Annual Scoring & Methodology Review
Corporate Sustainability Assessment 2020

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Introduction

Purpose of this document

This document provides

- The major changes to the 2020 CSA methodology and shares
- Observations on how companies performed on these new topics.
- Explanations of the rationale behind the changes made.

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

As in previous years, we will be hosting a series of webcasts on the newly introduced questions. Our sustainability experts will discuss this year’s findings and answer questions from companies. Register to participate or watch a webcast replay.

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

Methodology Review Approach

Each year, following the announcement of the CSA results of the previous assessment, the CSA is reviewed.

- **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.
Methodology Updates Summary

For the 2020 CSA, we continued to align our methodology not only with our own research of the most financially material topics, but also with widely accepted sustainability reporting frameworks such as GRI, SASB, and CDP. This helps to streamline the questionnaire, improve clarity and data consistency, and address the growing reporting burden faced by companies. Of course, we also introduced new questions to further challenge companies on emerging risks and opportunities.

The major updates to the methodology in 2020 impacting a large number of companies were in the area of

1) Information Security, Cybersecurity & System Availability,
2) Privacy Protection,
3) Sustainable Finance,
4) Innovation Management,
5) Packaging,
6) Product Stewardship
7) Genetically Modified Organism
8) Addressing Cost Burden.

The first four updates are centered within the economic dimension and are critical to sustainability discussions around the world as new initiatives, frameworks, and opportunities emerge, and as legal risks materialize. The latter three represent a significant contribution to the environmental dimension, reflecting upon the transformation of consumption and the life-cycle of products. Lastly, Addressing Cost Burden tackles an important social question of easing the access to care and ensuring healthcare efficiency.
Clarified Expectations of Public Disclosure

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

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

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

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

Data Quality

Sustainability data is increasingly being used by investors to measure the impact of their investments. To provide meaningful sustainability data and enable better-informed investment decisions, data needs to be precise and comparable.

Therefore, we adapt our data definitions as global reporting measurement and reporting standards develop. We would like to remind companies that the quantitative data provided must meet the definitions given in the question information texts. Any deviations from these established definitions must be clearly explained in the comment field.

It remains essential that companies each year

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

Please make sure that data is reported

- in the specified units given in the question, and
- any conversions to these units are performed correctly.
Reporting and collecting high-quality sustainability data is the critical first step towards ensuring that ESG information becomes more widely accepted and used by the investment community. If you have any inquiries or doubts regarding data operationalization, please do not hesitate to contact our dedicated helpline: csa@spglobal.com

**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, and
- be in line with the exact question asked
- **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.
- Be brief and to the point. Please make sure 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 a 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 make sure that the attached documents and public references (weblinks) are necessary and relevant for the analyst to understand your response to each question asked.

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. Therefore, we rely on clear translations and summaries of foreign-language texts to verify your answers and supporting evidence provided, as stated in our Language Policy.
Industry Ranks

In addition to the absolute criterion score, companies receive a (percentile) ranking for each criterion.

As the CSA methodology is continuously being developed and question and criterion weightings may shift over time, the percentile and absolute ranks are a useful tool to track performance against industry peers. Indeed, it shows the relative performance rather than the absolute performance of the company.

Companies invited and assessed for the Dow Jones Sustainability Indices also receive a percentile ranking. The percentile represents the percentage of assessed companies that have received an equal or lower score than your company. For example, if a company has a percentile ranking of 95 for a specific criterion, this means that the company scored higher than 95% of the companies in its industry.
Scoring Methodology Updates

In 2020, like every year, we have reviewed the question- and criterion-level weights for all 61 industries that we cover. This enables us to increase the focus on industry-specific material issues and truly capture the industries’ heterogeneity. Sector-specific indicator weights are applied to their respective ESG dimensions. The indicators are reviewed each year based on their financial materiality within each industry and prioritized according to their expected magnitude and the likelihood of their impact on corporate value drivers: growth, profitability, capital efficiency, and risk.

**Question Scoring**

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

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

**Criterion Scoring**

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

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

**Weights**

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

**Scoring Variations**

**TRANSPARENCY/DISCLOSURE VS. PERFORMANCE SCORING**

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

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


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

**PUBLIC VS. NON-PUBLIC INFORMATION**

In several of the questions, we ask that companies 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. Previously, a company’s performance over time was measured solely based on the company’s relative or absolute improvement.

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.

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**Table 1: Overview of Scoring Types**

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<th>Scoring Type</th>
<th>Description</th>
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<td>• Human Rights Disclosure</td>
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<td></td>
<td>Availability of Qualitative or Quantitative information</td>
<td>• Largest Contributions and Expenditures</td>
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<tr>
<td></td>
<td>Scoring of Qualitative or Quantitative data based on pre-defined thresholds or expectations</td>
<td></td>
</tr>
<tr>
<td>Performance</td>
<td>Trends scoring on a company’s own performance over time</td>
<td>• Operational Eco-Efficiency</td>
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<tr>
<td></td>
<td>Linear peer-group scoring</td>
<td>• Lost Time Industry Frequency Rate</td>
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<td></td>
<td></td>
<td>• Employee Turnover Rate</td>
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Source: S&P Global
Major Methodology Updates

Information Security/Cybersecurity IT System Availability

Criterion Rationale

Due to the current digitization trend, including but not limited to cloud computing, online marketplaces, and payments, access to the network, IT systems, and data must be always assured. As a result, lower than agreed upon system performance or service disruptions can result in higher costs and reputational risk for companies. The main risks stem from technical failure, human error, malicious attacks, or terrorist attacks. Managing such risks, including contingency plans, is crucial to ensuring business continuity.

Over the past decade, the number of information security breaches has been growing exponentially. The many incidents and their related costs have shown that information security/cybersecurity has become a financially material issue that has to be managed diligently to protect corporate value. The costs of cybercrime are manifold and can impact the company in different ways:

- **Internal costs** are operational costs and relate to dealing with cybercrime and incident prevention.
- **External costs** include the consequences of the cyber-attack such as the loss or theft of sensitive information, operations’ disruption, reputational risk, fines and penalties, infrastructure damage, or revenue losses due to a decreasing number of customers.

The criterion focuses on how well companies are prepared to prevent major information security/cybersecurity incidents and if they can react appropriately in case of an attack. It also evaluates whether companies have experienced information/cybersecurity incidents in the past and what the financial consequences were.

Criterion Update

We updated the layout of the questions to allow for more nuanced disclosure.

The criterion is now applicable to all industries.

Additionally, the question on “IT Infrastructure Incidents” has been added to the Banks and Diversified Financial Services and Capital Markets industries to assess the number of recorded incidents and their financial impact on companies in the past fiscal year.
Figure 1 shows the average Information Security/Cybersecurity & IT System Availability criterion scores of participating companies organized by sector. This criterion was newly added to companies in the Energy, Materials, and Real Estate industries in 2020, which explains why they do not have scores for 2019. As of 2020, this criterion now applies to all industries in the CSA. From 2019 to 2020 there is a general increase in scores across all industries, except Communication Services and Consumer Staples, indicating greater preparedness among most companies regarding information security incidents. Companies in the financial and utilities continue to outperform the other sectors.

Figure 2 shows the average Security/Cybersecurity & IT System Availability criterion scores of participating companies organized by region. For Africa and Asia Pacific, the average criterion score decreased, while for Europe and North America scores remained constant across the years. In light of methodology updates for 2020, this indicates that European and North American companies continue to make steady progress, while those in Africa and Asia Pacific have not adapted to increasing expectations regarding cybersecurity. The largest change from 2019 to 2020 is seen from Latin America, indicating their ability to demonstrate and evidence their cybersecurity measures.
INFORMATION SECURITY/CYBERSECURITY GOVERNANCE

Question Rationale
Just as boards are charged with overseeing a company’s financial systems and controls, they also have a duty to oversee a company’s management of cybersecurity, including oversight of appropriate risk mitigation strategies, systems, processes, and controls. In this question, we explore whether the company is aware of information/cyber-security risks on the highest level of management, more specifically the board of directors, and among senior-level executives. Thus, this question aims to determine whether the company has the appropriate governance systems in place to prevent IT system failures and major information security/cybersecurity incidents.

In the first part of this question, we expect companies to be able to evidence that their board of directors holds relevant cybersecurity experience by naming and citing the relevant background of this member. Relevant experience includes technical experience with IT and could be experience with IT implementation or having IT responsibilities as a senior executive of a company.

Question Update
We have updated this question to include the relevant board members’ membership in a committee that oversees the cybersecurity strategy. In this way, we can assess whether cybersecurity risks are treated as strategically relevant.

Figure 3: Information Security/Cybersecurity & IT System Availability – Do companies have a Board member with relevant experience that is responsible for overseeing the cybersecurity strategy?

![Graph showing the percentage of companies with board members responsible for cybersecurity by sector. Communication Services and Consumer Discretionary are leading sectors, while Energy and Materials are lagging.]

Figure 3 illustrates the percentage of companies that have a board member with relevant experience overseeing cybersecurity strategies by sector. Companies in information technology and financials are clear leaders among the other sectors – with close to 20% of companies reporting that they have a board member with relevant IT experience. Energy, Materials, and Real Estate are laggards in the graph likely since they are newly exposed to the question. Furthermore, this may be explained by the reduced number of high-profile cybersecurity incidents in these industries. In other words, these sectors have not fallen prey to the same extent of cybersecurity risk as their counterparts in other industries such as Financials or Information Technology. Overall, the percentage of companies who have board members with relevant experience is low, and as a result, signals the need for greater cybersecurity oversight and governance.
**Question Update Continued**

We have also expanded this question to ask about cybersecurity oversight at the senior executive level. The best practice would be to have a Chief Information Security/Chief Security Officer (CISCO/CSO) who is responsible for establishing and maintaining the organization's strategy and ensuring information assets and technology are well protected. These senior-level executives must have the necessary leadership, operational, and strategic skills to understand such risks.

*Figure 4: Information Security/Cybersecurity & IT System Availability—Do companies have an executive committee member responsible for overseeing cybersecurity?*

![Graph showing percentage of companies with executive members responsible for cybersecurity by sector.]

*Figure 4 illustrates the percentage of companies that have an executive committee member responsible for overseeing cybersecurity by sector. The figure shows that around a third of companies have either a CISO/CSO or a CTO/CIO responsible for overseeing cybersecurity. Like Figure 3, companies in the Financial sector score above average suggesting greater alertness regarding information security. However, most companies do not have a senior-level executive responsible for cybersecurity which pinpoints a gap still to be addressed.*

**INFORMATION SECURITY/CYBERSECURITY BREACHES**

**Question Rationale**

Whilst the question above centers on the relevant information security experience of board members and the executive committee, this question targets companies’ track record of handling cybersecurity risks over the previous three fiscal years. In addition to the number of breaches the company has had in this period, the question simultaneously explores the financial impact of these breaches. The latter part of the question assesses how this financial risk is mitigated through insurance coverage. We expect companies to be able to disclose the number of breaches and fines for the past three years, for which best practice would be zero. Furthermore, given the increasing threat of cybersecurity across these industries, we expect companies to have insurance coverage for such breaches or cybersecurity incidents.
Question Update

In 2020 we asked companies to also report on the total number of customers affected by a company’s data breach if they had experienced a breach.

Figure 5: Information Security/Cybersecurity Breaches—Percentage of companies that experienced breaches of information security or other cybersecurity incidents in the last four years.

Figure 5 shows the percentage of companies experiencing cybersecurity breaches from 2016 – 2019 across sectors. Communication Services, Consumer Staples, and Financials show on average the highest percentage of breaches in the last four years. Across most industries the number of breaches has remained static or decreased from 2018 to 2019 – this, however, is not the case for Communication Services or Health Care companies. This highlights the increased protection measures companies have taken to minimize cyber risks, but for the Communication Services sector, it shows there is still work to be done.

Privacy Protection

Criterion Rationale

With data often called the “new oil” and considered a valuable commodity, powering the technology economy in the same way petroleum fueled the 20th-century industry, data privacy is rapidly becoming a key issue not just in the technology sector but more broadly across many industries. Data is one of the most important assets a company has, making data protection a top priority for any company. For this reason, companies continue to invest in people, processes, technology, and policies to meet customer privacy requirements and avoid significant fines and reputational risk as data breaches can expose personal information. As a result, customers are asking more questions about how their data is captured, used, transferred, shared, stored, and destroyed.

Privacy protection is the ability of an individual to exercise a substantial degree of control over the collection, use, or disclosure (transfer) of their personal information by others. Ensuring that customer data is held
safely is regarded as a minimum requirement that involved stakeholders expect of companies they deal with or invest money in. Adequate data governance builds trust. It safeguards the reputation of the business and establishes a company’s brand as one that people can trust with their data. Thus, networked data and globalized corporate activities require careful handling. Insufficient database and network protection, unclear management of personal information, and vague database access rules could expose companies to large risks in case of personal data leakage and misuse, or unauthorized access. For companies to avoid legal costs, reputational risk, and exclusion from certain activities, a company-wide privacy policy is paramount.

**Criterion Update**

The *Privacy Protection* criterion has been expanded to more industries given the increasing prevalence and importance of the topic. The criterion now covers 32 of the 61 industries, up from 29 industries in 2019. The layout of the questions has been reviewed to allow for clearer disclosure.

*Figure 6: Privacy Protection: Average Criterion Scores by Sector*

*Figure 6 illustrates the change in average scores per sector for the Privacy Protection criterion. In 2020, we expanded this criterion to companies in the Automobile, Electronic Equipment, and Semiconductor Equipment industries (within the Consumer Discretionary and Information Technology sectors). From 2019 to 2020 the scores have considerably decreased. This change reflects the increased emphasis on disclosure and public reporting, as well as an increase in the scope of questions covering privacy policy systems and customer information.*
Figure 7: Privacy Protection: Average Criterion Scores by Region

Figure 7 illustrates the change in average scores per region for the Privacy Protection criterion. Just as in figure 6, in this graph, we see a decrease in scores from 2019 to 2020. The greatest drops are seen from companies in Africa and Asia Pacific. On the other hand, Latin American companies did not experience such a significant drop calling attention to the region’s ability to disclose and publicly evidence their systems, policies, and procedures.

**PRIVACY POLICY SYSTEMS/PROCEDURES**

**Question Rationale**

With more networked data and global corporate activities, companies require more diligent information handling. A strong security stance and implementation of a comprehensive privacy policy are the most effective measures that companies can deploy to mitigate the significant costs of remediating a data breach.

Therefore, this question asks for evidence of requisite mechanisms to ensure that companies' privacy policies are effectively implemented. We ask and expect companies to include the following:

- responsibilities and reporting lines systematically defined in divisions,
- evidence the privacy policy system is embedded within group-wide risk/compliance management,
- disciplinary measures in the event of a breach and
- an audited privacy policy that applies to the whole operations including suppliers.

**Question Update**

The question layout was reviewed for clearer disclosure.
CUSTOMERS’ INFORMATION

Question Rational

Transparency and control both play a key role in the question of Customers’ Information; when a company has transparent privacy practices and the customers have ample control over the use as well as sharing of their data and have the knowledge to make an informed decision about sharing their personal data.

This question focuses on transparency and asks about the coverage of the privacy protection measures taken to ensure transparency. The question incorporates aspects such as the nature of the information captured (e.g. opt-out option available), request for data to be deleted, and request to access data held by the company. Furthermore, the question continues to assess how this data is protected, and if the company has a third-party disclosure policy for private and public entities.

Question Update

We added a new question section on the use of data for secondary purposes, where we ask if companies disclose the percentage of users whose customer data is used for secondary purposes. In other words, the use of data by the company that is outside the primary purpose for which the data was collected.
Innovation Management

Criterion Rationale

Innovation is a key driver for the future success of companies. Innovation drives product, process, and organizational change. This notably leads to strong profitability and sales growth and allows companies to remain competitive in their respective markets. Innovation is a process that depends on a variety of factors such as knowledge, experience, and creativity and thus represents a concrete differential factor from competitors.

The Innovation Management criterion has been updated to give a wider approach to the innovation process. Indeed, instead of focusing solely on R&D spending, which is common practice, the criterion takes a multidimensional approach to this complex and strategic topic. The innovation process is usually defined by several phases, from innovation input to launch. The criterion assesses the entire project, from its initial steps, through its development (i.e., KPI, process management, etc.), to the finish line and the innovation output (i.e., success rate, return on investment, etc.). Thanks to this holistic approach, we can evaluate how companies structure, emphasize and measure their innovation process throughout the different phases.

The criterion applies to a selected number of industries for which the topic is particularly financially material and strategically relevant.

Criterion Update

The changes made only impact questions that are included in the questionnaire of the Biotechnology, Pharmaceutical, Life Science Tools & Services, and Health Care Equipment & Supplies industries.
Figure 10 allows for a comparison between the average scores obtained in the criterion in 2019 and 2020 across the different sectors. In both 2019 and 2020 companies in the Utilities sector have on average a higher score than other sectors, while companies in the Health Care sector score below average. For Utilities companies, this can be explained by the increasing emphasis in the industry on newer and greener technology (smart grids and smart meters) which demands that companies keep up with the latest innovation to stay competitive.

R&D BREAKOUT BY INNOVATION PHASE

**Question Rationale**

While R&D and innovation are relevant to the growth of most industries, they are of particular importance to the healthcare industry. Not only does it allow healthcare companies to remain competitive, but it also answers to fundamental human health needs. Investing in R&D, at each phase of the innovation process, is necessary to achieve the desired breakthrough and success.

**Question Update**

In 2020, the R&D Breakout by Innovation Phase question has absorbed four different questions following our commitment to shorten the length of the CSA. In just one table, companies can import the percentage of the R&D spent in each step of the innovation process, the average duration of each phase, and the percentage of success rate.
**Sustainable Finance**

**Criterion Rationale**

Financial institutions have an essential role to play in addressing sustainability challenges, facilitating the transition to a low-carbon economy, and stimulating sustainable development. In identifying and addressing growing environmental challenges and the associated risks, financial institutions can benefit by leveraging their expertise in financial innovation. The opportunity to offer new financial instruments allows financial institutions to develop new revenue streams and build trust amongst stakeholders.

The principal focus of this criterion is to look at the approaches companies are taking to integrate ESG into each of their business segments and to identify ESG products and services across all business operations (Retail Banking, Investment Banking, Asset Management, Security Exchanges, Underwriting, Insurance).

To capture the role of financial institutions in addressing global sustainability challenges, the Sustainable Finance criterion was introduced in 2019 for Banks, Diversified Financials, and Insurance companies. Given the diverse nature of financial companies, companies are requested to answer only those questions which are relevant to their business, provided that the business units account for more than 5% of the company’s overall revenue. The exception to this threshold is for companies that engage in large-scale project financing. The questions focus on

1) the integration of ESG for each business segment, and
2) the ESG products and services offered by each company’s business units.

Each of the questions in this criterion awards additional points to those companies that have the information to these questions publicly available.
**Criterion Update**

The entire Sustainable Finance criterion has been slightly modified. The criterion was re-assessed based on additional research and simplified to allow for a better understanding of the questions. For all the Products and Services questions, we have modified the layout to allow companies to breakdown their ESG products and the corresponding volumes that these products represent, whereas in 2019 these were reported as aggregates.

*Figure 12: Sustainable Finance – Average Criterion Scores by Industry*

Figure 12 illustrates the average performance of companies in the three industries for which this criterion is applicable. Of the three industries, Insurance companies have the highest average score both for 2019 and in 2020. This is followed by the Diversified Financial companies, and then by Banks. For each industry, the scores have decreased from 2019 to 2020. This is perhaps reflective of the updates made to the sustainable finance questions to gather a more holistic view of ESG measures for financial companies.
**Figure 13: Sustainable Finance – Average Criterion Scores by Region**

Figure 13 illustrates the average performance of companies in the Financial sector across regions. European companies have the highest scores both in 2019 and in 2020, which is partly reflective of greater sustainability-focused regulation – for example, the EU Taxonomy – which pushes for companies to disclose not only financial metrics but measure progress against sustainability targets. Companies in Africa and Latin America also witnessed an increase in scores. Latin American companies especially are making large strides to catch up with their European counterparts.

**INTEGRATION OF ESG CRITERIA IN PROJECT FINANCE**

**Question Rationale**

Project Finance is the financing of long-term, and typically large scale, projects such as industrial projects and/or public services. Financial institutions are expected to have standardized procedures in financing or providing services to large projects with high potential social and/or environmental impacts. Moreover, as providers of capital, financial institutions are increasingly coming under scrutiny and pressure from civil society with regards to their project finance, export finance, and trading finance activities. Therefore, this question asks whether companies have an ESG framework for their project finance business.

The question looks specifically at the Equator Principles, a risk management framework used for determining and managing environmental and social risks among large-scale projects. However, other ESG frameworks – whether external or internal – are also accepted in this question.

Furthermore, this question also asks whether compliance with the chosen ESG framework is monitored and whether companies can disclose the deals reviewed.

**Question Update**

The first questions in the Sustainable Finance Criterion ask companies to select key sector activities in which their company is active in. Sector active should be selected when at least 5% of revenues pertain to that business activity. However, in 2020 we have removed this threshold for project financing activities. We believe that this is more representative since companies active in project finance should incorporate ESG criteria in their projects, regardless of the extent of their involvement.

In addition, this year companies have the option to disclose other internal and/or external ESG frameworks that they use for their project financing activities, instead of the Equator Principles.
Figure 14: Integration of ESG in Project Finance – Companies that align with/have an ESG Framework

Figure 14 shows the percentage of companies that align with or have an ESG framework. In 2019 most companies reported that they were a signatory of the Equator Principles. However, this decreased to around 38% percent in 2020. The decrease is likely because in 2020 more companies were able to answer this question since the 5% revenue threshold was lifted. In 2020 the option to disclose on another external/internal ESG framework was added which accounted for around 23% of companies that are active in financing large-scale projects.

INTEGRATION OF ESG CRITERIA IN ASSET MANAGEMENT

Question Rationale

Moving towards a sustainable finance model means that all business segments of a financial institution are expected to consider ESG aspects in their operations. ESG integration in Asset Management is a critical component for financing a greener economy. The purpose of this question is to assess how financial institutions integrate ESG aspects into their asset management business. This question asks for the Responsible Investment (RI) approach and related policies for companies active in the asset management business. In this question, companies are expected to:

1. Provide evidence that the company’s investment policy contains ESG aspects.
2. Specify the ESG aspects of the company’s responsible investment policy (see figure 15).
3. Indicate the asset classes covered by the company’s responsible investment policy.
4. Indicate the coverage of the company’s responsible investment policy as % of the total assets under management.

Question Update

In 2020 we added the Integration of ESG Criteria in Asset Management question, which will mirror the Integration of ESG Criteria for Asset Owners but will allow companies to comment on managed assets. This year this question has been updated to include a table that depicts the internally managed company’s assets which are covered by the company’s Responsible Investment (RI) policy. Furthermore, the question now asks if third-party managed assets are covered by the RI policy.
**Figure 15: Integration of ESG in Asset Management – ESG aspects included in companies’ Responsible Investment (RI) policy**

Figure 15 shows the percentage of companies that cover specific ESG aspects in their RI policy. As seen in the figure above, around half (52%) of the companies have formalized guidelines on ESG factors – meaning that companies refer to the structural integration of environmental, social, and governance factors alongside traditional financial considerations. However, fewer companies cover the other elements highlighted in the graph. This demonstrates that there are opportunities for companies to create policies that are more aligned with principal ESG aspects.

**Figure 16: Integration of ESG in Asset Management – Responsible Investment Policy Coverage**

Figure 16 illustrates the percentage of assets under management covered by a responsible investment policy. As seen above, most of the companies do not have a RI policy. However, for those companies that do have a RI policy, either all assets or most assets are covered.
ESG PRODUCTS AND SERVICES IN ASSET MANAGEMENT

Question Rationale

The latter questions in the Sustainable Finance criterion cover ESG products and services for the different business units’ companies may have. In this section, we look at the ESG products and services in the asset management business.

Question Update

We have changed the layout of the question to enable companies to break down their ESG products and the values that they represent. Therefore, companies are asked to provide their differentiated products and services, as well as the percentage of responsible investment products relative to the total AUM in the asset management section.

Figure 17: ESG products and services in Asset Management – Average score across industries

![Graph showing ESG products and services across industries]

Figure 17 shows the average score across industries for ESG products and services in asset management. In 2020 all scores dropped relative to 2019. Similar to overall criterion level scores (see Figure 12) Insurance is above average relative to the other Financial industries.

Genetically Modified Organisms

Criterion Rationale

The use of GMOs in products remains controversial and is not desirable if the risks associated with the use of such products outweigh the benefits derived from them. Despite a regional discrepancy in the acceptance of GMOs, it is clear GMO risks are still for a large part unknown. For example, the environmental impacts of GMO-crops on natural ecosystems are still a pending question. This means that the risks and benefits of GMOs need to be assessed and weighed by companies. Establishing and following a comprehensive GMO policy, traceability systems, and labeling is essential to maintain consumer trust, offer choices to consumers, and minimize the risks of future liabilities.

Criterion Update

The criterion has been reviewed to focus on both GMO related risk identification and mitigation or management measures introduced by companies to limit these potential risks. Following this logic, the criterion has been divided into three questions, which in turn look at the company’s GMO exposure, the company’s public statement on GMOs, and the percentage of revenues derived from GMO products. This criterion currently applies to a limited number of industries: Beverages, Food & Staples Retailing, Food Products, and Restaurants Leisure Facilities.
Figure 18: Genetically Modified Organisms – Average Criterion Scores by Industry

Figure 18 reflects the average score obtained in the “Genetically Modified Organism” criterion for the different industries to which this was added in 2020. The discrepancy between the Restaurants & Leisure Facilities industry and the other industries may be due to the plurality of their activity. The proximity to the production line could also explain why it might be more difficult for restaurants and leisure facilities to provide the relevant information to answer adequately to the question. On the other hand, the score shows that companies in the Beverages, Food & Staples Retailing, and Food Products sectors are more able to report on their exposure and use of GMOs.

Figure 19: Genetically Modified Organisms – Average Criterion Scores by Region

Figure 19 shows the difference between regions in the average score received for the criterion. There is an important difference to note above between Europe and the other regions. The large gap between Europe and its counterparts can be explained by the relatively negative perception of GMOs in most European countries whilst it is more accepted notably in North and Latin America.
**GMO STATEMENT**

**Question Rationale**
Considering the complex and evolving landscape around GMOs, companies are expected to be transparent and publicly disclose their stance towards the GMOs. In this question, we assess whether the company has a public statement on GMOs. This statement should state whether the company produces or uses GMOs in their raw materials and/or in their production process. For companies using GMOs in their products, we also ask that the company’s statement clearly reports on and evaluates the potential risks of GMOs, and states whether the company labels all products that contain GMOs.

**Question Update**
We simplified this question in 2020 to allow for a clearer focus on whether companies have a public statement on their use of GMOs.

*Figure 20: GMO Statement – Average score per industry*

![Graph showing average score per industry](image)

*Figure 20 shows the average company score for the question GMO Statement per industry. In 2020 Restaurants and Leisure Facilities were newly included for the GMO criterion – which explains the relatively low score for these companies compared to companies in the Consumer Staples sector. For Consumer Staples, companies in the Food & Staples Retailing industry score the highest, with companies in Beverages and Food Products scoring just below.*

**GMO REVENUES**

**Question Rationale**
Understanding the percentage of revenue from GMO products is crucial to ascertaining exposure to GMOs, and the potential risks involved with GMOs. This question assesses the potential risk from revenue exposure of companies to GMOs, where GMO revenues act as a proxy for potential risk exposure. High exposure to GMOs represents a potential risk profile of the company in the case that regulation becomes stricter or the sensitivity of the consumer towards GMO’s increases.

**Question Update**
Similarly to the GMO Statement question, we simplified the layout and disclosure for companies in 2020 by focusing solely on the percentage of total revenues that came from GMO related products. GMO revenues can be calculated by subtracting the percentage of non-GMO revenues from total consolidated revenues.
**Figure 21: GMO Revenues – Average score per industry**

Figure 21 shows the average score for the question GMO Revenues per industry. Note that this question does not apply to Restaurants and Leisure Facilities, which explains why their score is not visible on the above figure. On average companies in the Beverage industry score noticeably higher than those in the Food & Staples Retailing and Food Products industry. Their higher score demonstrates less exposure to GMOs reflected through their revenues and consequently less exposure to potential risks related to GMOs.

**Packaging**

**Criterion Rationale**

Companies’ packaging strategies have attracted in the past few years greater attention than ever before from a wide variety of stakeholders and consumers. Not only does packaging represent an important component of the cost structure of many companies, but it also contributes significantly to their overall environmental impact. Innovative packaging strategies can help companies to reduce their environmental footprint and lower their costs. To be effective the strategy needs to foresee a possible cut in the amount of packaging used. The strategy should also consider the entire life cycle of the packaging, from substituting more environmentally friendly packaging materials to providing recycling or take-back systems to avoid landfill waste. Moreover, companies receive increasing regulatory pressure to use alternative materials and recycled content. This implies that companies that have already adopted a robust packaging strategy would have a long-term advantage over competitors who would need to catch-up to fulfill the legal requirements.

**Criterion Update**

This criterion has been reviewed to assess whether companies’ packaging strategies include environmental considerations and risk factors related to unsustainable packaging practices. The first question, Packaging Commitments, look at the programs in place to measure the packaging issue, and find adequate solutions. The second question, Packaging Material, focuses on the components of the packaging. Using recycled or certified material is an important factor in lowering the environmental impact of the product in its wider life cycle. Finally, the third question addresses plastic packaging, a topic that continues to attract the attention of companies’ stakeholders and consumers.
**Figure 22: Packaging – Average score per sector**

Figure 22 highlights the average criterion score per industry. Please note it is only applicable to the industries shown above in the graph. As the Industrials sector only gained this criterion in 2020, there is no 2019 data available. In the graph above, we can see that Consumer Staples are leading the way when it comes to packaging, with an average score of 22, followed by Industrials scoring 15 and lastly Consumer Discretionary averaging a score of 13.

**Figure 23: Packaging Commitments – Average score per region**

Figure 23 allows for across comparison between the 2019 and 2020 criterion scores for the different regions. It appears that all regions have experienced a score decrease. Even, Europe that scored on average above 60 points in 2019 is now considerably below the 50-midpoint. The criterion has been considerably reviewed in 2020 and has become more challenging to reflect the increasing importance of the topic.
PACKAGING COMMITMENTS

Question Rationale

To create a packaging strategy, the first key step is to create a policy defining the commitments. Then, based on these commitments, it is possible to establish the needed programs to achieve the goals in line with these commitments. This is essential to foresee the future of packaging in the company. Therefore, this question sheds light on the different elements which constitute a company’s strategy as part of their commitment. Please note we expect this information to be available in the public domain.

Stakeholders and consumers are increasingly paying attention to the product’s packaging. Having a publicly available commitment enables a clear response to stakeholders’ societal and environmental concerns. To answer the question, companies select the information, systems, or programs which are currently part of their commitment and strategy.

Question Update

In 2020 the question was expanded to better capture companies packaging commitments. The various commitments included in the question can be seen below.

![Figure 24: Packaging Commitments – Environmental aspects companies integrate into their packaging strategies](image)

Figure 24 outlines the aspects that have been taken into account by companies in their Packaging Commitments. 90% of companies are currently not allocating R&D resources to improve their packaging solutions. This result correlates with the small percentage of companies that have introduced programs to use more recycled material (25%), to guarantee that recyclable packaging is being recycled (20%), to reduce packaging (25%), or to increase reusable packaging (21%). It is undeniable that packaging has become a topic of concern within society, however, establishing a sustainable and progressive strategy on the matter does require some time and considerable effort for companies. Incremental progress across the years is thus to be expected.
PLASTIC PACKAGING

Question Rationale
Out of the various materials which may be used for packaging, it has become clear that excessive use of plastic must be reduced or at least reconsidered. This is further highlighted as international agencies and institutions progress with regulatory change. For example, the Plastic Investor Working Group (PRI) consists of 29 global investors, representing USD 5.9 trillion in assets, is committed to addressing this issue.

Initiatives such as the PRI and others make it essential for companies to find solutions to fix plastic pollution within their sustainability frameworks. In this question, we ask companies to report their volume of plastic packaging for the past four years and disclose details on the type of plastic that is used for this packaging (i.e. recyclable, compostable, etc.).

Question Update
This was a new question in 2020.

Figure 25: Plastic Packaging – Percentage of companies across industry sectors that can track performance concerning plastic packaging.

Figure 25 summarizes the percentage of companies that monitor their year-on-year progress of plastic packaging and thus were able to respond to this question. 9% of Consumer Discretionary companies were able to monitor their tonnes of plastic packaging used annually, 19% of Consumer Staples companies, and 12% of Industrials companies. These figures are in line with the current commitment reported by companies as shown in Figure 24 as the large majority of companies could not respond to the question.
Product Stewardship

Criterion Rationale

Product stewardship has become a major concern for stakeholders. This topic intertwines environmental concerns, risks, and opportunities. The integration of sustainable practices into the development of new products reflects an understanding of sustainability challenges. Yet, it also demonstrates the company’s ability to capitalize on market opportunities and minimize market risk at the product level. Additionally, product stewardship processes add value to products by minimizing the risk of harm both to people and the environment, thereby reducing potential liabilities.

The questions in the criterion strive to uncover the numerous layers of the topic.

They outline the various elements of the Life Cycle Analysis (LCAs), from product design, maintenance, take-back schemes, reuse in manufacturing processes, customer information, and initiatives to promote product stewardship amongst stakeholders. Thanks to this approach, the impact value of the product can be assessed globally. It covers the assessment of the environmental impact of the product before conception, the materials used for the product, the resource efficiency benefit of using the product, and the waste management of the product.

Criterion Update

The questions edited this year were Use of Recycled and Sustainably Sourced Materials and Hazardous Substances.

Figure 26: Product Stewardship – Average Score per Industry Sector

Figure 26 summarizes the average score of the Product Stewardship criterion by industries. It allows for a comparison between the 2019 and 2020 scores. The graph shows that product stewardship remains a tough topic for companies, as no industry sector increased their score in 2020. While the Consumer Discretionary sector remained almost stable, the Consumer Staples and Information Technology saw a drop in score.
USE OF RECYCLED AND SUSTAINABLY SOURCED MATERIALS

Question Rationale
This question requires the company to indicate the volume used of the different types of materials in their packaging. Companies can also indicate the percentage of these volumes of materials which are recycled or certified material. Using recycled material or material from sustainable sources decreases the overall environmental impact of packaging. Through this question, we assess a company’s strategy to manage this sourcing.

Question Update
We changed the table layout to ask for the total weight and the relative percentage of each type of material that comes from recycled and/or certified material. Moreover, to monitor the progress, a column for the yearly target was added.

Figure 27: Use of Recycled and Sustainable Sourced Materials – Percentage of companies tracking materials used

Figure 27 highlights the type of packaging used by companies. Wood is currently the material used by the greatest number of companies (35%) while plastic and metal are tied (25% of companies use these materials).
HAZARDOUS SUBSTANCES

Question Rationale
With the Hazardous Substances question, we are interested in observing the company’s exposure to hazardous substances as per international standards, and how the potential risks induced by their products are being reviewed. In other words, the question asks whether companies measure and monitor the risks of hazardous substances in their products. The 2020 methodology change impacted the Hazardous Substances question which is divided into two parts. The first part addresses the company’s revenue derived from products containing hazardous substances. It asks for the percentage of the company’s products (in terms of revenues) containing restricted substances in the Registration, Evaluation, Authorisation, and Restriction of Chemicals (REACH) Regulation and the Candidate List of substances of very high concern (SVHC). The latter part strives to verify if the company’s products undergo a risk assessment which takes into consideration their impact on the environment and human health.

Question Update
This question was altered this year to ask for companies’ revenues from hazardous substances rather than the percentage of products from hazardous substances. Furthermore, we newly asked companies to report what percentage of products had undergone a risk assessment and a public link to this assessment.

Figure 28: Hazardous Substances – Percentage of companies that disclose the percentage of their products that have substances in REACH, SVCH, and risk assessment conducted by sector.

Figure 28 shows the percentage of companies in the Consumer Staples and Materials sectors which have been able to provide an answer to the different parts of the Hazardous Substances question as described above. The figures’ variation does not differ largely between the two sectors. Nonetheless, it reflects that under 35% of companies track their products containing hazardous substances and perform any form of risk assessment of their portfolio.
**Addressing Cost Burden**

**Criterion Rational**

Due to aging populations and the rise of chronic diseases, healthcare costs in developed countries are skyrocketing. Healthcare companies are expected to contribute to alleviating the strain on healthcare systems and resources. Governments, society, and other stakeholders are carefully scrutinizing the companies' efforts to lower costs and increase healthcare efficiency. Companies that demonstrate a willingness to actively participate in this essential societal project not only build trust amongst stakeholders but are also more likely to adapt to new regulations faster than their competitors.

This criterion is composed of three questions that enable us to assess the different facets of the issue. The Fair Pricing question aims at observing if companies measure and manage their net/list price inflation across their product portfolio.

**Criterion Update**

The question *Fair Pricing* has been shortened. It now only asks for the year-on-year percentage change in the average list price and the average net price across the company’s entire portfolio. The other two questions, Contribution to Increasing Healthcare Efficiency and HTA Support of Value Proposition have not been changed.

*Figure 29: Addressing Cost Burden – Average score per industry*

*Figure 29 shows a 2019-2020 comparison of the total score of the criterion Addressing Cost Burden for the Biotechnology and Pharmaceuticals industries. This year the score decreased for both industries with an average score of 7 for the Biotechnology companies and 15 for the Pharmaceuticals companies. This discrepancy may be explained by the change in the Fair Pricing question. This question now solely focuses on the weighted percentage change in average list price and average net price across the U.S. product portfolio.*


**FAIR PRICING**

**Question Rationale**
By controlling the net/list price inflation across the product portfolio companies face less pushback from payors and can positively contribute to balancing healthcare budgets. Companies answer this question based on their U.S. product portfolio and under the condition that their US sales account for more than 10% of their total sales.

**Figure 30: Fair Pricing – Percentage of companies able to track their average list price and average net price across their U.S. product portfolio**

![Bar Graph](image)

*Figure 30 highlights the percentage of companies that track and therefore were able to report their year-on-year price change for their US portfolio. Companies that did not report because they do not have any sales or less than 10% sales in the US are not included in the above graph. Therefore, this shows that very few Biotechnology and Pharmaceuticals companies currently have a system in place to track their net/list price inflation across their product portfolio.*
Outlook 2021

We continuously develop our methodology to ensure that our CSA remains an insightful and meaningful tool to benchmark your company against your peers. For 2021, 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 2021, 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. Simultaneously, we will continue to ensure that through the CSA we continue to raise the bar on ESG reporting, driving more transparency and disclosure, and helping to educate companies and investors on the financial materiality of ESG topics. Our assessment methodology remains focused on integrating ESG trends that are deemed financially material and assessing companies on their performance and preparedness on ESG issues. We endeavor to make the CSA more focused, more financially relevant, and more differentiated.

We look forward to engaging with you via this year’s 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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