standard ethics

Solicited Sustainability Ratings

GUIDE TO

Explaining Unsolicited Ratings

ESSENTIALS

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ABOUT THIS GUIDE

This guide is designed to provide an understanding of the issue of unsolicited ratings.

This guide:

1. Helps explain when and why unsolicited ratings are issued.
2. Provides an overview of the analysis methodology.

BACKGROUND

In the last two decades, new elements – such as communication technologies and Internet – have created open and transparent financial markets, participated by growing segments of non-professional investors (through funds and pension funds or trading platforms). The result of this is greater attention to extra-financial issues, tangible and intangible, with repercussions at the level of trust and new assessments on the quality and long-term durability of listed financial products, whether related to companies (stocks / bonds / green bonds) or institutional issuers (such as government bonds).

Today, regulated markets, although they can be fallible and volatile, have evolved and are proving to be the most important and independent system in order to assess the long-term sustainability of many human activities.

The conclusion of Standard Ethics is that we are facing the end of the classic financial era, focused exclusively on economic variables, and we need a new classes of ratings: the Solicited Sustainability Ratings (SSR).

Standard Ethics issues **Solicited Sustainability Ratings** (SSR) and, in some cases, **Unsolicited Sustainability Ratings**.

WHY UNSOLICITED RATING

Standard Ethics, in order to update Indices or to create them, **can issue unsolicited ratings**.

The issue of unsolicited ratings follows the same methodology adopted to issue the solicited ones, but, in this case, Standard Ethics examines only public documents and is not able to furnish analysis reports.

SE Indices are a benchmark to measure, over time, the appreciation in financial markets of the principles and guidelines from the European Union, the OECD and the United Nations on sustainability, corporate governance and corporate social responsibility issues.

The methodology of selecting the components and the weights are public and easy to understand. In fact, the indices are freely usable as a benchmark in CSR and SRI, as reputational risk indicators and also be compared against their market cap based counterparts.

UNSOLICITED RATING METHODOLOGY

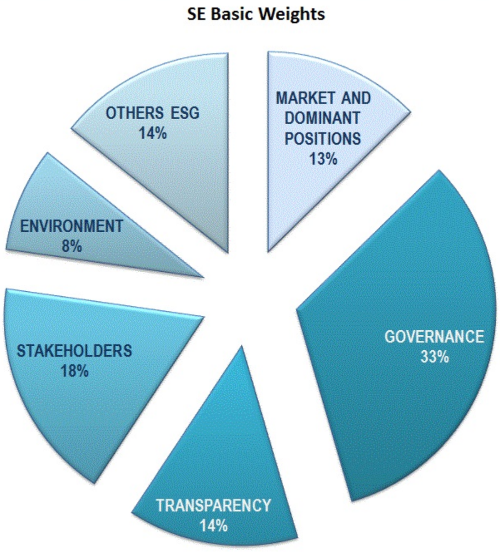
Gathering the necessary information to issue ratings to listed companies is carried out by analysing the official documentation published by the companies themselves or through publicly available documents, documents issued by the judicial authorities, investigations as well as governmental, EU, OECD and UN reports and other materials.

In principle Standard Ethics hopes that in their Articles of Association companies formally refer to the Universal Declaration of Human Rights approved by the United Nations on 10 December 1948. Standard Ethics also hopes that, in general terms, companies have adapted their structures according to UN, OECD and EU regulations on Corporate Social Responsibility (with particular reference to corporate governance).

The evaluation of listed companies performed on the basis of the above-mentioned general principles tends to favour those companies which, overall, abide by the following five Ethical Standards:

1. They must not be a monopoly or be part of a monopolistic cartel;
2. They must have capital, divided into shares, which is not bound by rules and pacts and can be freely acquired or transferred;
3. They must have an ownership subject to appropriate voluntary models for risk control and reduction of conflicts of interest;
4. They must have all their board members and management team independent of the ownership of the company and subject to a Code of Conduct supervised by an in-house control body which ensures transparent activities and limits conflicts of interests;
5. They must have a procedure aimed at verifying that their direct investments and the investments made on behalf of third parties comply with international standards which are recognised to be the most up to date from a social and environmental point of view, that is to say that they pay attention – with adequate in-house codes of behaviour – to the processes followed for the procurement of raw materials, production and distribution of goods and services, and which are based on the utmost integrity and which respect the Universal Declaration of Human Rights approved by the United Nations on 10th December 1948 and the main international rules which supplement and specify such Declaration.

Further positive elements are: transparent staff selection (including managers); an independent internal monitoring body (liaising with the Shareholders' Meeting and working at Board level) to check that the Board works in line with the latest UN, OECD and EU standards and principles on conflicts of interest and Corporate Governance; an independent internal monitoring body (e.g. the Audit Committee) which is



accountable to shareholders and monitors that the Board works in line with the latest UN, OECD and EU standards and principles on extraordinary accounting and finance; an internal body which reports and facilitates the company's adherence to the latest international social and environmental standards and principles; an external relations and communications department which works in line with the latest standards and principles on CSR and transparency and applies with due independence the "comply or explain" principle whereby failure to comply with international guidelines on CSR has to be duly motivated.

Apart from exceptional cases, Standard Ethics does not ask listed companies to provide information because it assumes that they regularly supply all the necessary information and data to their shareholders and the market to enable them to judge their business.

HOW STANDARD ETHICS RATINGS ARE DISCLOSED

Standard Ethics does not publish **Solicited Standard Ethics Ratings** because they belong to the Applicant that can decide whether to disclose it or not.

Standard Ethics publish **all Standard Ethics Ratings** of listed companies that are **components** of the Standard Ethics Indices, whether they are solicited or unsolicited.

Standard Ethics follows standard procedures to disclose the ratings. The release of new ratings, downgrades and upgrades are communicated through **press release** and when **stock markets** are **closed**.

MANAGING POTENTIAL CONFLICTS OF INTEREST

Similarly for credit rating agencies, critics here point out that both models have the potential for conflicts of interest since the entities paying for the rating, investors and companies, may attempt to influence the ratings opinion.

In order to mitigate that, Standard Ethics has taken a number of steps to protect against potential conflicts of interest when paid by applicants.

These measures include, for example, a clear separation of function between those who negotiate the business terms for the ratings assignment and the analysts who conduct the analysis and provide the ratings opinions.

Another safeguard is the **rating committee** process that limits the influence any single person can have on Standard Ethics ratings opinions. The role of the committee is to review and assess the analyst's recommendation for a new rating or a ratings change as well as to provide additional perspectives and checks and balances regarding adherence to the agency's ratings criteria. Standard Ethics client business managers, who respond to applicants' ratings requests and deal with commercial matters such as pricing, contract negotiations, and maintaining client relationships, do not participate or vote in rating committees.

A further safeguard is the appointment of the **Compliance Officer** that has access to all documentation of the Company she/he deems necessary to carry out his controlling and supervisory role and can independently report likely conflicts of interest.

Finally, the **Board of Directors** (complying with the international guidelines on diversity of nationality, professional skills and gender equality) establishes clearly defined policies and procedures. To ensure maximum level of independency, the Board is not involved in the issuing rating process but appoints the compliance officer and the rating committee.

Solicited Sustainability Ratings

Sustainability in Governance & Policy

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Important Legal Disclaimer.

Solicited Ratings are assigned on a Client's request through a direct and regulated bilateral relationship.
Unsolicited Ratings are issued through official press releases only and for statistical or scientific purposes. Currently, to update Indices, as well as OECD countries ranking (including Brazil, China, Russia, India, South Africa, Egypt, Romania, Argentina, Bulgaria and Vatican City).

By issuing a solicited or unsolicited Ratings, or publishing Indices, Standard Ethics Ltd does not supply financial, legal, tax or investment consultancy. The opinions and analyses by Standard Ethics Ltd are not, even indirectly, invitations or solicitations to purchase or sell securities or to make investment decisions. Under no circumstances will Standard Ethics Ltd be liable for damages to, loss, or reduction in the value of shares of companies following or as a result of its analyses, its Indices or Ratings.

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The Standard Ethics Rating, if there are no others indications, is valid for twelve months from the date of issue. Standard Ethics reserves the right to modify, suspend or revoke at any time and irrevocably a previously assigned Rating.

The **SER** can be renewed by requesting annual visits by Standard Ethics' analysts without having to start the entire assignment procedure again. Unless updated, the **Rating's** validity ends on its natural expiry date, at which point the Client loses the right to use and publicise the Rating.
The final decision on changes to, or suspension or revocation of, the **Rating** will be communicated to the Client in writing and in a confidential manner. There will also be a request to bear the changes, suspension or revocation in mind in related company communications if the SER had been made public. If the Client does not adequately publicise the changes to the public **SER**, Standard Ethics reserves the right to make the changes, suspension or revocation known.