to describe the extent of their sustainability reporting boundaries. The remaining companies do not use any of such approaches, but still specify what type of operations are included in their sustainability disclosures (e.g. by highlighting specifically excluded operations).

Figure 4
Consolidation approaches to sustainability reporting



Sustainability Taxonomies

This question has been moved from the Future questions section to the newly created Transparency & Reporting criterion and is now a scoring question. Sustainability Taxonomies serve as a general framework for assessing, classifying and benchmarking sustainable practices across industries, providing a systematic approach to measure and report on factors such as carbon emissions, social impact, resource management, and ethical governance. Although these regulatory frameworks are being developed unevenly across regions, the first environmental objectives of the European Union Taxonomy for Sustainable Activities are a milestone in the categorization of economic activities contributing to climate change mitigation and adaptation. For clarity purposes and homogeneity in the definitions, the next analysis will be conducted considering the classification process of the EU Taxonomy.

This question was introduced in CSA 2023 and applies to 59 out of 62 industries

Findings

Figure 5 illustrates the average scores across all sectors concerning the Sustainability Taxonomies questions. Notably, the European Union Taxonomy for Sustainable Activities has already become a mandatory reporting requirement for a substantial portion of European companies. Presently, this framework requires companies to report their eligibility and alignment exclusively on the climate change mitigation and adaptation environmental objectives, while others will follow in the next years.

Consequently, the Utilities sector, comprising electric utilities companies operating renewable energy assets, exhibits superior performance compared to other sectors. In contrast, sectors such as Health care and Consumer Staples record comparatively lower scores owing to the limited impact of their business activities on climate change mitigation and adaptation.

Figure 5
Average score for Sustainability Taxonomies across sectors

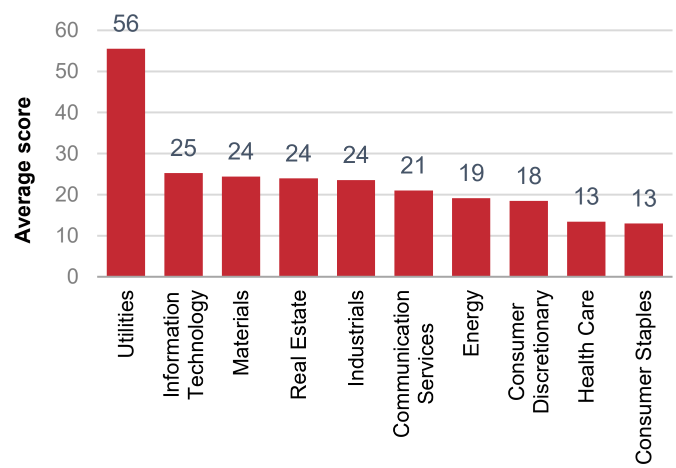
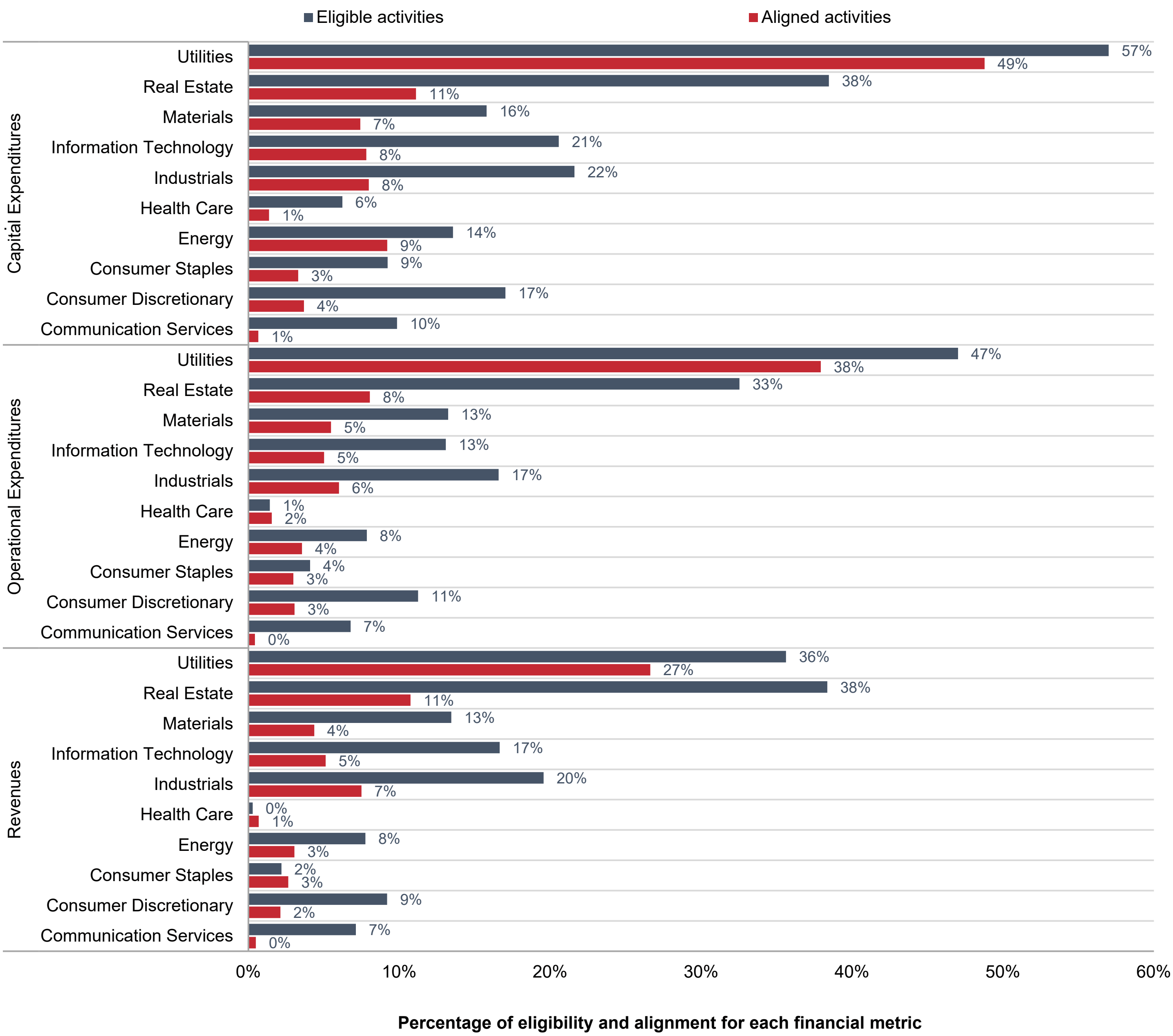


Figure 6 analyses the distinction between eligibility (the inclusion of a business activity in a Taxonomy) and alignment (ensuring company operations adhere to technical screening criteria, avoid significant harm to other objectives, and meet minimum social safeguards). While the Utilities sector benefits from the current regulatory scope, particularly regarding climate change objectives and renewable energy, Real Estate companies exhibit a substantial gap between their broad eligible revenues and expenditures and the alignment of their portfolios. Their operations fall short of fulfilling technical screening criteria, fail to prevent significant harm to other objectives, or do not meet minimum social safeguards. Similarly, sectors like Materials, Information Technology, and Industrials display significant shares of eligible activities but lack complete alignment.

Figure 6
Average eligible and aligned revenue, capital and operational expenditures by sector



Materiality

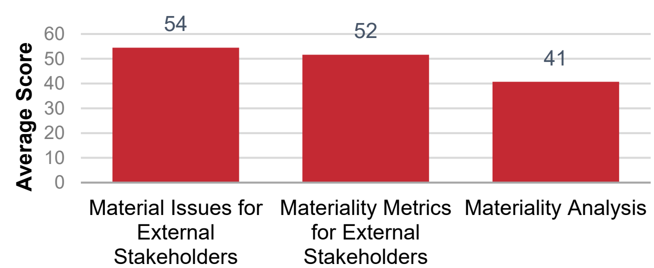
Materiality assessment is the foundation of sustainability related disclosures based on which companies' can formulate their ESG strategies. Materiality helps organization to identify the factors that impact them the most and it enables the company to develop realistic goals for the future and to plan and take meaningful actions to mitigate the risks and take advantage of the opportunities associated with the identified material issue.

Criterion Update

The questions in this criterion are aligned with GRI, IRIS+, WEF metrics and analyze company's ability to identify sustainability factors relevant for the long-term value creation. In 2023, the criterion has been updated to take into account the interrelation between the external impact on the society and the environment as well as internal impact on enterprise value. The principle of double materiality is also introduced during the year owing to increasing interest of the investors. With the integration of above concepts, Materiality Disclosure question has been updated and now is named Materiality Analysis. The question requires detailed information on the steps involved in identification of material issues. Two new questions Material Issues for External Stakeholders and Materiality Metrics for External Stakeholders are also included in the criterion that focus on the impact valuation of company's business activities.

The analysis is based on Figure 7 highlights that the average score for the updated question in the criterion. The question material issues for external stakeholders has an average score of 54 points followed by materiality metrics for external stakeholders with an average score of 52 points and the lowest average score of 41 points is received in the question Materiality analysis. The data depicts that majority of the companies are conducting impact valuation to analyze the external impacts of their operations and value chains. However, low average score in Materiality Analysis question highlights that companies that are still not conducting or reporting on materiality analysis process to identify the issues most material to them.

Figure 7
Average score of updated Materiality questions



Materiality Analysis

The question 'Materiality Disclosure' (now named 'Materiality Analysis') has been **updated** and **a new question is included with focus** on the details of the entire materiality assessment process.

As materiality assessment is the foundation of sustainability related disclosures and based on it, companies' device their ESG related strategies, the question has been updated to include details on the frequency of materiality assessment, integration of the results into company's enterprise risk management process, inclusion of external stakeholders, application of double materiality principles and prioritization of material issues. To analyze the credibility and robustness of the materiality process, the question also requires information on third-party verification of materiality process and approval by board of directors or senior management. This question is applicable to all the industries and requires public disclosure on each of the aspect.

This question was introduced in CSA 2023 and applies to all industries (62)

Findings

Figure 8 depicts the percentage of companies that have publicly reported on the details of their materiality analysis process. As per the below figure 71% of the companies are publicly reporting on the materiality process which means that a high number of companies are conducting materiality assessment. Figure 9 represents that 30% of the companies are reviewing their materiality analysis on a regular basis, 23% of the companies have included external stakeholders in the identification of material issues and 21% of the companies have also prioritized the risks based on their level of importance for stakeholders and the impact on the company. However, only 10% of the companies have integrated the principle of double materiality in the process highlighting the need for the companies to not just look at the impact of the issues on business but also on external environment and society.

As depicted in Figure 9, 10% of the companies have received sign-off from either the Board or senior management on the results of the materiality assessment but only 3% of companies have received third-party verification on the assessment results. Sign-off by the senior leaders and external verification ensures robustness and provides credibility to the process and the low results highlight the need of the companies to develop an internal and external process for the verification. Very less percentage of companies have integrating their assessment results in their enterprise risk management process. Integrating the identified material issue in a company's risk management process will help companies to develop robust mitigation measures for the ESG related risks.

Figure 8
Percentage of companies reporting on materiality analysis process

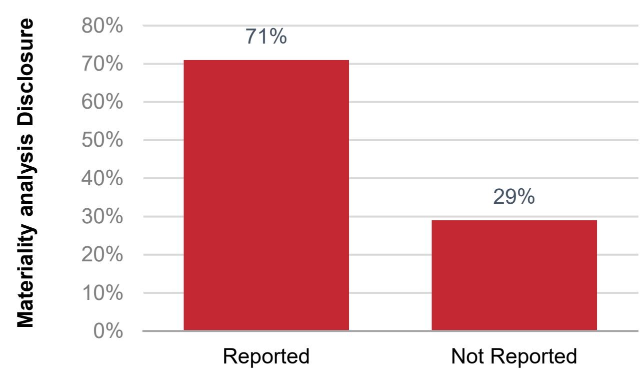


Figure 9
Materiality Analysis: Percentage of companies disclosing publicly process related aspects

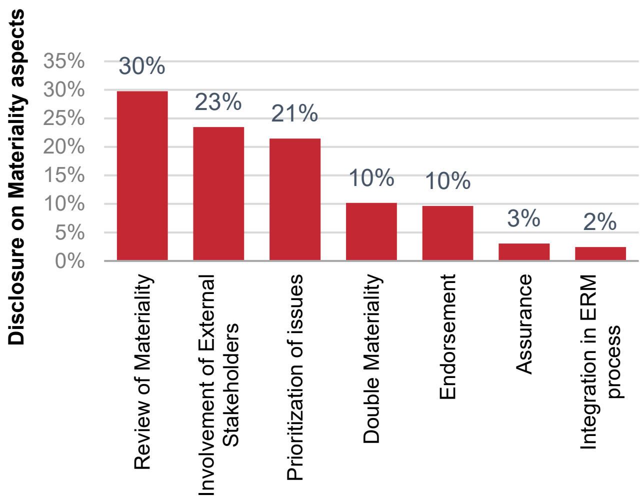


Figure 10 shows the frequency of the materiality analysis review. 53% of the companies have not disclosed the frequency of review. 31% of the company review their materiality analysis on an annual basis and 16% review their materiality analysis once every 2 or more years. Though conducting materiality analysis process every year is not possible as it requires a lot of time and resources but still many companies are at-least reviewing the identified issues on an annual basis to align their strategies with the changing external environment. However, the disclosure percentage is still very low for the companies.

Figure 10
Percentage of companies that are reviewing the Materiality at-least on an annual basis

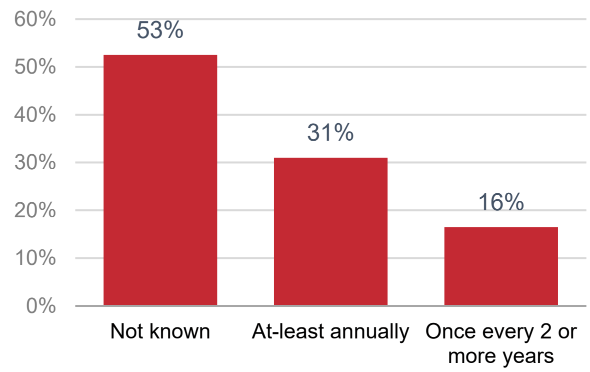
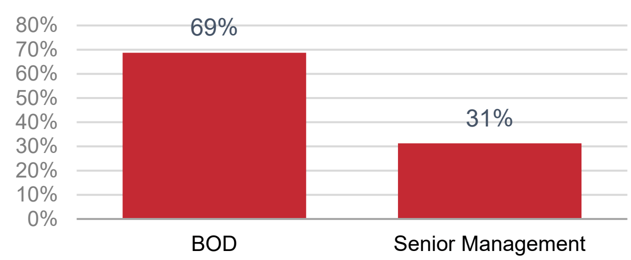


Figure 11
Percentage of companies with endorsement of materiality assessment by BOD and senior management



Material Issues for External Stakeholders

Material Issues for External Stakeholder is a new question added in the 2023 CSA questionnaire. The purpose of this question is to recognize companies that identify and value the externalized impact generated on societal stakeholder groups and/or the environment as a result of their main business activities. Impact valuation helps companies to increase awareness of externalities associated with their business and represents a management tool to orient the company strategy towards sustainable activities, solutions, and sourcing. Investors are also interested in how companies measure and understand their own impacts, and how those companies use that information in their internal decision-making so that it leads to long-term value creation. Over time, external impact on society and the environment also translates into internal impact on a company itself, including its financial value drivers. In a broader understanding of enterprise value today, including stakeholder perspectives, the interrelation between external and internal impact is a core part of determining materiality.

This question was introduced in CSA 2023 and applies to all industries (62)

Findings

Figure 13 and 14 demonstrate the percentage of companies identifying the externalized impact generated on societal stakeholder groups and/or the environment as a result of their main business activities. While companies have made significant progress in identifying and reporting the material issues that can have a present or future impact on the company's value drivers, competitive position, and on long-term shareholder value creation., the external social and environmental impacts resulting from business operations, products, services or supply chain operations are significantly under-reported. nearly 80% of the companies in all the sectors have not disclosed it. Utilities has the highest disclosure with 26% or companies reporting on material issues for external stakeholders. Meanwhile only 9% of companies withing the Information Technology sector are disclosing on external material issues. These low results on disclosure on external material issues are aligned with the fact that for the impacts reported, only 43% of them have publicly available information on companies' reports, as highlighted in Figure 12.

Figure 12
Percentage of companies publicly disclssing the external impact

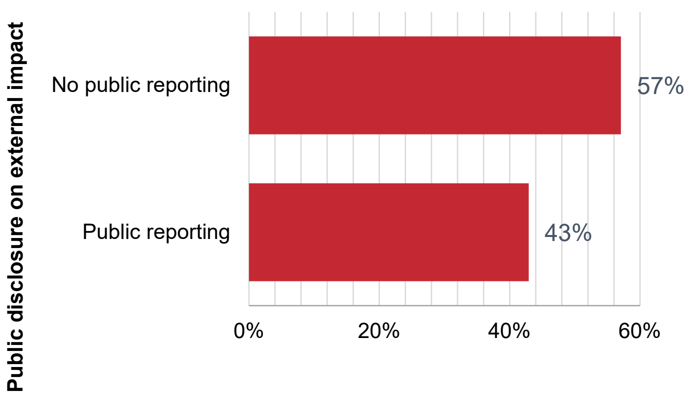


Figure 13
Number of impacts reported by the companies

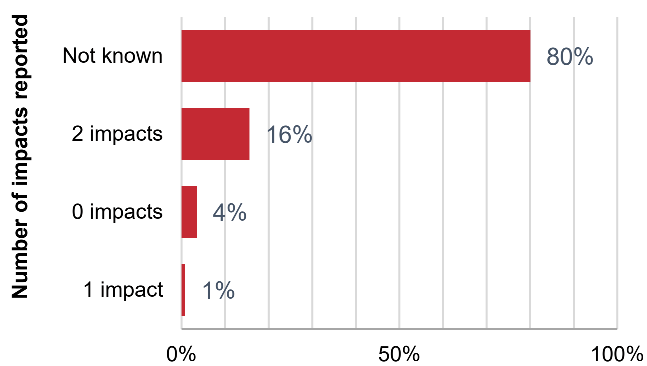
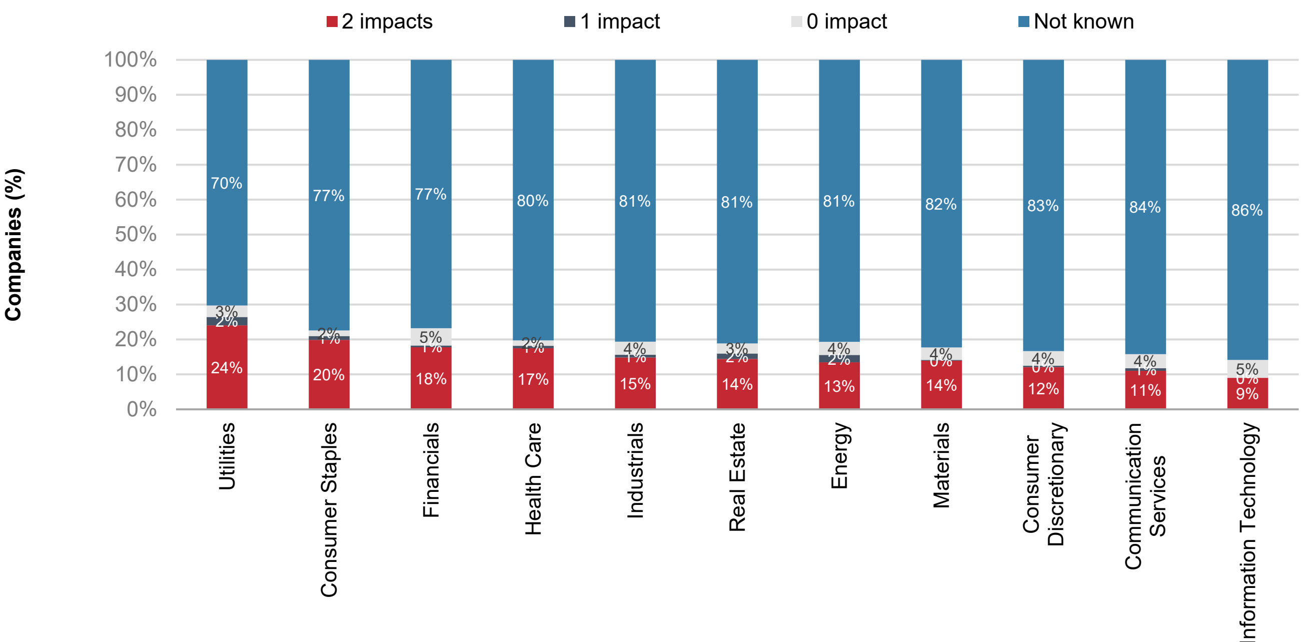


Figure 14
Number of impacts reported by companies per sector level



As highlighted on figure 15, in almost all the sectors more than 80% of the companies are reporting on two material issues for external stakeholder. However, 50% of the companies within the Communication Services sector is reporting only one material issue for external stakeholder, being the sector with less external impacts identified by company.

Figure 15
Percentage of companies reporting on external impact at sector level

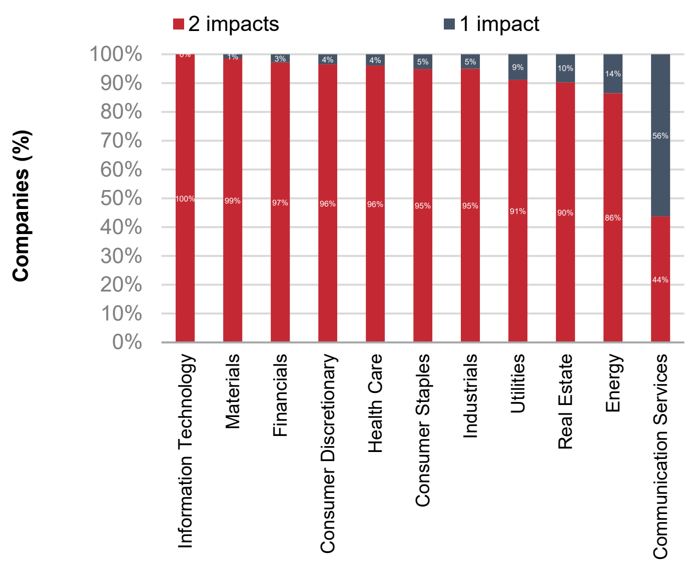


Figure 16 depicts the category the external impact reported belongs to. The category with more impacts reported is Climate Transition & Physical Risk, which highlights the commitment that companies have with climate change initiatives such as Paris Agreement and their focus on reducing environmental impact associated with their business activities. Other categories with a high level of impacts are Product/Service Quality & safety followed by Sustainable Products & services and Community Impact & Development.

Figure 16
Types of Impacts Reported

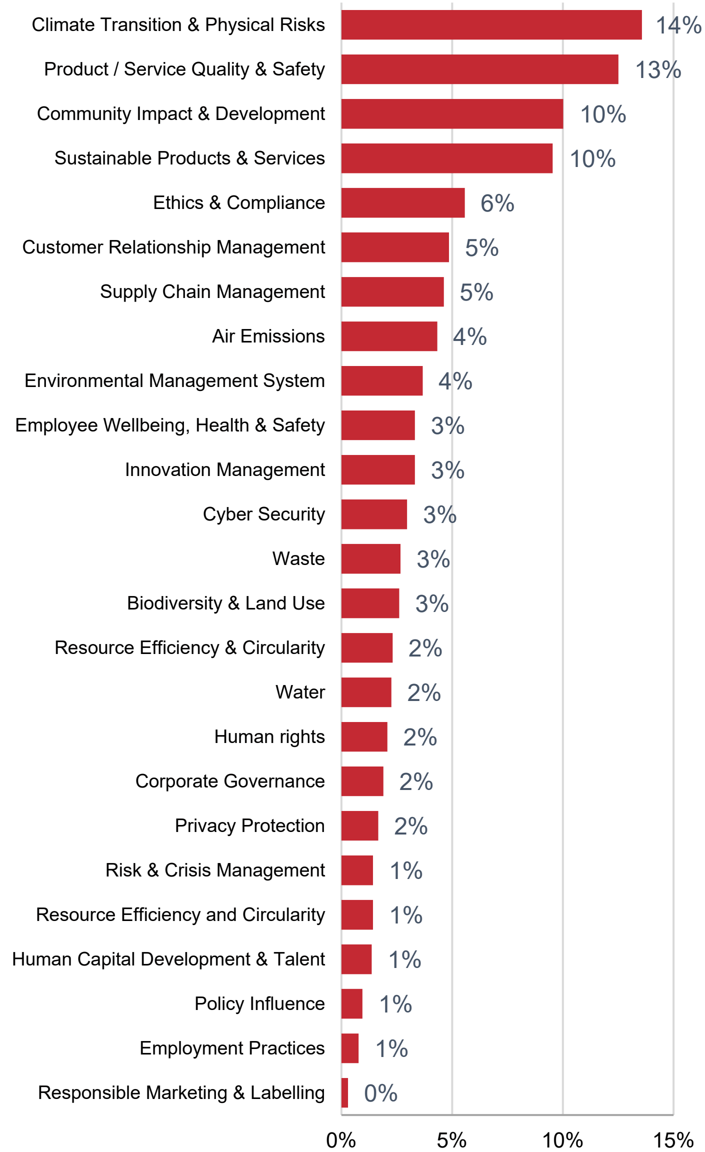


Figure 17 shows the part of the companies' business responsible for causing the external impact. Nearly 40% of the impacts are caused by business operations and product or services, meanwhile only 24% of the impacts reported are caused by the company's supply chain.

Figure 17
Types of Impacts Reported

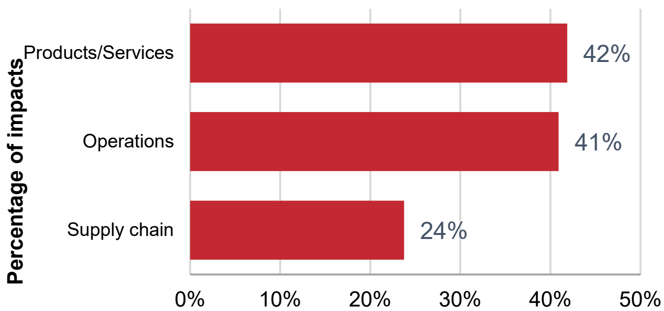
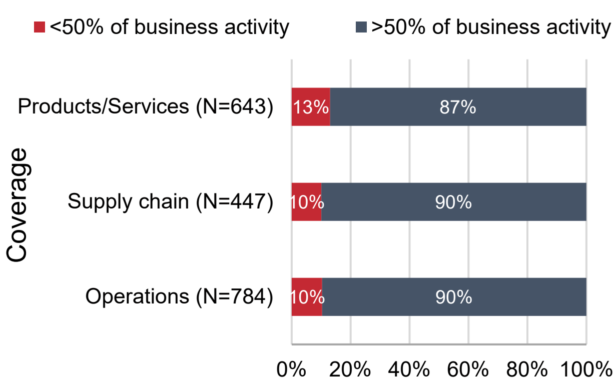


Figure 19 shows the coverage associated with the business activity that reflect that nearly 90% of companies are considering more than 50% of company operations, products/ services, or supply chain as part of the impact evaluations. `

Figure 19
Coverage of business activity with highest impact



A specific material issue can impact several areas. Figure 18 shows that the area where more material issues are impacting through its business activity is Society (40%), followed by consumers and end users (37%) and Environment (36%). Meanwhile external employees (those related to supply chain or contractors) are impacted by only 22% of the material issues.

Figure 18
External Area with highest impact

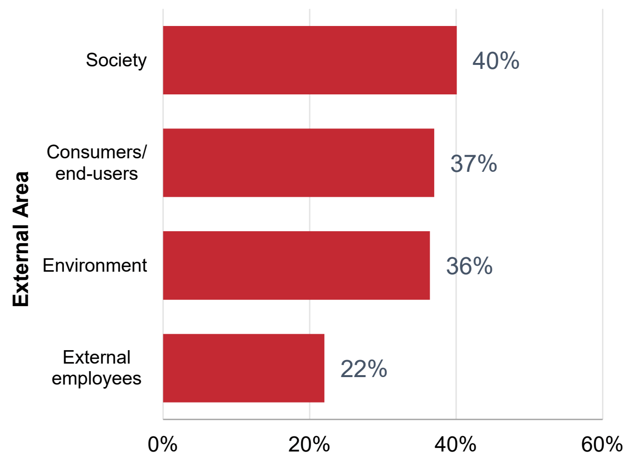
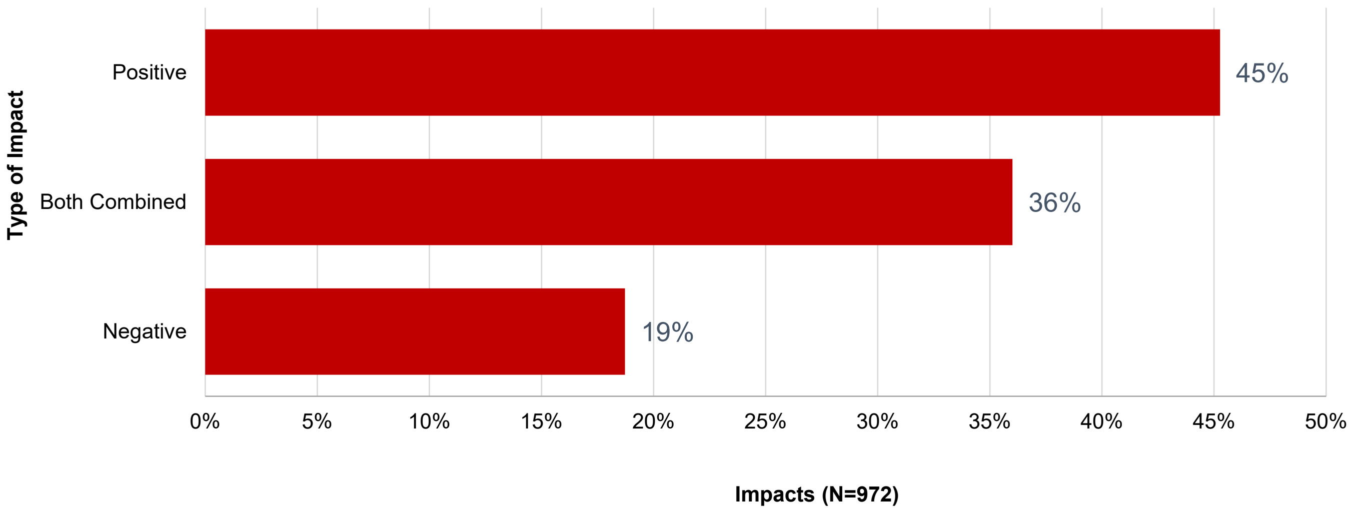


Figure 20 highlight that 45% of the of impacts assessed have a positive effect on external stakeholders and 19% of them a negative effect, meanwhile the rest 36% of impacts have been assessed in a combined way in order to measure together the positive and negative impacts.

Figure 20
Types of Impacts Measured



Materiality Metrics for External Stakeholders

Material Metrics for External Stakeholder is a new question added in the 2023 CSA questionnaire. The purpose of this question is to assess the extent to which companies are evaluating the positive and/or negative impacts they are causing on external stakeholders using quantitative metrics linked to the material issues identified in the materiality assessment. Companies can use impact valuation techniques to assess and compare the potential impacts that their products, services, or operations have had (or may have) on people and the environment. Meanwhile investors can use impact valuation techniques to assess and compare the potential impacts that companies they are financing or considering financing may have on people and the planet, as well as their own investor contribution to those impacts.

This question was introduced in CSA 2023 and applies to all industries (62)

Findings

Figure 21 depicts the percentage of companies quantifying the externalized impact generated on societal stakeholder groups and/or the environment as a result of their main business activities. While companies have made significant progress in tracking and reporting input and output measures (such as water use and C02 emissions), the quantitative metrics linked to external social and environmental impacts resulting from business operations, products, services or supply chain operations are significantly under-reported. The disclosure on this area is the lowest in the materiality criterion and more than 80% of the companies in all the sectors have not disclosed it. As in the question Material Issues for External Stakeholders, Utilities has the highest disclosure with 21% or companies reporting on quantitative materiality metrics for external stakeholders. Meanwhile only 7% of companies withing the Real Estate sector are disclosing on same quantitative metrics. These low results on disclosure on materiality metrics for external stakeholders are aligned with the fact that for the impacts reported, only 30% of them have publicly available information on companies' reports, as highlighted in Figure 22.

Figure 21
Percentage of companies disclosing quantified externalized impact at sector level

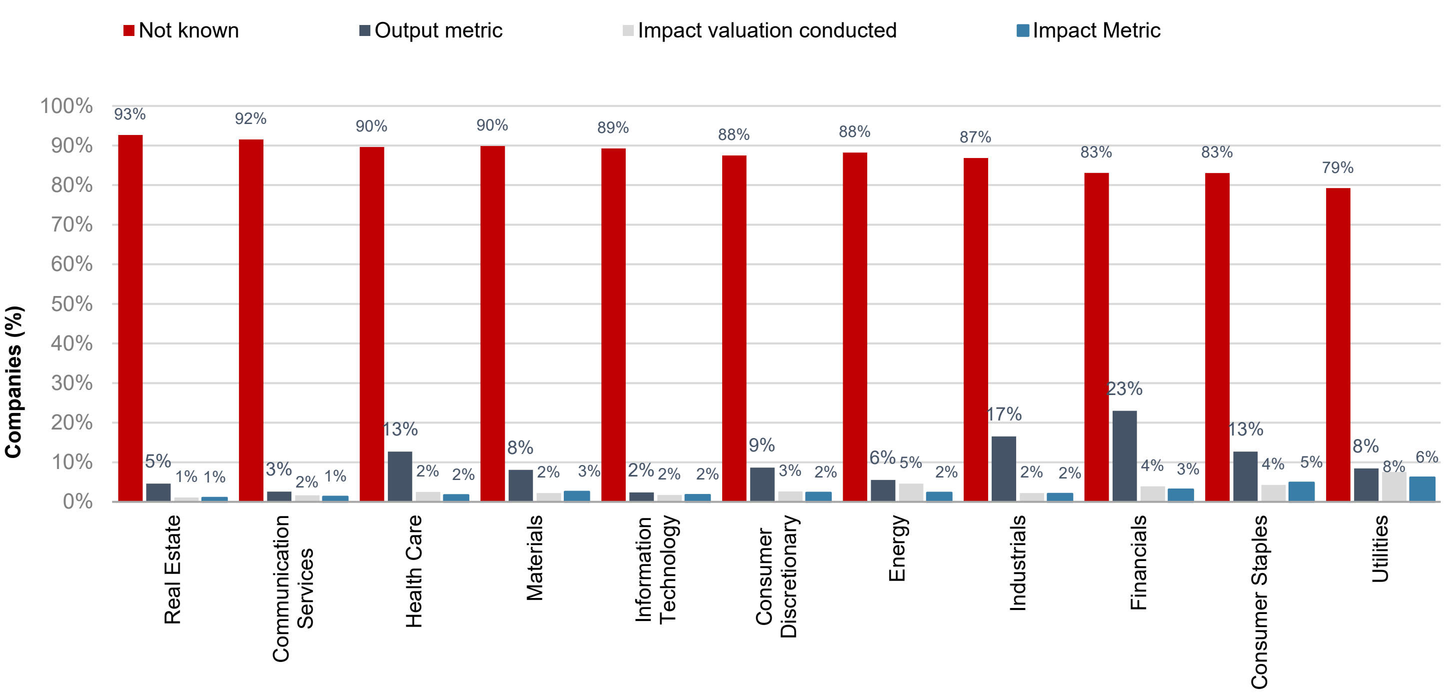


Figure 22
Percentage of companies publicly disclosing the externalized quantified impact

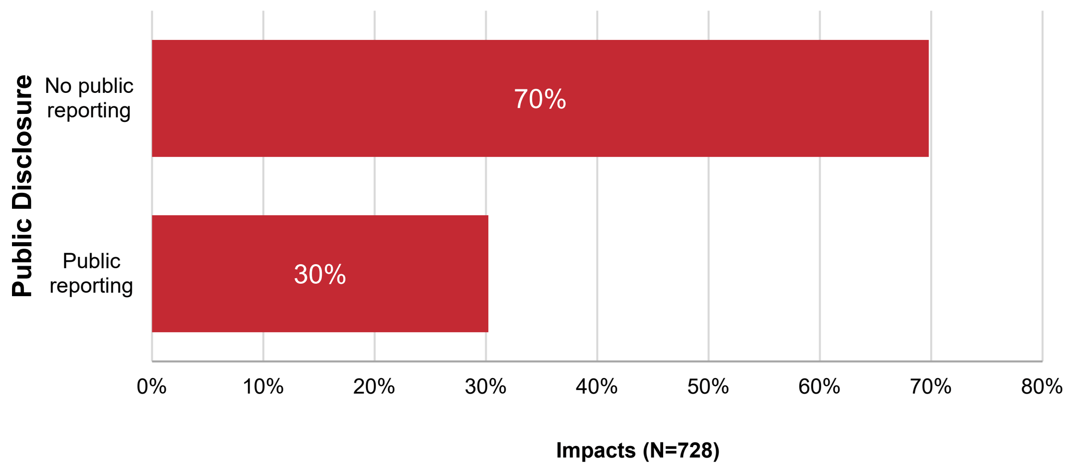


Figure 23 depicts that almost 80% of the impacts on external stakeholders identified have been evaluated using quantitative output metrics referred to the environmental or social direct results caused by a company's business activities in terms of operations, products/ services, and/or supply chain and directly linked to the material issues identified in the materiality assessment. More than 40% of the impacts have been assessed by a process of valuing and quantifying the external damages and/or benefits (positive/ negative externalities) to the society and the environment that are caused as a result of the direct environmental and/ or social outputs generated by a company's business activities. In the case of impact Metric, only 36% of the impact identified have converted its linked output metric into a quantitative impact metric by evaluating the impact of the external damage or benefits (negative/ positive externalities) for societal stakeholders or the environment to a quantitative (monetary or non-monetary) to measure the impact caused on external stakeholders.

Figure 23
How company measures the quantified impact

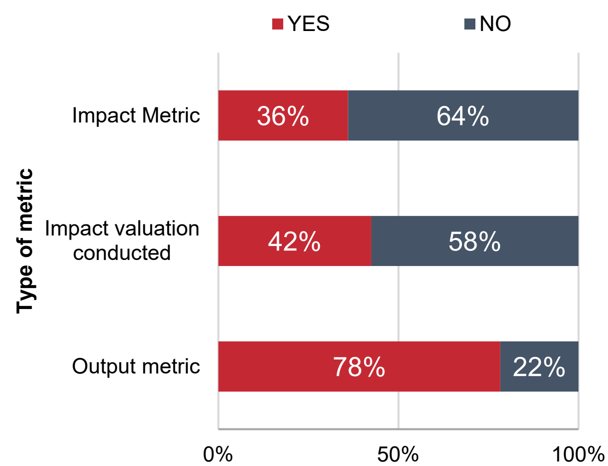


Figure 24 depicts the percentage of companies per industry sector that are reporting quantitative materiality metrics for external stakeholders within the total companies that have reported data on this question. Communication services is the sector with a higher percentage of companies reporting output metrics (78%), conducting impact valuations (40%) and reporting impact metrics (27%). Followed by Consumer Discretionary (54%, 25%, 29%), Consumer Staples (54%, 39%, 20%) and Energy where more than 54% of the companies are reporting output metrics, 36% of them conducting impact valuations and 30% of them reporting impact metrics. Meanwhile the sectors with the lower percentage of quantitative metrics reported are Real Estate and Utilities, where only 21% of companies have reported output metrics and only 9% of them impact metrics.

Figure 24
Percentage of companies disclosing quantitative externalized metric at sector level

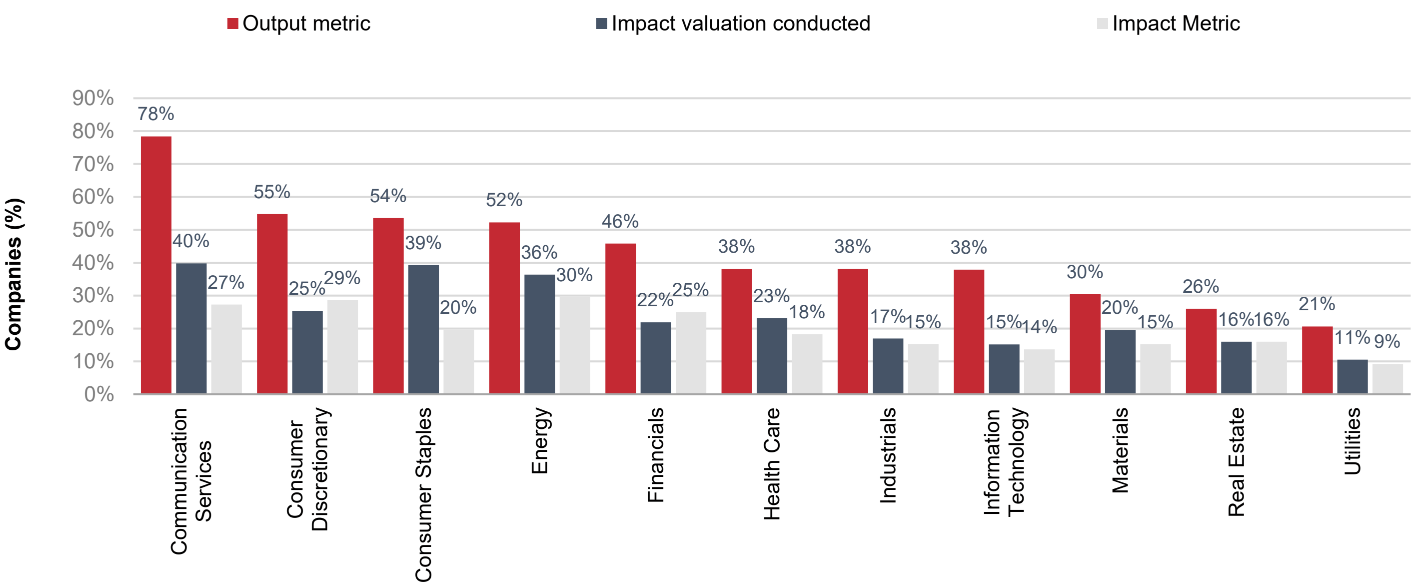
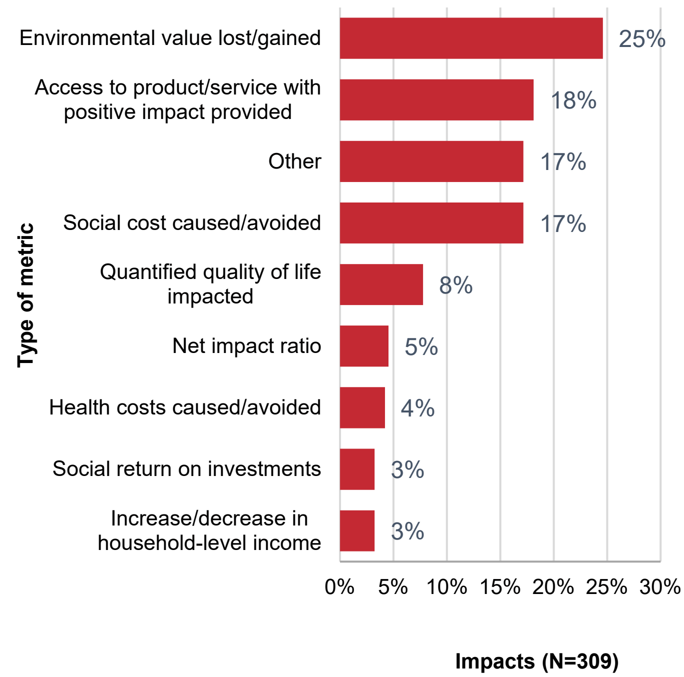


Figure 25 depicts the quantitative metric used in the impact valuation. The quantitative impact metric most used in the impact evaluation is Environmental value lost or gained (25%), followed by Access to product or service with positive impact provided (18%) and Social cost caused or avoided (17%). These data align with the category the external impact reported belongs to with most of the impacts under the category Climate Transition & Physical Risk, which highlights again the commitment that companies have with climate change initiatives such as the Paris Agreement and their focus on quantifying the environmental impact associated to their business activities.

Figure 25
Type of quantitative Metric Disclosed



Risk & Crisis Management

Effective risk and crisis management is vital for long-term financial planning and organizational flexibility. In light of recent events, such as the Covid-19 pandemic and recent geopolitical conflicts, investors are increasingly looking for robust risk management processes that support resilience. This includes a governance framework with clear responsibilities for the management and monitoring of risks, where the risk management function is independent from business lines. With tightening regulations companies need to build control processes allowing them to efficiently identify and mitigate potential threats including emerging risks. Part of a successful risk culture is the employees and how a company integrates them in their approach to risk (through training, feedback mechanisms and incentives schemes for example).

Criterion Update

This criterion, applicable to all industries, underwent two major changes:

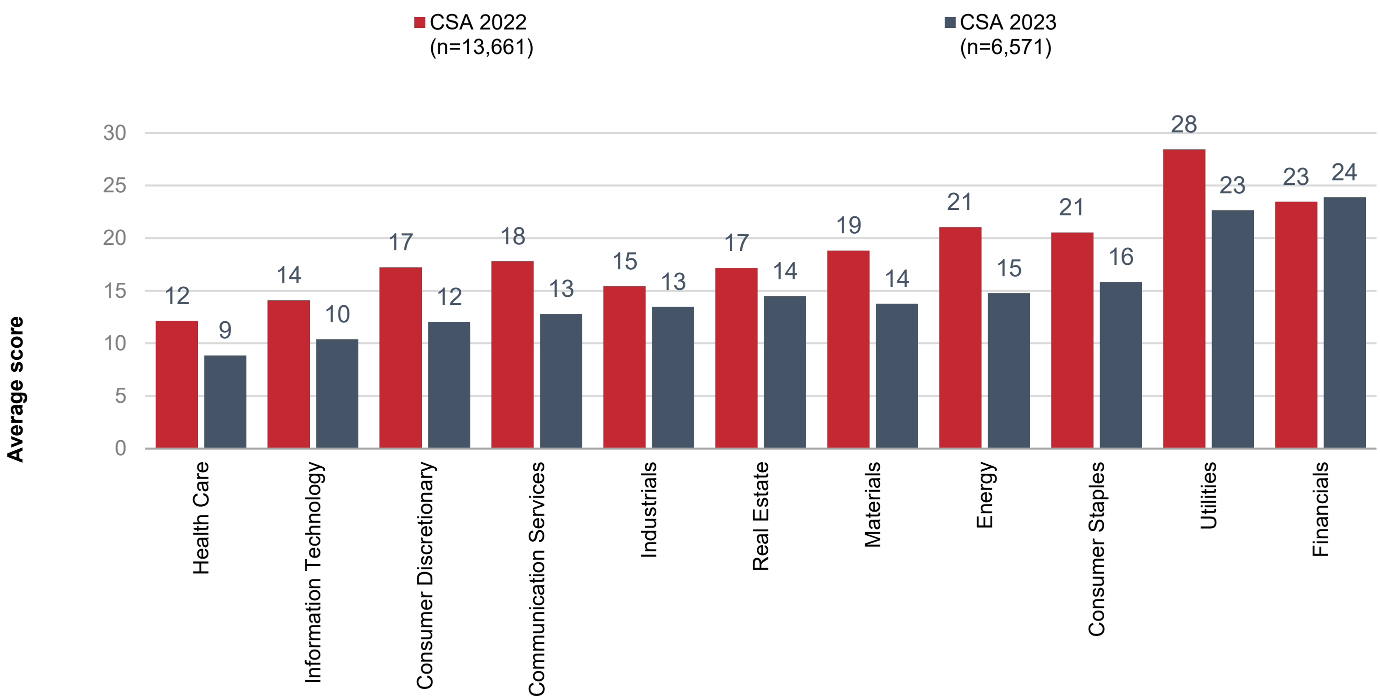
A new question Risk Management Processes has been introduced and includes the aspects of the question Sensitivity Analysis and Stress Testing.

The question Sensitivity Analysis and Stress Testing (including water and climate) has been removed as aspects related to climate risks are covered in the Climate Strategy and Water Related Risks criteria.

Additionally, the data requirements for the question Risk Governance have been updated to require public disclosure of the information reported. Secondly, the definition of emerging risks in the question Emerging Risks has been updated to exclude certain risks that, although increasing in severity, would not in the present day be considered new. An example of this would be risks relating to climate change. The guidance focuses on risks that are unprecedented or unforeseen in the present day.

Figure 26 below shows that, overall, the changes described above implemented moderately impacted scores for the Risk and Crisis Management criterion. From the CSA 2022 to the CSA 2023 the average negative difference of 3 points indicates that risk and crisis management is a topic that remains challenging to companies. Noteworthy, is the improved performance of the Financials sector (Banks, Insurance and Diversified Financial Services) consistently leading with the Utilities sector (Electric Utilities and Water Utilities). This is in line with the long-time exposure of the respective industries to regulations and governance that comes with higher scrutiny and therefore higher quality of risk management processes and disclosures.

Figure 26
Average Score in the Criterion at Sector Level in CSA 2022 and 2023



Risk Management Processes

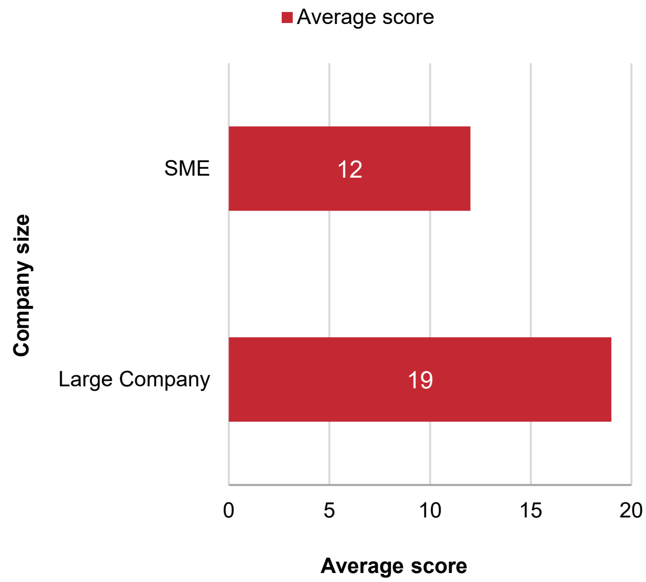
The purpose of the new question Risk Management Processes is to complement the existing questions Risk Governance and Risk Culture that assess the responsibility and the implementation of risk management.

The COSO Framework and the ISO Risk Management - Guidelines outline the following stages of risk management processes: 1) context definition, 2) risk identification, 3) risk assessment, 4) risk review and 5) risk monitoring.

Building on these standards, the aim is to capture information linked to the systems that companies use to manage risk. This comprises of robust risk reviews, including sensitivity analysis and stress testing, allowing companies to strategically adapt to events that may have a material impact. In addition, while prioritizing and defining mitigating actions helps to prepare for potential threats, risk appetite levels are what ultimately draws the line on the risk (and loss) that a company is willing to bear. Moreover, frequent risk reviews and audits can further improve the effectiveness of risk management and its processes.

This question was introduced in CSA 2023 and applies to all industries (62).

Figure 27
Average score for new question Risk Management Processes based on Company Size



Findings

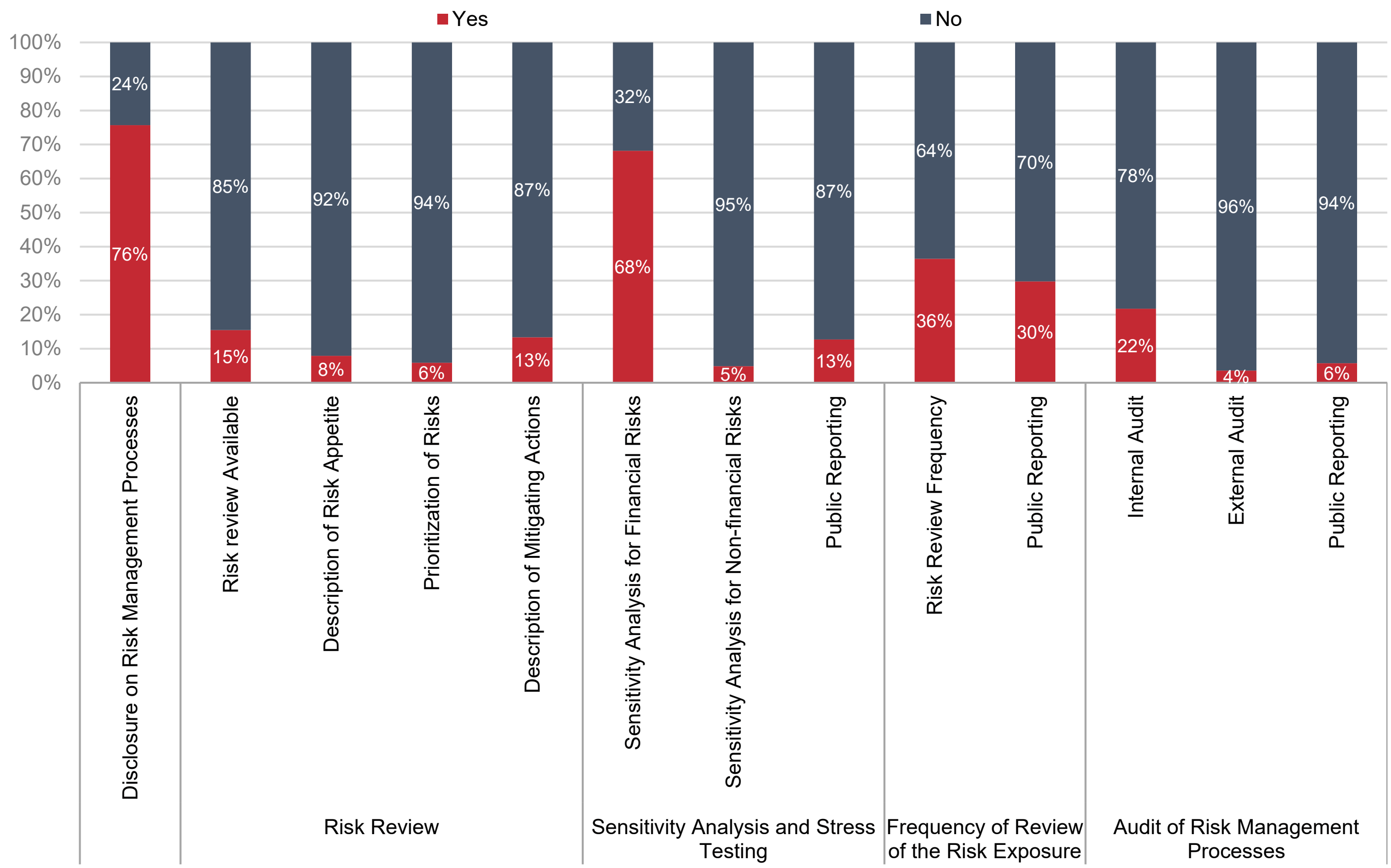
Despite established standards and frameworks for risk management, the average score for the question neighbored 20 points. According to Figure 27, large companies on average score 19 points, whereas SMEs score an average of 12. This contributes to the ongoing debate on SMEs being less likely to report and/ or implement comprehensive processes due to a lack of resources and experience.

More specifically, Figure 28 illustrates the disclosure level by aspect covered in the question Risk Management Processes consisting of four main sections: 1) risk review, 2) sensitivity analysis and stress testing, 3) frequency of review of the risk exposure and 4) audit of management processes.

Overall, 76% of companies reported information for the question and in almost as many cases, that included a sensitivity analysis for financial risks. This is in part due to already adopted financial reporting standards that cover this type of risk assessment. It is far less likely to find reporting on sensitivity analysis for non-financial risks, which only 5% of companies assessed reported on. If 36% of the companies disclose the frequency of review of their risk exposure, there is room to improve the risk review through the implementation of prioritization criteria and defined risk appetite levels. Additionally, while a quarter of companies have conducted an internal audit of risk management processes in the last two years, there is opportunity to expand to assessments to also include a third-party review, currently forming only 4% of businesses' practices.

To conclude, the below chart informs on a rather low level of public disclosure which feeds into the discussions around companies' readiness to report on the topic of risk against upcoming sustainability reporting requirements.

Figure 28
Selection of Risk Management Processes aspects



Policy Influence

The representation of the viewpoints, opinions and concerns of the business community in legislative and regulatory decision-making processes can be beneficial for the development of public policy by ensuring different perspectives are considered. Engagement on public policy should, however, be conducted with the utmost transparency, to protect the reputation of the business and ensure that stakeholders can assess the extent of a company's involvement in the political process. For this reason, the Policy Influence criterion asks companies to disclose the monetary amounts contributed to different types of public policy engagement, whether directly to political campaigns or to trade associations and other organizations.

Criterion update

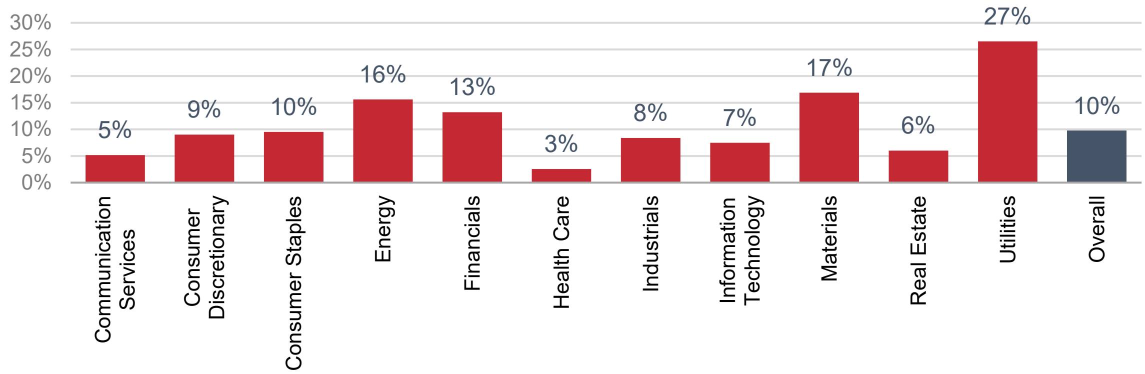
In 2023, a new question was added to the criterion to assess the management systems companies have in place to ensure lobbying activities and memberships of trade associations are aligned with the Paris Agreement goal to limit climate change to well below 2 degrees Celsius. This question moves the focus of the criterion beyond public disclosure of the amounts contributed and towards an assessment of how well-equipped companies are to manage the reputational risks of lobbying that contradicts their sustainability strategies.

The existing disclosure focused questions have much higher average scores, indicating that while companies are relatively transparent about the amounts they contribute to political campaigns, lobbying and trade associations, the development of and disclosure on underlying systems to govern their lobbying activities in a responsible manner is less advanced.

The particularly low average score for the new question denotes that a large bulk of companies assessed do not have any publicly available management system to address the alignment of lobbying activities with the Paris Agreement goal.

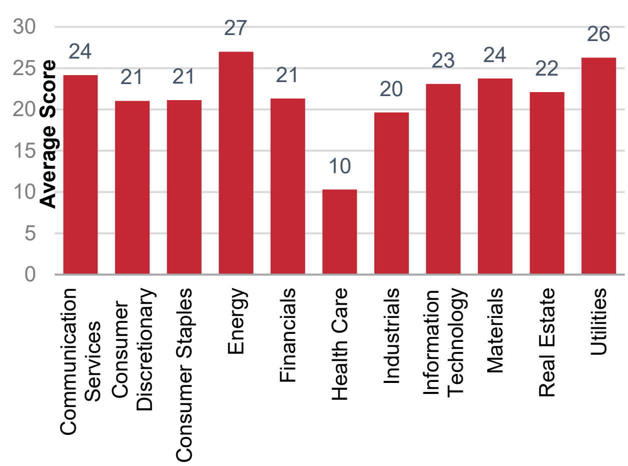
As depicted in Figure 29, The sectors most exposed to climate transition risks are those in which companies were most likely to be able to provide an answer to the new question; utilities, materials, and energy. An exception to this was the financial sector, with 13% of companies answering the question, just behind the 16% and 17% of companies in the energy and materials sectors respectively. The relatively good performance of the financial sector is likely due to its status as a highly regulated sector, meaning that companies are more cognisant of the importance of public policy engagement and the risks that can arise when it is done improperly. More surprising is the performance of the real estate sector, which faces high climate transition risks relating to building and energy efficiency requirements, but where only 6% of companies were able to answer the question with a management system to address Paris aligned lobbying.

Figure 29
Percentage of companies answering Lobbying and Trade Association - Climate Alignment at sector level



Looking at the scores achieved by those companies that were able to answer the question, the picture is less clear-cut; while the most exposed sectors tended to achieve the best scores, with companies in the energy and utilities sectors scoring an average of 27 and 26 points respectively, the difference between them and other sectors is narrow. The average score achieved across the remaining sectors, excluding health care, was 22. With an average score of 10, the health care sector is an outlier and the lower average score likely reflects the fact that, while lobbying and public policy engagement is a very material issue for the sector, efforts are often focused elsewhere around topics such as medicine approvals and costs. Overall, the companies able to answer the new question and the score distribution of those companies is reflective of the increasing attention paid by investors to the climate lobbying activities of utilities and extractives firms in particular, with several large companies in these sectors having seen shareholder proposals to disclose their climate lobbying management in recent years.

Figure 30
Average score of companies which answered the question Lobbying and Trade Associations - Climate Alignment



Lobbying and Trade Associations – Climate Alignment

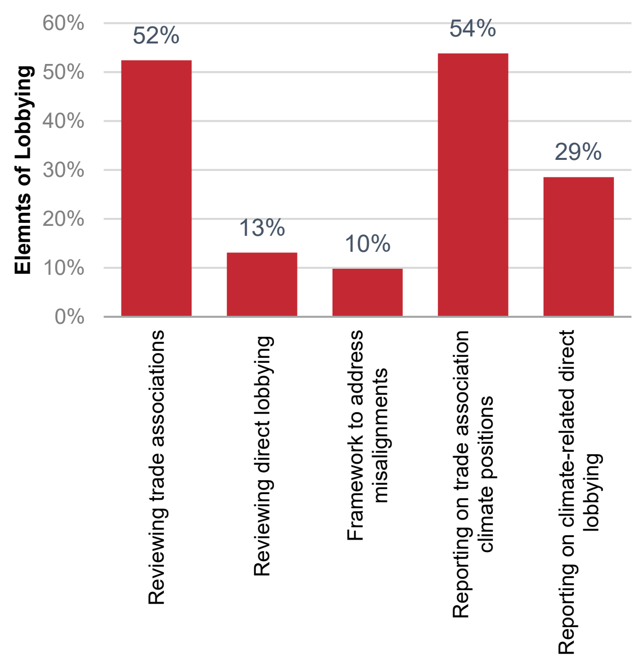
There is increasing scrutiny from investors and other stakeholders on the extent to which companies' public climate commitments are reinforced and not contradicted by their public policy engagement activities. To this end, there have been a number of successful shareholder resolutions asking companies to disclose more about their lobbying activities and trade association memberships related to climate change. Companies have a responsibility to ensure their public policy engagements do not contradict their climate strategies and to take action when they do. Aligning lobbying activities and trade association memberships with the Paris Agreement helps protect the reputation of companies and ensure action on climate change is consistent and strong. The question therefore asks whether companies have reviewing and monitoring procedures in place to ensure their trade association memberships and direct lobbying activities are aligned with the Paris Agreement goals, whether they have a framework for how to address any misalignments found as a result of those review processes, and finally whether they publicly report on the climate-related activities of their trade associations and their direct lobbying efforts.

This question was introduced in CSA 2023 and applies to all industries (62)

Findings

Figure 31 shows that management systems for public policy engagement were more likely to include reviews of and reporting on trade association memberships than for direct lobbying activities. This trend reflects the tendency of shareholder resolutions on the subject to focus on companies' memberships of trade associations which lobby against the Paris Agreement goals and associated legislation. And while reviews and reporting on trade association memberships are features in roughly half of management systems, only 10% of companies have a framework to govern how they will proceed when they are a member of a trade association with a lobbying record that is misaligned with the Paris Agreement, whether through publicly distancing itself, engaging with the trade association, or ultimately leaving it. This discrepancy suggests that while companies with public policy management systems are making good progress on transparency, they are less rigorous in acting on the results to withdraw support for trade associations which lobby counter to the Paris Agreement goals.

Figure 31
Percentage of companies with management systems that included the following elements



Sustainable Finance

Financial institutions have an essential role to play in addressing sustainability challenges, facilitating the transition to a low-carbon economy, and driving capital flows towards sustainable development. Good performance in sustainable finance starts with comprehensive policies to identify and address environmental, social and governance risks in investing, financing, advisory and insurance activities. Accordingly, policies underpinning these activities are the focus of the first half of the criterion. The second half assesses the actual performance of companies in offering a range of sustainable products & services. Such products and services are expected to be transparently described in public reporting with the values available, allowing for the evaluation of the proportion of a company's activities that are now considered sustainable.

Criterion Update

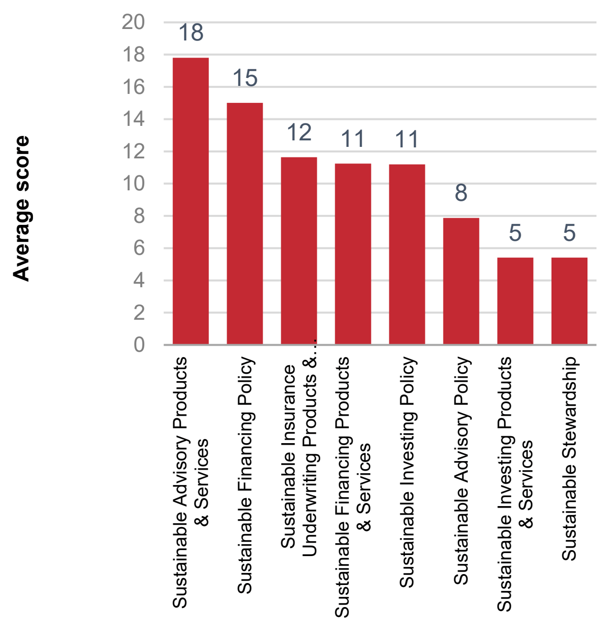
First introduced in 2019, this criterion was updated in 2023 to simplify the structure, increase alignment with relevant standards such as PRI, and introduce performance-based scoring for sustainable products & services so that companies are now assessed on the proportion of their financing, investing or insurance activities which can be considered sustainable.

A new question for the asset management industry, Sustainable Stewardship, was introduced to capture the policies of investors on their engagement and voting activities. Stewardship is now recognised as an important part of the integration of sustainability into the whole lifetime of an investment.

Figure 32 shows the average score achieved in the new or updated questions in the Sustainable Finance criterion.

Sustainable Advisory products & services has the highest score, reflecting that green, social and sustainability bonds well-established products for financial institutions. In terms of financing and investing, the policy questions had higher average scores than the products & services questions, indicating that while the theoretical basis for these sustainable products & services exists among financial institutions, the disclosure on and proliferation of these products & services in reality lags somewhat behind. The exception to this was Sustainable Stewardship, which had the joint lowest average score of all the new and updated questions, indicating that perhaps more attention is currently paid to integrating sustainability into pre-investment phase than the lifetime of the investment.

Figure 32:
Average score in individual questions which are new/updated in 2023



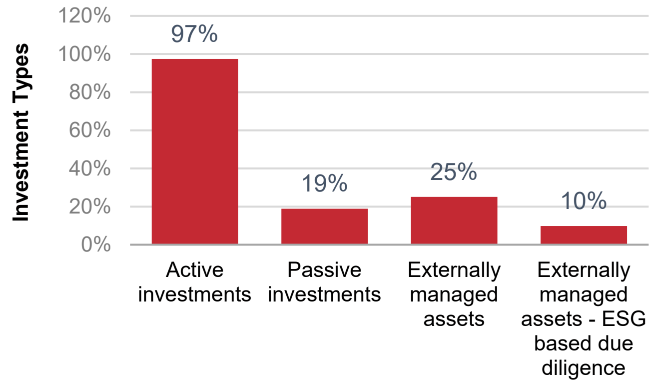
Sustainable Investing Policy

As concerns grow around the risk of greenwashing, transparent disclosure of the approach taken by financial institutions towards integrating environmental, social, and governance factors into their investments is increasingly important. Sustainable investing policies should be publicly available and clearly explain what factors are considered and how they are integrated into the investment process.

The question replaces the previous "Integration of ESG Criteria in Asset Management" and "Integration of ESG Criteria in Wealth Management" questions. It has a newly introduced coverage section to ascertain the extent of a company's assets under management (AUM) covered by the policy and whether the policy applies to both actively and passively managed assets. The question focuses on the disclosure and definition of which factors are included in the sustainable investing process, as well as the mechanisms used by companies to make investments more sustainable, such as exclusions. Finally, the question assesses the extent to which financial institutions appreciate the nuances involved in sustainable investing through the use of asset class or sector specific guidelines.

This question introduced in CSA 2023 and applies to Financial Sector: BNK, FBN and INS

Figure 33
Percentage of policies covering each investment type



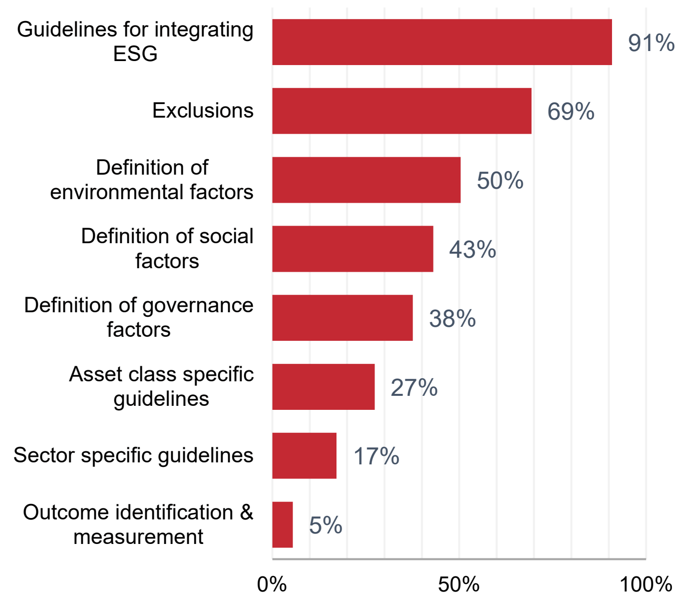
Findings

As depicted in Figure 33, 97% of policies were applicable to actively managed assets, which is the most natural fit for sustainable investment approaches. Integration of sustainability into passive investing is often considered to be more challenging, owing to the objective of minimising tracking errors from benchmarks, and accordingly only 19% of policies applied to passive investments. A quarter of policies applied to externally managed assets through the direct application of the policy to these investments, while 10% of policies applied to externally managed assets but only through the use of ESG based due diligence of the external managers.

Figure 34 shows the different elements expected in a sustainable investment policy and with what frequency companies are incorporating them. Policies were most likely to define the environmental factors considered as part of the investment process, while governance factors were the least likely to be defined. Governance is arguably the oldest and most well-advanced part of "ESG," which could be an explanation for its relative neglect; good governance is so well established as an expectation that companies find it less necessary to explain how they define it.

Exclusions were the most popular policy element, with 69% of policies featuring them. The application of exclusions or negative screens are often considered the starting point for integrating sustainability into investment processes. Asset class or sector specific approaches were less popular, with 27% and 17% of policies featuring them respectively. These approaches represent the application of a more detailed understanding of ESG and recognition of how a broad-brush approach is often too simplistic given, for example, that the ESG issues faced by a mining company differ greatly from those faced by a consumer discretionary company.

Figure 34
Percentage of sustainable investing policies which feature different elements



Sustainable Stewardship

Integrating sustainability into investments takes place not just at the decision to invest, but throughout the lifetime of the investment. Stewardship of investments is one of the most important of investors' responsibilities, and recognition of its potential as a powerful lever in sustainable investments has been growing. This question was newly introduced in 2023 to capture the policies and behaviours of companies regarding stewardship practices in both engagement and voting. It focuses on the coverage and elements included in stewardship policies, such as guidelines on engagements for specific topics and how companies manage the process from selecting a target to achieving the desired outcome. It additionally asks for evidence of engagement and voting activities undertaken by companies in the last year.

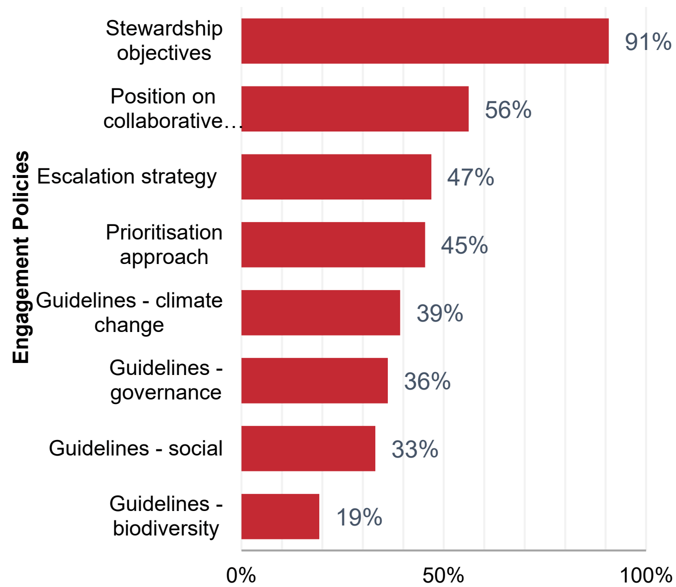
This question introduced in CSA 2023 and applies to Financial sector: BNK, FBN and INS

Findings

Of the companies assessed, 21% had an engagement policy, and 17% had a voting policy publicly available.

The engagement policies assessed tended to include good disclosure on the underlying rationale and approach for engagement. Figure 35 shows that 91% of policies included the reason for which the company conducts engagement (for example to improve sustainable practices, or to enhance shareholder value), and over half of the policies included the company's position on collaborative engagement through initiatives such as Climate Action 100+ (CA100+). In terms of topic specific engagement guidelines, climate change guidelines were included in 39% of policies, while biodiversity guidelines were only evident in 19% of policies. With the introduction of biodiversity focused disclosure standards such as TNFD and increasing focus of investors on biodiversity related risks demonstrated through the creation of a biodiversity equivalent to CA100+, Nature Action 100, we would expect this percentage to increase in the future.

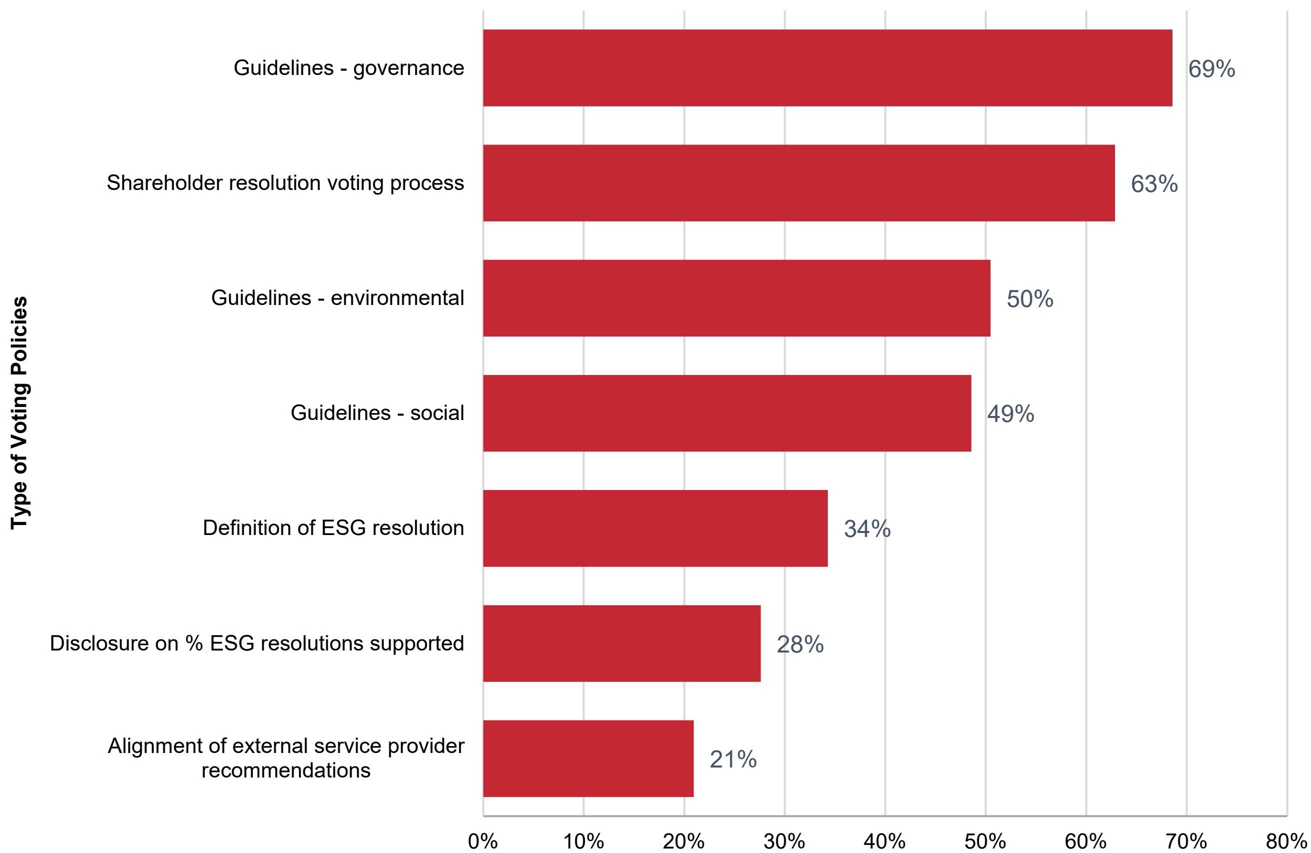
Figure 35
Percentage of engagement policies which include different elements



Voting policies tend to have a different focus from engagement policies, with 69% including guidelines for voting on governance issues, while around 50% have guidelines on environmental and social issues. This higher focus on governance issues in voting reflects that voting at AGMs on governance issues, such as director independence and management remuneration, are long-established parts of stewardship.

Looking at disclosure of stewardship outcomes, just over a quarter of companies with policies also disclosed the number of ESG resolutions voted on in the last fiscal year, while just over a third of companies with engagement policies also disclosed at least one case study of engagement undertaken in the last year. Such indications are important for financial institutions to demonstrate that they are walking the walk on their stewardship commitments.

Figure 36
Percentage of voting policies which include different elements



Sustainable Financing Policy

This question replaced the previous Integration of ESG Criteria in Wholesale/Corporate/Investment Banking and Integration of ESG Criteria in Retail Banking questions. Having policies for financing activities for different client segments is important for a financial institution to demonstrate that they are incorporating sustainability across their business lines and doing so in a transparent and consistent manner. The corporate finance section focuses on the factors companies consider as part of their sustainable financing analysis and the mechanisms employed to achieve sustainable financing; the integration of ESG in Know Your Customer (KYC) processes, engagement with clients about sustainability risks and opportunities, and the application of exclusions to financing decisions. The consumer finance section asks for a reduced set of policy requirements, covering disclosure of the overall approach to sustainable financing for consumers, the environmental and social factors considered, and engagement with customers on sustainability.

This question was introduced in CSA2023 and applies to BNK, FBN industries

Findings

In corporate financing policies, the most popular element to be included was exclusions, closely followed by the integration of ESG factors into KYC processes. Engagement with clients was much less popular, featuring in only 27% of policies, indicating that most financial institutions consider the pre-financing decision stage as more critical than their role of informing and advising existing clients about sustainability related risks and opportunities. In terms of the definition of factors considered in sustainable financing decisions, most policies defined the environmental factors (42%), with 32% defining social factors and only 11% defining governance factors, reflecting the trend seen in sustainable investing policies where governance factors are not clearly defined.

Figure 37
Percentage of sustainable corporate financing policies which feature different elements

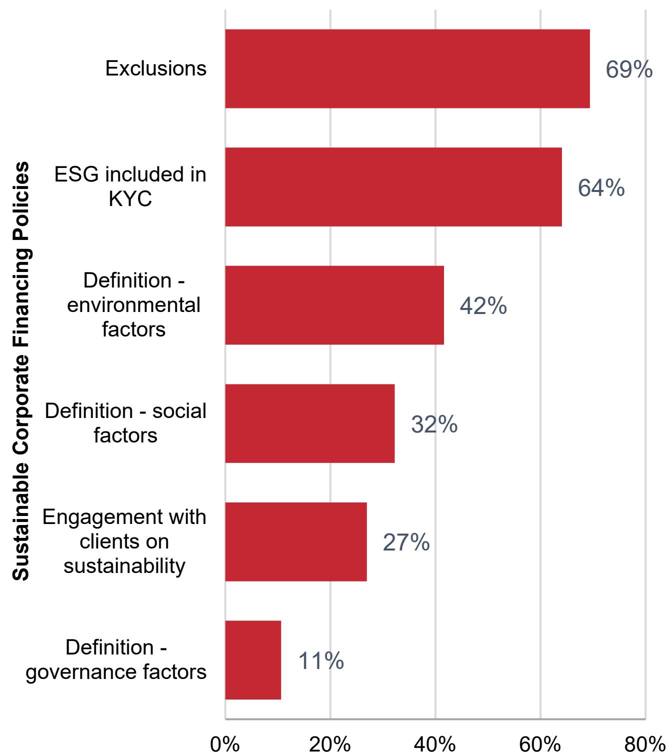
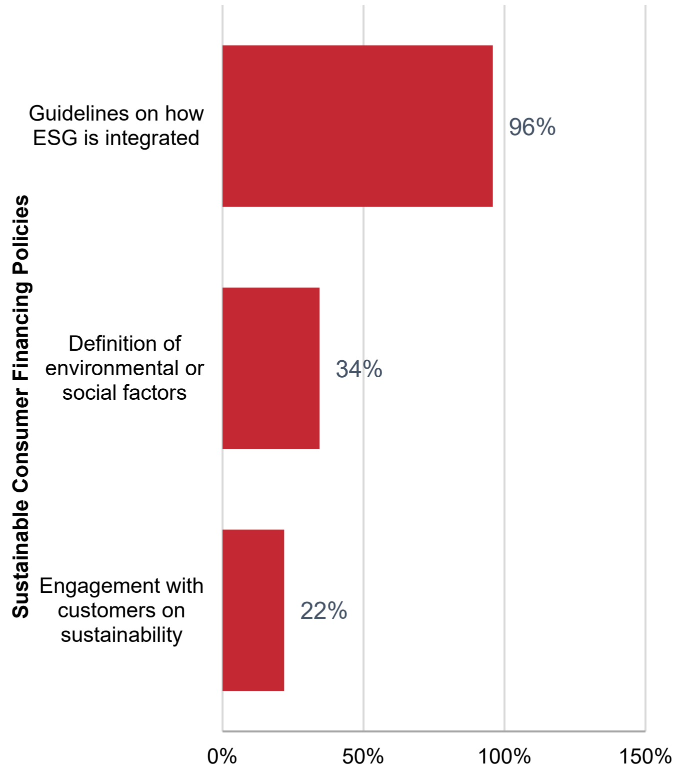


Figure 38 shows that nearly all (96%) consumer financing policies included guidelines on how environmental and social factors should be integrated into the financing process, however just over a third of policies defined what these environmental or social factors were. Only 24% of policies included engagement with clients, again indicating that financial institutions do not consider themselves to have a leading role in educating and spreading awareness of the risks and opportunities associated with sustainability, even though these can have a material impact on their clients and therefore on the financial institution itself.

Figure 38
Percentage of sustainable consumer financing policies featuring different elements



Sustainable Advisory Policy

This is a new question in 2023, aimed at financial institutions that are active in fixed income underwriting and/or structuring securitizations. Sustainable bonds are a well-established part of sustainable finance, nonetheless it is important that a financial institutions' activities here are underpinned by a policy governing how sustainability is integrated into fixed income underwriting.

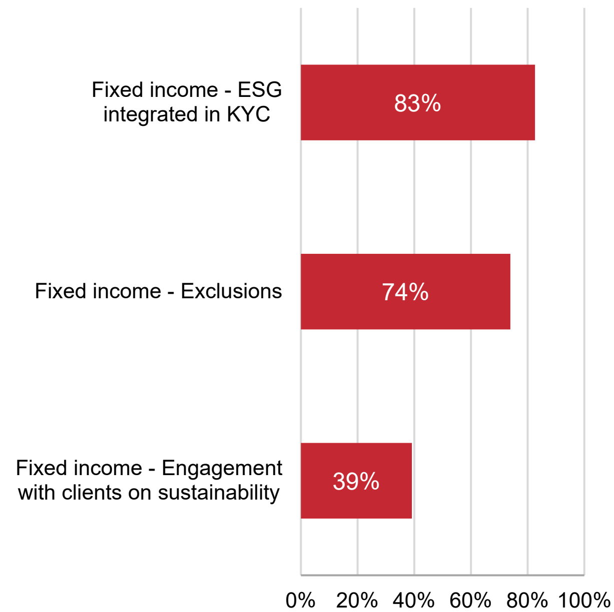
Sustainable securitization is a newer area of sustainable finance but growing in importance. Reflecting the less advanced nature of this activity, the requirements of the question on sustainable securitization are simpler, asking companies to publicly disclose whether their determination of a securitization transaction as sustainable depends on the sustainability of the constituent collateral or of the use of proceeds.

This question was introduced in CSA 2023 and applies to BNK, FBN industries

Findings

Figure 39 shows that among fixed income policies, the integration of ESG into Know your Customer (KYC) processes was the most popular, closely followed by exclusions which featured in 74% of policies. Overall the trend is similar to that seen in sustainable financing policies, with engagement with clients on sustainability risks and opportunities the least popular policy element. This trend is also indicative of the fact that many companies have the same policy governing their financing and fixed income underwriting activities, either a company-wide ESG risk management policy or a policy which applies to all types of financing facilitation and origination.

Figure 39
Percentage of fixed income policies featuring different elements



Looking at securitization, very few companies disclosed their approach to sustainable securitization, but of those that did two thirds stipulated requirements for the underlying collateral to be green or sustainable, indicating that the value in sustainable securitizations is currently perceived to be their attractiveness to investors who want to purchase sustainable securitized debt, rather than their potential to free up balance sheets for increased lending to sustainable projects and outcomes.

Sustainable Investing Products & Services

This question replaces the old ESG Products & Services in Asset Management and ESG Products & Services in Wealth Management questions. Offering sustainable investment products & services utilizing a variety of sustainable investment approaches is an important aspect of financial institutions' contribution to sustainable development, while also helping to mitigate risks associated with unsustainable investments such as stranded assets. This question assesses the range of sustainable investing approaches used and value of sustainable investment products & services offered by financial institutions. Companies are scored based on the variety of products they offer and on the percentage of their assets under management which are categorised as sustainable. In order to address concerns around greenwashing, companies are also asked to provide a description of how they define these categories and consider them to be sustainable. Such transparency enables stakeholders to evaluate the robustness of a company's claim that their investments are sustainable.

This question introduced in CSA 2023 and applies to BNK, FBN and INS industries

Findings

The average percentage of companies' assets under management (AUM) in sustainable investing products was 14%. Considering the question now requires public evidence, this figure is likely higher than the true sustainable AUM, since only companies with the best disclosure will provide the information publicly and they are also more likely to be top performers in terms of having a high percentage of sustainable AUM.

Turning to the other focus of the question, the availability of AUM and descriptions for individual categories, the most popular category in both cases was ESG Integration.

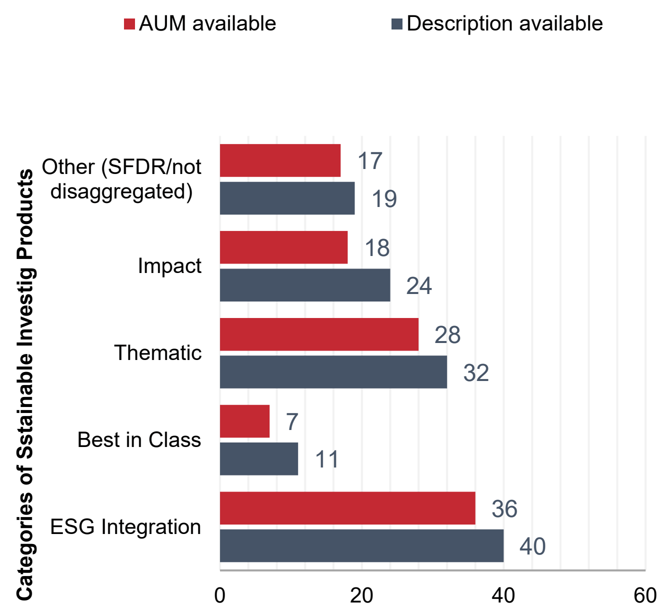
ESG integration is the "entry point" for many investors beginning to explore sustainable investing, therefore the popularity of this category is as expected.

Best in Class was the least popular category, which is interesting

Considering that negative screening approaches are often the most popular used by companies, but it would appear the use of positive screens is not as popular.

Across the board however, companies were more likely to provide a description than the AUM value for each category, indicating that while companies may offer a range sustainable investing approaches in their products, so far disclosure on the AUM attributed to each category is lagging behind qualitative descriptions.

Figure 40
Frequency of descriptions and values provided for different categories of sustainable investing products



Sustainable Financing Products & Services

This question replaces the old ESG Products & Services in Wholesale/Corporate/Investment Banking and ESG Products & Services in Retail Banking questions. Offering a variety of sustainable financing products & services to corporates, consumers and SMEs is an important aspect of financial institutions' contribution to sustainable development, while also helping to mitigate risks associated with unsustainable financing such as stranded assets. The question assesses the range and value of sustainable financing products that financial institutions offer to their various client groups, including the newly added category of small & medium enterprises (SMEs).

This question introduced in CSA 2023 and applies to BNK, FBN industries

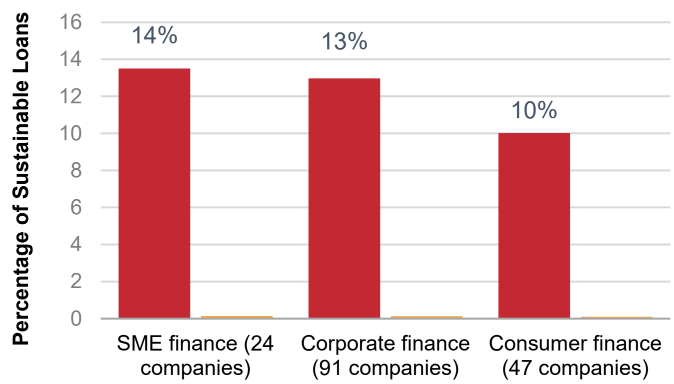
Findings

Figure 41 shows the average percentage of loans that are considered sustainable among all loans to corporate, consumer and SME clients. The average percentage was lowest for consumer financing, with sustainable loans and mortgages making up an average of 10% of all consumer loans, and highest for SMEs at 14%. The low percentage of sustainable loans in consumer financing is analogous to the poor performance of companies having clear policies on integrating sustainability into consumer finance activities. However, even though few financial institutions have consumer financing policies, 89% of companies disclosing the value of their sustainable mortgages/consumer loans were also able to provide an acceptable description detailing how these loans are defined. Such descriptions are important to allow stakeholders to determine if the financial institutions' definition of sustainability is robust.

Looking at corporate loans, on average 13% of corporate loans were designated as sustainable, with green, social, or sustainable loans significantly more popular than sustainability-linked loans. The former accounted for 72% of all sustainable loans disclosed. One potential reason for this is that financial institutions have in the past focused on financing of sustainable assets such as renewable energy generation as a means to meet their sustainable finance commitments.

Alternatively, the preference for green, social, or sustainable loans could be indicative of companies currently not disaggregating their sustainable loan offerings into financing for specific sustainable purposes versus general financing where the payment terms are linked to sustainability-performance.

Figure 41
Average percentage of loans considered sustainable, by customer segment



Sustainable Advisory Products & Services

This is a newly added question in 2023, however it includes elements from the old ESG Products & Services for Wholesale/Corporate/Investment Banking question by asking for the sustainable fixed income products underwritten in the last fiscal year, in addition to asking for sustainable securitizations originated. Financial institutions active in investment banking have an important role to play in addressing sustainability challenges by facilitating the transition to a low-carbon economy and stimulating sustainable development through their advisory activities. Offering a variety of sustainable advisory products & services is an important aspect of financial institutions' contribution to sustainable development, while also helping mitigate risks associated with unsustainable advisory. The question assesses the range and value of sustainable advisory products and services offered by financial institutions. It is concerned with how companies define such sustainable products and monetary value of those products, thus leading to an understanding of how well the company is seizing opportunities associated with sustainable finance and supporting the transition to a more sustainable economy.

This question introduced in CSA 2023 and applies to BNK, FBN industries

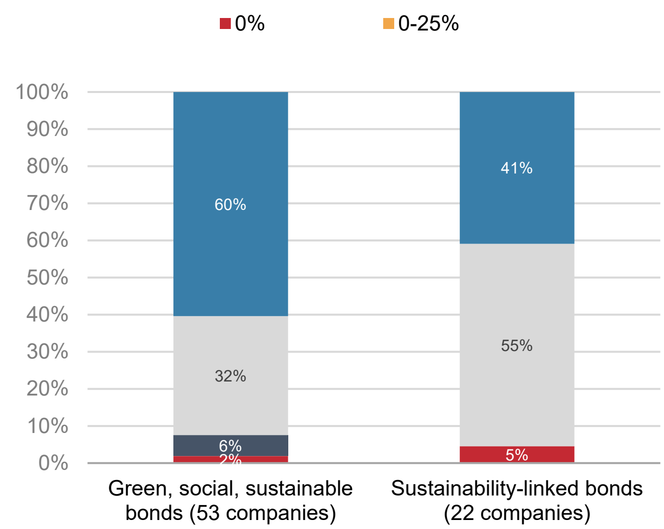
Findings

Figure 42 shows the percentage of green, social, sustainable bonds and sustainability-linked bonds which had been verified, assured or certified. While companies were more likely to report underwriting green, social or sustainable bonds (with 31% of companies doing so), 32% reported that a majority (between 75 and 100%) of bonds underwritten were then verified or certified. By contrast, only 13% of companies provided a value for sustainability-linked bonds, but of those companies 55% had a majority of their sustainability-linked bonds verified.

The apparent preference for having sustainability-linked bonds verified is reflective of the increased criticism which these instruments face around the sustainability key performance indicators and targets used, which may be too lenient, or the step ups and step downs, which may be insufficient incentive for companies to meaningfully change their behaviors.

25% of fixed income underwritten and securitization were considered sustainable.

Figure 42
Percentage of bonds underwritten which were verified, assured or certified



Sustainable Insurance Underwriting Products & Services

The insurance sector has an important role to play in addressing sustainability challenges by facilitating the transition to a low-carbon economy and stimulating sustainable development. By developing a comprehensive sustainable insurance product offering insurance firms can reduce risk, improve business performance, and contribute to environmental, social, and economic stability. With this question, we are looking at the value of sustainable insurance underwriting products offered by insurance companies or other financial institutions providing insurance products and the rationale as to why the company considers these products to be sustainable. This question layout has changed, and it has become fully public.

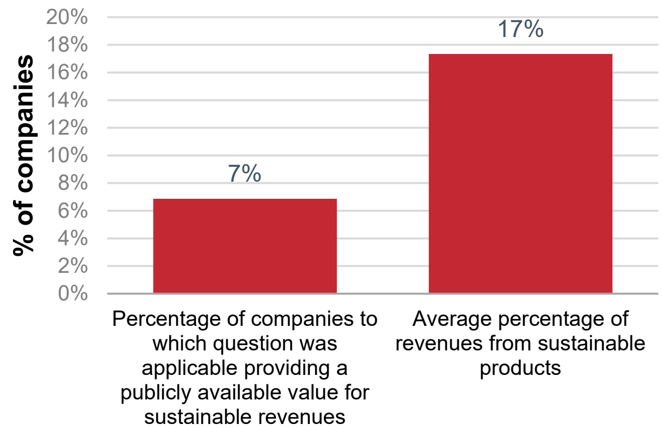
This question introduced in CSA 2023 and applies to FBN, INS industries

Findings

Only 7% of companies to which the sustainable insurance products & services question was applicable were able to provide a publicly available value for the revenues they derived from sustainable solutions in the last fiscal year. This low percentage reflects the methodology change that now requires such values to be publicly disclosed to be accepted in the CSA. The lack of public disclosure is indicative of the fact that there is generally less focus on insurers providing insurance to sustainable projects and infrastructure than there is on financers providing loans and investments for the construction and development of these same projects. By contrast, the focus for insurers tends to be more on the cessation of insurance provision for damaging activities such as coal mining and unconventional oil & gas. Because of this different focus, insurers are therefore less likely to publicly report their revenues from sustainable solutions.

Nonetheless, among those companies providing the revenues they derive from sustainable insurance products & services, the average percentage of these revenues over total revenues was 17%, demonstrating that sustainable solutions are a not insignificant source of revenue for insurers, but they remain far from crucial.

Figure 43
Companies answering the sustainable insurance underwriting products & services question, and the average percentage sustainable revenues



Supply Chain Management

In an increasingly globalized world, when outsourcing production, services or business processes, companies are exposing their corporate responsibilities and reputation to a variety of risks. This dynamic landscape requires new strategies and approaches to manage these risks and opportunities which differ depending on industry, business models and operational characteristics of a company.

To meet customer demand and boost profitability, businesses need to reduce prices and delivery times without sacrificing product quality or incurring excessive environmental or social expenses. In addition to these aspects, investors increasingly see the importance of managing related social, environmental, and business ethics risks in the supply chain.

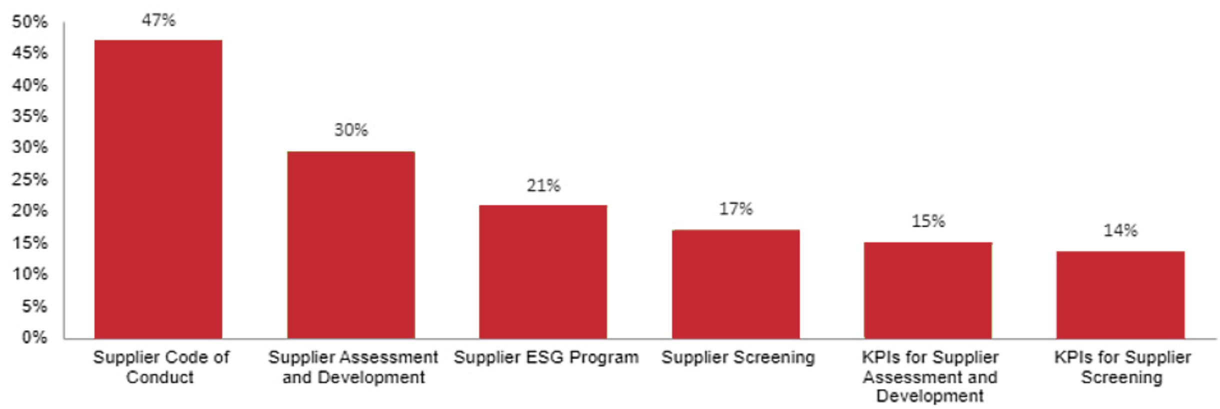
Criterion Update

In line with the increasing demand among stakeholders for higher accountability of supply chain ESG topics, greater consumer awareness, and recent and more stringent standards and frameworks developed by public and private bodies, the whole Supply Chain Management criterion has been the subject of a thorough review, except for the Conflict Minerals question. Other objectives of the update include disclosure standards alignment, clarity enhancement, and incorporation of specific feedback provided by companies during recent assessment years.

The Supplier Code of Conduct question has been revised to align with international standards and expand on the supplier code of conduct to include environmental and business ethics aspects. The remaining parts of the criterion have been completely redesigned. The Supplier ESG Programs question has been introduced to capture how companies integrate their supplier ESG programs into their sourcing organizational structure and process. The questions on Supplier Screening, Assessment and Development have been conceived to assess how companies evaluate, assess and reduce potential negative impacts of their supply chain activities. The KPIs questions assess the performance of companies in the different stages above.

Figure 44 below shows the distribution of disclosure among the reporting companies by questions in the Supply Chain Management criterion. The Code of Conduct for Suppliers is the question with the highest response rate: 47% of assessed companies provided public information about their requirements for suppliers. The Supplier Assessment and Development question was answered by 30% of reporting companies, which represents the second highest response rate in the criterion. However, only 21% disclose information on the Supplier ESG Program question. The Supplier Screening question also received a low response rate of 17%, and that of the KPIs for the Supplier Screening question is only 14%. The disclosure rate throughout this criterion - between 47% and 13% - indicates significant room for improvement in addressing supply chain ESG risks.

Figure 44
Disclosure on Supply Chain Aspects (%)



Supplier Code of Conduct

A supplier code of conduct (SCOC) summarizes and represents the basic commitments a company requires from its suppliers. It also serves as a first information source for prospective suppliers. This question assesses whether a company has a supplier code of conduct, whether it is public, and what issues it covers within the three pillars: human rights and labor, environment, and business ethics.

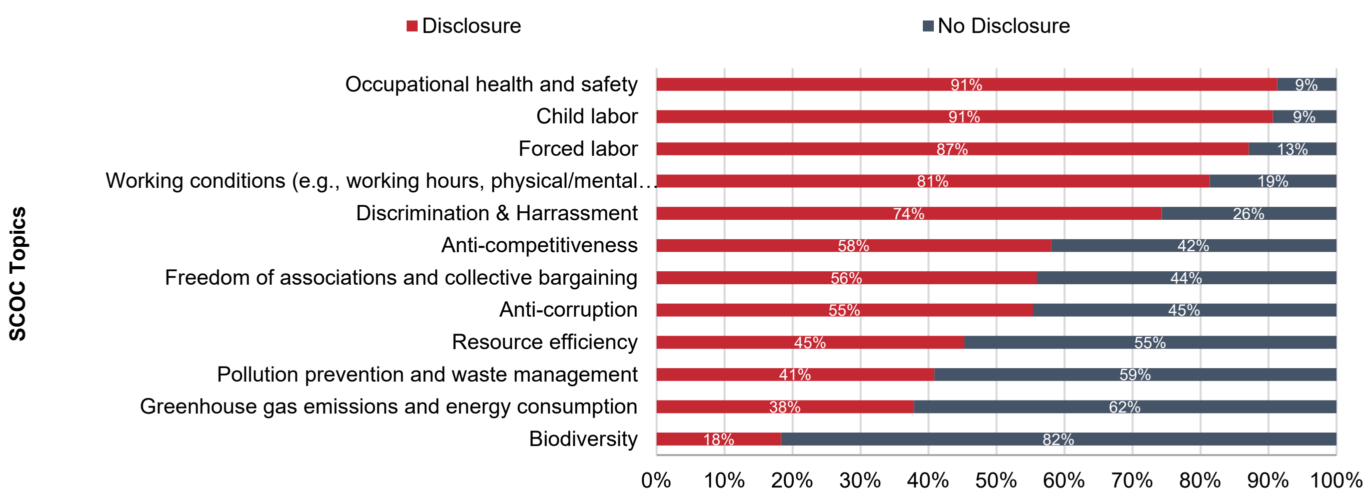
Among all companies assessed in the CSA universe, approximately 47% of companies have made their supplier code of conduct publicly accessible, obtaining an average score of 61 out of 100. This means that 53% either do not have any code of conduct for suppliers or do not publicly disclose it, which is notable since the SCOC is the Prerequisite for robust supply chain management.

This question was updated in CSA 2023 and applies to 54 out of 62 industries

Findings

Regarding topic coverage presented in Figure 45, supplier codes of conduct disclosed by companies tend to focus on Human Rights and Labor topics such as occupational health and safety (91% of respondents), child labor (91%), forced labor (87%), working conditions (81%), and discrimination and harassment (74%). More than 50% of reporting companies cover topics of anti-competitiveness, anti-corruption, freedom of associations and collective bargaining. Environmental aspects are overlooked in most codes of conduct for suppliers: 45% of SCOCs mention resource efficiency, 41% pollution prevention, and waste management. 38% cover greenhouse gas emissions and energy consumption, and only 18% of SCOCs collected in the CSA 2023 address biodiversity, deforestation, or land conservation issues.

Figure 45
Reporting companies tend to focus on Human Rights and Labour topics while neglecing Environmental topics in their publicly disclosed supplier codes of conduct (SCOC)



Supplier ESG Programs

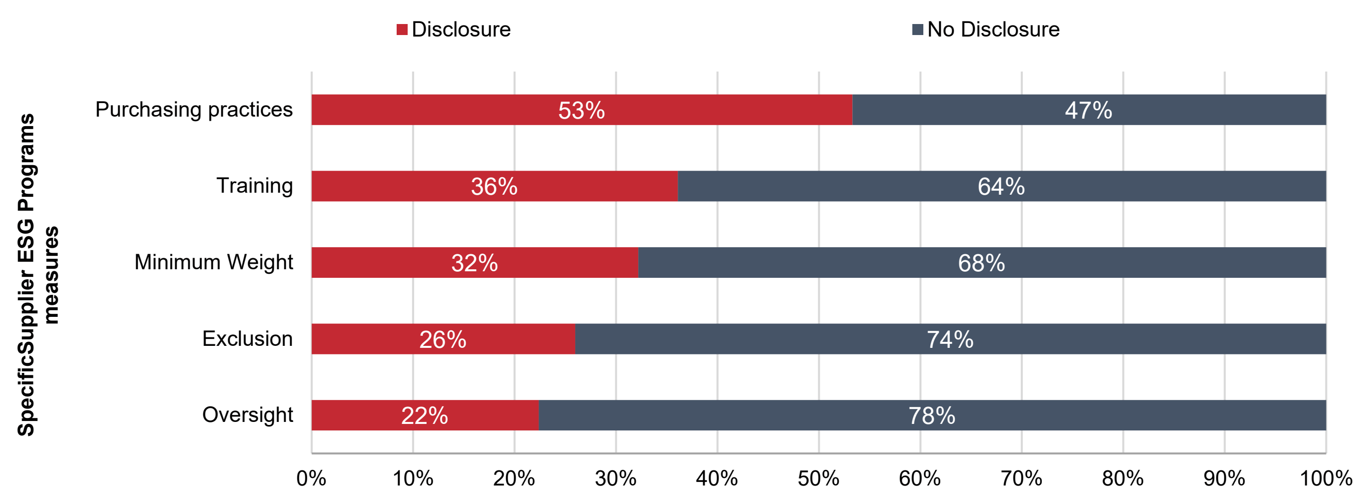
For companies, creating and implementing strong supplier ESG programs is a crucial operational and strategic responsibility. This question assesses whether businesses have put in place the appropriate mechanisms or processes to guarantee that the supplier ESG program is implemented internally in an effective manner and to recognize and handle significant ESG risks and consequences arising from supply-related activities. Clear and structured governance, together with internal communication and training, are needed to ensure the correct plan, implementation, and improvement cycles. Another critical activity is ensuring that these practices are routinely reviewed to guarantee that companies' business demands, and expectations, are in line with established ESG requirements.

This question was introduced in CSA 2023 and applies to 54 out of 62 industries

Findings

Within the pool of companies under CSA assessment, only 21% reported one or more measures in their supplier ESG programs in public reporting, scoring a low average of 34 out of 100. The graph below shows to what extent the different measures are adopted. 53% of companies that report on ESG measures regularly review their purchasing practices toward suppliers to ensure alignment with the Supplier Code of Conduct and to avoid potential conflicts with ESG requirements. Nevertheless, only 36% of reporting companies disclosed organizing training for the company's buyers and/or internal stakeholders on their roles in the supplier ESG program. Companies are expected to set up training for buyers or relevant internal stakeholders in their roles and on how their day-to-day actions and decisions are fundamental to reaching the company's ESG objectives. 32% of reporting companies apply a minimum weight to ESG criteria in supplier selection and contract awarding, incentivizing good ESG practices of suppliers. 26% exclude suppliers from contracting if they cannot achieve minimum ESG requirements within a set timeframe, and only 22% defined a clear oversight for the implementation of the supplier ESG program, whether at the level of the Board of Directors or Executive management.

Figure 46
The majority of reporting companies do not disclose or do not implement supplier ESG program measures, with an exception of the regular review of purchasing practicses



Supplier Screening

An important first step in supply chain management is to try to understand supply chain risks and dependencies from the ESG and business operation perspective. The question aims to assess if companies have a systematic approach to screening suppliers to identify important sustainability risks in their supply chain, those individuated are labelled as “significant suppliers”.

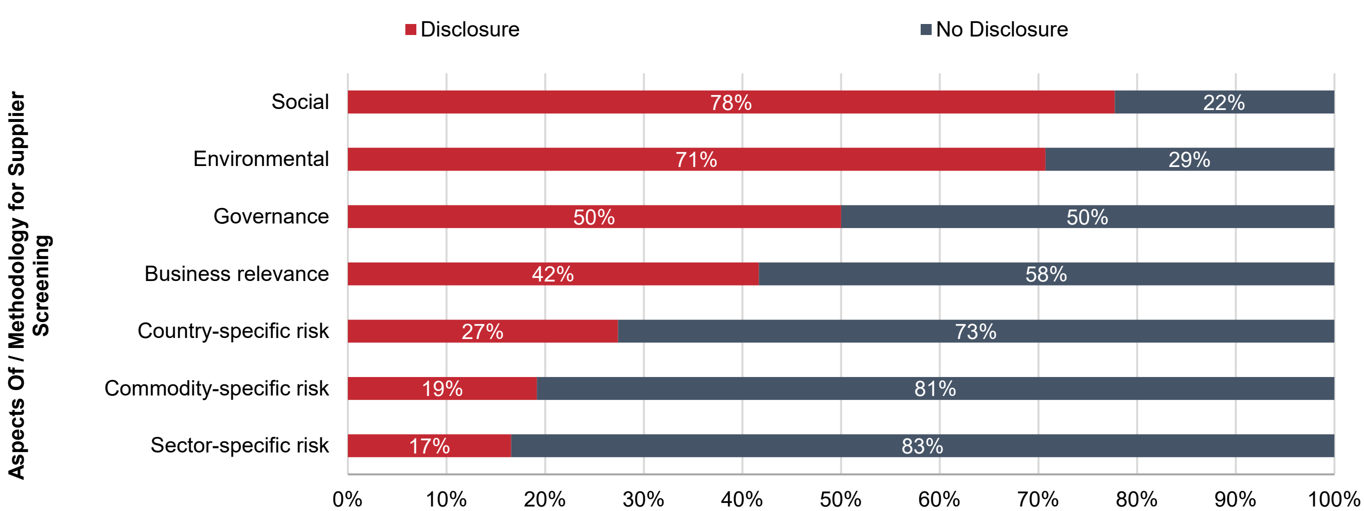
Once a company has identified these suppliers, it can focus supplier monitoring and development efforts on those with the highest risk of negative sustainability impacts and/or higher business relevance. Companies that can properly identify significant suppliers will also be better positioned to prioritize their risk management measures and proactively detect and target issues connected to suppliers’ ESG performance.

This question was introduced in CSA 2023 and applies to 54 out of 62 industries

Findings

Diving into the data analysis for supplier screening question, 17% of the companies have a publicly available systematic supplier screening approach to identify significant suppliers, scoring an average of 43 points across all companies. For the CSA companies that screen their suppliers, figure 47 shows that “social” risks were included by 78% of companies in their methodologies, followed by “environmental” risks (71%). The high share of companies screening for environmental risks surprises, considering the low level of environmental requirements in the Supplier Code of Conduct. Meanwhile, “governance” risks and “business relevance” are relatively less often included, by 50% and 42% of the companies that disclose supplier screening processes, respectively. In comparison, the country-, sector-, and commodity-specific risks were only considered by 27%, 17%, and 19% of the reporting companies in their screening methodology.

Figure 47
78% of companies with a supplier screening process have considered social risks



Supplier Assessment & Development

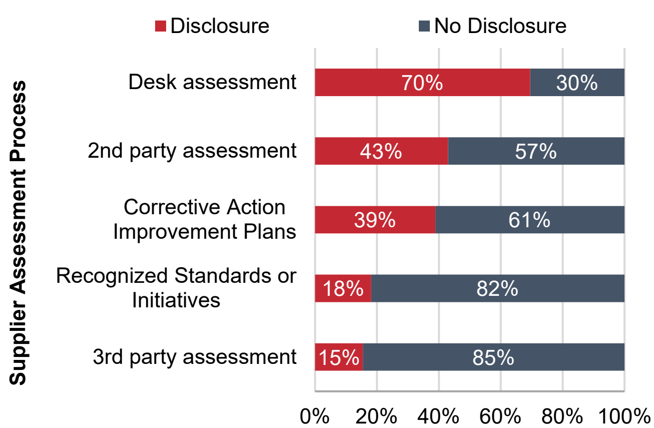
The purpose of this question is to assess if companies have a systematic approach to evaluating suppliers and managing their subsequent development to meet company sustainability requirements. The question first inquires whether companies have a publicly available supplier assessment and development process. 30% of the companies assessed in the CSA answered they have a process in place while 70% did not publicly disclose this information. These companies score a 39 on average, indicating potential for improvement in this aspect.

This question was introduced in CSA 2023 and applies to 54 out of 62 industries

Findings

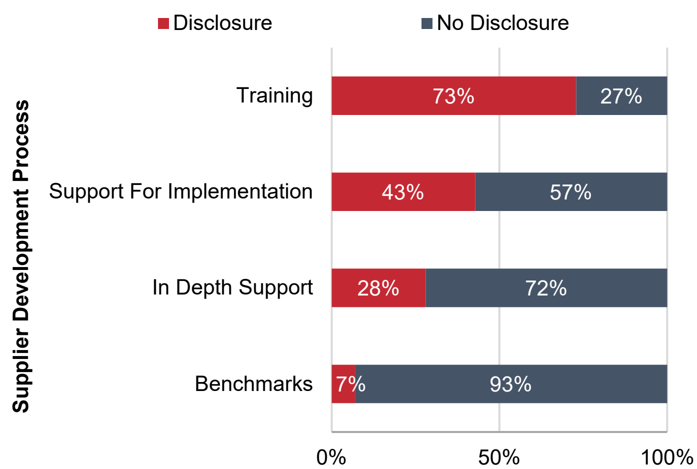
As we delve into the breakdown of the question, there are sub-options to the supplier assessment process and the supplier development process. As shown in Figure 48, 70% of companies that publicly report on their assessment process undertake supplier desk assessments with systematic verification of evidence. This means that these companies review, verify, and analyze suppliers' information resulting in an appraisal of the supplier's ESG performance. A further 43% report that employees of the purchasing company or contracted consultants carry out on-site assessments of suppliers. However, only 18 % of reporting companies apply recognized standards such as such as the Sedex Methodology for Ethical Trade Audits (SMETA), Amfori BSCI (Business Social Compliance Initiative), or Responsible Business Alliance, and only 15% report that on-site assessments of suppliers are carried out by independent third-party auditing organizations.

Figure 48
Desk assessment is the most popular measure to assess suppliers while third-party assessment is the least reported



As illustrated in Figure 49, nearly three-quarters (73%) of reporting companies that have a publicly available supplier development process offer information or training to suppliers on the company's ESG program, process, and/or requirements. 43% disclose providing support to suppliers on implementing corrective action plans and 28% provide in-depth support that builds capacity and ESG performance in suppliers. Notably, benchmarking is rarely conducted, with a disclosure rate of 7%.

Figure 49
73% of reporting companies provide training for suppliers as a part of the development process and 43% provide support for implementation of corrective action plans



KPIs for Supplier Screening

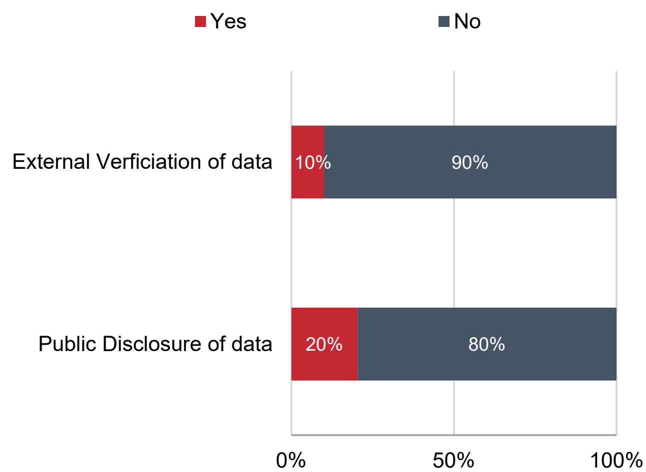
This question aims to assess the quantitative part of supplier screening. Along with the screening itself, it is also important to monitor the coverage and results of the supplier screening program. This question seeks to understand the number of significant suppliers with ESG risks identified by companies, the share of procurement spend is covered by these suppliers and whether they are located in Tier 1 or beyond. Furthermore, this question acts as the foundation of the next KPI question as both are based on the number of significant suppliers identified.

This question was introduced in CSA 2023 and applies to 54 out of 62 industries

Findings

According to Figure 50, very few reporting companies obtained external verification or publicly disclosed Supplier Screening KPIs. Nevertheless, the average score for this question amongst these companies is 47, the second highest out of all Supply Chain Management questions. This suggests that supplier screening data are generally monitored by these companies but are usually not disclosed to the public or verified by a third party.

Figure 50
Very few reporting companies obtained external verification or publicy disclosed Supplier Screening KPIs



KPIs Assessment & Development

The purpose of this question is for companies to disclose the results of the supplier assessment and development processes. It is important to monitor the coverage and progress of a supplier assessment and development program to ensure risks are being managed and that the company is acting responsibly by building capacity within its supply chain. This question seeks to understand if companies are capturing the number of different suppliers they have, how many are assessed, and how many out of those have been identified as having significant actual/potential negative impacts. From this, it is possible to ascertain how many of those suppliers are supported to improve their actions and in what ways.

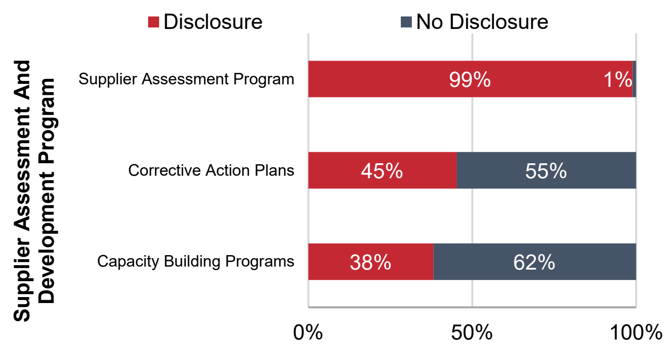
Per the abovementioned comment, 15% of companies assessed monitor and report on the coverage and progress of their supplier assessment and development program. These companies' average score for the question is 34, implying a lack of attention or transparency in this aspect.

This question was introduced in CSA 2023 and applies to 54 out of 62 industries

Findings

From the companies that report on assessment and development programs for suppliers, Figure 51 shows an overwhelming majority of 99% monitor and report on the coverage and progress of how their suppliers are assessed. These companies also demonstrate strength in the development of their suppliers with nearly half reporting that they monitor and report on the coverage and progress of corrective action plans (45%) and capacity-building programs (38%).

Figure 51
99% of companies that report on Supply Chain disclose a supplier assessment program



Biodiversity

Biodiversity forms the foundation for all life. It plays a critical role in maintaining the quality, quantity, and resilience of ecosystems and provides services that the planet relies upon. Businesses have long utilized nature's resources and services without having to pay the full price for the privilege. There is a growing awareness that the success of many companies depends on services of intact ecosystems. Societal and economic externalities on ecosystems bring the risk of collapse if nature's boundaries continue to be exceeded. Businesses play a key role in avoiding this risk and are exposed to growing expectations to address dependencies on as well as negative impacts on nature and collaborate with stakeholders to achieve mutually beneficial outcomes.

This criterion focuses on the ability of companies to recognize the importance of biodiversity and the impact- and dependency-related risks and opportunities. Risks must be identified to alleviate pressure on ecosystems and to help them thrive, while still working within the parameters of business operations. This criterion also seeks a high level of industry collaboration with external stakeholders—to create meaningful policies, operate within supply chains and transform existing systems.

Criterion Update

This criterion was updated for alignment with reporting frameworks such as SBTI Guidance to target setting, TNFD Disclosure requirements (Metrics & Targets), UN CBD Post-2020 Global Biodiversity Framework, and the GRI Revised Biodiversity Standard.

Striving for CSA framework alignment and industry best practices, two new questions were added to the CSA and two underwent changes. The two new questions, Risk Assessment and Mitigating Actions aim to capture a company's ability to take inventory of biodiversity-related risks and which preventative measures are taken to minimize identified risks.

Biodiversity Commitment and No Deforestation Commitment introduced a new element which asks for the level of endorsement of the policy: board of directors or executive management. Biodiversity Commitment additionally now includes the following commitment items: definition of target areas to work towards no net loss and conducting a biodiversity risk assessment. No Deforestation saw a simplification of the question and the removal of a 'Compliance & Monitoring' section.

Disclosure rate across all questions demonstrates the demand for increased efforts in aligning with best practices to respond to the rapid biodiversity loss.

Figure 52 shows the percentage of assessed companies disclosing relevant information on each new or updated Biodiversity question. All these questions experienced a low disclosure rate; however, the highest disclosure was seen in the Mitigating Actions question with 23% of companies disclosing information. On the low-end, only 5% of companies disclosed a commitment to no deforestation that met the guidelines for the question. The significantly low disclosure rate across all questions demonstrates the demand for increased efforts in aligning with best practices to respond to the rapid biodiversity loss.

Figure 52
Percentage of Disclosure per Updated/ New Biodiversity Questions

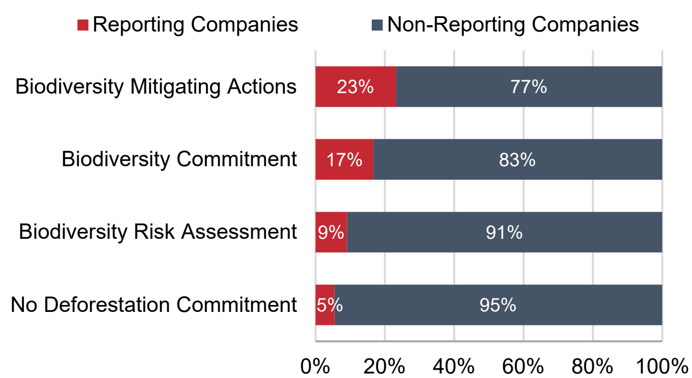
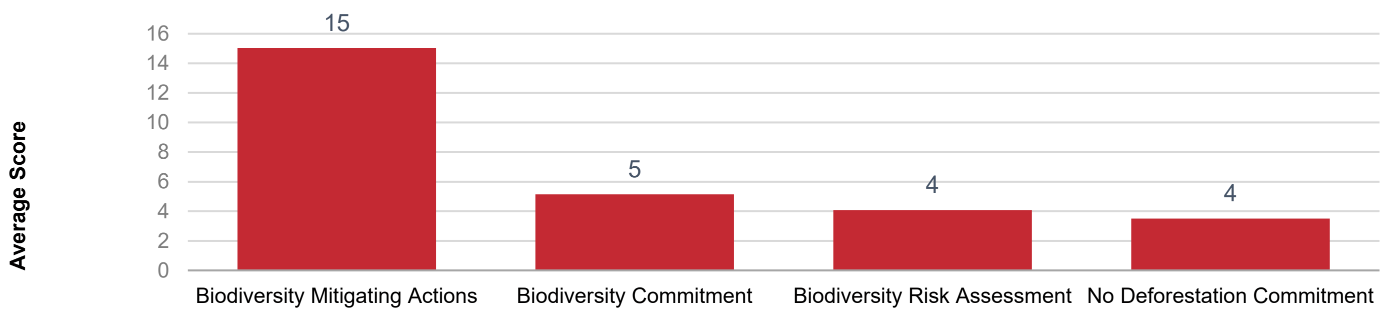


Figure 53 displays the average score across all assessed companies for each question. In alignment with the results from Figure 1, both No Deforestation and Biodiversity Risk Assessment rank the lowest, with just 4 out of a possible 100 points. Mitigating Actions is ranked the highest, with an average score of 15 points. However, the average scores for all questions shown in Figure 52 are considerably low and illustrate the need for further efforts in all areas of biodiversity commitments and actions. As these updated and new questions mature, we can expect increased alignment and action to be taken on these pressing topics.

Figure 53
Average Score per Updated/ New Biodiversity Question



Biodiversity Commitment

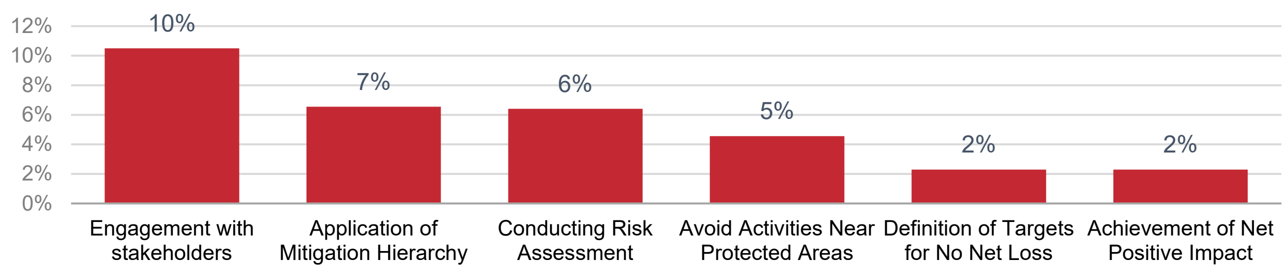
The purpose of this question is to evaluate the disclosure of a company's public policy or commitment to biodiversity, covering aspects that systematically address its dependency and impact-related biodiversity risks. This includes commitments to engage with stakeholders, conduct risk assessments, and disclose identified priority areas, with a commitment to set targets that work towards no net loss. Furthermore, companies are expected to commit to taking mitigating actions as well as setting a long-term net positive impact commitment. All aspects covered should be applied to the entire value chain and be endorsed by either a member of the board of directors or executive management.

This question applies to 49 out of 62 industries in the CSA, and the scope of this analysis considered 4,587 companies.

Findings

Overall, 17% of companies assessed have commitments in place to minimize impacts on biodiversity. Within these companies, only 5% have the commitments of a policy endorsed at an executive or board level. Approval from the top of an organization is essential to guide strategy and organize an aligned company-wide approach to address biodiversity challenges. Figure 54 shows the percentage of companies committing to various elements seen in biodiversity policies. The largest share of companies reporting on this topic commit to engage with stakeholders (directly or indirectly) on biodiversity. On the other hand, it is evident that only a few companies currently commit to targets for No Net Loss or to achieve a Net Positive Impact. Such commitments will grow in importance as stakeholders look for companies to minimize biodiversity impacts across their value chain.

Figure 54
Percentage of Companies Committed to Biodiversity Aspects



Biodiversity Risk Assessment

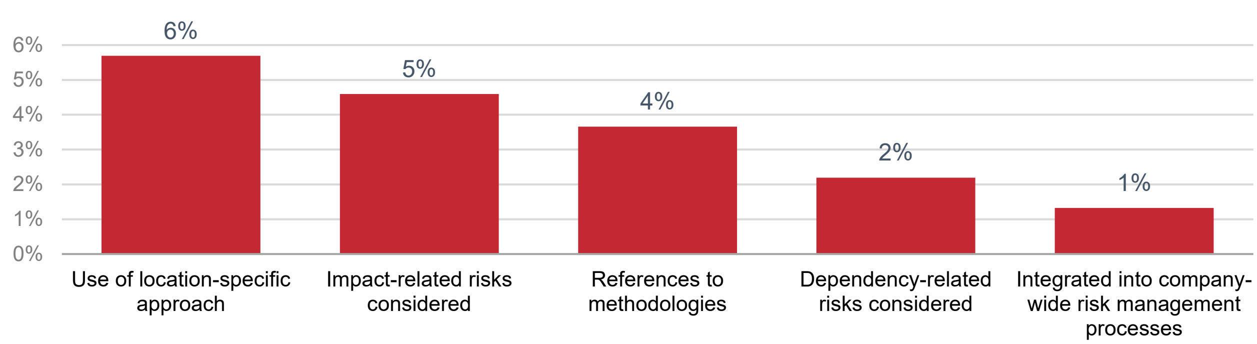
The purpose of this question is to determine to what extent companies are taking inventory of biodiversity risks and opportunities for improvement. This includes identifying dependency and impact –related risks to alleviate pressure on ecosystems, while still working within the parameters of business operations. Risk assessments should be integrated into a company-wide risk management process to embrace top-down support across organizations. Additionally, the utilization of established frameworks and methodologies for risk assessments is beneficial to ensure reliability and the consideration of essential aspects, like a location-specific approach. Acceptable methodologies include: TNFD LEAP Nature Risk-Assessment Approach, Integrated Biodiversity Assessment (IBAT), Species Threat Abatement and Restoration Metric (STAR), and Natural Capital Finance Alliance's ENCORE. This question also asks for collaboration with external stakeholders—to create meaningful processes; operate sustainably within upstream and downstream activities; and transform existing systems.

This question was added to the CSA in 2023 and applies to 49 out of 62 industries in the CSA. The scope of this analysis considered 4,587 companies.

Findings

Despite an increasing demand among stakeholders for public disclosure of relevant data on biodiversity risk assessments, the results show a low percentage of companies working on an inventory of biodiversity risk, with only 9% disclosing information that matches CSA question requirements. Figure 55 shows that of the companies assessed, most utilize a location-specific approach. Secondly, the data shows that companies are considering impact-related biodiversity risks such as air, water, or soil pollution; the fragmentation of habitats; or the alteration of ecosystem viability. In third place, with 4%, companies reference accepted methodologies or frameworks utilized to analyze their risks. This leads to the overall reliability of the assessment. The consideration for dependency-related risks in assessments is among the least selected, at just 2%. Dependency-related risks include a reliance on nature's contributions to humans and organizations that are relied on, like pollination, flood control, and carbon sequestration. For example, without pollination services, the Food Products industry would find itself without goods to sell. Lastly, very few companies (1%) integrate biodiversity risks into their centralized enterprise risk management program. The data demonstrates that companies must make considerable efforts to improve their performance on assessing biodiversity-related risks of their operations and throughout their value chains to support nature-positive business model.

Figure 55
Frequency of Aspects Included in Biodiversity Risk Assessment for All Assessed Companies



Biodiversity Mitigating Actions

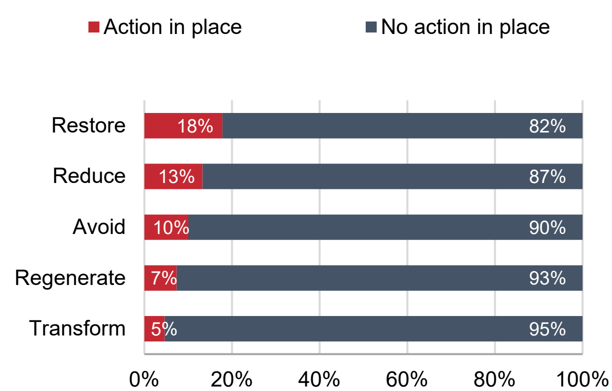
The degradation of ecosystems and the hindrance of ecosystem services productivity has a material and all-encompassing effect on business. Without it, companies are left lacking the ecosystem services and the natural capital necessary to function. The purpose of this question is to assess what relevant actions a company has taken in its operations that consider the well-being of nature. These mitigation actions include avoid, reduce, regenerate, restore, and transform. Ultimately, any environmental impacts that can be avoided should be. However, if this is not possible, a company is expected to reduce its impact. Regenerate and restore are the actions needed to (1) remediate impacts on nature that cannot be avoided or reduced, and (2) achieve measurable positive outcomes for nature, as a part of achieving societal goals. While these actions—avoiding, reducing, regenerating, and restoring—are critical to minimize and contain the pressures fueling nature loss, transformative actions are also necessary to tackle the fundamental drivers of nature loss. Drivers include the dominant belief and value systems of individuals and organizations which persist today and influence decision-making.

This question was introduced in CSA 2023 and applies to 22 out of 62 industries. The scope of this analysis considered 1,767 companies.

Findings

Across all companies asked the question Mitigating Actions, an average of 15 points was scored. Figure 56 shows the aspects most frequently committed to by companies. With 18%, the largest share of companies engages in programs to restore negative impacts on biodiversity, which might be viewed as troubling. Ideally, companies would focus on 'reducing' and 'avoiding' negative biodiversity impacts so that restoration is not needed. Notably, 'transform' is the least integrated action showing that companies are operating within a 'business as usual' context rather than seeking to transform systems. However, transformative action is necessary to stop ecosystem services from continuing to diminish.

Figure 56
Frequency of Mitigation Action in Place for All Assessed Companies



No Deforestation Commitment

No deforestation commitments are voluntary sustainability initiatives adopted by companies to signal the intention to end all deforestation (no gross) or commit to future restoration (no net) across all operations. Commitments to no gross or no net deforestation should have targets set with clear deadlines and sanction-based implementation mechanisms in biomes with a high risk of forest commodity conversion. Best practices on this topic include engagement with external stakeholders, business partners, and with a company's supply chain to address potential deforestation risks. All commitments should also be signed off/ approved at a board of directors or executive management level.

This question applies to 49 out of 62 industries in the CSA, and the scope of this analysis considered 4,587 companies.

Findings

Despite deforestation being a much-discussed topic for the assessed industries, commitments to no deforestation do not follow this trend. Only 4% of all companies assessed have some level of commitment, as shown in Figure 57. No Deforestation Commitment experienced one of the lowest disclosure rates (4%) across the new/ updated questions in the biodiversity criterion. Figure 53 shows that no deforestation commitments are low across all industries, with Consumer Staples and Utilities performing the best, followed by Communication Services, Consumer Discretionary and Materials. Although the scores for these industries are low, it is encouraging to see that such resource-dependent industries are beginning to have such commitments.

Figure 57
Average score of No Deforestation question at sector level

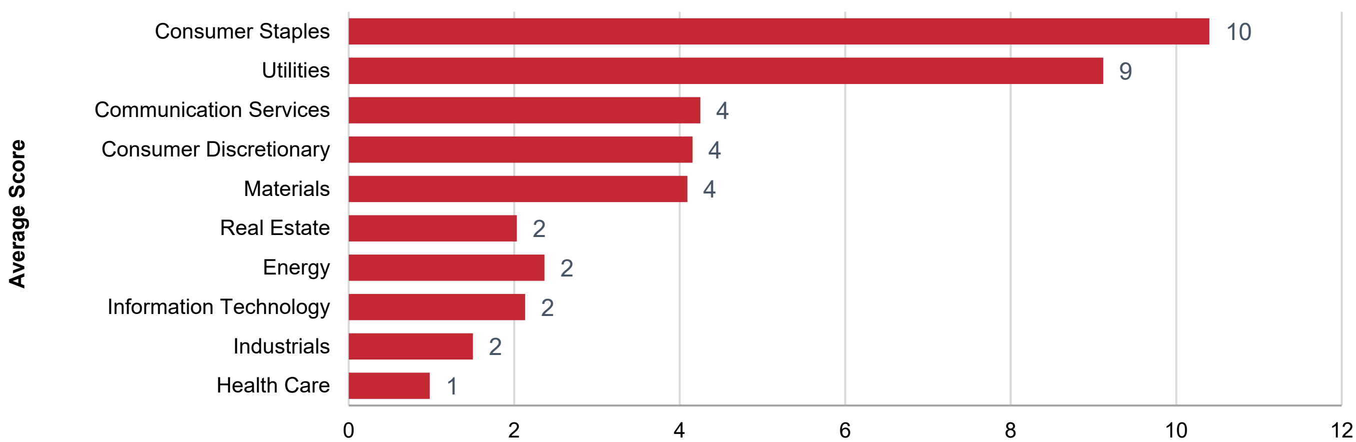
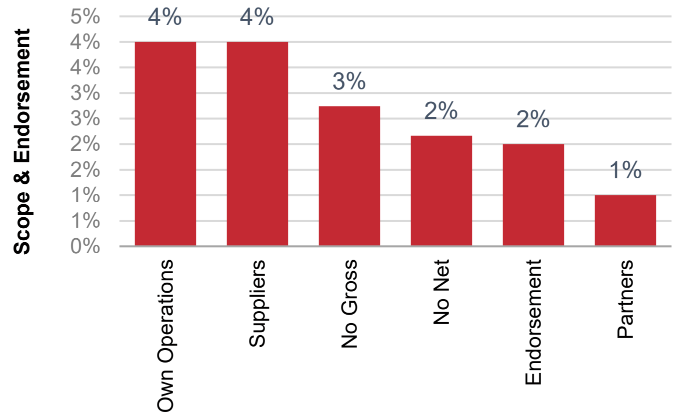


Figure 58 highlights the results from various aspects asked for in no deforestation commitments. Together, 5% of companies assessed have a commitment to no gross or no net deforestation. The scope of this commitment identifies which groups the policy applies to and may include own operations, suppliers, and partners. While disclosure for this question is low, companies are focusing efforts on their own operations and suppliers equally. Including suppliers within the context of a no deforestation policy is pivotal as that is where much of the impact derives from within many sectors. However, only 1% of companies extend this commitment to business partners.

The aspect of policy endorsement was introduced this year, which assesses the hierarchy level on which the commitment is made. The results of this new aspect show that, of those companies assessed, only 2% have an endorsement at an acceptable level — 1% of commitments are approved at a Board level and 1% at an Executive level. This leaves 98% of companies either not having commitments or having them endorsed at a different decision-making level, which can result in implementation challenges through lack of support.

Figure 58
Scope and Endorsement of No Deforestation Commitments by all Assessed Companies



Climate Strategy

Most industries will be impacted by climate change, albeit to a varying degree. The need for robust strategies to meet the scale of the challenge is growing ever more significant. There is increasing focus not only on identifying the risks and opportunities of climate change, but also management of these risks and ensuring appropriate governance and oversight at all levels of the business. As the number of climate-related mandatory and voluntary disclosure frameworks and standards increase, companies must remain vigilant at not only assessing their own exposure to climate, but also documenting this in a way that meets disclosure requirements.

The majority of the questions in this criterion have been developed in alignment with the CDP methodology.

Additionally, many questions in this criterion are aligned with the Task Force on Climate-related Financial Disclosure (TCFD) which published in 2017 a set of recommendations for voluntary and consistent climate-related financial risk disclosures in mainstream reporting. While the developed disclosure recommendations are voluntary, investors demand for companies to report in line with TCFD is growing exponentially and governments are starting to move toward requiring TCFD disclosures through regulation.

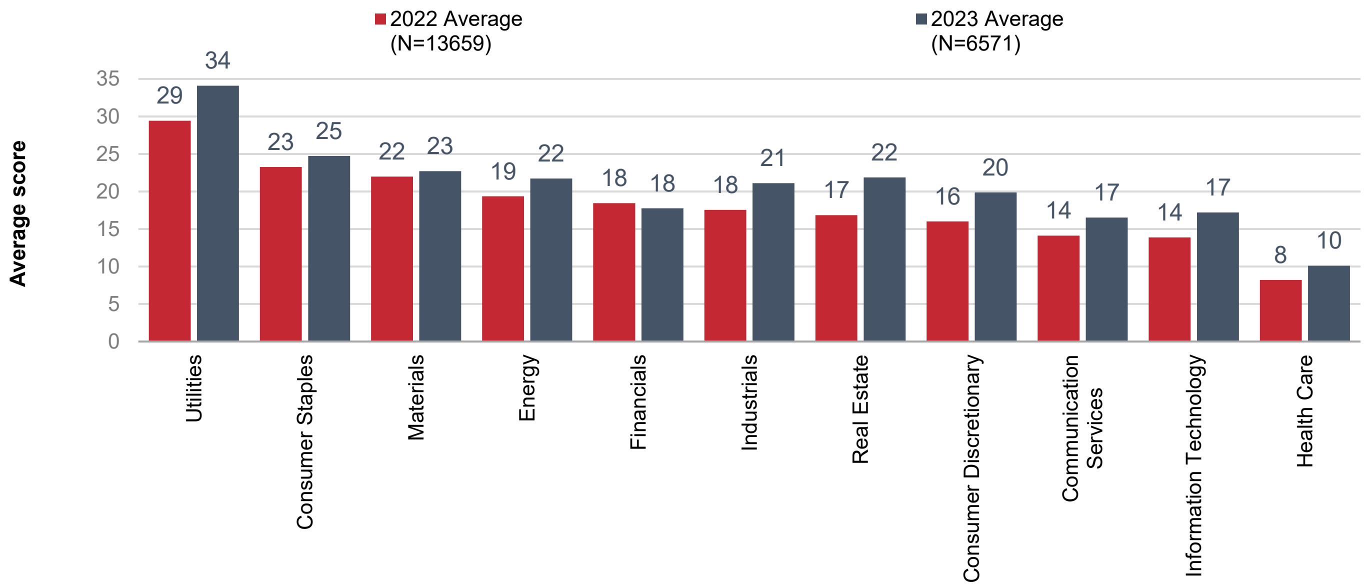
Finally, the EU action plan on sustainable finance and its EU Taxonomy Regulation on the establishment of a framework to facilitate sustainable investment have also been considered in the further development of this criterion. (Regulation (EU) 2020/852).

Criterion Update

The climate strategy criterion was updated ahead of the 2023 cycle. One new question was developed titled *Climate Governance* to reflect the rising interest in adequate governance and oversight of climate-related risks. *Climate Change Strategy* was renamed and modified as *Climate Risk Management* and now includes the risk management elements from both the *Climate Risk Assessment – Physical Risks* question and the *Climate Risk Assessment – Transition Risks* question. The scenario analysis aspects of the questions *Climate Risk Assessment – Physical Risks and Climate Risk Assessment – Transition Risks were merged* to form a new question *Climate-related Scenario Analysis*. The question *Climate-Related Targets* was renamed *Emissions Reduction Targets* and was updated to include Scope 3 targets as well as require all information to be available in the public domain. The question *Climate-Related Management Incentives* also became public, requiring information to be fully available in the public domain to score points.

Figure 59 illustrates the difference in average score for the Climate Strategy criterion between the 2022 and 2023 CSA, per sector. Overall, the increase in the requirements on public disclosure introduced for 2023, in alignment with recognised standards for this topic allowed for an overall increase in average scores in 2023, as many companies have publicly available data, such as CDP and TCFD reports, or annual reports which align with CSA requirements. The Utilities sector continues to score the highest, with an average criterion score of 34. It should also be noted that the Utilities sector demonstrated the most significant score increase over the 2 years, while other sectors such as Consumer Staples, Financials and Health Care remained at a similar average. This could be linked to the responsibility of the sector in terms of decarbonization. It is worth noting that Financials companies also capture climate and decarbonisation data within the Sustainable Finance criterion, which is not captured in this data. It is positive to observe that, despite the increase in the number of public or partially public questions, and the introduction of questions relating to emerging climate topics, such as climate governance, that companies are continuing to increase their scores. However, average scores are overall fairly low, indicating that many companies still have more that could be done to increase their performance.

Figure 59
Average scores per sector for the Climate Strategy criterion



Climate Governance

The purpose of the new question *Climate Governance* is to assess a company's governance measures around climate risks and opportunities at different levels of the business. Specific board level committees ensure that climate-related issues are overseen at the highest level of governance. Appropriate management responsibility ensures a company is effectively measuring and responding to climate-related risks.

This question is aligned with TCFD which recommends organizations disclose information on board's oversight of climate-related issues, as well management's role in assessing and managing those issues.

This question was introduced in CSA 2023 and applies to all industries (62)

Findings

Figure 60 shows the average score of the Climate Governance question per sector. Overall, average scores are low. Utilities and Energy sectors perform the highest, with an average score of 46 and 36 respectively. Health Care is significantly lower than other sectors, with an average score of 15 points. This demonstrates that board and management level oversight of climate related risks is not widely reported. Quality of disclosure is likely to increase as climate governance receives increased focus within upcoming climate-related disclosure requirements and frameworks.

Figure 60
Average score within Climate Governance by sector level

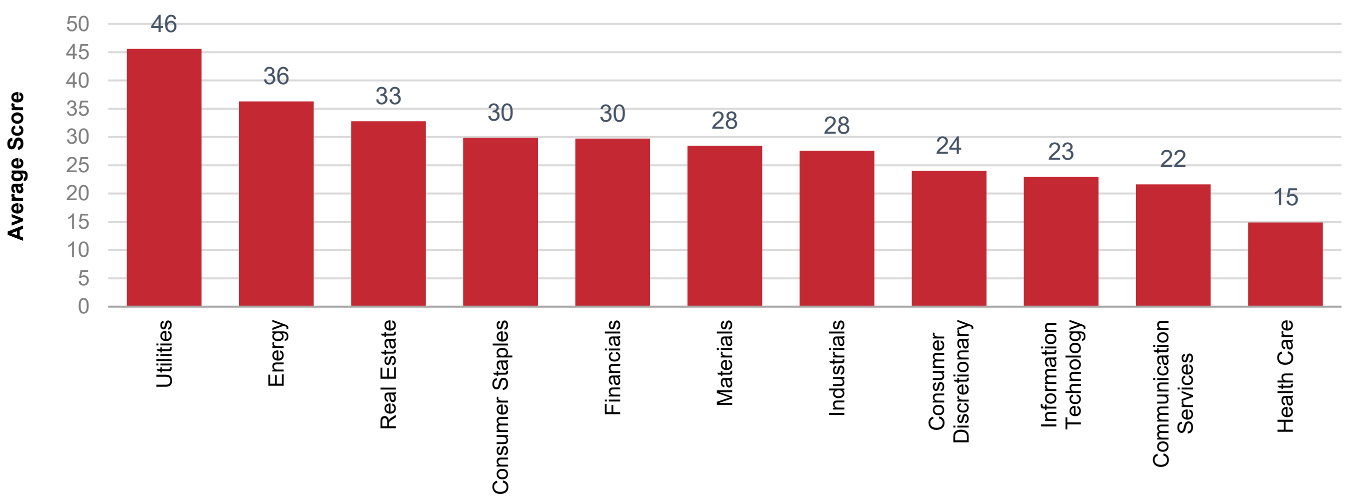
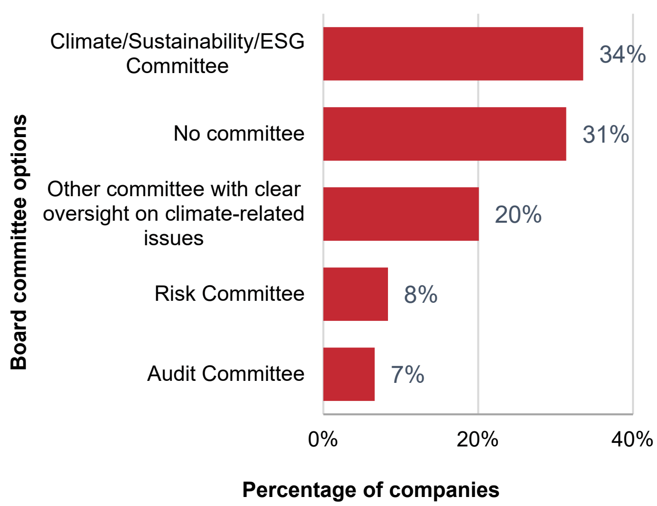


Figure 61 shows that a third of companies that answered the *Climate Governance* question do not have a board level committee which oversees climate-related issues. However, another third of companies publicly disclosed that they have a board level climate, ESG, sustainability committee, with 20% selecting a similar committee with dedicated responsibility for the oversight of climate-related issues. This demonstrates that when companies do have board oversight of climate, it is most commonly in the form of specific climate, ESG or sustainability committees. As these committees are more streamlined in their focus on ESG and sustainability, climate-related risks may receive more focus compared to a board with a wider remit of tasks and responsibilities.

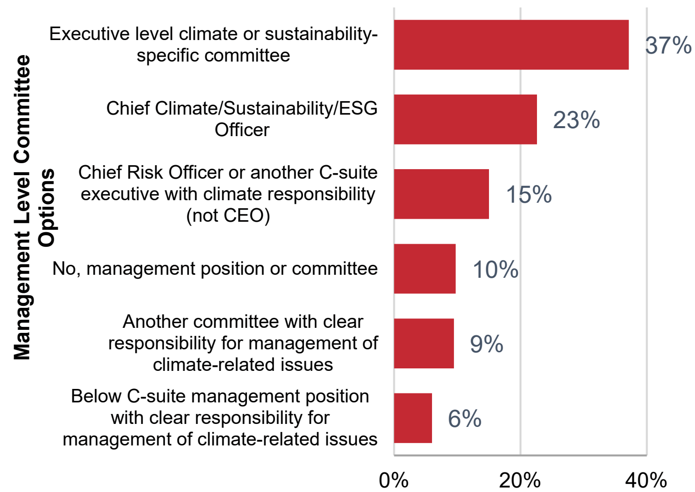
Figure 61: Selection of the board committee with oversight of climate-related issues



At the management level, figure 62 shows that the most popular mechanism for ensuring robust responsibility for climate-related issues is through a specific climate or sustainability committee, followed by a chief climate, sustainability or ESG officer. Companies without a management position or committee were much lower, at 10% of responses, compared to companies without a dedicated board committee. This shows that most companies do have management responsibility for climate-related issues, likely due to climate risk being integrated into other operational processes.

Compared to board level governance, executive management responsibility over climate issues is a more mature process, and it is expected that companies would have a higher quality of disclosure.

Figure 62: Selection of Management Level responsibility for climate-related issues



Climate Risk Management

The question *Climate Risk Management* is formed of the risk management aspects of *Climate Risk Assessment – Physical Risks* and *Climate Risk Assessment – Transition Risks*. This was updated to further align with CDP and TCFD.

This question was introduced in CSA 2023 and applies to all industries (62)

Climate-related Scenario Analysis

The question *Climate-related Scenario Analysis* now includes the listed scenarios from the questions *Climate Risk Assessment – Physical Risks and Climate Risk Assessment – Transition Risks*. These have been grouped into scenarios that align with a 2°C or above warming pathway and a below 2°C warming pathway. Additionally, the physical risk scenarios have been updated in line with IPCC's AR6

This question was introduced in CSA 2023 and applies to all industries (62)

Findings

Figure 63 shows that most companies are scoring within 0-14 points for both modified questions, demonstrating a significant lack of public reporting in the area. On the other hand, many scoring companies are scoring within 85-100 points. These large differences show that either companies are performing very well in these questions, and their publicly available processes align with the requirements of the CSA methodology, or that they do not yet report in line with the TCFD, CDP or are unable to provide publicly available, acceptable evidence.

Regarding the types of scenarios being selected by companies, best practice suggests considering multiple scenarios that align with different potential outlooks for the future. Of the companies that selected a physical risk scenario, it is more common for the scenario to be aligned with a warming trajectory of 2°C or above. The physical impacts of climate change are more pronounced in a warmer climate, and companies are able to assess their risks from a worst-case perspective. On the other hand, of the companies that selected a transition scenario, the majority are using a below 2°C scenario to assess their exposure to transition risks. This is likely due to the considerations of risks relating to decarbonization, net zero and changing consumer preferences that are reflected in lower temperature alignment scenarios.

Figure 63
Count of companies within score thresholds for Climate-related scenario analysis and Climate Risk Management

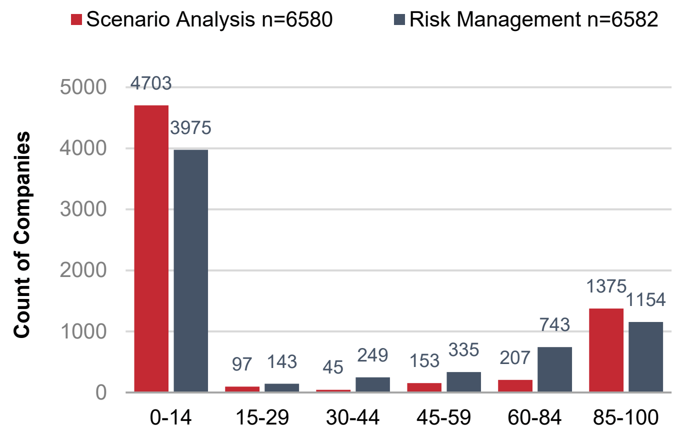
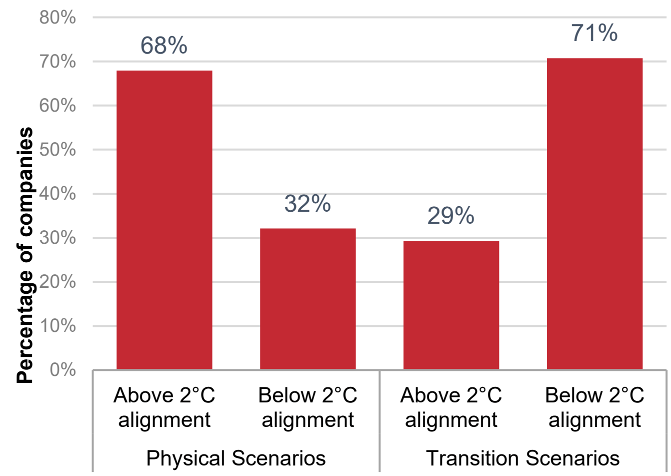
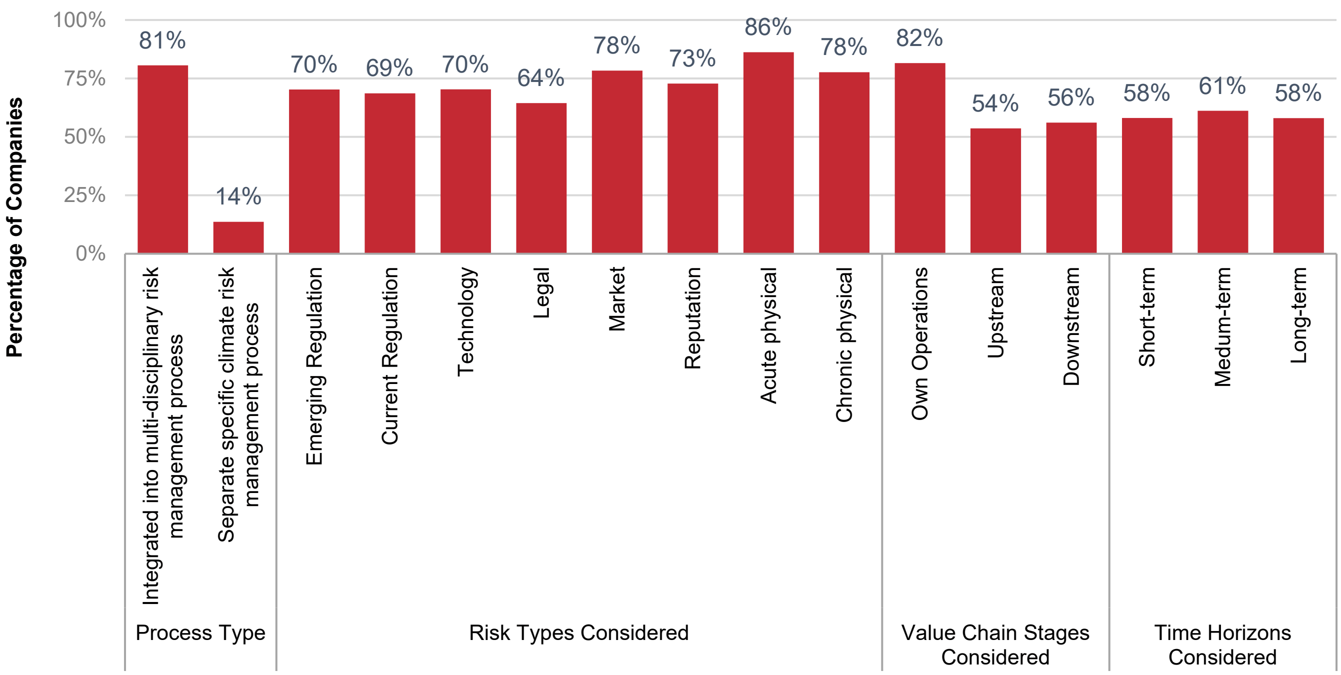


Figure 64
Percentage of companies using 2°C or above and below 2°C scenarios



The aspects of the *Climate Risk Management* question are broadly aligned with the risk management pillar of the TCFD requirements. More companies are integrating their climate risk assessments into their overall risk assessment process, ensuring that climate is considered in the same way as other risks and can therefore be integrated into company-wide processes. Generally, the risk types considered are consistent among companies, indicating that most are considering all risk types when conducting a risk management assessment. However, data shows that legal risks are least likely to be considered, and acute physical risks are the most likely to be included in assessments. Regarding value chain stages covered, companies are largely considering only their own operations, with fewer companies considering risks occurring from upstream and downstream sources. Findings show that most companies tend to conduct their assessments over multiple time horizons, with slightly more considering medium term, over short and long term.

Figure 65
Aspects of Climate Risk Management considered



Emissions Reduction Targets

For the 2023 cycle the existing question *Climate-related Targets* has been renamed to *Emissions Reduction Targets* and modified to include the possibility to disclose Scope 3 targets, in alignment with major standards and frameworks (e.g. SBTi, CDP, CA100+, etc.). This question assesses the scope covered by the company, whether they are reporting combined targets for Scope 1+2 emissions or Scope 1+2+3 emissions, or if they are reporting on individual targets on Scope 1, Scope 2 and/or Scope 3.

This question was updated in CSA 2023 and applies to all industries (62)

Findings

Findings shows that out of 6,571 companies analysed, 36% of them have publicly disclosed at least one emissions reduction target covering Scope 1, Scope 2 and/or Scope 3 emissions or combined targets across all industries. As indicated by Figure 66, Utilities and Consumer Staples sectors are leading with respectively 60% and 47% of companies in each sector with at least one public emissions reduction target. However, companies in Financials, Communication Services and Health Care sectors have significantly lower results, with less than 30% having disclosed a target. As per Figure 66, the majority of companies are reporting absolute targets instead of intensity targets.

Figure 66
Percentage of companies with emissions reduction targets available

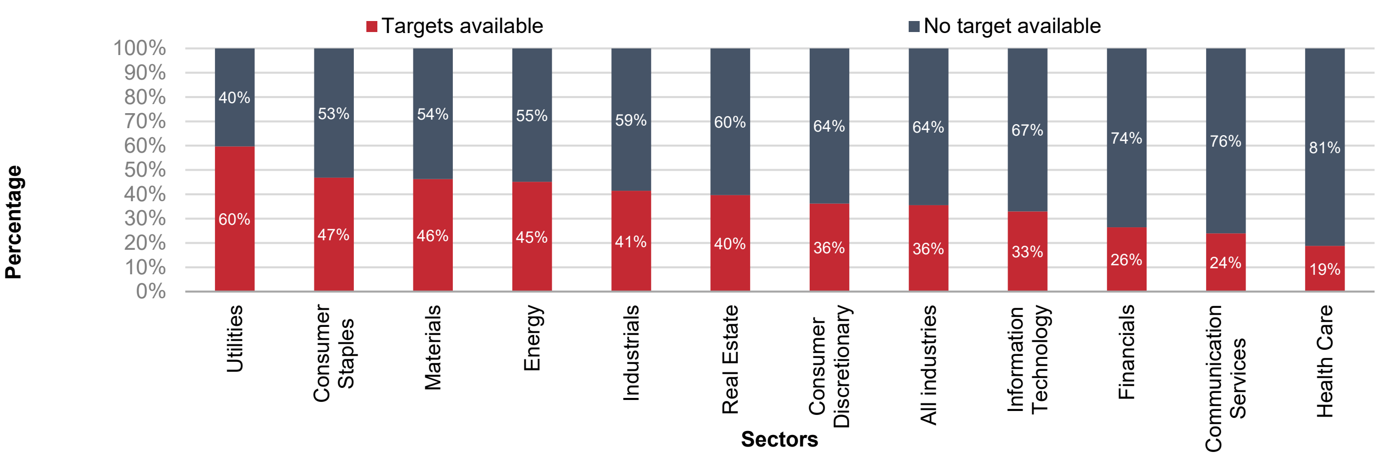


Figure 67
Emissions reduction targets types reported by companies

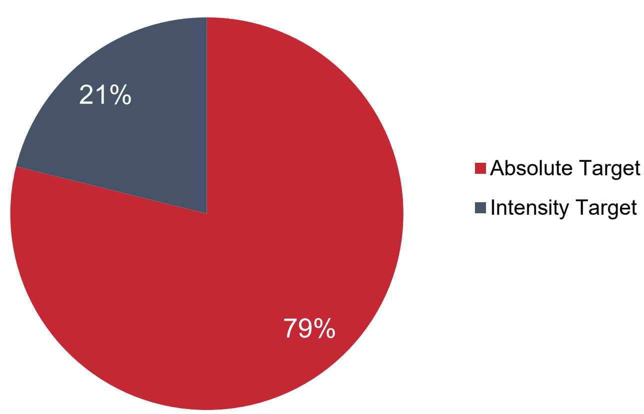


Figure 68 depicts that although Scope 1 and 2 emissions are covered by most of companies with an emissions reduction target, findings show that only 789 companies are covering Scope 3 emissions in their emissions reduction targets, either through a Scope 1+2+3 combined target or with a specific target aiming at reducing Scope 3 emissions only.

Figure 68:
Scopes covered by companies' emissions reduction targets

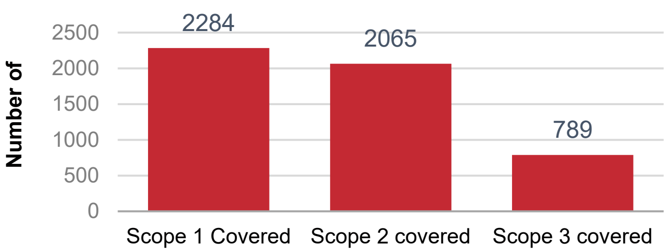
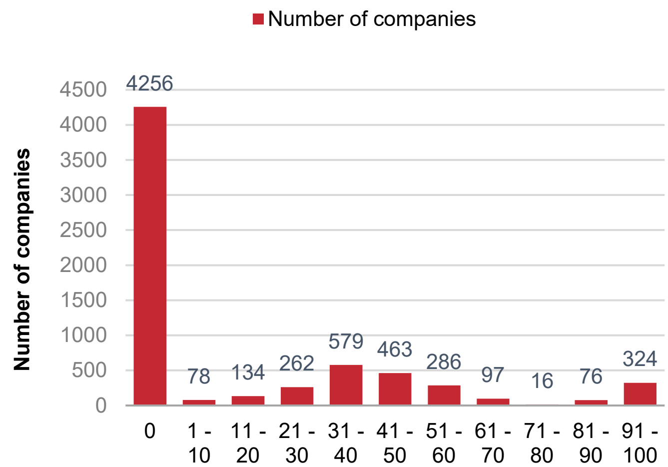


Figure 69 shows the score distribution of the companies reporting on emission reduction targets. The average score for this question among companies across all industries which is 18.4. Findings shows that most companies with available target(s) are scored between 31 and 60. Only 324 companies, representing less than 5% of companies analysed, are scored more than 90 points.

Figure 69
Score distribution within Emissions Reduction Targets



Automotive Use-phase Decarbonization

Transportation is one of the largest sources of GHG emissions, with 20% of GHG emissions directly attributed to transport-related activities. Automobile manufacturers that gear their portfolio towards fuel-efficient vehicles are likely to gain a competitive advantage in terms of meeting the needs of increasingly environmentally conscious consumers and anticipating regulations on stricter emissions standards. Questions within this criterion not only assess companies' strategies to lowering the carbon footprint through more efficient vehicles but also evaluate their current portfolios for future regulatory risks.

Criterion Update

This criterion, which only applies to the Automobile industry, has been updated in all its five questions for 2023.

The major update in the criterion was implemented in the Electric Vehicle (EV) Battery Degradation question, where we don´t ask any more on the number of charge-discharge cycles, as it does not influence battery degradation as strongly as other characteristics do.

The other questions have also been updated this year by applying less prominent changes:

In Alternative Drive Trains question, new technologies were added to the former options.

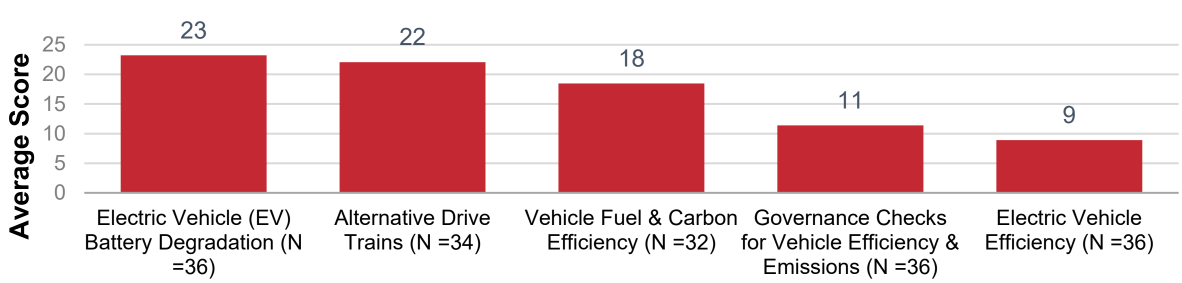
In Vehicle Fuel & Carbon Efficiency and Electric Vehicle Efficiency question, both the name and the scoring approach were reviewed.

In Governance Checks for Vehicle Efficiency & Emissions, the scope of the question was broadened so that companies with electric vehicles could also be assessed.

Findings

Figure 70 shows the average score (blue bars) for each of the five questions Automotive Use-phase Decarbonization criteria that answered each question in this industry-specific criteria. The overall low average score in the criteria, which is just over 17 points, is significantly below the CSA´s average score for the automotive industry, demonstrating a weak performance of the automaker's decarbonization strategies. The lowest score has been recorded in the Electric Vehicle (EV) Efficiency question, despite this being an important factor as it impacts EVs range and use cost. The second lowest score has been recorded in Governance Checks for Vehicles, where companies also have a great challenge to improve their disclosure on their control systems for discrepancies between data reported to authorities on vehicles efficiency and emissions, and the real-world performance data. These controls are key to reduce the risk of reputational scandals that have been financially material for the industry in the last years. While automakers performed slightly better in the questions Vehicle Fuel and Carbon Efficiency, Alternative Drive Trains and EV Battery Degradation, the auto industry still has significant room for improvement to meet decarbonization expectations.

Figure 70
Average score on Automotive Use-phase Decarbonization questions



Electric Vehicle (EV) Battery Degradation

As the raw materials production, manufacturing and disposal of batteries have environmental impacts, ensuring the longevity of EV batteries is a crucial strategy to minimize the life-cycle footprint associated with EVs. Batteries with longer lifespan enhance the overall dependability and functionality of electric vehicles, which in addition to reducing overall costs for EVs' owners, can foster consumer's confidence in these alternative drive trains. This question asks the applicable range for the average battery degradation of the company's EV portfolio in the form of average number of kilometers and years before the battery reaches 70% of its original total capacity.

The Electric Vehicle (EV) Battery Degradation question, formerly EV Battery Efficiency, was previously focused on the number of charge-discharge cycles. The question now essentially assesses battery performance considering that the lower the degradation rate of the battery is, the longer it remains operational, which in turn reduces the carbon footprint of the battery per total distance travelled, as well as the waste produced at its end of life. Besides, it has been reviewed the scoring scheme of the questions, where public information is also awarded.

This question was updated in CSA 2023 and applies to 1 out of 62 industries

Findings

While only 35% of all automotive companies assessed in the CSA answered this question, the information displayed in Figures 71 and 72 represents 80% of the assessed companies with actual Battery Electric Vehicle sales in 2022. Figure 71 shows that over 90% of the OEMs disclosing information are providing electric batteries with an acceptable state of health for at least eight years in their fleets, with an average battery durability slightly over 10 years. Moreover, Figure 72 shows that 62% of the same automakers reports that their batteries can be driven over 200.000 kilometers before they reach 70% of its total original capacity, with an average battery longevity of around 230.000 kilometers.

Figure 71
Average battery lifespan reported by companies

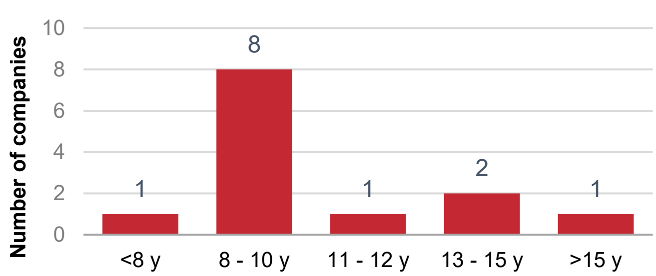
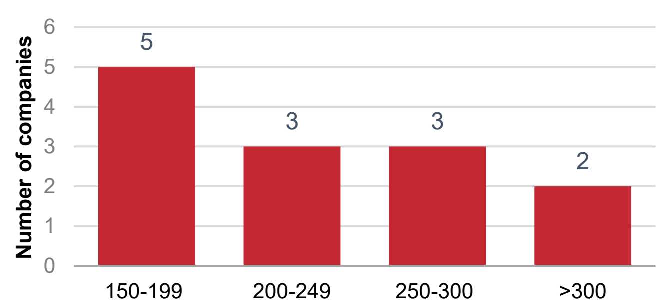


Figure 72
Average battery lifespan reported by companies



Electric Vehicle Efficiency

Electric Vehicle Efficiency standards such as the Worldwide Harmonized Light Vehicle Test Procedure (WLTP), provide standardized metrics to compare the performance of different electric vehicles models within the company's portfolio and against competitors within the same market. This question collects a 4 years' evolution of the company's BEV and Fuel Cell Electric Vehicles (FCEV) efficiency, capturing the trend on the performance expressed in different metrics such as kilowatt-hours per 100 kilometers, which are applicable to the main three automotive markets, which are China, Europe, and United States.

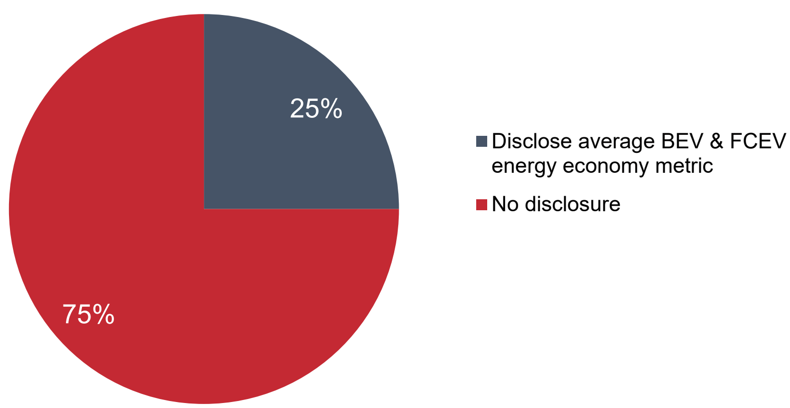
This question was updated to simplify the reporting for companies by removing information requested on "average vehicle weight". The scheme on how companies' performance is assessed was also reviewed to take into consideration both the individual company´s improvement and its performance against industry benchmark.

This question applies to 1 out of 62 industries

Findings

Figure 73 shows that out of the total number of companies participating in 2022 CSA, only 25% are reporting on this question. This level of reporting must be contextualized, as only 35% of automobile companies reporting in the CSA have BEVs in their portfolios. Overall, 75% of the companies with BEV sales are reporting on the efficiency of their fleets. Despite this significant share of companies answering to the question, the score is the lowest in the Automotive Use-phase Decarbonization criterion questions (see Figure 70). The main reasons for this low score are the lack of improvement in the year-on-year trends for EV fleet efficiencies as well as the absence of public reporting on this subject.

Figure 73
Percentage of companies disclosing on electric vehicle fleet's efficiency



Vehicle Fuel & Carbon Efficiency

This question assesses the aggregate figure of fleet´s fuel and carbon efficiency, which is required by regulators to assess whether manufacturers are working towards legally binding emissions reductions. Moreover, consumers increasingly value fuel efficiency due to their potential to lower lifetime and operating costs, on top of reducing their carbon footprint. This question collects a 4 years' evolution of the company's Vehicle Fuel & Carbon Efficiency performance expressed in different metrics applicable to the main three automotive markets.

In this last methodology review, we updated the name from former CAFE Improvement, which was referring just to United States standard, towards Vehicle Fuel & Carbon Efficiency, which better reflects the global approach to the topic being assessed. It has also been updated the way companies are scored in the question in-line with the approach followed in the question "Electric Vehicle Efficiency".

This question was updated in CSA 2023 and applies to 1 out of 62 industries

Findings

Figure 74 shows that two-thirds of the automakers did not disclose information on their fleet´s average fuel efficiency in any of the three main automotive markets, China, Europe, and the United States. This represents a low level of transparency as all the automakers assessed in the CSA are required to report their emissions and efficiency data to regulators. Figure 75 shows how the company´s fuel efficiency performance has evolved on average in the last 4 years in each of the three regions. Automakers are only showing improvement in the fuel efficiency being reported in Europe, while in the United States and China regions, the fuel efficiency of the automakers worsened, contrary to what would be expected.

Figure 74
Percentage of companies disclosing fleet's fuel efficiency standards

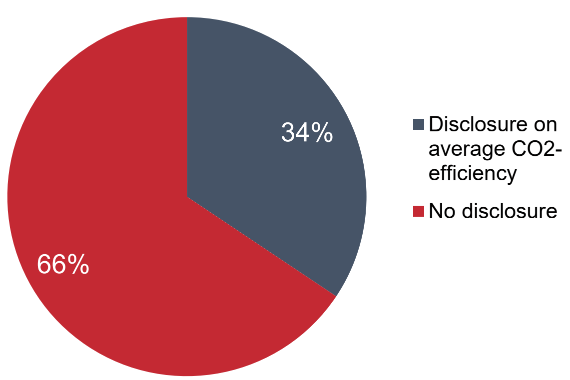
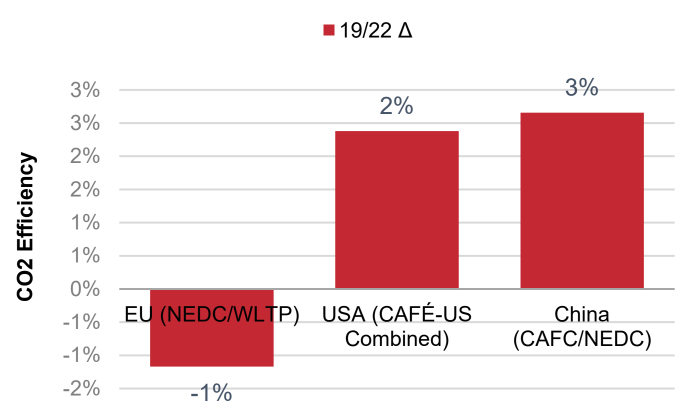


Figure 75
Average CO2 efficiency trend from 2019 to 2022 in each region



Alternative Drive Trains

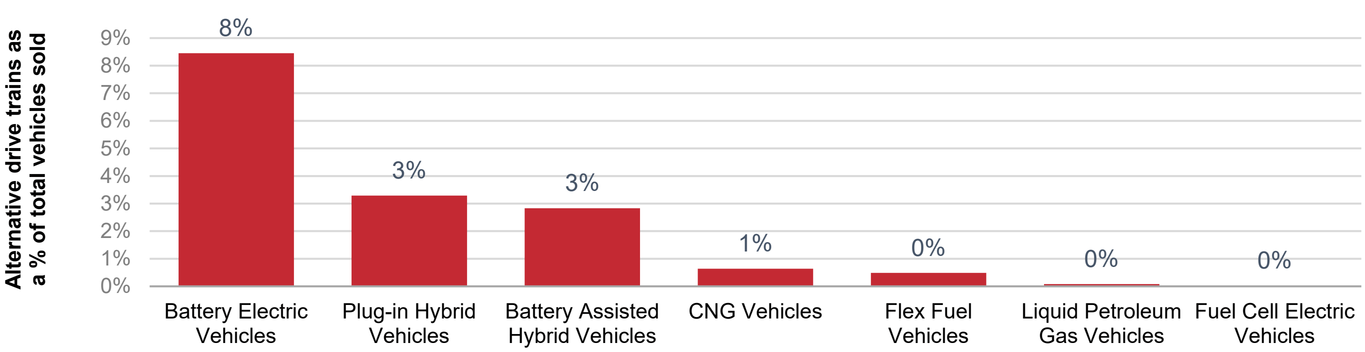
Alternative drive trains such as electric and hybrid systems, are crucial for automaker´s decarbonization strategies due to their potential to reduce dependence on fossil fuels, meet more stringent regulations and increased consumer demand for sustainable transportation. Automakers who more rapidly introduce alternative drive trains technologies will most likely benefit from increasing their competitiveness in a rapidly changing industry. This question captures the current market situation of the different drive trains categories and what the sales expectations are in the mid-term for each company by collecting information on number of vehicles sold for each alternative drive train in the latest fiscal year in combination with the 2030 projections in % of total vehicles sold.

With the purpose of better capturing the automotive industry alternative drive train reality, we have added the option Liquid Petroleum Gas, and we have split Hybrid Vehicles in two categories, Plug-in Hybrid Electric Vehicle and Battery-assisted Hybrid Vehicle. Moreover, the company´s projections was updated to 2030 horizon, and we have reviewed the assessment of companies' performance, where public reporting is now also awarded. This question applies to 1 out of 62 industries.

Findings

Figure 76 shows the total share of alternative drive train technologies in the vehicle portfolio of companies that report on this question. Out of the seven alternative drive trains categories, BEVs, with 8,5%, account for the highest total share of vehicles sold. With regards to the transition towards low carbon mobility, this is a positive development, as from a use-phase perspective it is the option with the lowest environmental negative impact. The sum of the two Hybrid vehicle options is below the total BEV sales in 2022, while it should be noted that Plug-in Hybrid vehicle sales are higher than those of Battery Assisted Hybrid Vehicles. The other four categories: CNG Vehicles, Fuel Cell Electric Vehicles and Liquid Petroleum Gas Vehicles, represent a residual share of the total alternative technologies sales. Overall, over 84% of the vehicles sold by the companies reporting on this question are Internal Combustion Engine Vehicles.

Figure 76
Company Disclosure on Percentage of Alternative drive Technologies in their vehicle Portfolio



Water-Related Risk

The availability of water and its qualitative properties are fundamental aspects of high water-consuming industries. Vast amounts of water are used for cooling processes in power generation and in fibre production. For mining companies and the beverage industry, water is indispensable. High demand for water competes with water consumption for agriculture and municipal use in areas where it is a scarce resource, having financial consequences for high-consumption industries. The situation may intensify in the future due to the increasing global population, and the consequences of climate change. The water-related risk criterion identifies companies with highly exposed operations or supply chains, tests their managerial and saving capabilities in water management and evaluates their performance in water consumption.

Criterion update

In order to reduce companies' reporting burden, the "Exposure to Waster Stressed Areas" question was pre-filled with publicly available data from Trucost. The asset-level assessment of water stress is based on the WRI methodology. Companies still had the opportunity to adjust the pre-filled data, provided their data are based on assessments using accepted tools or methodologies.

In line with the GRI Standard 303 (2018) and with CDP Water Security, the new question "Water Consumption in Water-Stressed Areas" was added to assess applicable companies' performance to reduce water consumption in water-stressed areas and, through that, reduce their risks for water competition with local communities and potential future conflicts. In line with the former "Operational Eco-Efficiency" questions, this question scores decreasing resource consumption and clear reduction targets and additional points are granted for public reporting and third-party verification.

The two questions "Exposure of Suppliers to Water Risks" and "Water Risks Management of Suppliers", which apply to industries with high supply chain exposure, was applied as well to the Tobacco and Textiles industries as those two industries rely on agricultural products that are considered highly exposed to water stress.

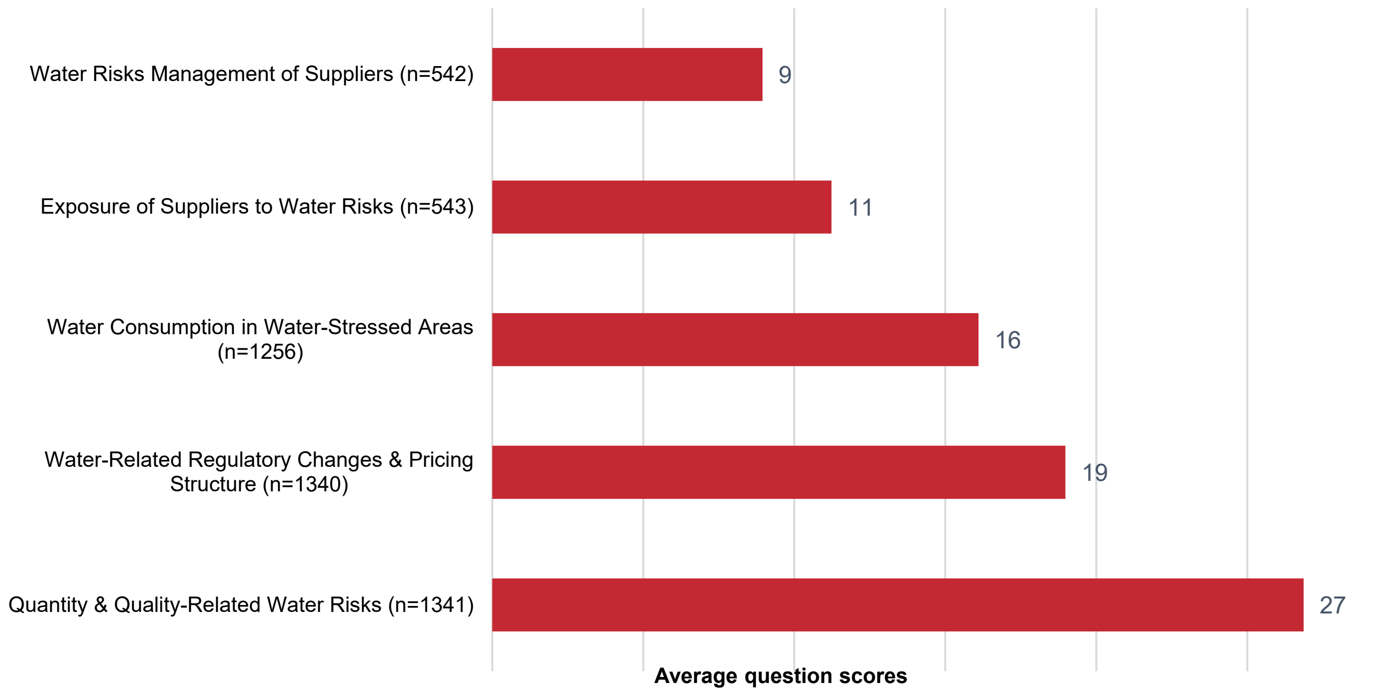
Furthermore, to reduce the reporting burden and to better align with the CDP Water Security questionnaire, the question "Exposure of Suppliers to Water Risks" was slightly adapted as follows: Instead of only asking for companies' supplier water risk assessment we quantitatively assess companies' exposure towards sourced agricultural commodities originating from water-stressed areas. The new layout offers in the dropdown menu several ranges used as well in the CDP Water Security questionnaire and the table includes those agricultural commodities that we consider most relevant for the assessment. An additional option is added to offer the opportunity to add an additional commodity. In line with the "Exposure of Suppliers to Water Risks" question, which focuses on the own operations, we expect in this question that data provided by the companies are based on accepted tools or methodologies.

Figure 77 below shows an overview of average scores for all water risk related questions within the Water criterion. Please note that the question Exposure to Water Stressed Areas is not scored but used to score the quantity & quality- and regulatory-related questions. Although the average score of the new question on water consumption in water-stressed areas is yet fairly moderate, there is still a considerable number of companies already reporting their water consumption fully in line with GRI, thus including the consumption in water-stressed areas.

Companies perform better for the two previously existing questions on Quality & Quantity-Related Risks and Water-Related Regulatory Changes & Pricing Structure, with a considerably higher score for the first question showing that companies are much more likely to have water quantity or quality on their radar but seem to lack taking into account potential public policies driven risks.

Soft commodities industries with potentially high water risk exposure of their supply chain are still scoring very low for both applicable questions.

Figure 77
Average scores for water risk related questions under the Water criterion



Exposure to Water Stressed Areas

The rationale for the following questions is twofold: (i) determining the exposure of the organization to water-related risks and (ii) determining if the organization has a system in place enabling awareness of its own exposure to water-related risks. We expect the company to use a generally accepted water risk tool or provide similar evidence that water risk mapping has been done on a local / plant-level detail.

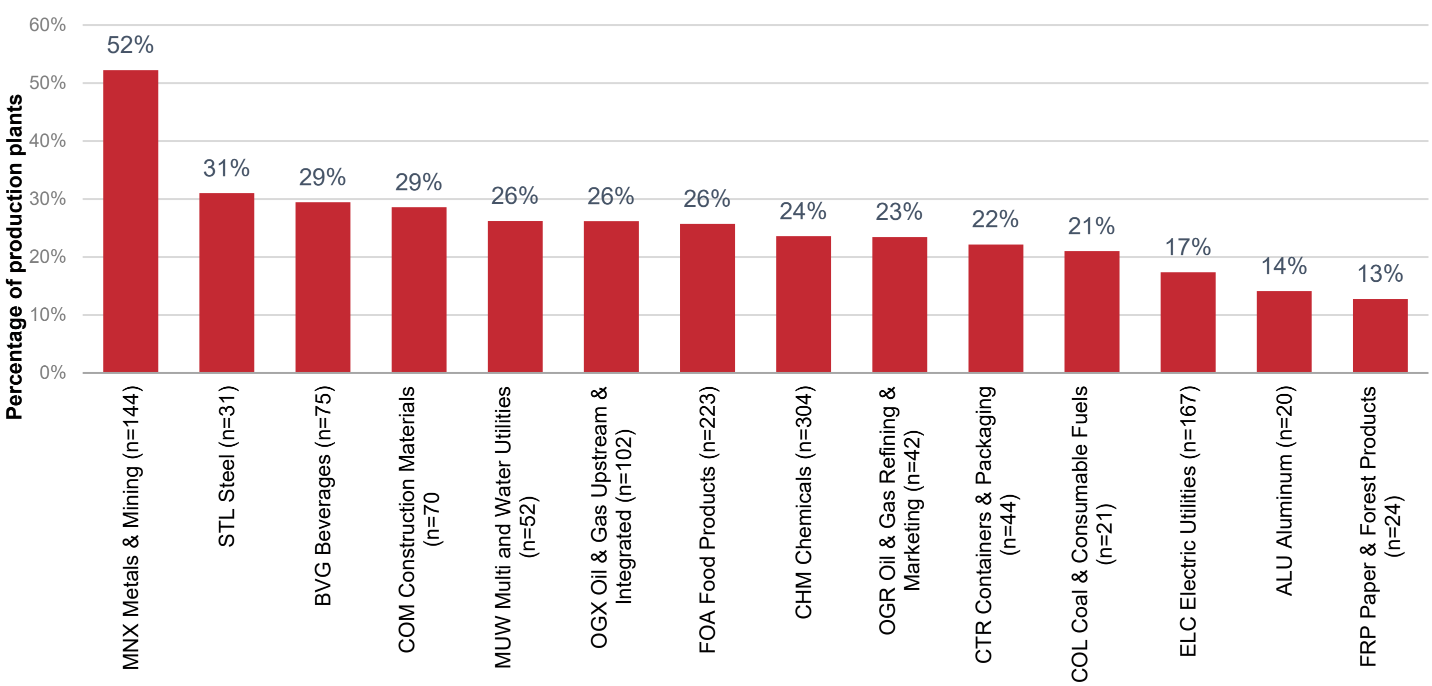
In order to ensure that the data we collect is as accurate as possible, leveraging the CSA as a powerful engagement tool with companies, we are presenting each company with an estimation of their total assets and their assets exposed to extreme water stress. This breakdown has been done based on publicly available sources from last FY. The exposure calculation is based on the WRI methodology and includes sites in "arid regions" and those with "high" or "extremely high" exposure. We are providing the companies the opportunity to review and correct these assumptions within the CSA. So far, companies have been asked to do this as part of the annual Trucost data review. The corrected data will be reviewed by S&P Global analysts and may be used in other questions throughout the CSA or by Trucost to refine and update models used in their analytical tools.

This question was updated in CSA 2023 and applies to 14 out of 62 industries

Findings

Figure 78 below shows that the Metals & Mining industry is by far highest exposed to water stress followed by the Steel, Beverage and Construction industries. On the other side of the spectrum, Aluminum and Paper & Forestry industries are lowest exposed.

Figure 78
Percentage of production plants by industry exposed to water stress



Water Consumption in Water-Stressed Areas

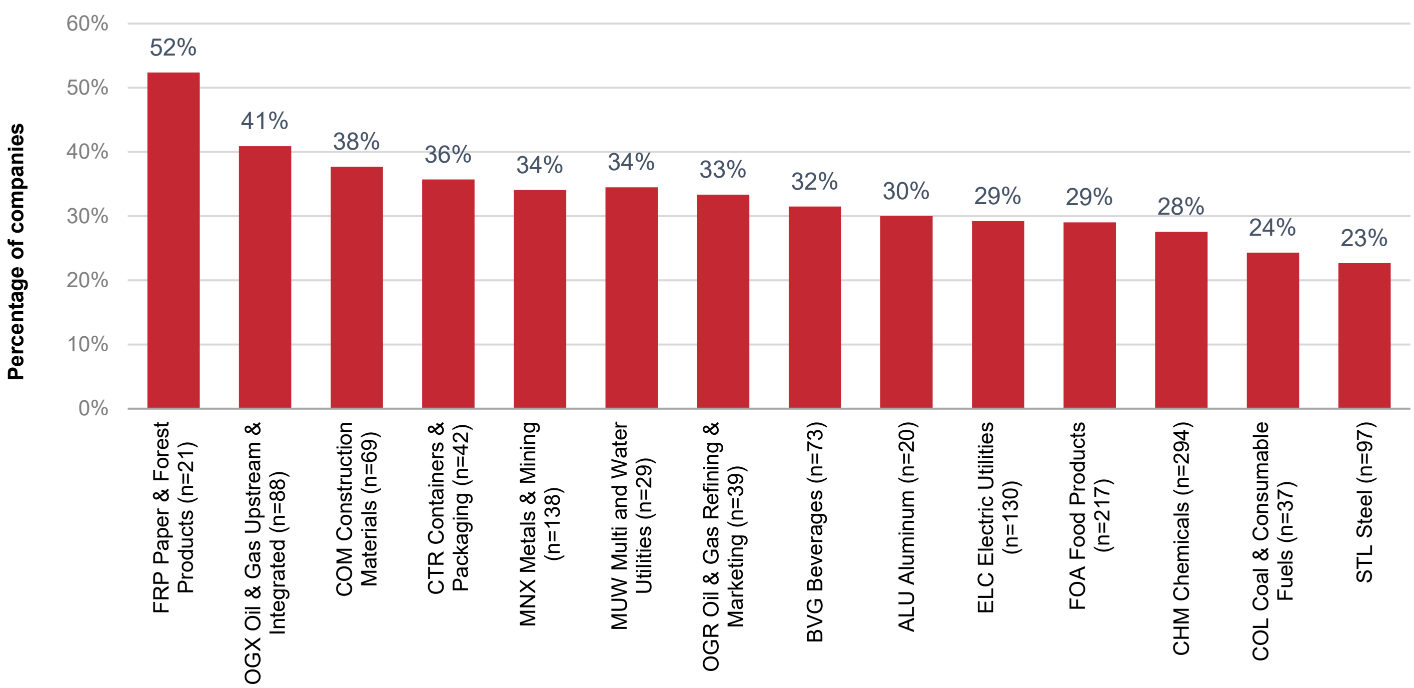
Water is becoming a scarcer resource, especially for companies and communities located in water-stressed areas. Water consumption in water-stressed areas can have an impact on local communities, leading to inadequate water access, poor sanitation and disease. This can also impact local ecosystems and agriculture, which remain dependent on water systems to thrive. Whilst climate change has played a major role in weather patterns and consequently, water availability, it is vital that companies recognize when their operations are contributing to levels of water stress. With the current rate of consumption, it is expected that by 2025, two thirds of the world may face water shortages. Therefore, the purpose of this question is to understand how water intensive companies' operations in water-stressed areas are performing in reducing their water consumption.

This question was introduced in CSA 2023 and applies to 14 out of 62 industries

Findings

Figure 79 shows that most of the lowest exposed Paper & Forest Products industry is already reporting their water consumption in water-stress areas while it is much less common that the considerably exposed Coal and Steel companies are reporting their consumption in water stressed areas.

Figure 79
Percentage of companies reporting their water consumption in water stressed areas



Exposure of Suppliers to Water Risks

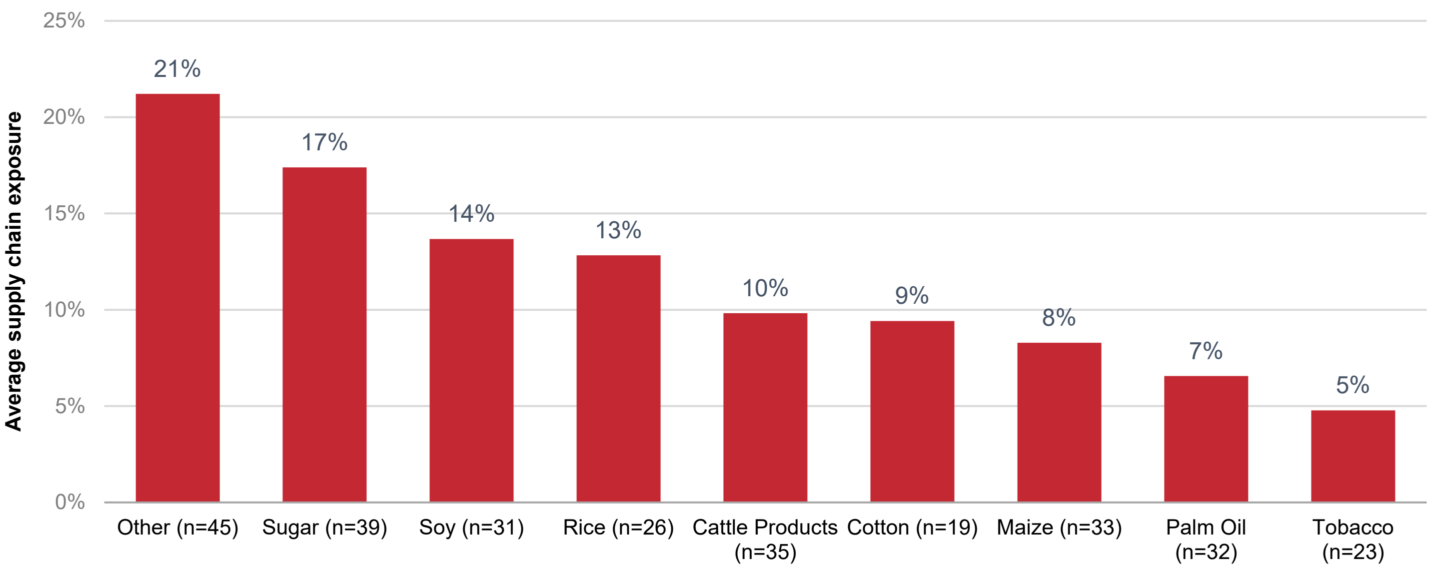
Understanding water-related risks is not only important for companies' own operations, but also for those of their suppliers. With this question, we assess if companies have analyzed what proportion of their commodities are sourced from water-stressed areas. This assessment can help companies better understand the resilience of their supply chains and to better mitigate these risks.

This question was updated in CSA 2023 applies to 5 out of 62 industries

Findings

Figure 80 below shows that of the totally 548 companies assessed, only 86 companies (16%) are reporting on their supply chain exposure. Of those the average commodity exposure is highest for the “Other” category, which is largely due to fruits (oranges and grapes) and barley.

Figure 80
Average water-stress exposure of soft commodities' supply chain



Fleet Decarbonization

The transportation industry grapples with a myriad of sustainability-related challenges, encompassing issues such as carbon emissions, escalating fuel costs, and a surge in travel demand. Concurrently, the industry faces the imperative to curtail its environmental footprint. In navigating these challenges, transportation companies and their supply chains find themselves at a pivotal juncture, presenting an opportune moment to forge innovative business models and solutions. Central to this transformative process is the crucial aspect of fleet management, where companies can harmonize business imperatives with sustainability goals in alignment with overarching corporate strategies.

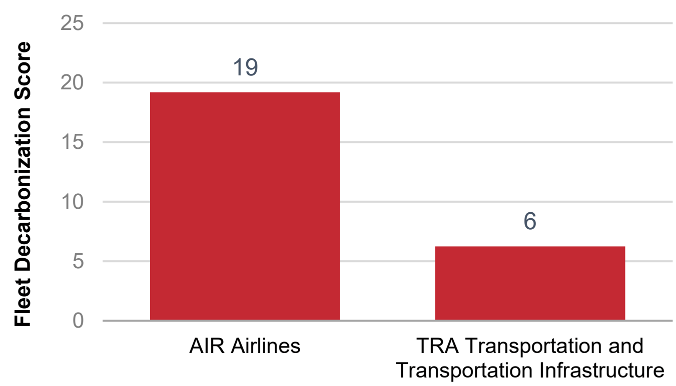
An indispensable aspect of this endeavor is the management of existing fleets, underscoring a holistic approach aimed at mitigating environmental impacts. This serves as a pragmatic response to the immediate challenges and solidifies a foundation for sustainable development goals and industry-wide commitments in the long term.

Investing in sustainable practices addresses environmental concerns and opens avenues for economic growth. As consumers and clients progressively incline towards environmentally conscious choices, companies that pioneer low-carbon products and services stand to gain a competitive edge.

Criterion Update

This criterion, applicable to AIR and TRA, underwent several major changes: The question Fleet Exposure has been updated and defines the applicability of the remaining questions in the criterion. The question Fleet GHG Intensity has been introduced to understand if companies are decreasing their emissions intensity. The questions Air Fleet Decarbonization, Road Fleet Decarbonization, Rail Fleet Decarbonization and Maritime Fleet Decarbonization have been introduced to understand the evolution, year over year, of each company's pursuit of low-carbon technologies and fuels. The analyses and data presented concern only companies with information available for each question.

Figure 81
Average score of the companies in the criterion



Fleet GHG Intensity

This question aims to assess transport companies' fleet decarbonization evolution. In order to decouple sectoral growth from increasing GHG emissions, companies involved in passenger and cargo transportation need to find innovative ways to decarbonize their fleets. There are several paths a company can pursue to decrease their GHG emissions, from optimizing route planning, alternative fuels use and low-carbon technologies.

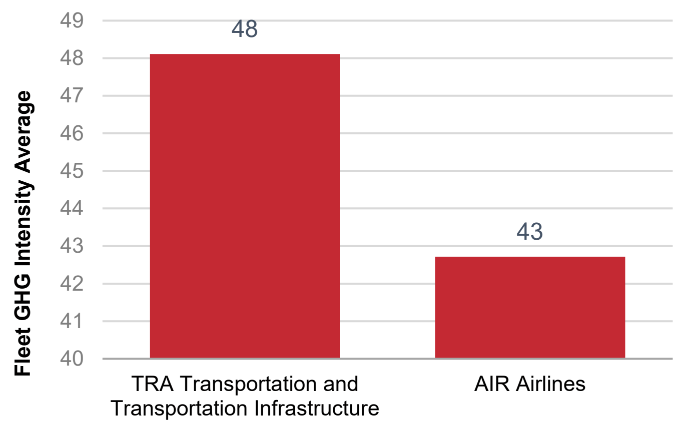
More stringent regulations and increasing consumer demand for low-carbon transportation will have an impact on transportation companies' success. Companies that adapt to low-carbon transportation solutions will likely benefit from the transition towards a more sustainable transportation system.

This question applies to 2 out of 62 industries

Findings

Figure 82 illustrates the Fleet GHG Intensity question score, comparing airlines and other transportation companies. On an average the TRA industry has a higher average score in the question as compared to Airlines industry. Companies are expected to reduce the intensity of GHG emissions yearly, setting and meeting their targets while reporting this information publicly, deemed met when information is accessible for either passengers or cargo.

Figure 82
Average score of the question for TRA & AIR



Fleet Decarbonization

Companies disclosing their use, evolution and targets of low-carbon technologies and fuels publicly see several benefits as they showcase their environmental commitments, increasing stakeholder trust and competitive advantage. Moreover, disclosing metrics associated with fleet decarbonization publicly also educates consumers, helping them understand the environmental impacts of their chosen transportation choices.

The figures in the analyses below represent companies with only public information available.

Different solutions are available for different transport modes, such as sustainable aviation fuels (SAFs) for airlines, green ammonia, green hydrogen, second-generation biofuels for shipping, electric engines and hydrogen fuel cells for road vehicles, and electric trains for rail operators.

Air Fleet Decarbonization

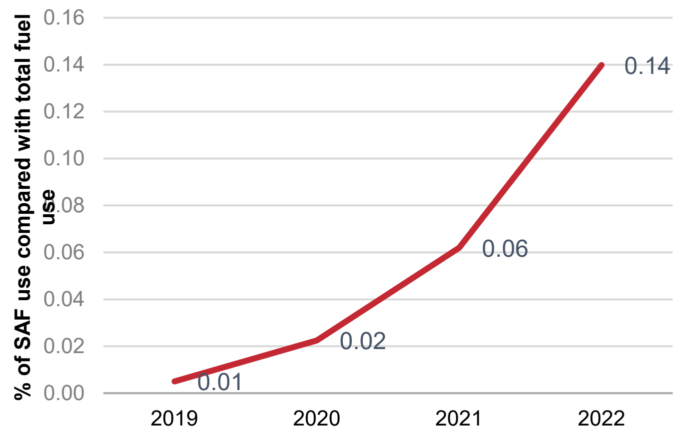
Sustainable Aviation Fuel (SAF) is produced from renewable sources and can significantly reduce the aviation sector's carbon footprint. Currently, it is the main solution to decrease GHG emissions associated with air transport. Companies involved in air transport must step up their SAF use throughout the years and define and meet ambitious targets.

This question was introduced in CSA 2023 and applies to 2 out of 62 industries

Findings

Figure 83 shows that Sustainable Aviation Fuel (SAF) use is still in its early days, but we can see an exponential evolution over the last four years, surpassing 0.1% in 2022. In 2022, companies exposed to air transport used 0.14% of SAF compared to total fuel use. However, although we can see an increase in SAF adoption, air transport companies must ramp up their SAF use as this remains the only currently viable solution for air transport decarbonization.

Figure 83
Percentage of Sustainable Aviation Fuel used



Road Fleet Decarbonization

As with other fleets, decarbonizing road fleets offers several advantages. Companies can decarbonize their road fleet through the adoption of low-carbon technologies. Battery Electric Vehicles (BEVs) and Fuel Cell Electric Vehicles (FCEVs) are preferred as they do not emit carbon emissions during their use phase.

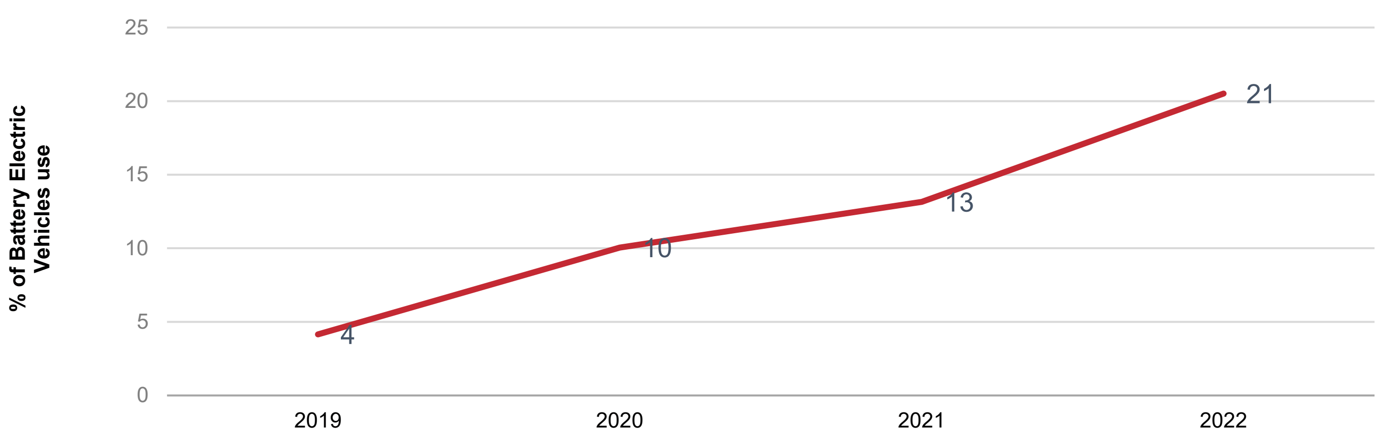
As companies still struggle to fully adopt those vehicles, other vehicles that contribute to decreased emissions, such as Plug-in Electric Vehicles (PHEVs), can be used as an interim solution.

This question was introduced in CSA 2023 and applies to 1 out of 62 industries

Findings

Figure 84 shows that similar to air travel, the evolution in Battery Electric Vehicle (BEV) adoption for companies providing road transportation shows a steady increase over the past years, surpassing the 20% mark in 2022. Although the results clearly showcase that companies understand the need to decarbonize their fleets, the percentage of battery-electric vehicles is still low.

Figure 84
Percentage of road fleet composed of electric battery vehicles



Rail Fleet Decarbonization

Rail electrification comes with its own set of hurdles, as contrary to the other three types of transport, there are usually two players involved: the transportation companies in charge of the trains and the transportation infrastructure companies responsible for the railroads. To increase rail electrification, these two players need to work together as significant investment is needed from both parties.

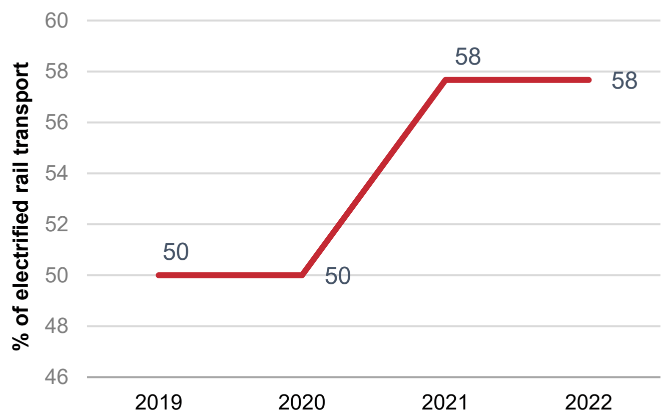
This question was introduced in CSA 2023 and applies to 1 out of 62 industries

Findings

Figure 85 shows that the rail electrification evolution is relatively static at a modest level.

Only 4% of companies with this question applicable to them disclose this information publicly, despite the usefulness of this information for rail companies' stakeholders. Companies are usually on two opposites of the spectrum: completely electrified or not electrified at all, averaging close to the 50% mark. However, for 2021 and 2022, we can see an increase of 8% when compared with 2019 and 2020.

Figure 85
Percentage of company's electrified rail



Maritime Fleet Decarbonization

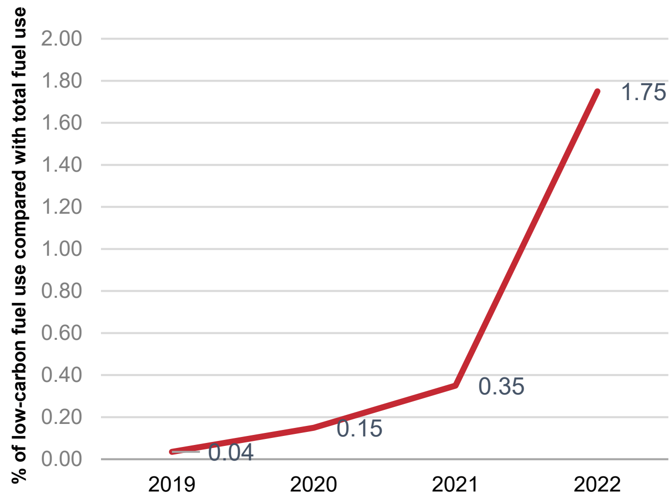
Low-carbon fuels are the leading solution to address maritime transport climate emissions, along with efficiency measures such as ship design and route planning. As with SAF, low-carbon fuel adoption in maritime transport is still in its early days, but companies must start introducing these fuels and set mid and short-term targets to decarbonize their operations.

This question was introduced in CSA 2023 and applies to 1 out of 62 industries

Findings

Figure 86 shows an exponential increase of low carbon fuel use in maritime transport over the past four years, with an especially striking increase in 2022, surpassing the 1.75% mark. However, it is essential to note that maritime transport companies are not widely reporting on their decarbonization journey when it comes to the use of low-carbon fuels.

Figure 86
Percentage of company's air transport using low carbon fuel

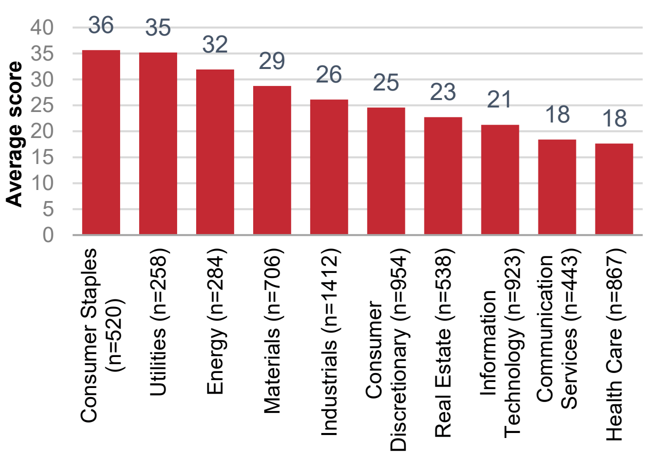


Mineral Waste Management

The proper handling of waste can enhance companies' competitiveness through reduced costs and environmental liabilities. It can also mean companies are better prepared for future environmental regulations. The key focus of this criterion is to identify trends of waste across business operations.

Figure 87 shows the average criterion scores for 2023 assessments of both responding companies and those assessed with publicly available information. Overall, sectors where waste is a material topic -Utilities, Energy and Materials – perform reasonably well. Mining activities produce waste rocks and other residual waste known as tailings. Effective waste rock management and proper tailings disposal is necessary to minimizing the impact on local people, the workforce, and the environment. Responsible tailings management is a critical issue, the failure of which leads to potentially high (environmental) costs and the negative impact on a company's reputation and might even lead to the mine's closure. Our questions assess the measures taken to reduce the environmental impacts of mineral waste.

Figure 87
Average scores for waste criterion across sectors



Criterion update

Following the Brumadinho tailings dam accident in 2019 the mining industry has taken decisive action to enhance the safety and strengthen the governance of tailings facilities across the globe. 'The Global Industry Standard on Tailings Management' (GISTM) published in 2020 strives to achieve the ultimate goal of zero harm to people and the environment. Underpinned by an integrated approach to tailings management, the standard aims to prevent catastrophic failure and enhance the safety of mine tailing's facilities across the globe. It embodies a step-change in terms of transparency, accountability and safeguarding the rights of project affected people.

To improve consistency within the CSA questionnaire the previous 'Tailings Management Policy and Implementation' question was split into three separate questions

- Tailings Commitment
- Tailings Management
- Tailings Risk Potential (tailings consequence classification)

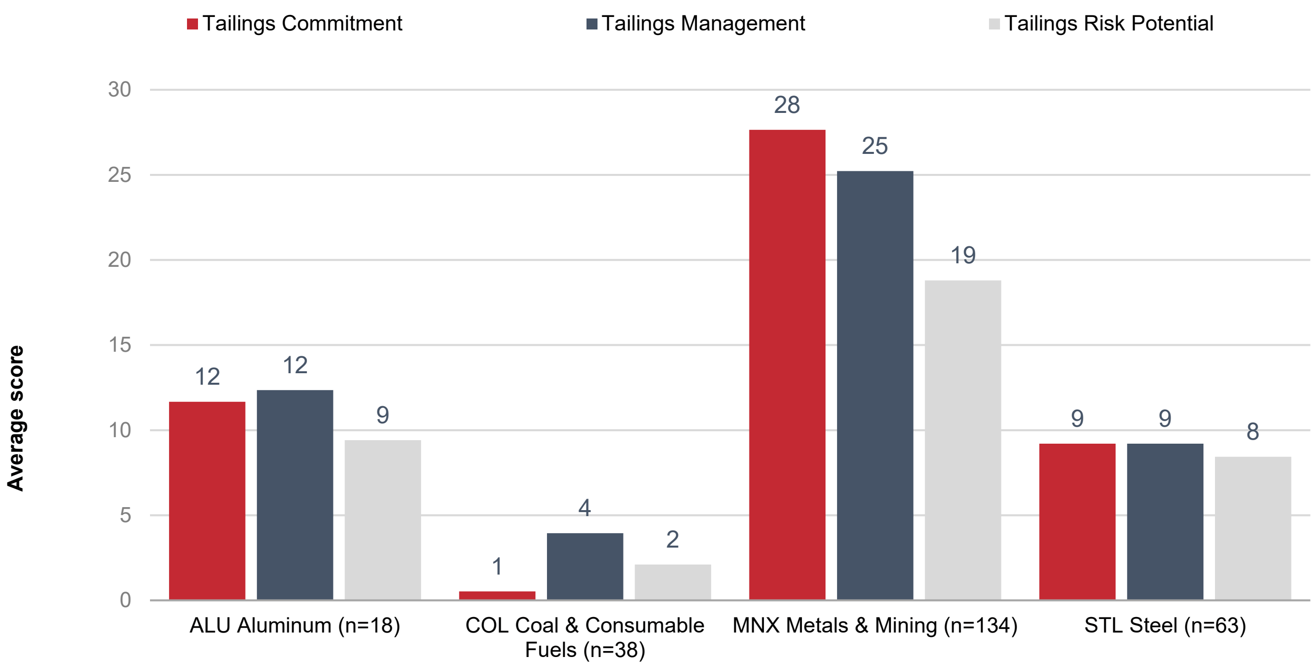
Additionally, in line with the new industry standard, we expect a higher level of transparency regarding tailings related information.

Furthermore, the depth of assessment, respectively the aspects asked have been updated to better align with the new GISTM. This includes important aspects like consequence classification, surveillance or emergency preparedness and response planning.

About half of the Steel companies in the CSA universe are operating or owning mines. Depending on the geological situation, steel mines may generate 'Acid Rock Drainage' (ARD). Therefore, all ARD questions have been added to the CSA Steel questionnaire to assess applicable companies' management of their potentially acid generating mineral waste.

Figure 88 below shows that Metals & Mining companies are leading in the management of their tailings facilities, followed by the Aluminium and Steel industries, while the Coal industry is lagging far behind.

Figure 88
Average score breakdown by industry and tailings-related question



Tailings Commitment

Mining activities produce waste rock, and processing activities produce tailings. Effective waste rock management is needed to minimize the impact on local people, the workforce, and the environment. The fundamental objective of mine tailings storage facilities (and other mining dams) is to provide safe, stable, and economical tailing storage, presenting negligible public health and safety risks and acceptably low social and environmental impacts during operation and post closure. Through this question we assess the level of commitments made by the company towards industry best practice incl. the implementation of the new global industry standard (GISTM).

This question was introduced in CSA 2023 and applies to 4 out of 62 industries

Findings

Figure 89 shows that Metals and Mining companies lead on the implementation of the Global Industry Standard. This framework, designed to address the safe and responsible management of tailings across all mining industries, represents a set of guidelines agreed by industry experts, civil society, governments, and the mining industry. Almost a third of Metals and Minings companies have integrated GISTM in its tailings management commitments, while only 11% and 6% respectively for Aluminium and Steel companies are publicly committing to the GISTM. From all the responses submitted and the companies assessed with publicly available information, no Coal & Consumable Fuels company has a Tailings Commitment aligned with GISTM expectations yet.

Figure 90 shows that Tailings Commitments usually only cover own operations, although leading companies cover both their own operations and their partners.

Figure 89
Percentage of companies with a Tailings Commitment covering the implementation of the Global Industry Standard on Tailings Management (GISTM)

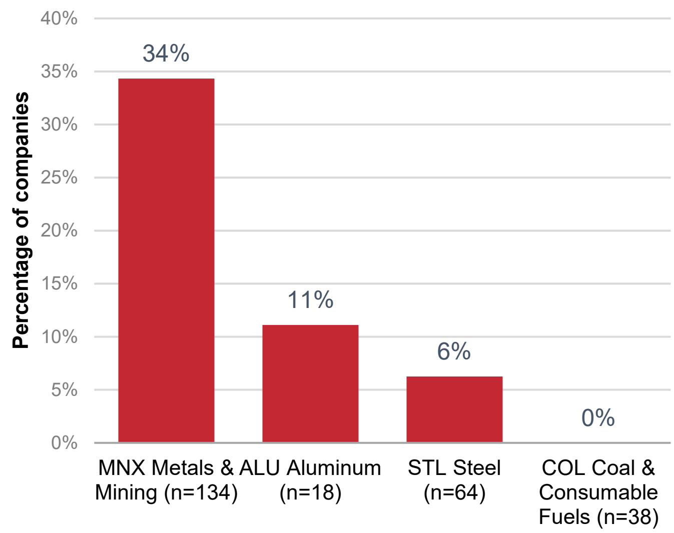
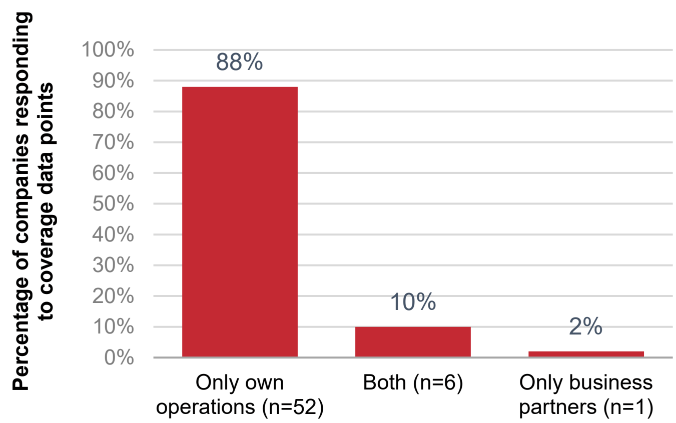


Figure 90
Coverage of corporate processes covered by tailing commitment



Tailings management

Mining activities produce waste rock, and processing activities produce tailings. Effective waste rock management is needed to minimize the impact on local people, the workforce and the environment. The fundamental objective of mine tailing's storage facilities (TSFs) is to provide safe, stable, and economical tailing storage, presenting negligible public health and safety risks and acceptably low social and environmental impacts during operation and post closure. Through this question we assess the exhaustiveness of a company's tailings management approach.

This question was updated in CSA 2023 and applies to 4 out of 62 industries

Findings

Despite being an update of an existing question to better align with the global industry standard for mining companies (GISTM), Figure 91 shows that the average score for this question is relatively low throughout the applicable industries, ranging from 4 points for Coal & Consumable Fuels to 25 points on Metals and Mining. This shows that there is still room for improvement for companies to fully align with the GISTM, particularly regarding public reporting of the key components of tailings management.

Figure 92 shows that independent audits and assessments of Tailings Storage Facilities (TSFs) are a relatively common practice among industry leaders. These companies also have life-of-mine TSFs and surveillance and monitoring systems in place to ensure safety throughout the TSFs life cycle. However, it is still uncommon for companies to publicly report on TSF failures (incl. overflows or leakages) during the last four years.

Figure 91
Average score by industry for the Tailings Management question

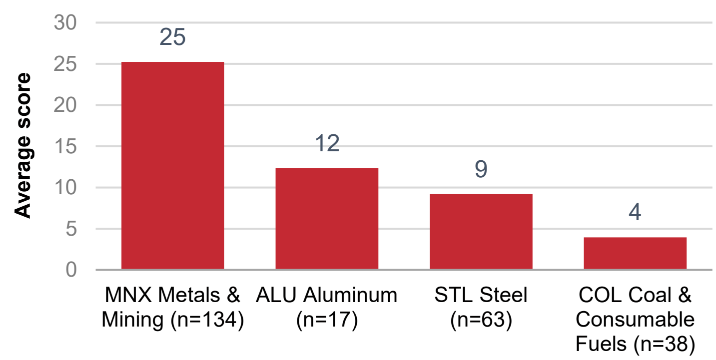
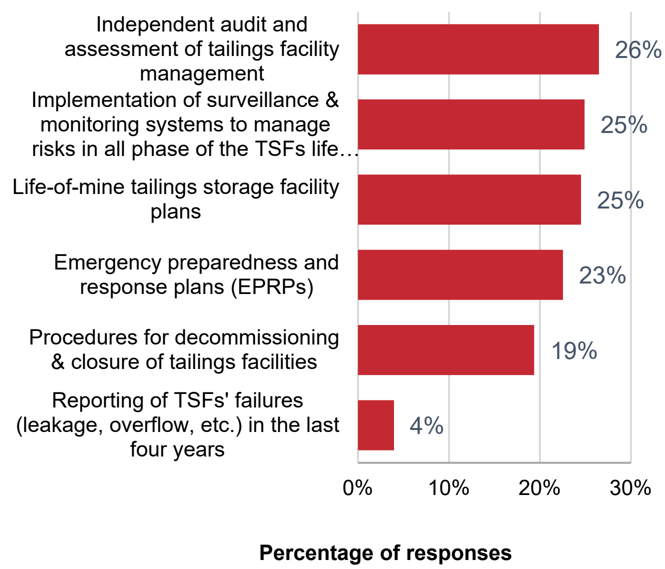


Figure 92
Percentage of Tailings' management responses including the following aspects (n=253)



Tailings Risk Potential

The failure of tailings facilities and other dam structures can lead to severe impacts on downstream communities and nature. The key objective of the design and operation of mine tailings storage facilities is to minimize failure consequences. Requirement 4.1 of the Global Industry Standard on Tailings Management (GISTM) asks mining companies to "Determine the consequence of failure classification of the tailings facility by assessing the downstream conditions documented in the knowledge base and selecting the classification corresponding to the highest Consequence Classification for each category". Through this question, we assess the risk exposure of a company's tailings facilities.

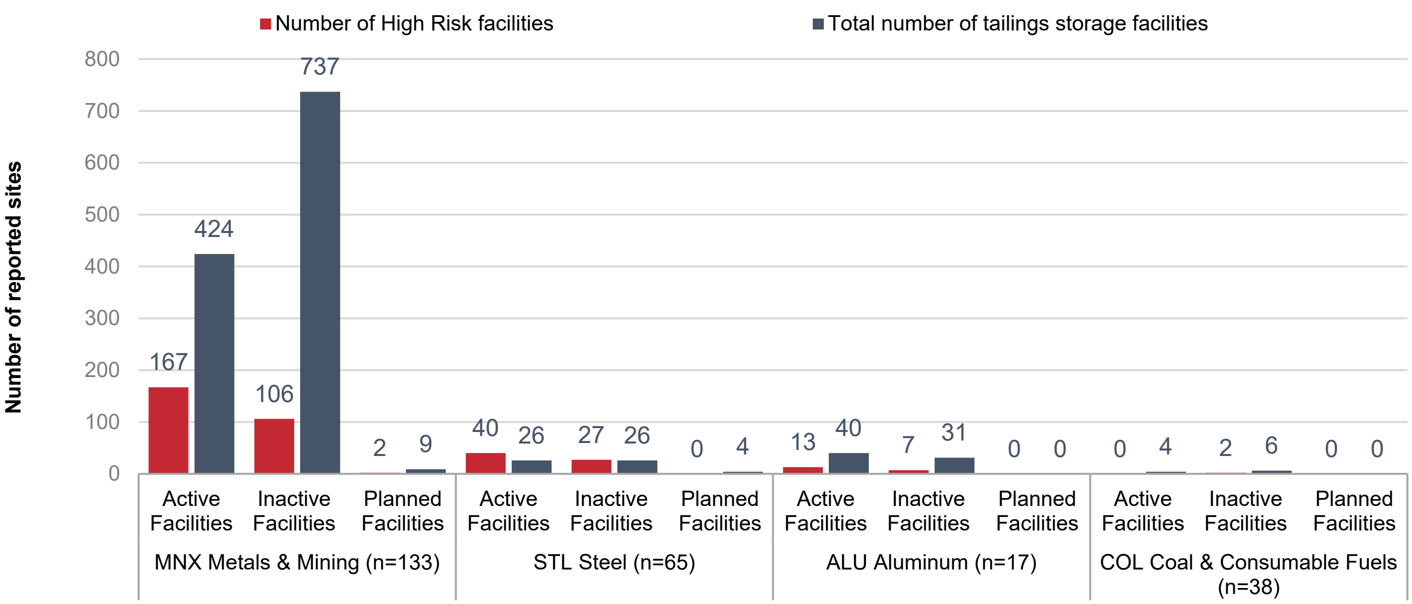
This question was introduced in CSA 2023 and applies to 4 out of 62 industries

Findings

Figure 93 below shows that already in this first year of assessment the 79 companies (out of totally 253 companies assessed) publicly report their tailings consequence classification covering already 1'307 tailings facilities globally, of which 364 (28%) are classified as very high or extreme risk potential. This demonstrates the necessity that mining companies must align with the new industry standard, construct their tailings facilities in line with best engineering practices and make sure surveillance & monitoring systems are in place and emergency response plans are effective and include downstream communities.

The majority of facilities are reported by Metals & Mining companies and hardly any facilities are reported by Coal & Consumable Fuels companies. While active and inactive facilities are frequently reported publicly, it seems less common for companies to report the consequence classification of their planned facilities although that seems highly relevant for investors financing new mining projects.

Figure 93
Number of high risk sites versus total tailings storage facilities by industry



Customer Relationship Management

Establishing robust connections with clients results in heightened customer allegiance. The significance of retaining customers becomes evident in the realm of business when considering that maintaining a lifelong consumer proves more cost-efficient, necessitates less service, generates increased business, and contributes to acquiring new customers through positive referrals. Moreover, tools for managing customer relationships offer vital insights enabling companies to target specific customer segments, craft tailored products, and ensure access to pertinent information for bolstering customer ties. The landscape of customer relationships has been reshaped by online platforms and channels; consequently, companies must maintain a multifaceted online presence to engage customers effectively. For certain sectors, fortifying online capabilities stands as a strategic imperative in contemporary business development. Additionally, certain industries confront emerging risks related to customer data privacy and safety, thereby necessitating robust policies to forestall escalating costs from breaches and negative impacts on reputation. The primary focal point of evaluation centers on the tools and strategies implemented by a company for customer management, online tactics, sales and distribution channels, customer satisfaction, and safeguarding customer interests.

Criterion Update

In 2023, the criterion has been updated to include questions specific to tenant satisfaction and tenant health & wellbeing. Tenant health and well-being is essential for ensuring tenant satisfaction, maintaining rental income as well as managing tenant's well-being risks that arise from the use of the building. Healthy building features improve occupants' satisfaction and engagement and employees are increasingly demanding more green and healthy spaces within their offices.

Thee healthy buildings not only attract more tenants in the long term but also pull in effective rents that are higher. In addition, the COVID pandemic has led to increased demand for workplace wellness features by tenants. This demand involves more technical building characteristics like indoor air quality, as well as building operations procedures. Tenant Health and Wellbeing questions are aligned with GRESB and wellbeing buildings standards and certifications such as WELL and Fitwel and analyze the company's ability to implement programs and measures to increase the health and wellbeing of buildings occupants. There was also an update to the Customer Satisfaction Measurement question with alignment of tables for capturing data both pertaining to percentage of satisfied customers, net promoter score and survey rankings by the customers. This aims to simplify the process of capturing the information.

Findings

Figure 94 shows the average score for the question Tenant Health & Wellbeing Program (37) and Tenant Health & Wellbeing Measures (42).

The score of the question is medium for both questions, which demonstrates that companies are implementing healthy building features and programs to improve occupants' satisfaction.

Figure 95 shows the average score per industry, which is similar for both industries: Real Estate Management and development and Equity Real Estate Investment Trusts.

Figure 94
Average score of the updated questions in Customer Relationship Management

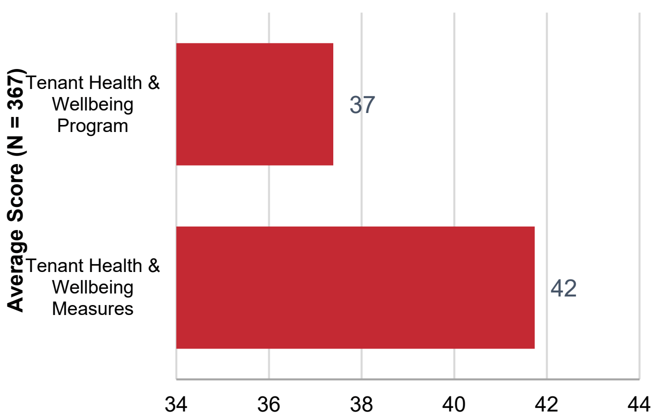
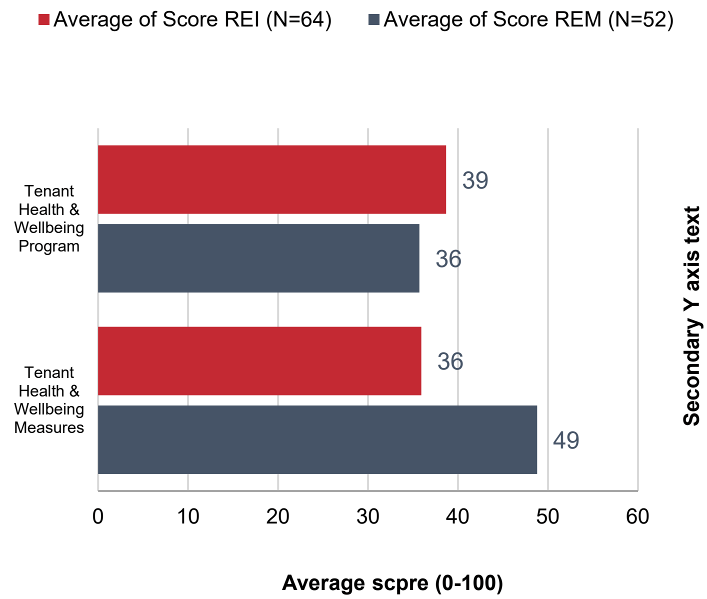


Figure 95
Average score in the updated question for REA and REI industries



Tenant Health & Wellbeing Programs

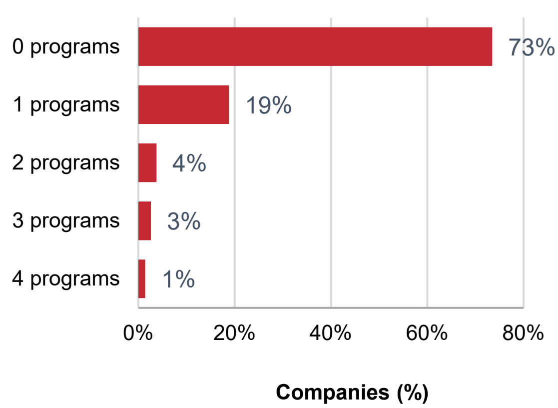
Tenant Health & Wellbeing Programs is a new question added in the 2023 CSA questionnaire. The purpose of this question is to assesses the company's programs that aim to foster Tenant health & well-being.

This question was introduced in CSA 2023 and applies to 2 out of 62 industries

Findings

Figure 96 depicts that 73% of the Real Estate companies involved in the management of standing investments are not implementing any program to improve tenant health and wellbeing, meanwhile 19% of them are implementing one program and 4% of them two programs. Only 1% of the companies are implementing the four programs to promote Tenant Health & Wellbeing: assessments to identify risks and opportunities, Integration of actions, Establishment of quantitative targets and objectives and Monitoring progress towards achieving the established targets. These data highlight the low disclosure level of publicly available information related to tenant health and wellbeing on Real Estate companies' reports.

Figure 96
Number of Tenant Health & Wellbeing Programs implemented by company (N=426)



As reflected in figure 97, results are very similar for both industries within the sector: Real Estate Management and Development and Equity Real Estate Investment Trusts.

Figure 97
Number of Tenant Health & Wellbeing Programs Implemented by Industry

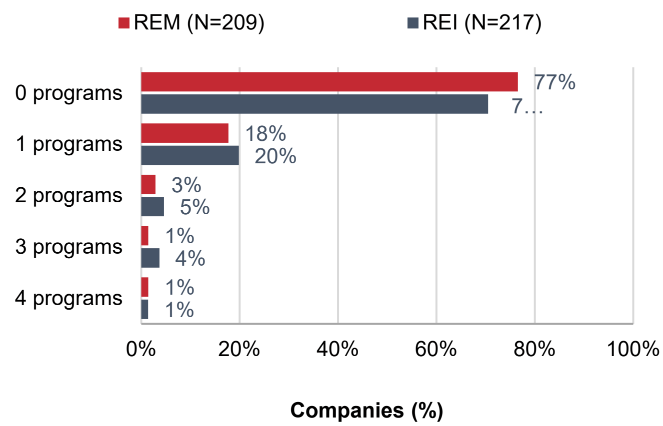


Figure 98 shows the percentage of companies implementing Tenant Health and Wellbeing programs. Overall, the data shows that 90% of companies are establishing quantitative targets and objectives to promote the health and wellbeing of tenants. However, only around 20% of the companies are implementing assessments to identify risks and opportunities for improving the health and wellbeing of tenants, integrating actions to promote the health and wellbeing of tenants, and monitoring progress towards achieving the established health and wellbeing targets. Lack of assessments to identify risks and opportunities can lead to increased tenant well-being issues that arise from the use of the building, leading to a reduced demand for tenants in the long term and also reducing rents that are higher in healthy buildings. COVID pandemic has led to increased demand for workplace wellness features by tenants.

Figure 98
Percentage of companies Implementing health & Wellbeing Programs (N = 113)

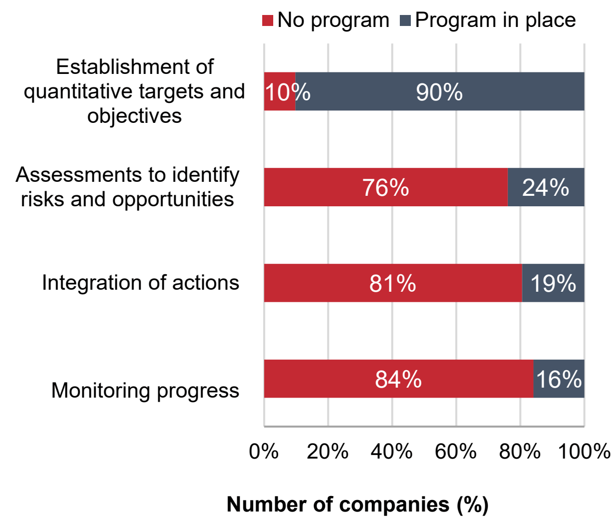
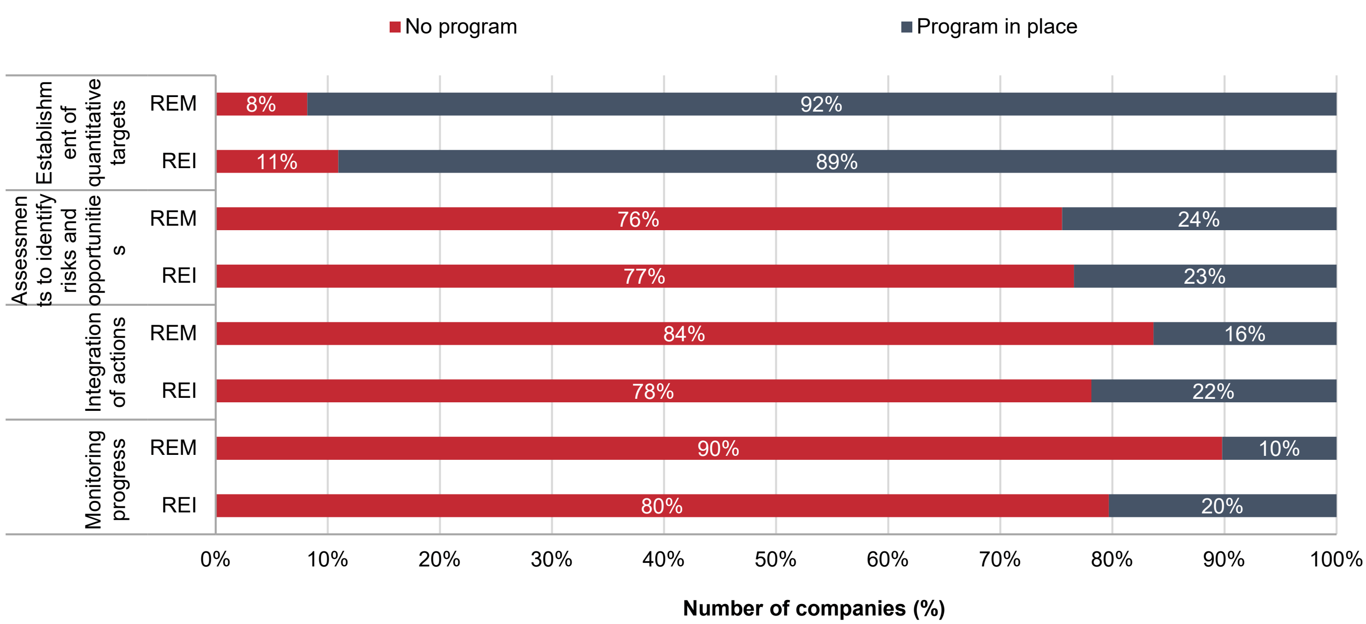


Figure 99 shows the percentage of companies implementing Tenant Health and Wellbeing programs by type of industry, which is similar for both industries: Real Estate Management and development and Equity Real Estate Investment Trusts.

Figure 99
Percentage of Companies Implementing Tenant Health & Wellbeing Programs for REI and REA industries N(REI)=64, N(REM)=49



Tenant Health & Wellbeing Measures

Tenant Health & Wellbeing Measures is a new question added in the 2023 CSA questionnaire. The purpose of this question is to assesses the type of measures implemented to foster Tenant health & well-being. Those actions can include design and construction strategies, building operations strategies and awareness programs.

This question was introduced in CSA 2023 and applies to 2 out of 62 industries

Findings

Figure 100 depicts that 73% of the Real Estate companies involved in the management of standing investments are not implementing any measure to foster tenant health and wellbeing, 8% of them are implementing one measure, meanwhile only 6% of them are implementing more than 5 measures. As shown in Tenant Health and Wellbeing programs question, these data highlight again the low disclosure level of publicly available information related to tenant health and wellbeing on Real Estate companies' reports. Figure 101 reflects that results are again very similar for both industries within the sector: Real Estate Management and Development and Equity Real Estate Investment Trusts.

Figure 102 shows the percentage of companies implementing different type of measures to foster tenant health & well-being. Overall, the data shows that between 30% and 40% of companies are implementing measures related to water quality, visual comfort of daylight, physical activity, thermal comfort, mental health, accessibility and biophilic design or connection to the environment. It should be noted that the measure most implemented is indoor air quality, with 70% of companies implementing this measure. After the COVID pandemic, tenants are increasingly demanding measures to ensure high levels of indoor air quality across a building's lifetime through diverse strategies that include source elimination or reduction, active and passive building design and operation strategies. However, only around 20% of the companies are implementing measures related to acoustical comfort and nourishment or healthy food.

Figure 100
Number of Tenant Health & Wellbeing measures implementd by company (N=427)

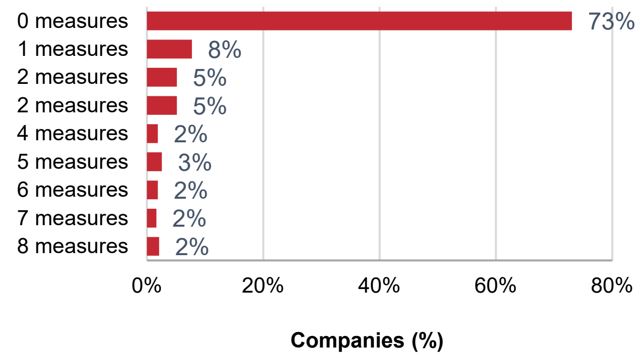


Figure 101
Number of Tenant Health & Wellbeing measures implementd by industry

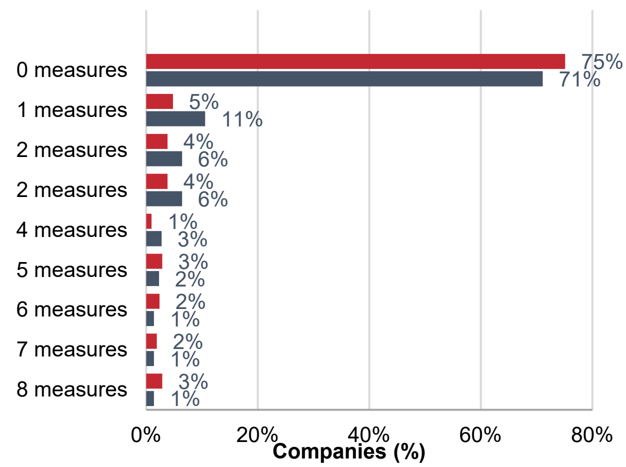


Figure 102
Tenant Health & Wellbeing measures implementd by type of indutry (N=115)

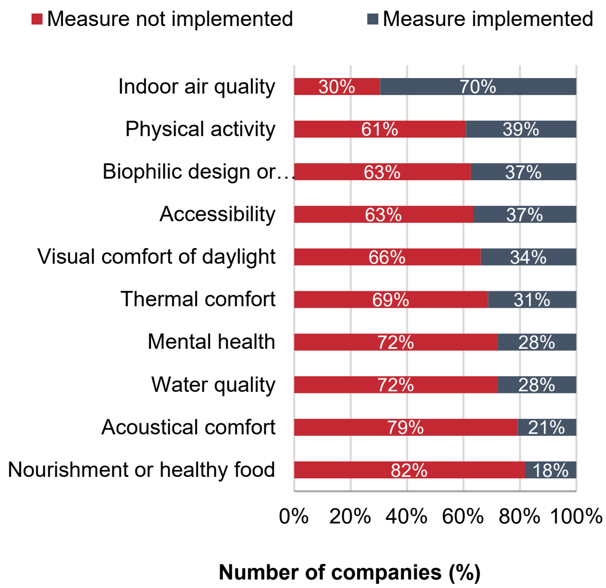
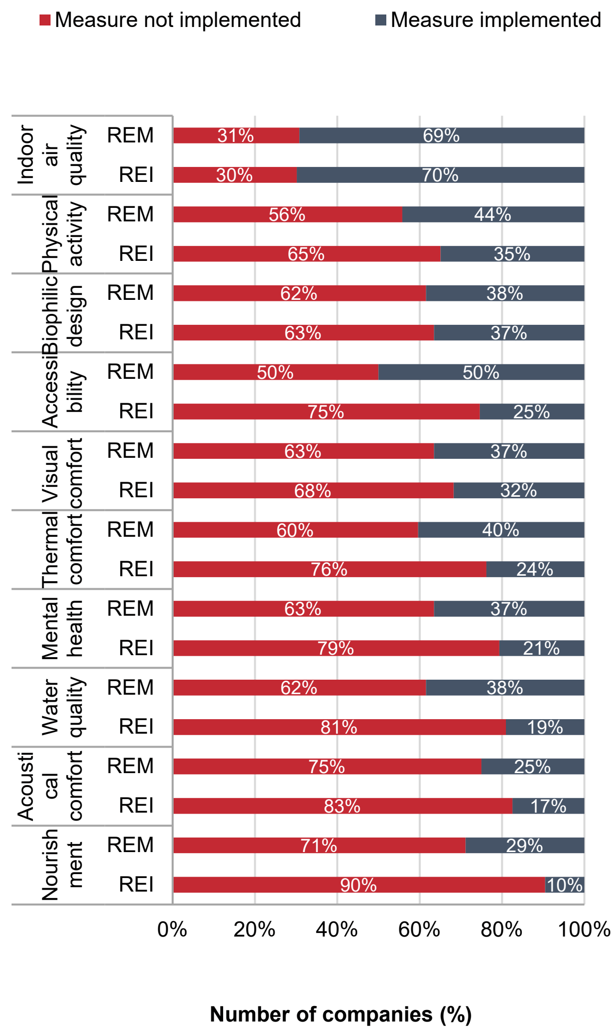


Figure 103 shows the percentage of companies implementing different type of measures to foster tenant health & well-being per type of industry, which again is similar for both industries: Real Estate Management and development and Equity Real Estate Investment Trusts.

Figure 103
Tenant Health & Wellbeing measures implementd by type of indutry. N (REI)=63. N(REM)=52



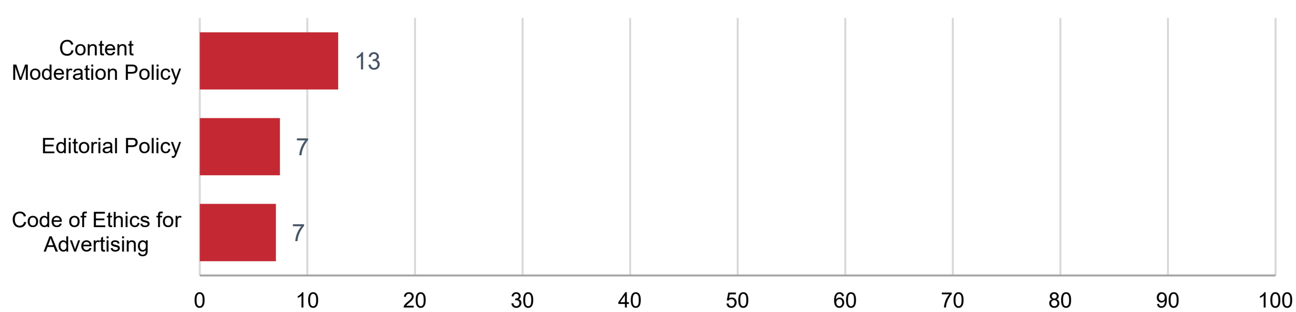
Responsibility of Content

The Content Responsibility and Moderation criterion assesses how companies report on the tools they have in place to stop the spread of misinformation and harmful content. Responsibility of content remains one of media's biggest challenges, for both User-Generated (Interactive Media Services – IMS) and Traditionally –Generated (in-house) content (Media and Entertainment – PUB) industries. The questions within the criterion aim to dive deeper into the principles and rules companies establish around content shared on their platforms or products and services. It seeks information about editorial independence, responsible advertisement, as well as policies around the moderation of potentially harmful content and child protection.

Criterion Update

The Content Responsibility and Moderation criterion was updated in the last year to allow for more detailed reporting from companies of the IMS and PUB industries that deal with different types of content generation. In alignment with industry expectations and leading peers' practices within the industries, options were added to each question to ensure transparency and full coverage of issues which impact user experience within the companies' content and editorial policies. The Code of Ethics for Advertising question remains applicable to both IMS and PUB industries. The question now additionally asks for the coverage of several Product and Behavior-related aspects within the Code. The Content Moderation Policy question applies solely to IMS, which mostly deals with User-Generated Content, and now requires the placement of guidelines on non-acceptable and harmful content. The Editorial Policy question only applies to the PUB industry, which generates Traditional Content, and now asks for full alignment with industry expectations on issues such as editorial independence and diversity of voices. The new Code of Ethics for Advertising and the Editorial Policy questions have a governance section which asks about the highest committing decision-making body. All three questions require public reporting.

Figure 104
Average score in the updated questions of Responsibility of Content



Code of Ethics for Advertising

Advertising serves as a crucial revenue source for communication companies. Across many nations, regulations and voluntary guidelines offer direction to companies regarding appropriate advertising practices, especially when targeting vulnerable audiences. These codes and guidelines are aimed at ensuring the accuracy and truthfulness of information while preventing deception, misleading content, or unethical approaches. This question aims to confirm whether companies involved in advertising production, either directly or indirectly, have implemented an internal Advertising Code of Conduct. This measure seeks to minimize the risk of complaints, product recalls, fines, and addresses controversial products or advertising methods within their policies.

This question to 2 out of 62 industries

Findings

Of the 397 companies assessed (all participating IMS and PUB companies), 15% reported having a public Code of Ethics for Advertising. Disclosure on the different options asked within the question concerning product and behavior related aspects was low following the update of the question. The topic being reported on the most is Misinformation – with 10% of companies answering the question mentioning the issue in their Code of Ethics for Advertising. Expectations are that reporting on this will increase in time due to public and regulatory pressure, evolving industry standards and leading companies' behavior. Reporting on governing committees is still low with only 2% of companies reporting on which governing body is overseeing the Code. Half of these were at the Executive Management level and half at the Board of Directors level.

Figure 105
Percentage of companies with existing Code of Ethics for Advertising

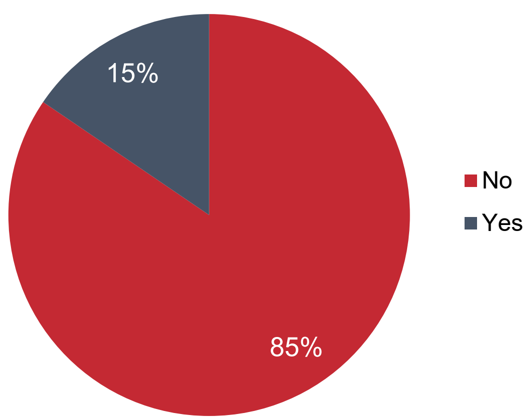
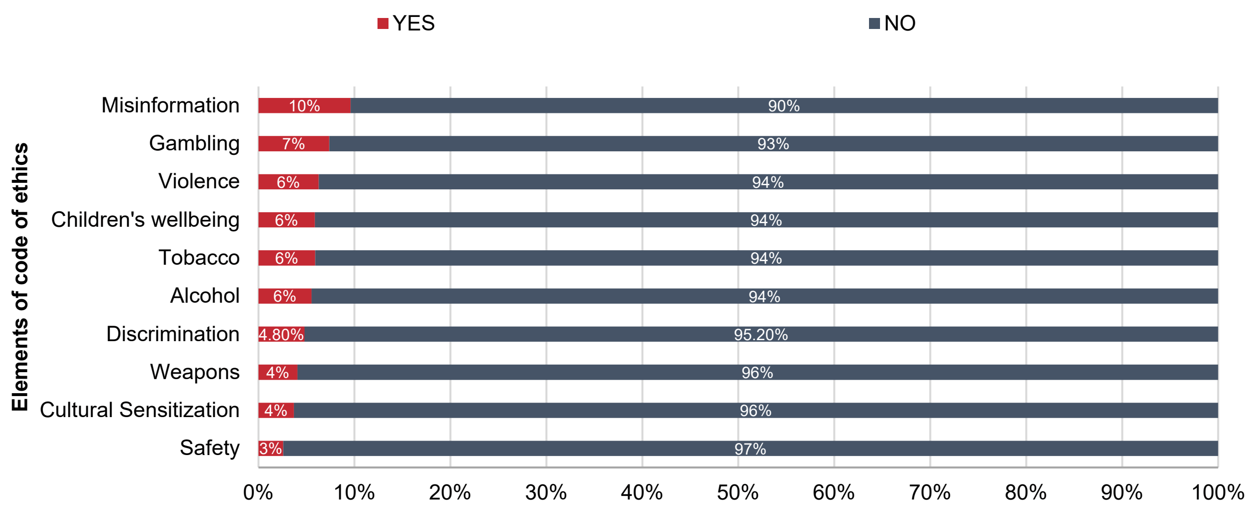


Figure 106
Percentage of companies reporting on elements of Code of Ethcis for Advertising



Content Moderation Policy

The existence of detrimental content on digital platforms holds the capacity to cause tangible harm and diminish the quality of user interactions, affecting platforms' capability to retain both users and advertisers. To counter this, it's crucial for Interactive Media companies to set forth explicit guidelines and standards concerning User-Generated Content.

The intent behind the Content policy inquiry is to delineate the obligations and regulations that companies operating within this industry must adhere to concerning various contentious types of content. This ensures the maintenance of the utmost integrity and prevents the proliferation of harmful content.

This question was updated in CSA 2023 and applies to 1 out of 62 industries

Findings

Of the 169 IMS companies assessed, 18% had a publicly available Content Moderation Policy as depicted in figure 107. Figure 107 depicts, the topics most companies cover in their policies are Sexually explicit content, Violence and Discrimination. However, matters that have been a growing issue for youth users of social media platforms, such as Online Harassment and Self Harm, are still scarcely mentioned in Content Moderation policies.

Figure 107
Percentage of companies reporting on the elements of Content Moderation Policy

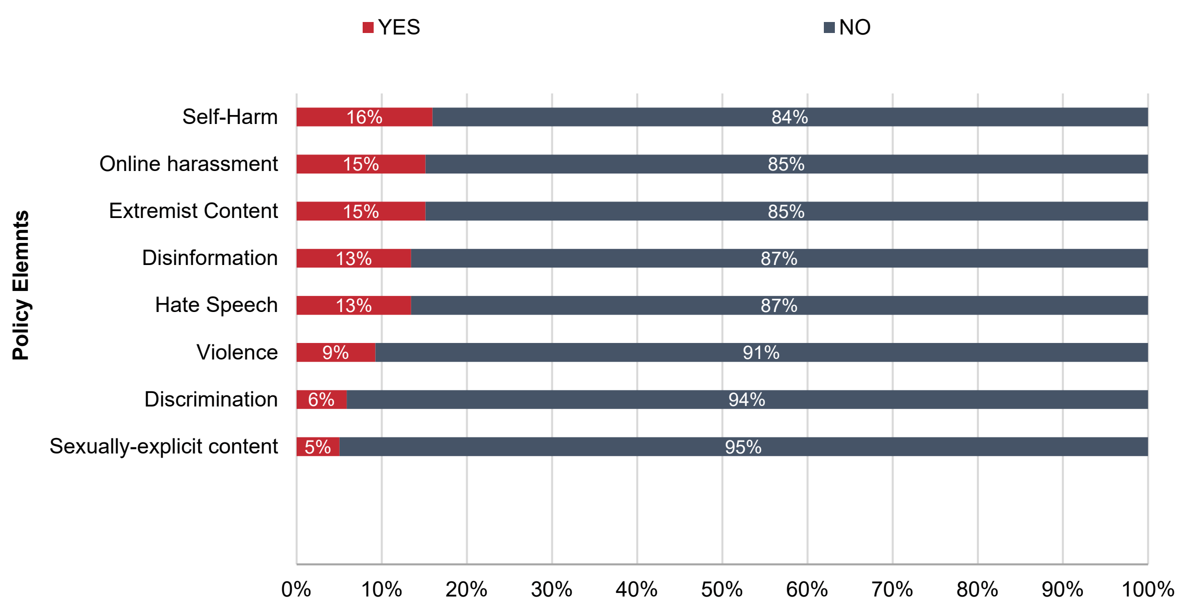
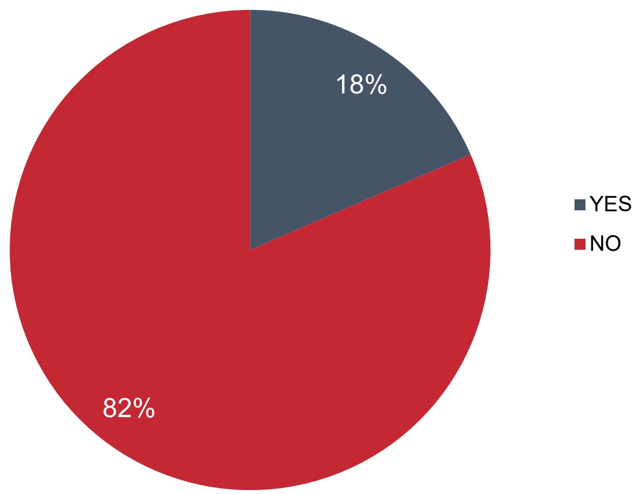


Figure 108
Percentage of companies with publicly available policy on User-Generated-Content (N=109)



Editorial Policy

The media holds an essential role in spreading information, shaping opinions, and historically contributing significantly to the advancement of democracies. Fundamental principles include the freedom of the press, freedom of speech and opinion, the pursuit of journalistic objectivity, and editorial independence as institutional cornerstones. Moreover, there's an increased emphasis on user demand for diverse content. This question evaluates whether the company's Editorial policies encompass all these necessary aspects and requirements.

This question was updated in CSA 2023 and applies to 1 out of 62 industries

Findings

Of the 228 participating PUB companies, 13% had a publicly available Editorial Policy. The PUB sector is very diverse in terms of business model which means different priorities for different business activities. The sector includes the publishing and production industries, as well as the print industry. As an Editorial Policy is critical to a business in publishing – an industry that makes up a significant percentage of the sector - these policies may very well be available, but not in the public domain, explaining the low disclosure under this question. As per figure 110, out of the four topics this question covers, Editorial independence was mostly reported as being included in the policy while Freedom of Expression was the least included. As per figure 111, reporting on governing committees received low disclosure as only about 3% of companies provided an answer. None of the reporting companies selected Executive Management as a governing body responsible for the Editorial Policy. All respondents indicated their Board of Directors as being responsible.

Figure 109
Percentage of companies having Editorial policy with guidelines on content production and distribution? (N=228)

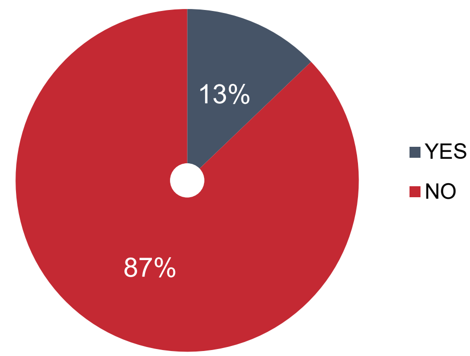


Figure 110
Percentage of companies reporting on the elements of Editorial Policy

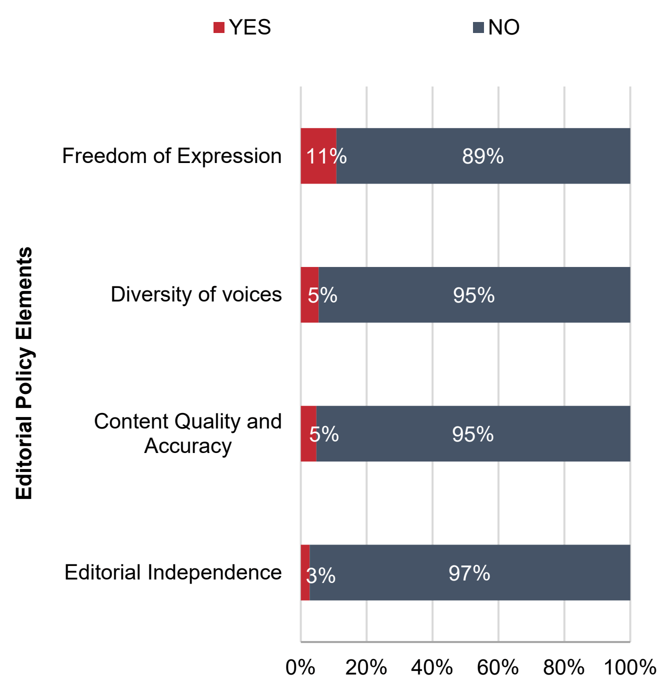
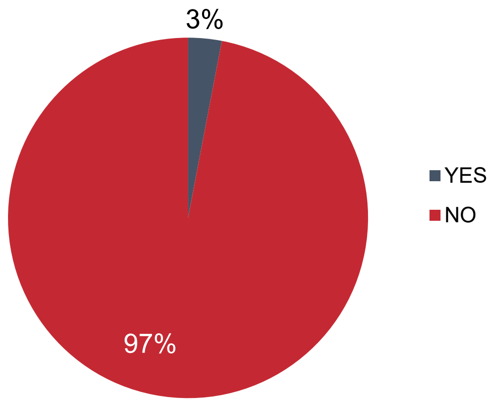


Figure 111
Percentage of companies with Board as governing body for Editorial Policy



Financial Inclusion

Many people still lack access to basic financial services such as insurance or banking. Through services such as microinsurance, microfinance, and non-financial support, financial companies can extend their offerings to reach less advantaged customers. Not only do such services address a growing social need in many countries, but they facilitate sustainable local development, increase companies' potential customer base, and respond to the growing number of investors looking for a triple bottom-line return.

Criterion Updates

The updates to the Financial Inclusion criterion are aimed at a better alignment of CSA methodology with industry-specific standards and frameworks (e.g., GISD, IRIS+, SASB), and their proposed performance metrics. The updated criterion contains new questions and question layouts, capturing key Financial Inclusion metrics. The purview of targeted groups has been expanded and aims to understand who the main targeted clients of financial inclusion products and services are, as well as the reach and engagement of clients with the products and services offered.

The Financial Inclusion Criterion now comprises three questions: 1) Financial Inclusion Commitment; 2) Financial Inclusion Products & Services; and 3) Financial Inclusion – Non-Financial Support.

As the three financial inclusion questions are now applicable to all financial industry' sectors (i.e., banks, insurance and diversified financial services), and cover relevant impact KPIs, two questions were deleted: 'Access to Insurance/ Social Value Added' and 'Measurement & Impact'. All three questions in the criterion are public questions.

The analysis below provides an overview of companies' performance in the Financial Inclusion criterion and considers a total of 965 financial industry companies who participated in CSA 2023, encompassing: 430 banks, 385 diversified financial services companies, and 150 Insurance companies. Figure 112 shows the total average score of companies in financial years 2022 and 2023, as well as the scores per sector. Overall, the three sectors (banks, insurance and diversified financial services) have a lower score in 2023: the average score in financial year 2023 is 13, compared to 20 in financial year 2022. A score drop was to be expected considering the methodology changes implemented in in the criterion in 2023, requesting companies to provide more specific, KIP-oriented information.

In particular, in 2023, Companies in the banking sector tend to have a greater score (average score = 20), followed by insurance companies (average score = 11) and diversified financial service companies (average score = 7).

Figure 112
Criterion average score comparison 2022 vs 2023, per sector.

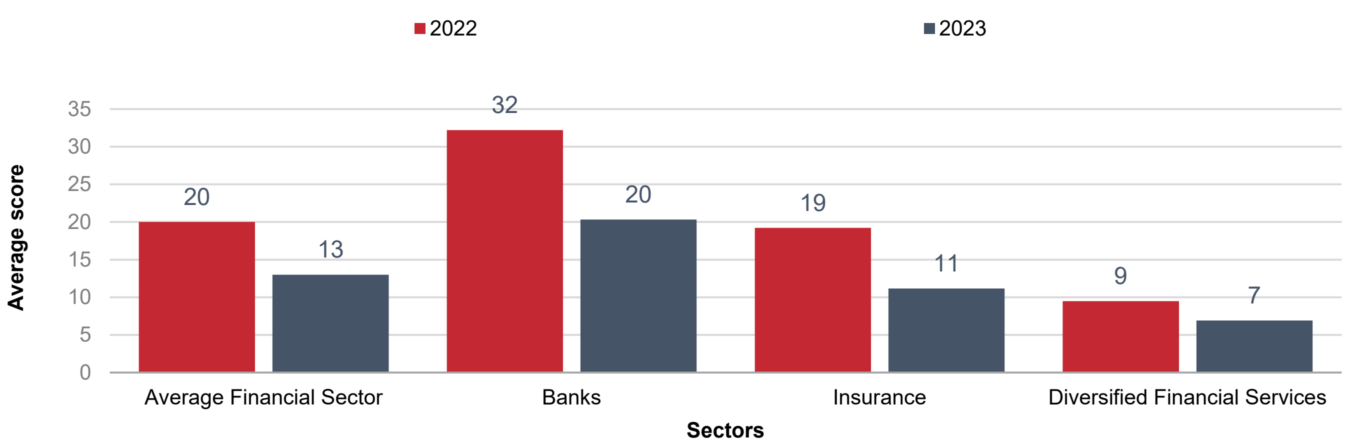
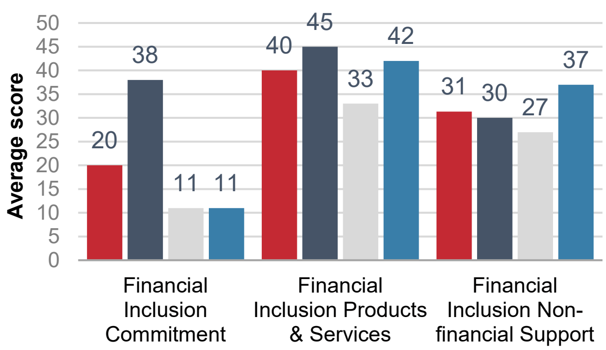


Figure 113 highlights average score per question, per sector. Overall, we observe a higher average score in the question 'Financial inclusion Products & Services' (average score = 40), where banks have a stronger performance (average score = 45), followed by insurance companies (average score = 42), and diversified financial services (average score = 33).

Scores of 'Financial Inclusion - Non-Financial Support' come in behind Financial Inclusion Products & Services, with an average score of 31 (See Figure 113). Here insurance companies have the strongest performance (average score = 37), when compared to banks (average score = 30), and diversified financial services (average score = 27).

'Financial Inclusion Commitment' presents the lowest average score (= 20), with banks having the strongest performance (average score = 38), and insurance and diversified financials having the same average score (= 11). These results show that companies tend to offer financial inclusion products and services, as well as non-financial supporting services, even if, in general, their financial inclusion policies are not public or as comprehensive as recommended by standard setters.

Figure 113
Average score per question, per sector.



Financial Inclusion Commitment

This question regards the policies and commitments companies have in place to offer financial inclusion products and services to underserved populations. In particular, a policy or commitment to financial inclusion should state the guidelines or standards the company applies to provide access to useful and affordable financial products and services to underserved groups (i.e., those unbanked or underbanked groups).

Policies and commitments on Financial Inclusion should include:

A pledge to develop client -centered products, services, and delivery channels, which are designed based on underserved clients' feedback, needs and preferences.

The offer of non -financial support, aimed at helping to improve underserved group's financial well-being and support their decision-making.

A commitment to client protection, which includes, but is not limited to, giving clients clear and timely information to support their decision-making, offering complaint mechanisms tailored to underserved clients, charging fair prices and reasonable fees, or avoiding aggressive sales techniques.

Engagement with/of external parties, including regulators and standard setters, to proactively advocate for the development of the financial inclusion market and the harmonization of sector standards.

Transparency on governance and oversight, enduring that either the board of directors or executive managers are committed to financial inclusion and oversee its policies and procedures.

This question was introduced in CSA 2023 and applies to only Financials Sector: BNK, FBN, INS

Figure 114
Percentage of companies with a financial inclusion commitment in place

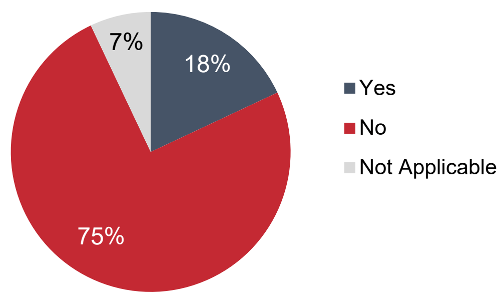
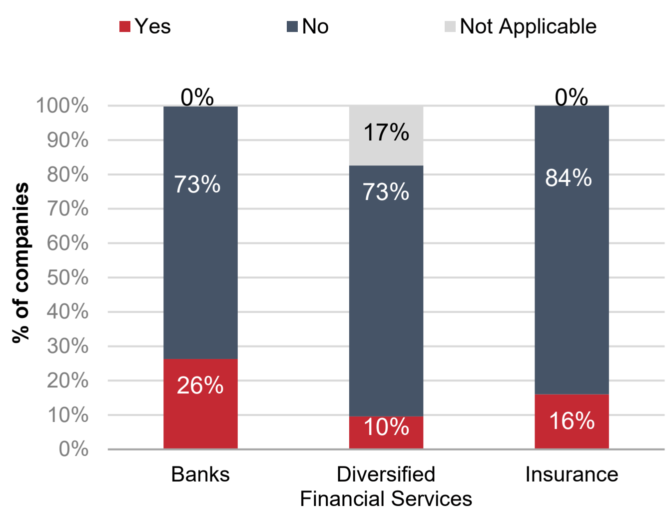


Figure 115
Percentage of Companies that have a Financial Inclusion Commitment, per sector



Findings

As seen in Figure 114, in 2023, 18% of companies in the financial industry provided public evidence of a financial inclusion policy or commitment that complies with CSA requirements (i.e., the eight aspects listed in the question Financial Inclusion Commitment). Among the companies to which this question applies [1], public financial inclusion policies or commitments are more common in the banking sector (26% of companies, see Figure 115), followed by the insurance sector (16% of companies) and diversified financial services (10% of companies).

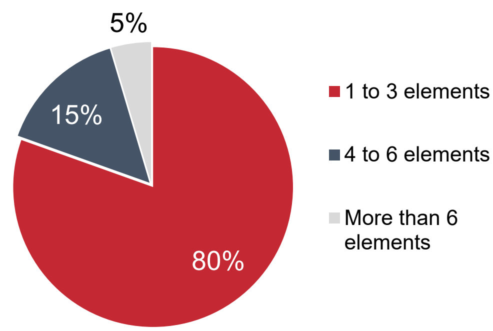
[1] This question is 'Not applicable' for real estate investment trusts and investment holding companies.

Regarding the aspects covered by companies' policies or commitments on financial inclusion, we notice a certain alignment across sectors. As shown in Figure 115, all three sectors have a commitment to tailor their delivery methods to its targeted group's needs and preferences (aspect covered by 30% of total companies), as well as to offer non-financial support for underserved groups (aspect covered by 21% of total companies).

On the other hand, the establishment of a dedicated role or committee at board/executive or operational level which oversees financial inclusion (aspect covered by 4% of total companies), and the implementation of complaint mechanisms easily accessible to financial inclusion clients (aspect covered by 5% of total companies) are the least observed elements in financial inclusion policies of companies across the financial industry (See Figure 116).

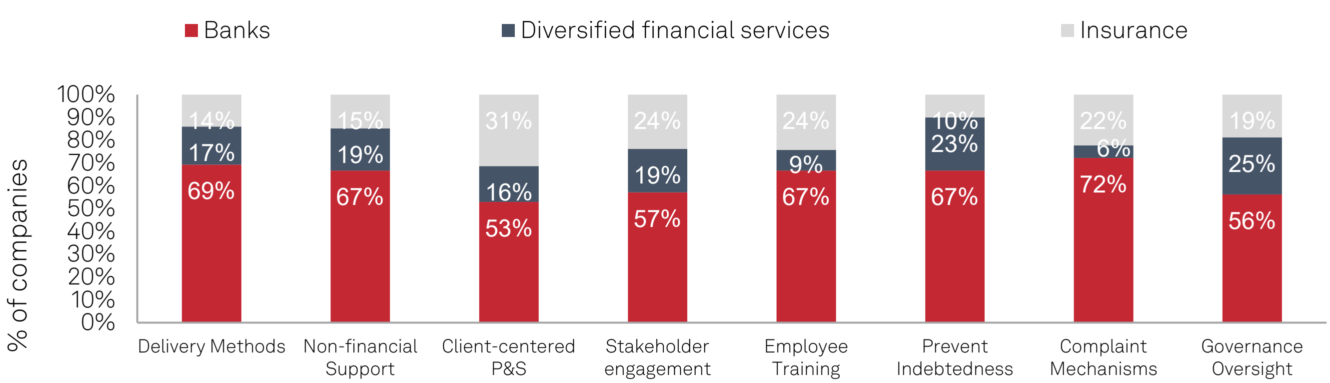
Disclosed data also provides insights on how comprehensive companies' policies or commitments on financial inclusion are. As shown in Figure 117, when policies or commitments are available, they usually cover up to 3 out of the 8 aspects requested in the question 'Financial Inclusion Commitment'. This is observed in 80% of the policies or commitments reviewed by CSA in financial year 2023 (See Figure 117).

Figure 117
Coverage of financial inclusion policy or commitments



Considering that the question 'Financial Inclusion Commitment' was designed to align with key standards and frameworks on financial inclusion, disclosed data shows the need for an increased alignment of companies' policies with best practices in the field.

Figure 116
Coverage of financial inclusion policy or commitments



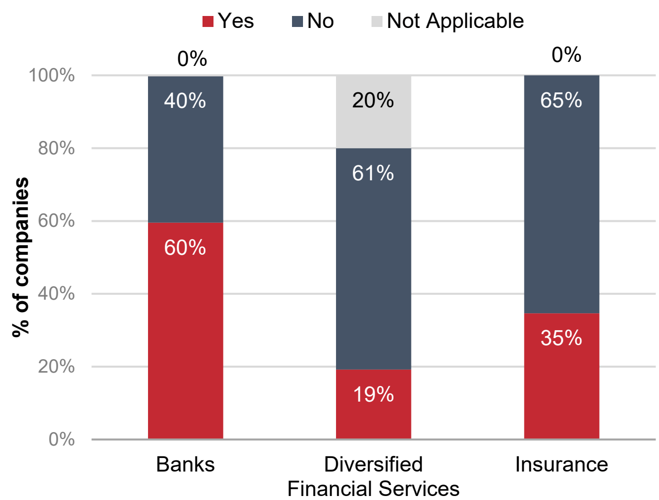
Financial Inclusion Products & Services

This question regards the range of financial inclusion products and services offered by the company. According to the World Bank, financial inclusion products and services include transactions, payments, savings, credit, and insurance, which are designed based on underserved client's needs and repayment capacity and delivered in a responsible way. The main targeted groups of these products and services should be those unbanked (i.e., those with no access to financial services) or underbanked (i.e., those who do not use financial services, despite having access) populations, such as microbusinesses, poor or low-income individuals, women in situations of socio-economic vulnerability, or individuals in rural or hard-to-reach areas.

In particular, the updates to this CSA question allow companies to disclose detailed information on financial inclusion products and services offered, including its targeted clients and key financial inclusion metrics (i.e., number of clients reached and number of contracts or transactions).

This question applies to only Financials Sector: BNK, FBN, INS

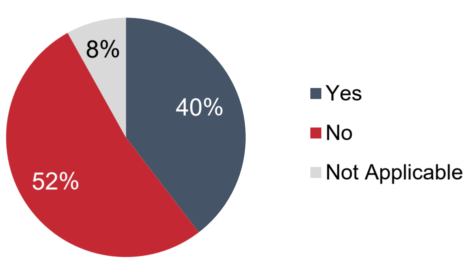
Figure 119
Percentage of companies that offer financial inclusion products & services, per sector.



Findings

As seen in Figure 118, 40% of companies in the financial industry disclosed financial inclusion products & services offered in 2023. Among the companies to which this question applies[2] , those products & services are more commonly offered in the banking sector (60% of sector companies, see Figure 119), followed by the insurance sector (35% of sector companies) and diversified financial services (19% of sector companies).

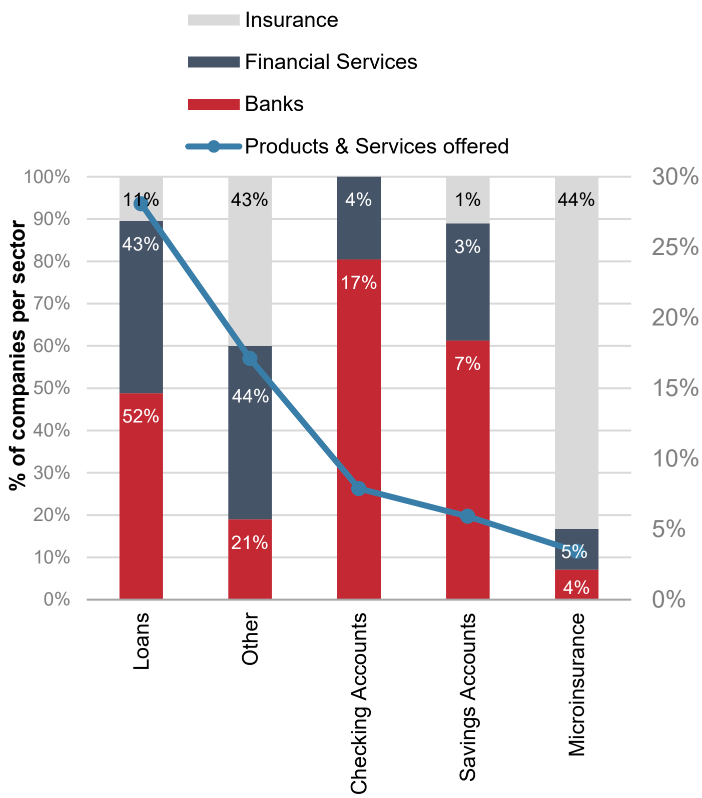
Figure 118
Percentage of companies that offer financial inclusion products & services.



Regarding the types of financial inclusion products & services offered, we notice that, as shown in Figure 120, loans are the most common product offered (28% of total companies) and are mainly provided by companies in the banking sector. Other products, such as mortgages and credit cards, are offered by 17% of total companies, and mainly provided by companies in the diversified financial sector (43% of diversified financials). The third most offered product is non-cost or low-cost checking accounts, offered by 8% of total companies, mainly by banks (17% of banking companies).

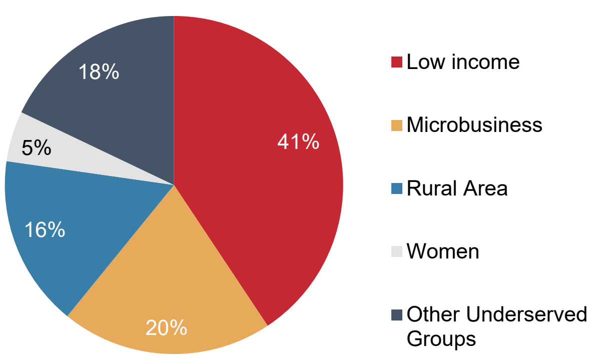
[2] This question is 'Not applicable' for real estate investment trusts, investment holdings, stock exchanges, and data providers.

Figure 120
Most offered financial inclusion products & services, per sector



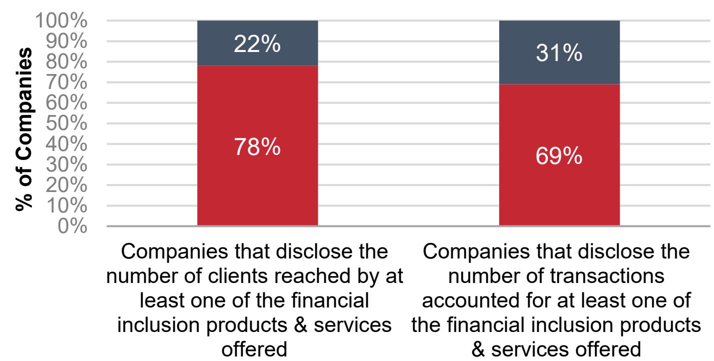
Disclosed data also informs who are the main target groups of these financial inclusion products & services. As presented in Figure 121, the main clients who benefit from these products are poor or low-income individuals (targeted by 41% of companies), microbusinesses (targeted by 20%) and other underserved groups (targeted by 18% of companies), such as the elderly in situations of socio-economic vulnerability and individuals with health condition or impairments.

Figure 121
Groups targeted by financial inclusion products & services.



In the question 'Financial Inclusion Products & Services' CSA also expects companies to disclose quantitative KPIs related to their offers: the number of clients reached, and the number of transactions accounted for their products in 2023. Figure 122 below summarizes company's disclosure of quantitative KPIs for financial inclusion products & services:

Figure 122
Disclosure of quantitative KPIs for financial inclusion products & services



Although there is room for improvement when it comes to financial inclusion offers (as mentioned earlier, only 40% of companies in the financial industry disclosed financial inclusion products & services in 2023), reported data shows that, when public information is available, it includes relevant KPIs.

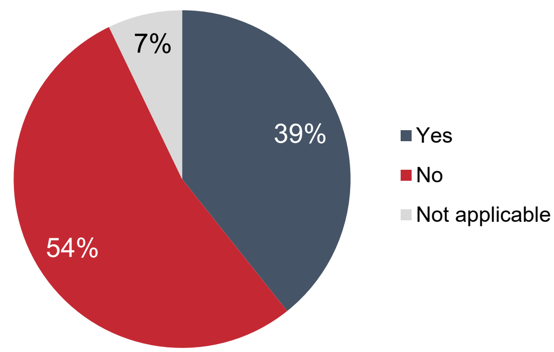
Financial Inclusion – Non-Financial Support

This question regards the offer of non-financial support to underserved groups. Such support can help to improve clients' well-being and inform their decision-making about the use of financial products and services. Those supporting services include financial or digital literacy training, incentives to establish savings accounts, technical assistance or business management tools or trainings. The main targeted groups of these initiatives are those unbanked (i.e., those with no access to financial services) or underbanked (i.e., those who do not use financial services, despite having access) populations, such as microbusinesses, poor or low-income individuals, women in situations of socio-economic vulnerability, or individuals in rural or hard-to-reach areas.

This is a new question in CSA and allows companies to disclose detailed information of non-financial support offered, including its targeted clients and key quantitative social impact metrics (e.g., improved financial skills, increased business resilience, number of participants in trainings). CSA methodology expects that these supporting services are not conditional to the use of the company's financial inclusion products & services.

This question was introduced in CSA 2023 applies to only Financials Sector: BNK, FBN, INS

Figure 123
Percentage of companies that offer non-financial support to underserved clients

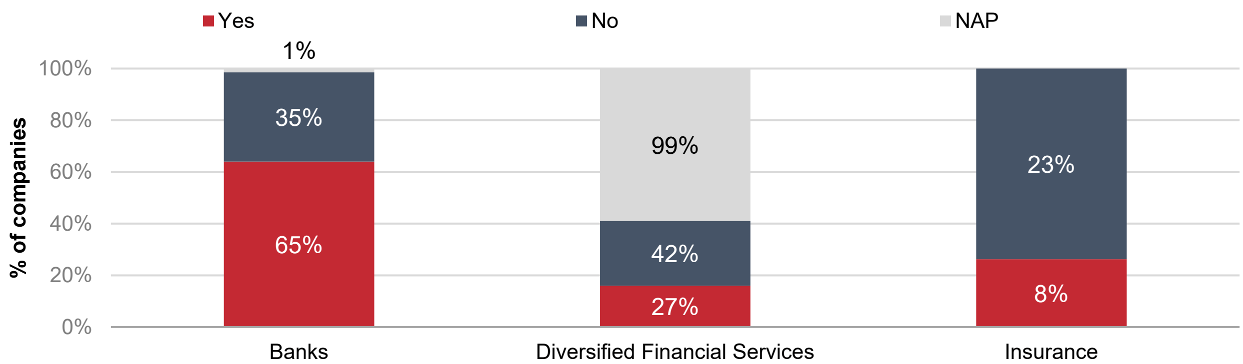


Findings

As seen in Figure 123, 39% of companies in the financial industry disclosed non-financial support offered to underserved clients in 2023. Among the companies to which this question applies[3], those supporting services are more commonly offered in the banking sector (65% of companies, see Figure 124), followed by diversified financial services (27% of companies), insurance sector (8% of companies).

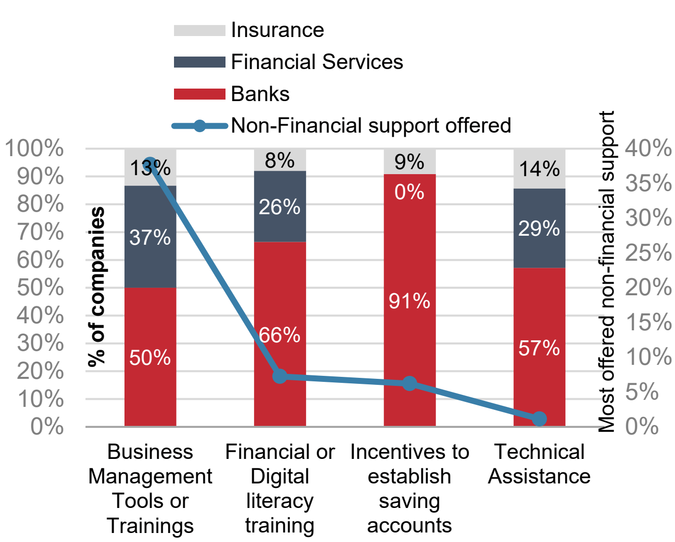
[3] This question is 'Not applicable' for real estate investment trusts and investment holding companies.

Figure 124
Percentage of companies that offer non-financial support to underserved clients, per sector



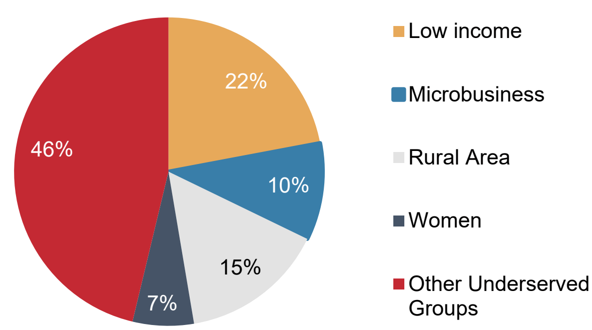
When it comes to the types of non-financial support offered, reported data highlights that, as shown in Figure 125, financial or digital literacy training is the most common support offered (38% of total companies), followed by technical assistance (offered by 7% of total companies), business management tools or trainings (offered by 6% of total companies). A sector-level look at these three offers (See Figure 125), shows that banking companies are usually the main service providers of these supporting services.

Figure 125
Most offered non-financial support per sector



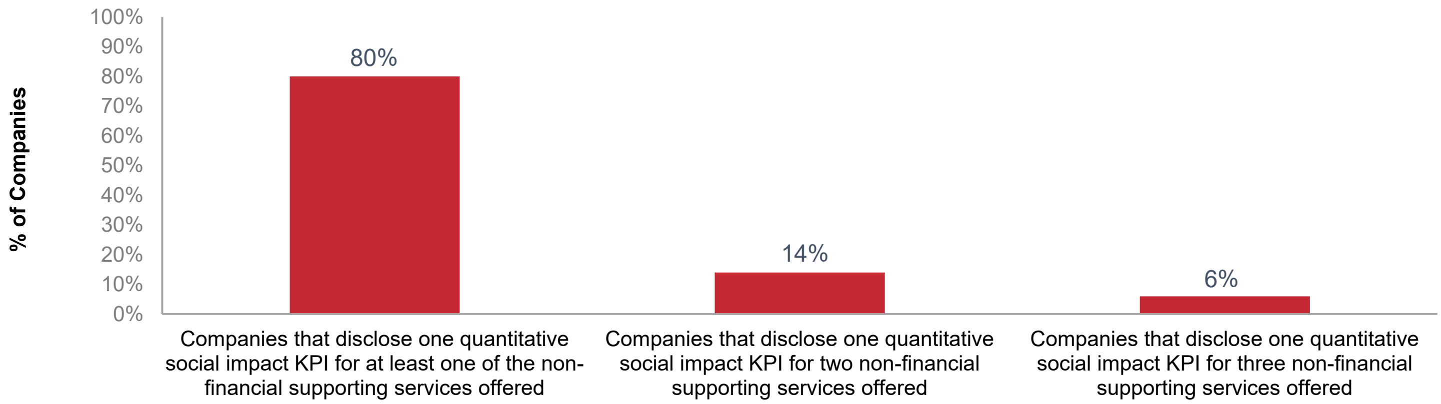
Disclosed data shows that companies have a different focus when it comes to the targeted clients of products and services, and clients targeted by non-financial support. As presented in Figure 126, the main groups who benefit from the non-financial supporting services are other underserved groups, such as underserved young or elderly people (targeted by 46% of companies), followed by poor or low-income individuals (targeted by 22 % of companies) and people in rural or hard-to-reach areas (targeted by 15% of companies).

Figure 126
Most common targeted groups of non-financial support



Finally, in the question 'Financial Inclusion – Non-financial support' companies are also expected to disclose one quantitative social impact KPIs for each of the supporting services offered. A summary of information disclosed in 2023 is provided below:

Figure 127
Disclosure of quantitative social impact KPIs for non-financial support



As also observed in the aspect ‘products and services’, there is room for improvement when it comes to the offer and disclosure of non-financial support (as mentioned earlier, only 39% of companies in the financial industry disclosed non-financial supporting services in 2023). However, reported data also shows that, when public information on non-financial support is available, it tends to include at least one relevant quantitative social impact KPI.

Social Impact on Communities

Industries engaged in commodities extraction, such as mining and oil & gas, and companies involved in the production of materials like steel and aluminium, oversee operations with the potential to pose hazards to neighbouring areas. The consequences include detrimental impacts on the environment, cultural heritage, and the overall well-being of residents. Notably, these projects may, in specific instances, require the relocation of local communities, underscoring the necessity for thoughtful planning. To proactively address the risk of conflicts, protests, or the jeopardization of operating licenses, early engagement with communities during the initiation of site activities is essential. This criterion focuses on the environmental and social impact assessments conducted by companies for both new operations and extensions of existing ones. Additionally, we scrutinize the effectiveness of their strategies for community relocation, ensuring alignment with sustainable practices.

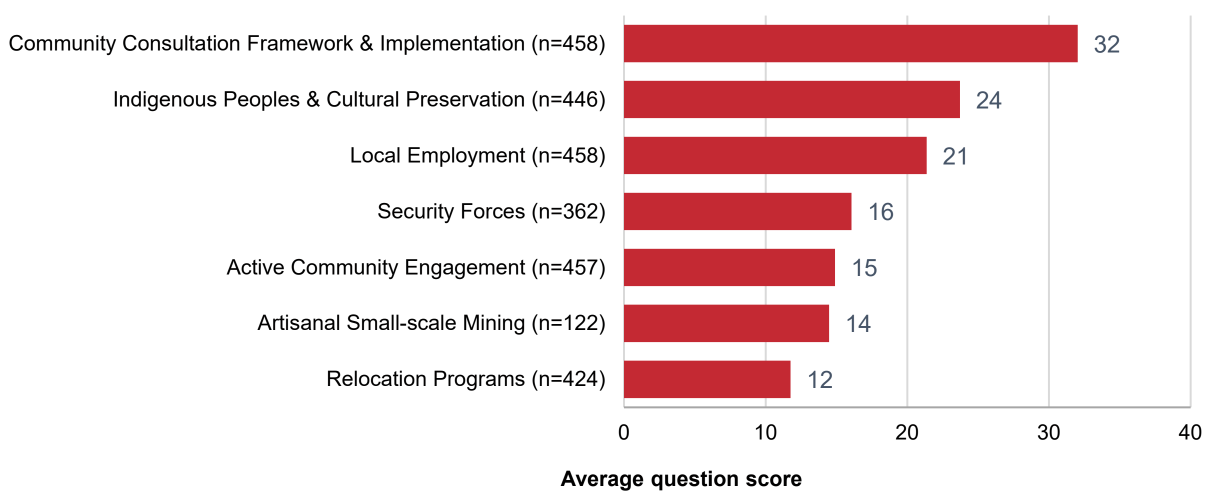
Criterion update

About half of the Steel and Aluminum companies in the CSA universe are operating or owning mines. Therefore, the question 'Security Forces' has been added to the CSA Steel and Aluminum questionnaires to assess applicable companies' management of their local security forces. In order to protect the reputation of active mining companies and to minimize respective risks, companies employing security forces must ensure that their security forces respect human rights.

The new question 'Artisanal Small-scale Mining' aims at addressing precious mining companies' approach to Artisanal Small-Scale Mining (ASM) activities taking place on or adjacent to the company's operating sites. The ASM topic has been added to the CSA Metals & Mining industry only.

Figure 128 shows the average scores for all the questions covered by the Social Impact on Communities criterion. The overall low average scores on this criterion demonstrate that most companies can improve in setting up company-wide programs or frameworks to manage and mitigate the company's social impact on neighboring communities. The relatively high scores for the Community Consultation Framework & Implementation question compared to the other questions indicates that companies often have an overall framework, but they seem to lack frameworks for specific topics like relocation, security forces or local employment.

Figure 128
Average score for questions under Social Impact on communities criterion



Artisanal small-scale mining

The purpose of this question is to outline the approach of companies in interacting with legitimate artisanal and small-scale miners (ASM) and addressing the associated risks.

While being an important source of income and livelihood, ASM can be associated with environmental, socio-economic, and human rights risks. Furthermore, it has the potential to directly impact mining operations in terms of use and disposal of toxic chemicals, particularly mercury, pollution of water and soil, mine security and community-related risks. The differing legal systems, as well as varying social and political contexts, influence the companies' approach to ASM.

The large-scale mining (LSM) companies with ASM activities nearby are exposed to risks such as conflicts and tensions between ASM miners and communities, environmental and human rights issues all of which can create reputational and investment risks and undermine the LSM company's social license to operate. These risks, in turn, may threaten the company's success in current and future projects. In that sense, adequate interaction between LSM and ASM is considered essential to avoid negative environmental and human rights impacts.

The expectation is that companies don't limit or regard ASM as forbidden activities, but at least have a clear approach in their interaction with legitimate ASMs who respect applicable legal and regulatory frameworks, and who seek to address the environmental, health, and human rights and safety challenges often associated with their activity.

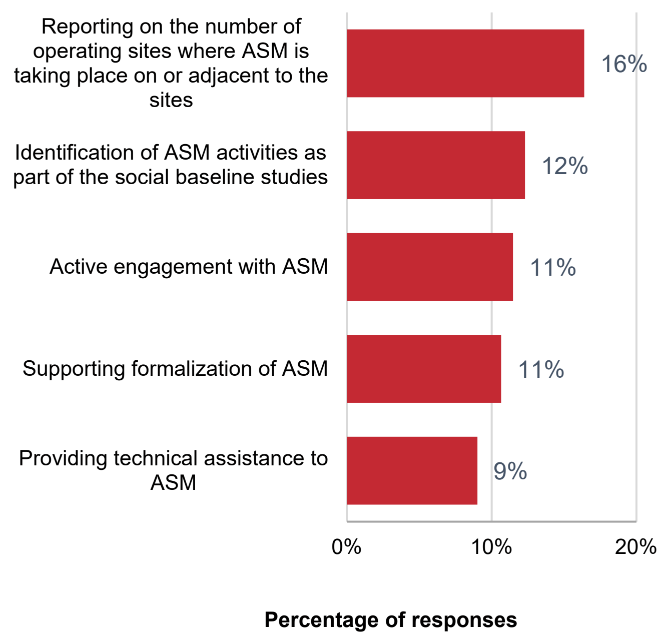
By having a positive interaction with legitimate local artisanal and small-scale miners, companies can help to avoid conflicts, foster positive community relations, and support the formalization of legitimate ASM, resulting not only in local opportunities and protection of human rights and the environment, but in a more sustainable and responsible use of resources.

This question was introduced in CSA 2023 and applies to only mining industry

Findings

The average score for this question, which is applicable solely to precious metals companies, is 18 points. Figure 129 shows that the most frequent aspect reported by companies is the number of sites where ASM activities are taking place at or near the mines. Only 12% of the responses show that firms are already identifying ASM in their social baseline studies and 11% are actively engaging with legitimate, local small-scale miners. Regarding the active support of large-scale mining companies to improve the situation for local ASM, companies are supporting formalization in 11% of the cases and provide technical assistance of 9% of the reporting companies.

Figure 129
Percentage of mining companies addressing specific aspects of engaging with artisanal small-scale miners (n=122)



‘

Talent Attraction & Retention

Effective talent attraction and retention management is a powerful enabler for companies to maintain their competitive advantage and execute their corporate strategies. Assessing metrics such as Hiring, Turnover Rate, and Employee Wellbeing continue to be essential tools to evaluate employee experience. They can also illustrate in how far companies prioritize their employee's wellbeing, providing insight into where improvement is needed, as well as how aligned employees are to a company's organizational objectives. Offering Employee Support Programs, such as flexible work hours, working from home arrangements, and paid parental leave, is crucial for retaining talent. It can enhance work-life balance and contribute to a positive employee experience, ultimately fostering loyalty and commitment to organizational goals. Performance appraisal methods including 360-degree feedback and agile conversations can create a feedback-rich environment that fosters development, recognizes high performers, and promotes a culture of open communication and adaptability. All these features are appealing to top talent.

Criterion Update

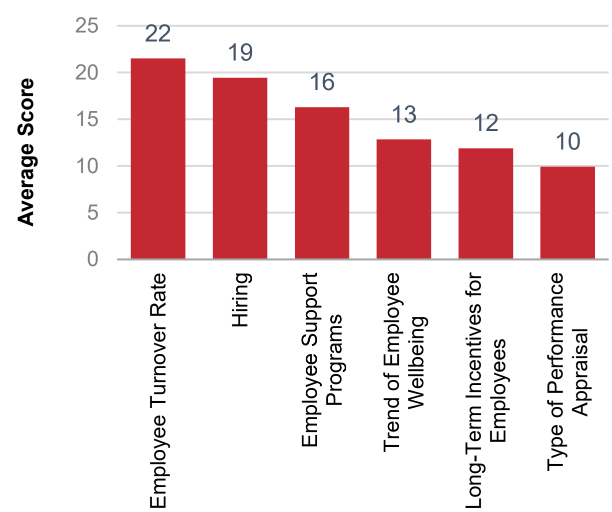
Three existing questions have been updated in 2023 under the Talent Attraction & Retention criterion:

- Type of Performance Appraisal
- Trend of Employee Engagement
- Employee Support Programs

The questions were updated to reflect current trends within Talent Attraction and Retention. Major shifts within, and expectations of the workplace post-pandemic has seen the attraction and retention of talent an increasingly complex task. Considering the paradigm shift in work culture across businesses in all industries, and in the context of the "Great Resignation" and an ongoing "War for Talent", the updated questions in the criterion seek to ascertain new trends in what companies are doing to hold onto that crucial intangible asset, their employees.

The following section looks at an overview of the criterion as whole, including both updated and historic questions to provide insight into how companies score in Talent Attraction and Retention holistically. In Figure 130 the data shows the average score that companies achieved in each question of the criterion, out of a possible 100. The data indicates that overall, companies across most industries score highest in established questions that require quantitative metrics such as Employee Turnover Rate and Hiring. It is likely the scores in these two questions have been driven by the fact they are partially public quantitative questions and therefore enable a higher company disclosure rate. Figure 130 also shows that companies perform relatively well in Employee Support Programs, which may be reflective of changing workplace expectations post-pandemic. Meanwhile, Type of Performance Appraisal may stand to test industries, as new means of appraisal emerge.

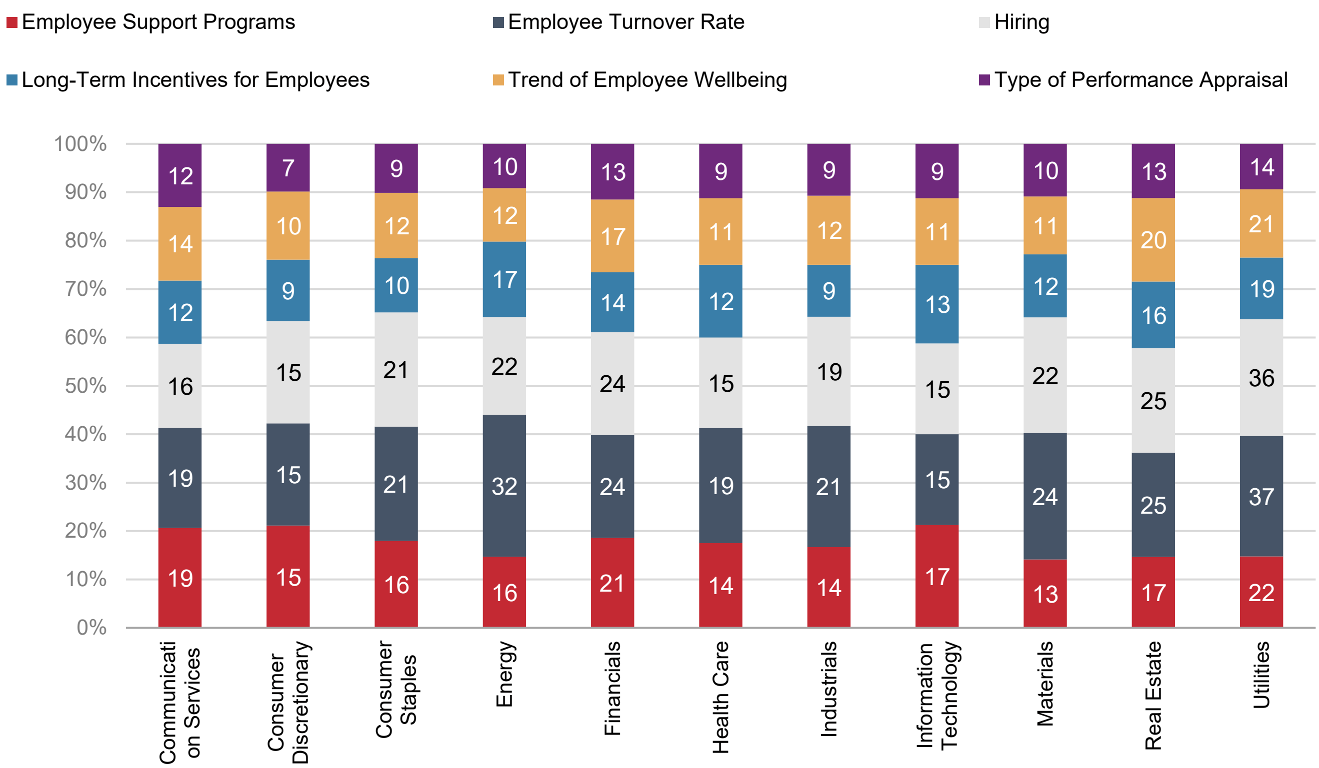
Figure 130
Average score of each question in the Talent Attraction and Retention criterion



Looking at the data at a more granular question level, Figure 131 shows that Utilities perform especially well in Turnover Rate and Hiring. The specialized skills for the roles involved are reflected in competitive compensation packages, and relative job stability, which may contribute to better turnover rates than other sectors. Furthermore, specialized roles require investment in training employees and upskilling. This is also reflected in other specialized, extractive industries such as Energy, and Materials. Meanwhile, business-to-consumer industries that have typically high turnover rates, such as Consumer Staples and Consumer Discretionary, are reflected in their relatively low scores for this question. For Health Care, a low score in Hiring is partly attributable to a lack of transparency from Healthcare companies regarding hiring costs, and rarely providing a data breakdown for internal hires.

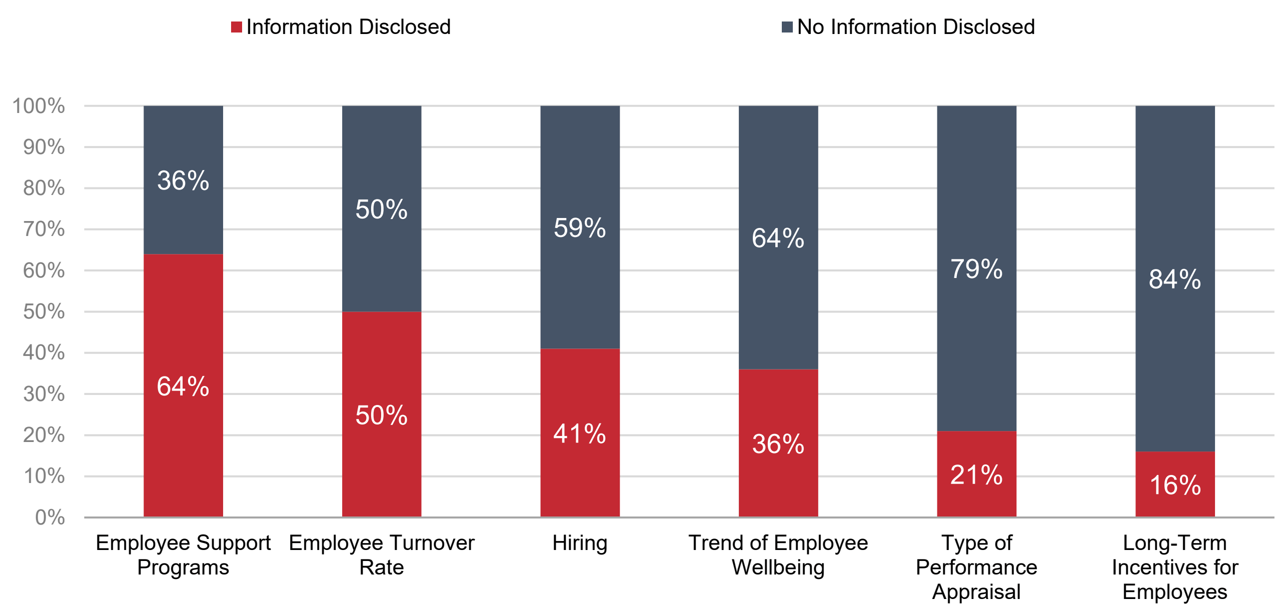
Failure in the sector to attract and retain talent was especially visible during the pandemic when many healthcare services found themselves overburdened. Hence the sector may be witnessing the hangover of this impact. The IT sector also suffered during the pandemic period with cases of employee burnout, and it continues to face tight competition for talent.

Figure 131
Average Score in the questions at Sector Level



Of all the questions, 'Employee Support Programs' has the highest disclosure rate. Despite such programs being in the nascent stages for many industries, companies are actively disclosing such programs publicly. Clearly this is beneficial to attracting and retaining talent in an increasingly competitive job market. Meanwhile, Long-Term Incentives for Employees has the lowest level of disclosure. Whilst companies are slowly attuning to the need to ensure long-term investment into the company from the employee-side, the results suggest that companies continue to not prioritize long-term incentives for employees below senior management level.

Figure 132
Disclosure Rate in the Questions of Talent Attraction & Retention



Type of Performance Appraisal

Companies use various methods to appraise the performance of employees. This question aims to assess what methods companies are using and the frequency at which they are applied. Performance appraisal supports employee development and ensures a holistic approach to team management. Regular performance and career development reviews can also enhance employee satisfaction, which correlates with improved business performance.

Question Update

This question was updated to include the new options of "team-based performance appraisal" and "agile conversations" while “comparative employee ranking” was removed. A further option of "performance appraisal frequency " was also added so that the company can report on how often performance appraisals take place.

This question was updated in CSA 2023 and applies to all industries (62)

Findings

This question applies to 6,554 companies in the 2023 Corporate Sustainability Assessment (CSA). According to the data, 80% of companies across all sectors did not provide any response to the question. **The following analysis is based on the 20% of companies that publicly disclosed they have an employee appraisal process**. As this question was updated from private to public this year, we expect the level of public disclosure to increase in future years.

Figure 133 shows what types of employee performance appraisals are most carried out by companies. 79% of these companies publicly state they use the traditional management by objectives approach. This is defined as a process in which employees have pre-defined and measurable goals that are set in a collaborative manner. 31% report using a multidimensional approach where feedback is sought from colleagues and peers of the employee. These can include an assessment of how the employee meets the values and objectives of the department or company. 25% of companies publicly reported using agile conversations, explained as a collaborative process, involving regular conversations and continuous feedback. Only 9% reported using team-based performance appraisal.

Figure 133
Disclosure onTypes of Performance Appraisal Methods

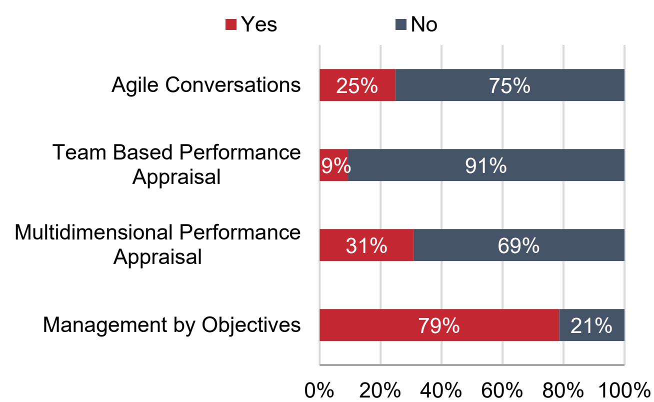
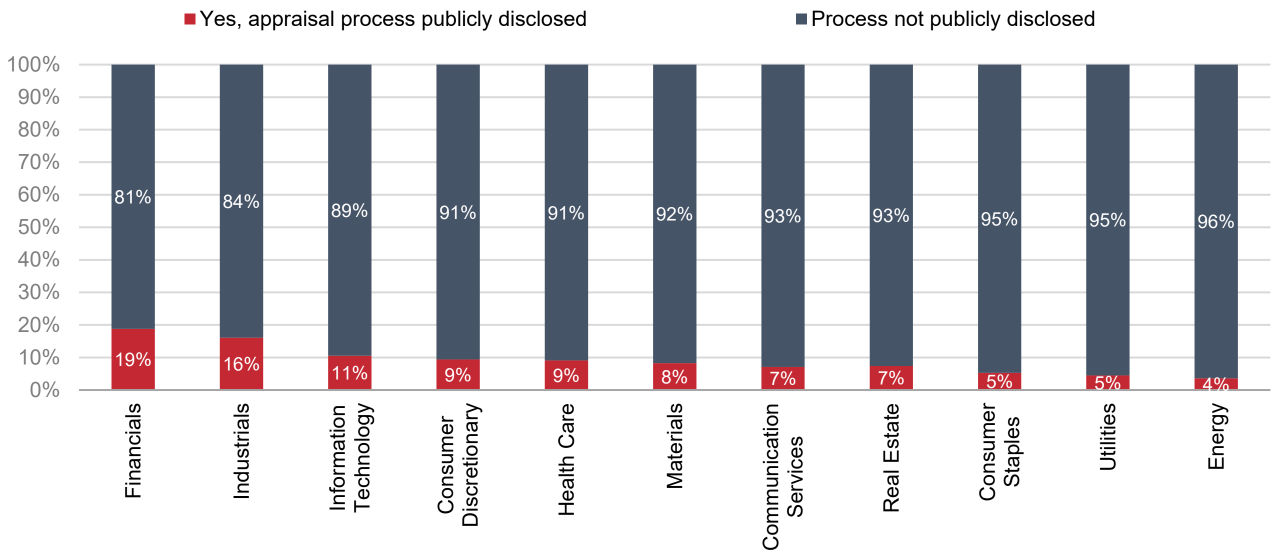


Figure 134 shows which sectors publicly report that they have an employee appraisal process. The highest performing sector is Financials where 19% publicly report on this, followed by Industrials with a 16% public disclosure rate. The lowest performing sectors are Utilities and Energy and Utilities where only 5% and 4% respectively publicly disclose information on this. The high rate of disclosure by the Financials sector can be seen as a reflection of the high value of a key intangible asset in this sector - human capital. Employee skills and attributes create the intellectual property and interpersonal relationships that are a crucial part of driving business success. It is important in sectors with high intangible asset intensity to understand and appraise employees' skills. Conversely, there are low levels of disclosure in Consumer Staples and Consumer Discretionary – 5% and 9% respectively – which likely reflects the transient and seasonal nature of much of the workforce in these two sectors.

Figure 134
Percentage of companies by sector that publicly disclose they have employee appraisal processes in place



Trend of Employee Wellbeing

Employee engagement, satisfaction, and well-being surveys are crucial tools for evaluating employee conditions and developing policies to attract, retain and develop the best employees and identify areas for improvement. Research indicates there is a strong link between employee wellbeing and business outcomes such as employee productivity, retention, and firm performance.

Question Update

This question was updated to assess whether companies conduct regular employee surveys based on four core focus areas - Employee Engagement, Employee Satisfaction, Employee Wellbeing, and Employee Net Promoter Score (eNPS) - and whether metrics on Job satisfaction, Purpose, Happiness and Stress are addressed in the employee surveys used.

The four aspects of Job satisfaction, Purpose, Happiness and Stress are recommended by the World Wellbeing Movement as evidence-informed employee wellbeing outcome measures developed by the University of Oxford's Wellbeing Research Centre. They aim to capture the complementary dimensions. of wellbeing at work as experienced by the employee and align with how statistical agencies across the OECD are measuring general wellbeing.

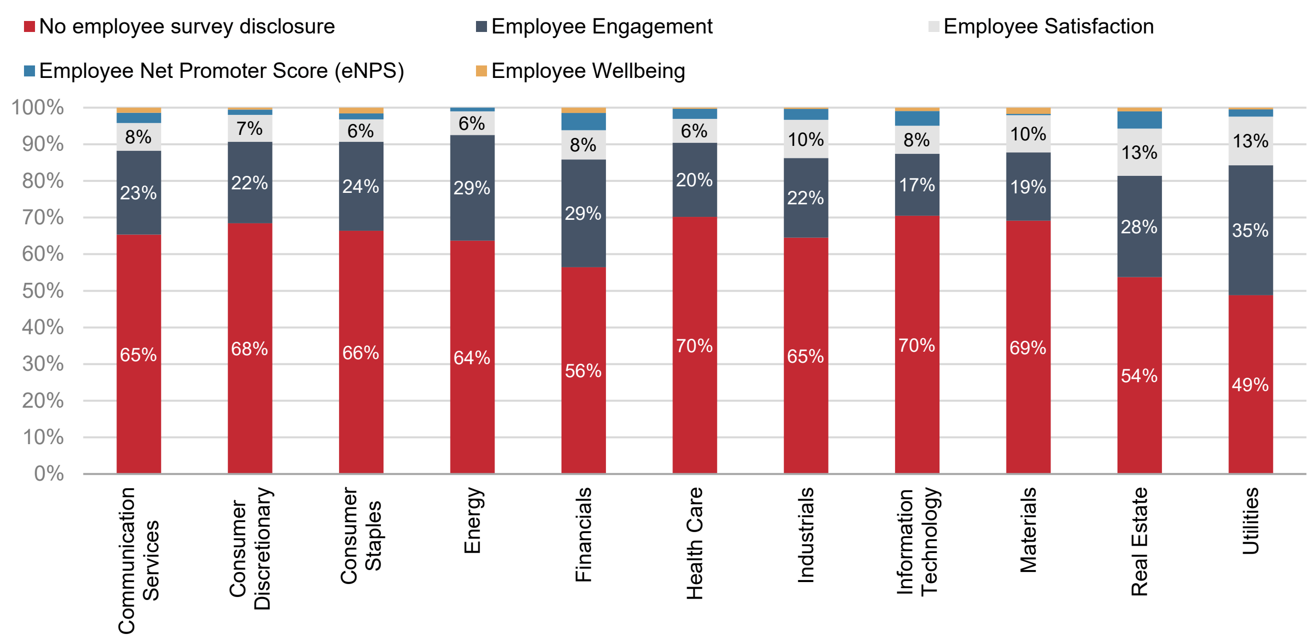
This question was updated in CSA 2023 and applies to all industries (62).

Findings

Figure 135 shows the disclosure rate (%) of companies' employee survey types, considering the core focus of the survey, as broken down by industry sectors. It is based on the analysis of 6,084 companies across all industry sectors participating in the 2023 Corporate Sustainability Assessment (CSA). According to the data, 64% of companies across all sectors did not provide any response to the question. However, across all sectors, the **Employee Engagement survey type** was selected most frequently. This indicates that companies are conducting Employee Engagement surveys instead of other survey types with a core focus on Employee Net Promoter Score, Employee Satisfaction, or Employee Wellbeing. While the Utilities, Financials, Energy and Real Estate sectors have the highest disclosure on employee engagement surveys, across all sectors, only 23% specified the engagement survey type.

The survey types with the lowest percentage of disclosure were Employee Wellbeing and Employee Net Promoter Score (eNPS). These were added as part of the 2023 methodology development updates, and the low levels of selecting these options might imply companies are not yet clearly aligning their employee surveys with these focus areas.

Figure 135
Employee Survey Type Disclosure (%) per Sector



In further analyzing the percentage of disclosure of survey results in the CSA, Figure 136 presents the percentage of companies that publicly disclosed their survey results. Based on the FY 2022 data disclosure, of the 30% of companies that reported data figures in the CSA, only 26% of the data was publicly reported.

Analyzing the two previous charts further, figure 137 exhibits the percentage of companies that publicly disclose the results of their employee survey categorized by sector. It shows that the Utilities (36%), Real Estate (35%), and Financials (33%) sectors have the highest public disclosure of employee survey results. Alternatively, the Energy sector has the lowest percentage of disclosure (20%). Overall, low disclosure can be seen across all sectors. This suggests that some companies are faster in adopting such initiatives, while others may not have the habit or human resources systems in place to collect and publicly report the results.

Figure 136
Percentage of Companies Reporting on Employee Survey Data

Figure 137
Percentage of Companies Publicly Reporting on Employee Survey at sector Level

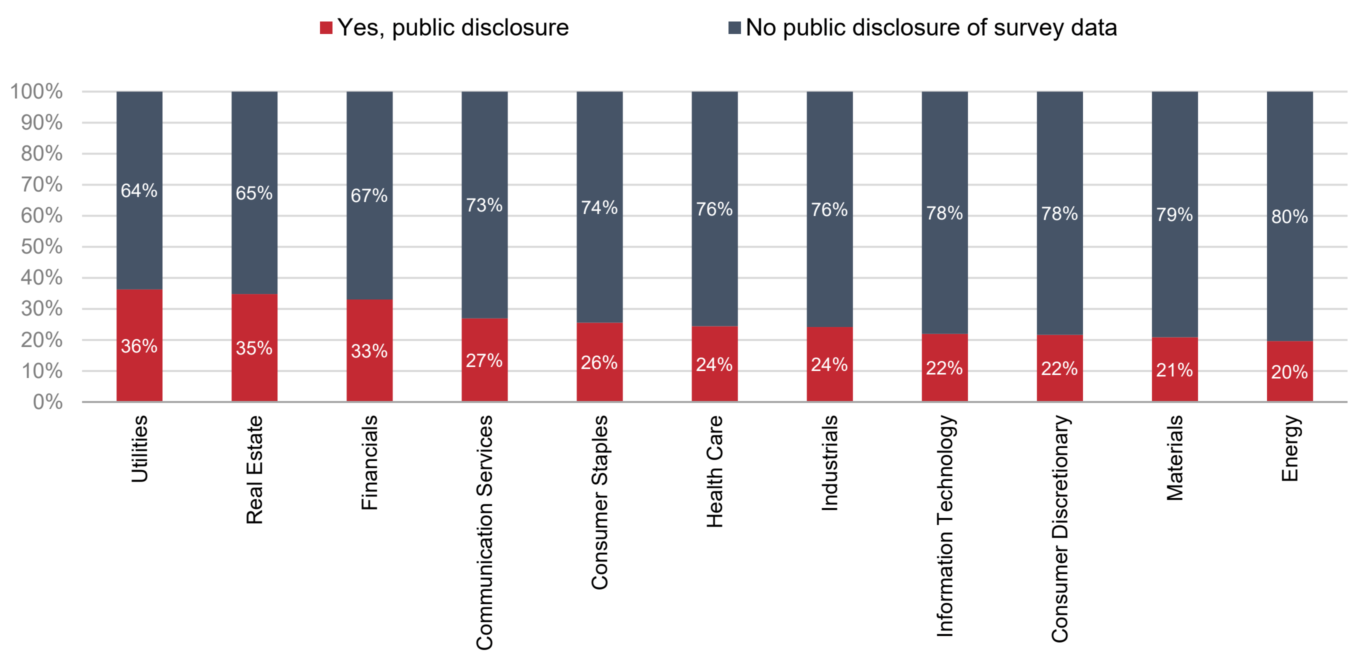


Figure 138 shows the percentage of companies that provided public or private evidence on the specific type of metrics addressed in their employee surveys. Since these four metrics were new additions to the question, it is evident that companies don't frequently report this data. Of the companies reporting on survey metrics, 'Job Satisfaction' was most commonly covered (10%) while metrics on Happiness and Stress were seldom selected (5% and 3% respectively).

When observing the sector-level breakdown for the most commonly reported metric, Job Satisfaction, figure 139 shows the Utilities (20%) and Real Estate (16%) sectors most commonly capture this information in their employee surveys. Interestingly, the Consumer Staples, Information Technology, Industrials, and Energy sectors all have the same level of disclosure (8%) on job satisfaction, possibly attributed to companies in these industries adhering to common or similar survey types.

Figure 138
Percentage of Companies Disclosing Qualitative Employee Survey Metrics

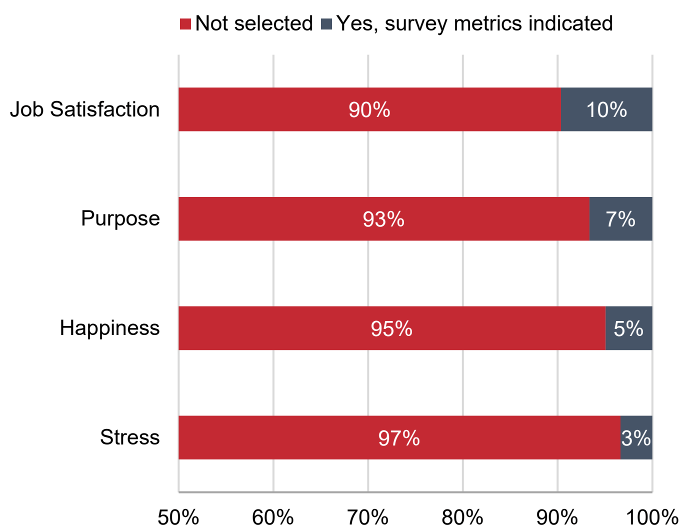
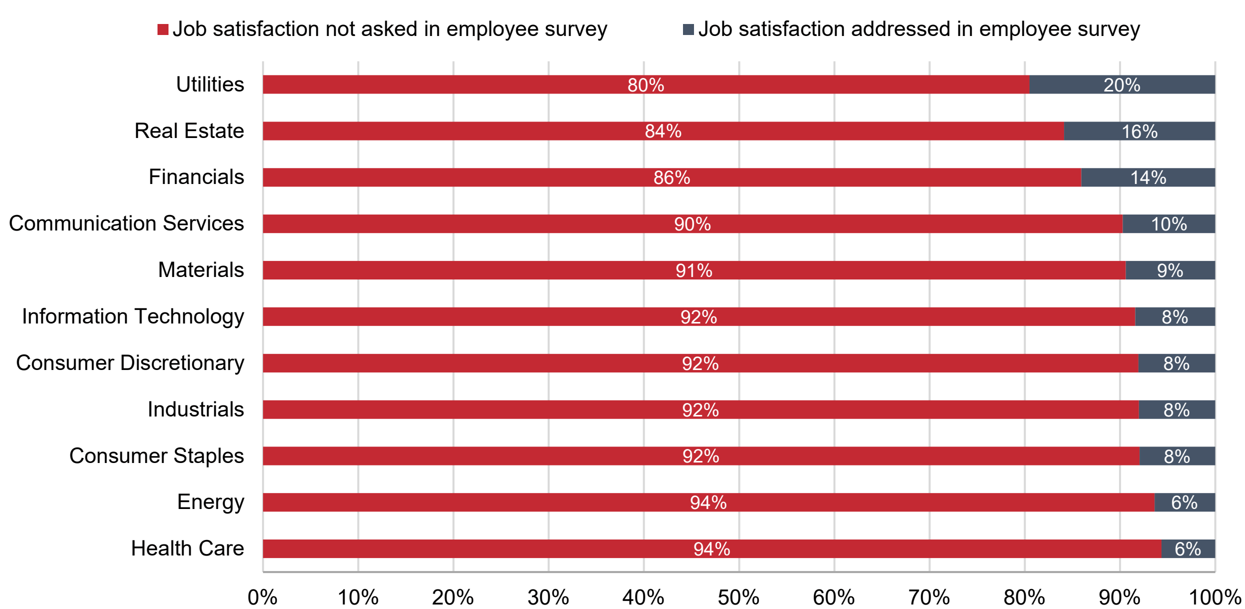


Figure 139
Percentage of 'Job Satisfaction' Survey Metric Disclosure by Sector



Employee Support Programs

Employee health and well-being is essential to ensuring employee satisfaction, productivity, and retention. This question assesses companies' policies and programs which aim to foster employee health and wellness. Research shows that these benefits help boost employees' morale and retain talent, hence could lead to improved overall performance of companies. [CSA research][4] has pointed in the same direction, in particular as regards improved innovation management.

Question Update

The question has been updated to include **Sport & Health Initiatives** as well as **Workplace Stress Management**, to focus on employees' physical and mental wellbeing. This is to align with the **Trend of Employee Wellbeing question** (discussed above), which assesses how companies asked about employees' wellbeing in their employee engagement surveys.

Other employee support programs considered in this question are related to employees' **working conditions** such as Flexible Work Arrangements, and **family benefits** such as Childcare Facilities, and Paid Parental Leave. Three options related to family benefits (i.e., Paid Parental Leave for the Primary Caregiver and Non-primary Caregiver, and Paid Family or Care Leave Beyond Parental Leave) underwent minor updates in 2023 CSA. Companies are now asked to provide a total number of paid parental leave in weeks offered to the majority of their employees, instead of a number of paid parental weeks in excess of the minimum legal requirements as in the previous CSA questionnaire.

This question was updated in CSA 2023 and applies to all industries (62).

Findings

This data analysis is based of 6,119 companies surveyed.

The programs on which there is the highest percentage of disclosure are related to employee benefits and working conditions. 41% disclosed having Sport & Health Initiatives (newly added in 2023 CSA), followed by Working-from-home Arrangements and Workplace Stress Management (29%)(newly added in 2023 CSA), and Flexible Working Hours (27%). While the percentage of companies asking about employees' stress levels in their employee engagement surveys remains the lowest (see Figure 140), Workplace Stress Management programs rank in the top four most reported by companies.

The percentage of companies reporting on family benefits such as Paid Parental Leave remains low. 13% and 10% of the companies disclosed Paid Parental Leave for Primary and Non-primary Caregivers respectively. Only 8% reported on Paid Family or Care Leave Beyond Parental Leave.

[4] S&P Global Sustainable1's thought leadership article "How good human capital management creates competitive advantage" https://www.spglobal.com/esg/insights/featured/special-editorial/how-good-human-capital-management-creates-competitive-advantage

Figure 140
Percentage of Companies Disclosing Types of Employee Support Programs

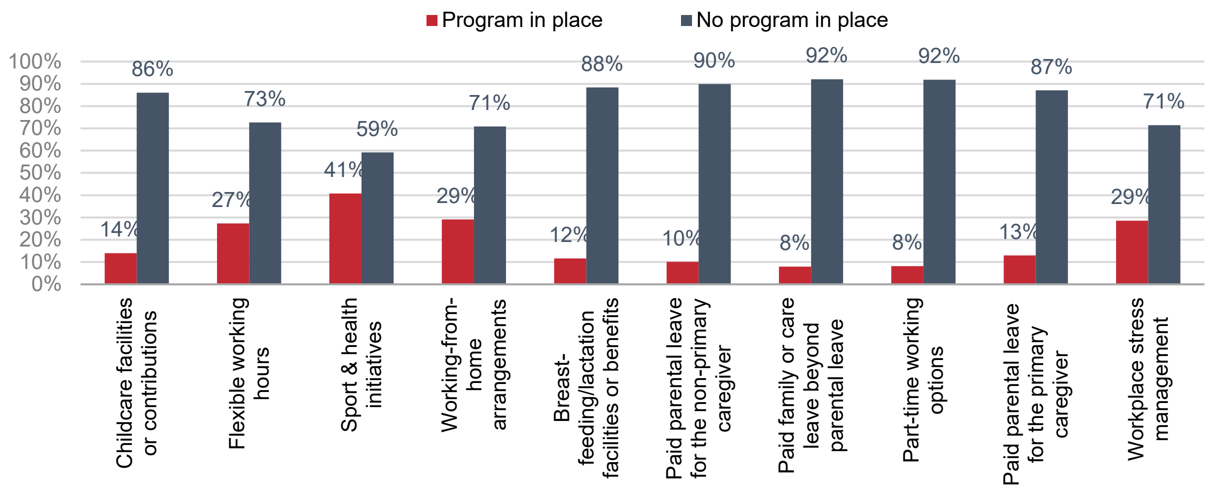


Figure 141 shows the percentage of companies by sector who answer that they have employee support programs in place, **regardless** of how many programs or policies they have reported on. From the graph, the Utilities sector reported the highest percentage of employee support programs (78%), followed by the Financials sector (74%), and the Information Technology (IT) and the Communication Services sectors (69%). The Health Care sector has the lowest level of disclosure on employee support programs (55%).

Figure 141
Companies that have employee support programs in place at Sector Level

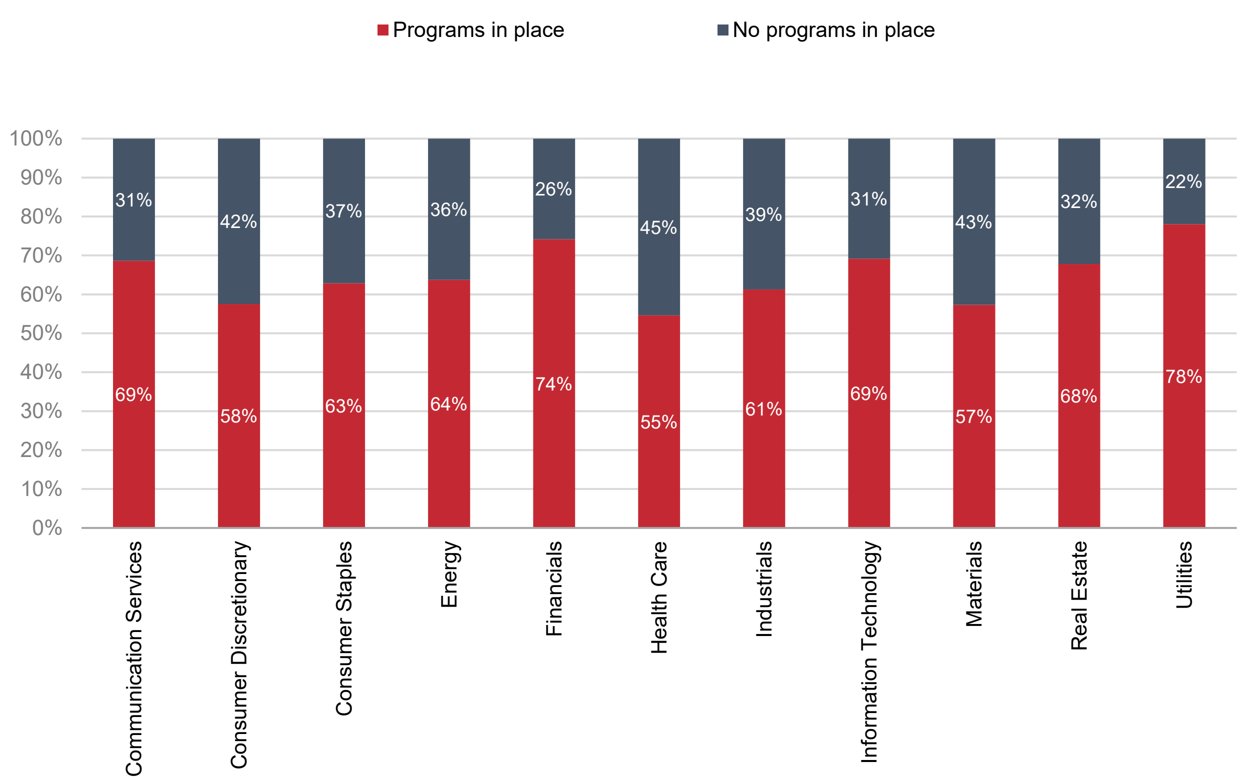


Figure 142 shows the percentage of disclosure on the programs newly added in 2023 CSA, namely Sport & Health Initiatives and Workplace Stress Management, by sector. The importance of these programs to many companies' talent attraction and retention strategies has been growing since the COVID-19. As shown in Figure 140 above, they are two of the most reported programs.

The graph shows variation in how these sectors report on the new topics, which focus on employees' health and wellbeing. In general, data shows that most companies have Sport & Health Initiatives in place ahead of Workplace Stress Management programs. It is possible that most companies are still in an early stage of implementing Workplace Stress Management programs and preparing to report on them. For example, while the Utilities sector has Sport & Health Initiatives (51%) in place more than the other sectors surveyed, only 32% of the Consumer Discretionary sector reported having these initiatives in place.

Interestingly, the Financials sector had performed well on all the three questions being analyzed. The sector had high disclosure on employee engagement survey, employee appraisal process, as well as employee support programs.

Figure 142
Percentage of Companies with sport & health initiatives and workplace stress management programs by sector

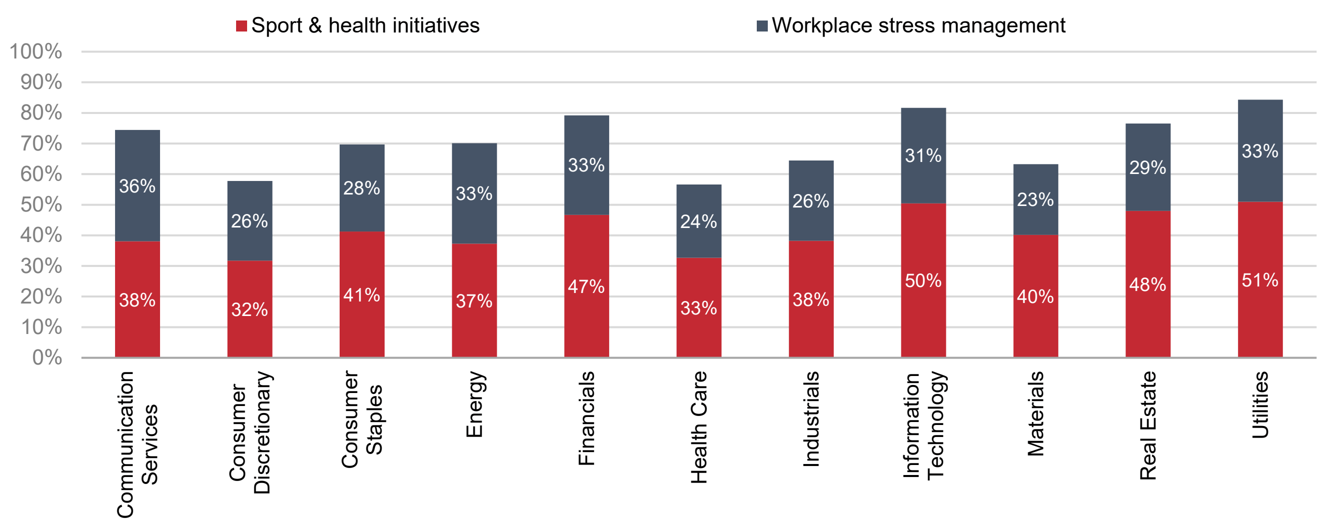
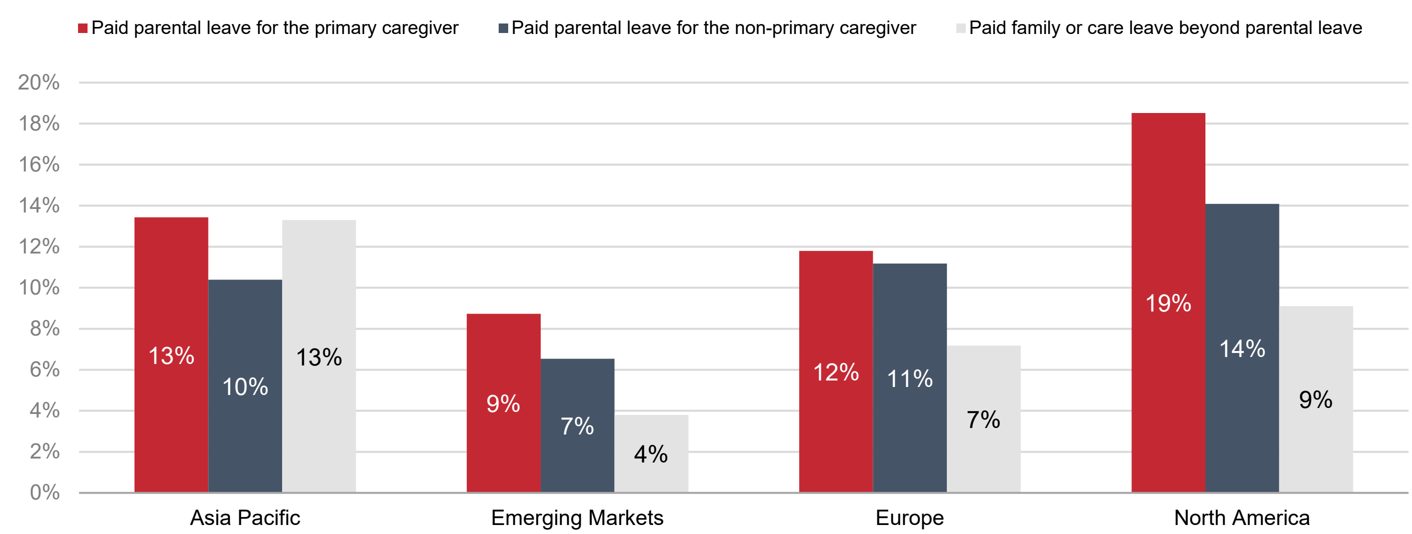


Figure 143 shows the percentage of companies providing three different types of family benefits, by region (regardless of number of paid leave in weeks reported). Notably, North American companies reported on paid parental leave for the primary and non-primary caregivers the highest. Companies from the Asia Pacific region have the highest percentage of disclosure on paid family or care leave beyond parental leave. Emerging market[5] countries have the lowest percentage of disclosure on family benefits across all three types. Family benefits are one of the areas where the variation in the responses could be due to minimum legal requirements in different jurisdictions.

Figure 143
Percentage of Companies Disclosing on Family Benefits at Region Level



[5] Our analysis is based on DJSI Region Code which covers North America, Europe, Asia Pacific, and Emerging Markets. Emerging markets include Brazil, Chile, China, Egypt, India, Indonesia, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, South Africa, Taiwan, Thailand, and Turkey.

05
Outlook 2024

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 2024,

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 2024, 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 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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