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Refinitiv enhances ESG Scoring Methodology to reflect sustainable industry developments and market changes

Refinitiv ESG scores now more data driven than ever, addressing three main industry challenges of Materiality, Transparency Stimulation, Size Bias, allowing investors and companies more objective industry peer-comparisons.

NEW YORK/LONDON, April 15, 2020 – Building on its commitment to connect and empower the global financial community through data and analytics, Refinitiv today announced key enhancements to its ESG scoring methodology. Refinitiv ESG scores are now more data driven than ever, accounting for industry-based materiality weighting of metrics, with minimal company size and transparency biases, allowing investors and companies to more objectively conduct industry peer-comparisons.

Refinitiv ESG scores are designed to transparently and objectively measure a company's relative ESG performance, commitment and effectiveness across 10 main themes (emissions, environmental product innovation, diversity and inclusion, human rights, shareholders, etc.) based on publicly-reported data. The enhanced ESG scores are a uniquely effective way to assess materiality across industries, while serving as an objective, impartial and trusted assessment of the importance of each ESG theme to different industries.

Refinitiv ESG scoring methodology enhancements were made in consultation with market participants (sustainable finance professionals at institutional investment firms, academics, regulators, and investment banks) through discussions about sustainable investing and what is required to encourage and accurately reflect the integration of ESG data into investment strategies. Following a series of industry roundtables, along with 4-years of market feedback, Refinitiv ESG scoring methodology enhancements were designed to ensure they are keeping up with rapid market changes and developments in the sustainable investing industry.

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Leon Saunders Calvert, Head of Sustainable Finance, Lipper & I&A Insights, Refinitiv, said: “We are delighted to now bring a deeper level of sophistication to facilitate company comparison whilst maintaining the transparency and objectivity that always defined our approach to treating ESG as fundamental data. Market changes and rapid developments in the sustainable investing industry reflect a level of growing maturity and sophistication that warrants these adjustments. Refinitiv’s core principle of company scoring remains in place – that scores are based on relative performance of ESG factors. Refinitiv is not opining about what “good” looks like - we let the data determine this - but our criteria and data model have been enhanced to accommodate an objective approach to materiality and transparency stimulation.”

“Working in collaboration with market participants ensures that we solicit the most insightful ideas that address the challenges and opportunities that enable the widest possible adaption of ESG principles,” added Saunders Calvert.

The three key enhancements to the Refinitiv ESG scoring methodology are:

Materiality Matrix

Refinitiv enhanced ESG scores further takes into account that not all metrics have the same importance to every industry. The Refinitiv ESG magnitude matrix is developed as a proprietary model and is applied at the category level. Importantly, the magnitude values are automatically and dynamically adjusted as ESG corporate disclosure evolves and matures.

For Boolean metrics, levels of data disclosure can act as a proxy for investor driven pressure on company reporting. Levels of disclosure inform the relative ‘weight’ of data points for each industry. For measurable numeric metrics, we use our data to determine which sectors contribute most and the proportion of the contribution to the total is used as a proxy for the level of materiality for that sector. For example, the more a given sector contributes to carbon emissions, the more material are carbon emissions data points to companies in that sector. Refinitiv proprietary “magnitude matrix” assesses materiality, showing the weight, from 1 to 10, of data points for each industry.

Transparency / Investment grade scores

The previous ESG scoring methodology allocated a score of 0.5 to companies which didn’t report on metrics, essentially giving them the ‘benefit of the doubt’. However, as this may disincentivize companies to report on their ESG performance, the enhanced methodology assigns a score of zero to companies who don’t report on metrics relevant to the industry. This new approach encourages company disclosure and transparency.

Company size bias

When calculating controversies scores for companies we take into account company size. Larger market cap companies are reported on more in the news than smaller companies due to their scale of operations. We have introduced a market cap factor which puts more weight on small companies than large companies.

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Refinitiv ESG data is designed to help investors make sound, sustainable investment decisions, our ESG data covers nearly 70% of global market cap and over 400 metrics. For more information about Refinitiv ESG data, visit <https://www.refinitiv.com/en/financial-data/company-data/esg-research-data>

About Refinitiv

Refinitiv is one of the world's largest providers of financial markets data and infrastructure, serving over 40,000 institutions in approximately 190 countries. It provides leading data and insights, trading platforms, and open data and technology platforms that connect a thriving global financial markets community - driving performance in trading, investment, wealth management, regulatory compliance, market data management, enterprise risk and fighting financial crime. For more information, visit: www.Refinitiv.com.

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