Scorecard

FTSE4Good

About FTSE4Good

COVERAGE OF COMPANIES

7,200 securities

FOCUS

ESG ratings and investment index design

LAUNCH DATE

2001

LINK:

https://www.ftserussell.com/data/sustainability-and-esg-data/esg-ratings
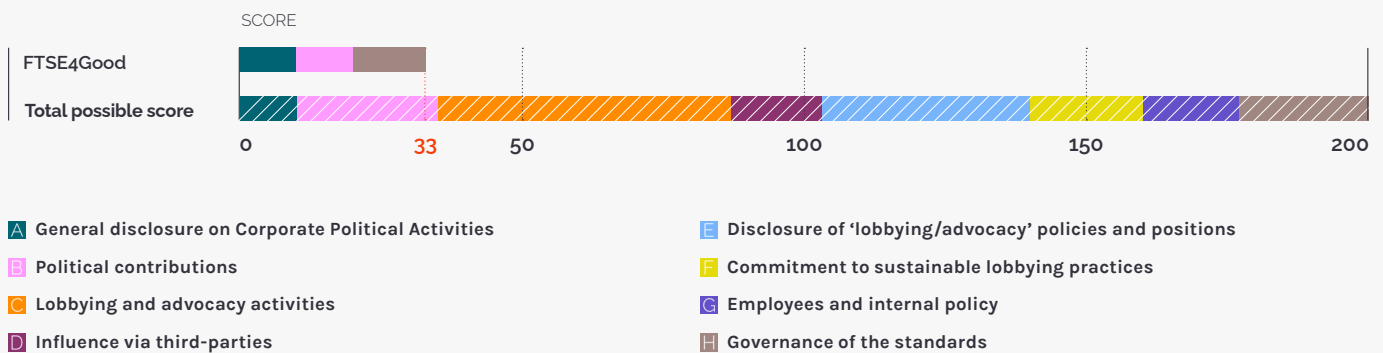
FTSE4Good
Score

Tracker Rank and Score for FTSE4Good

The score is out of a total of 200 and the rank describes the standards position in the 27 standards assessed by the Tracker.
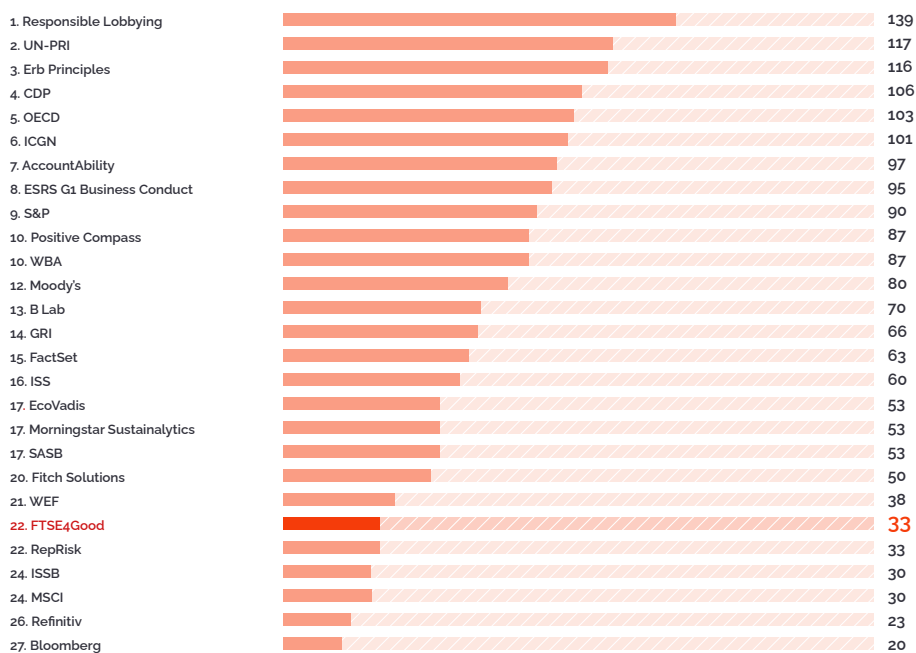
33 /200
Score

Rank 22 /27

Category scores of FTSE4Good

SCORE

FTSE4Good	
Total possible score	

0   33   50   100   150   200

A General disclosure on Corporate Political Activities
B Political contributions
C Lobbying and advocacy activities
D Influence via third-parties

E Disclosure of 'lobbying/advocacy' policies and positions
F Commitment to sustainable lobbying practices
G Employees and internal policy
H Governance of the standards

*Categories where the standard received no points do not appear in the colour-coded graph

Rank and scores for all standards

Standard	Score
1. Responsible Lobbying	139
2. UN-PRI	117
3. Erb Principles	116
4. CDP	106
5. OECD	103
6. ICGN	101
7. AccountAbility	97
8. ESRS G1 Business Conduct	95
9. S&P	90
10. Positive Compass	87
10. WBA	87
12. Moody's	80
13. B Lab	70
14. GRI	66
15. FactSet	63
16. ISS	60
17. EcoVadis	53
17. Morningstar Sustainalytics	53
17. SASB	53
20. Fitch Solutions	50
21. WEF	38
22. FTSE4Good	33
22. RepRisk	33
24. ISSB	30
24. MSCI	30
26. Refinitiv	23
27. Bloomberg	20

Description

The FTSE4Good index series, launched in 2001, uses transparent metrics of environmental, social and governance (ESG) performance to select its constituents, incentivizing companies to improve their sustainability practices. The index series is linked to FTSE Russell's company ESG Scores and data model, designed to allow investors to understand a company's exposure to, and management of, ESG issues across multiple dimensions. FTSE Russell ESG Scores are intended to inform investment decisions and dialogue with investee companies by investors who are interested in integrating Score into their investment decision making process. FTSE Russell's ESG Scores are used to determine the constituents of the FTSE Blossom Japan Index Series as well as the FTSE4Good Index Series.[1]

The FTSE4Good index data family covers around 7,200 securities in 47 developed and emerging markets, and covers all of the constituents of the FTSE All-World Index, FTSE All-Share Index and Russell 1000 Index.[2] FTSE Russell's ESG company research relies only on publicly disclosed information. FTSE does not send questionnaires to companies, but rated firms are provided with a four-week window to review and share additional public information. Sustainable Investment data analysts review this feedback and determine if a change in assessment is warranted. According to FTSE Russell, its ESG scores and data models allow investors to more fully understand a company's exposure to, and management of, ESG issues in multiple dimensions. The overall analysis is built on over 300 individual indicator assessments that are applied to each company's unique circumstances to inform a rating.[3]

The company ESG Scores are an overall Score that is made up of a series of underlying Pillars and Theme Exposures and sub-Scores. The Pillars and Themes are built on over 300 individual indicator assessments that are applied to each company's unique circumstances. The company ESG scores are intended to assist investors in managing exposure to ESG aspects; help investors meet their mandated stewardship requirements; integrate ESG data into securities and portfolio analysis; and implement ESG-aware investment strategies.[4] The FTSE Russell ESG Data Model aims to assess corporate 'ESG exposure and performance', both in terms of measuring the impact of the scored entity on the external environment (e.g. through theme and pillar Exposures) and measuring the scored entity's risk exposure or resilience to ESG-related risks (e.g. through pillar and theme Scores).[5]

Data used to calculate FTSE Russell ESG scores is gathered from publicly available sources at the entity level, including corporate reports, websites and press releases. Such data sources are backward-looking, focused on the most recent financial year for the company, but can include forward-looking elements including climate transition plans and targets for the management of ESG issues. Companies are assessed once a year within each research cycle, which runs from June to the following March. For each of the 14 Themes,[6] a company is categorised as having an exposure-level that is High, Medium, Low, or Negligible/Not Applicable (N/A), depending on how relevant and material the Theme is to the company. The Exposure categorisation is carried out for each company applying a rules-based methodology to assess the Theme materiality.[7]

Score summary

The FTSE4Good score of 33 out of 200 points reflects the methodology's narrow focus on regulated lobbying activities and associated public reporting in their ESG analysis. The FTSE4Good 'ESG Model' which is used to guide the data collection and analysis process incorporates elements of lobbying and political influence. The FTSE methodology receives points in Tracker assessment Category A, related to basic disclosure of lobbying spending, in jurisdictions where this is required by law, and for providing mechanisms for feedback on its methodology. On certain issues and product-based themes, such as Breast Milk Substitutes, FTSE considers political lobbying within a 'Customer Responsibility' thematic analysis. But this approach is *ad hoc* and not consistent across much larger industry segments where lobbying and policy engagement is core to business outcomes. Finally, the scheme receives points in Tracker Category H, 'Governance of the standards,' for being open to feedback on their methodology from users and rated companies.

Opportunities for improvement

Most of the analysis on corporate political activities in the FTSE4Good framework focuses on anti-corruption policies or purely financial metrics related to the disclosure of political contributions, where these are required by national regulations. Requesting more granular and decision useful disclosures on corporate political spending, including in-kind contributions, would be one significant area for improvement.

For example, at present the FTSE methodology requests disclosure of "total political contributions made." This information is not disaggregated by jurisdiction, or by thematic focus of spending. The FTSE4Good analysis does not seek to identify the motivation behind a company's political contributions and intended outcomes, missing an opportunity to more fully capture the risks and potential opportunities associated with this conduct. Investors need this information to have a complete and accurate view of company intentions and intended outcomes of political finance expenditures.

On the upside, the FTSE approach could also earn additional points in the Tracker Category F 'Commitment to sustainable lobbying practices' by adding an assessment of a company's participation in positive lobbying efforts. These basic elements are missing in the FTSE analysis. Given the importance of all types of political spending, Tracker Category B, 'political contributions' could provide a useful guide to FTSE analysts to gather more complete information on this important aspect of corporate political activities. A more consistent methodology would strengthen the use case for existing users of FTSE data and could help to build more robust investment index products. As with the other large financial data providers who also construct and sell investment index products, FTSE is well positioned to enhance the transparency, consistency and completeness of their ESG data methodology by incorporating elements of the Tracker categories in their process.

Endnotes

1   https://www.lseg.com/content/dam/ftse-russell/en_us/documents/policy-documents/ftse-faq-document-ftse-russell-esg-scores-and-indices.pdf

2   https://www.ftserussell.com/data/sustainability-and-esg-data/esg-ratings

3   'Sustainable Investment Data Recalculation Policy and Guidelines:' https://research.ftserussell.com/products/downloads/Recalculation_Policy_and_Guidelines_Equity_Indexes.pdf

4   https://www.lseg.com/en/ftse-russell/esg-scores

5   https://www.lseg.com/content/dam/ftse-russell/en_us/documents/policy-documents/guide-to-ftse-and-third-party-esg-data-used-in-ftse-russell-indices.pdf

6   There 14 Themes include 5 Environmental, 5 Social, and 4 Governance components: (a) Environmental (Biodiversity; Climate Change; Pollution & Resources; Supply Chain: Water Security; (b) Social (Customer Responsibility; Health & Safety; Human Rights & Community; Labor Standards; Supply Chain; and (c) Governance (Anti-corruption; Corporate Governance; All Risk Management; Tax Transparency)

7   https://www.lseg.com/content/dam/ftse-russell/en_us/documents/policy-documents/guide-to-ftse-and-third-party-esg-data-used-in-ftse-russell-indices.pdf