GLOBAL INITIATIVE
FOR
SUSTAINABILITY RATINGS
(GISR)

Principles
Version 1.1

February 2015

www.ratesustainability.org

For questions concerning this document,
please contact principles@ratesustainability.org

Contact: principles@ratesustainability.org

TABLE OF CONTENTS

GLOBAL INITIATIVE FOR SUSTAINABILITY RATINGS (GISR)
Principles
Version 1.1

PART 1
INTRODUCTION

The Global Initiative for Sustainability Ratings (GISR) is a non-profit organization that seeks to drive transparency, excellence and uptake of sustainability (ESG) research, ratings, rankings and indices[1] (hereafter "ratings") applied to company and credit analysis. GISR, launched in June 2011 as a joint project of Ceres and Tellus Institute, is a participant in a family of kindred initiatives aimed at making financial and other markets agents for achieving a just and sustainable future.

As a global, multi-stakeholder initiative, GISR's vision is to promote a principled, comprehensive and balanced approach to achieving sustainability ratings excellence that provides clarity and value to investors, companies, rating organizations (ROs) and consumers. Toward this end, GISR is building a world class ratings framework and ancillary activities—collectively a "Center of Ratings Excellence"—that will contribute to a redefinition of long term corporate value creation that rewards the preservation and enhancement of all forms of capital—human, intellectual, natural, social and financial. Through a multi-faceted engagement strategy, GISR will collaborate with financial market players to achieve its mission and, in the process, open new horizons for understanding opportunities and risk in companies worldwide.

This Version 1.1 of the GISR Principles follows Version 1.0 released in December 2013. In the current version, the 12 Principles remain unchanged. Substantial changes to the introductory sections and minor changes to the explications associated with each principle serve to align language with GISR's strategic and programmatic changes since the release of Version 1.0. The changes are based on feedback from the investor, company and rating communities during 2013. In 2016, GISR expects to reissue the Principles in the form of Version 2.0 following a thorough assessment of the user experience and feedback from an extensive public comment period along the lines described in the Public Consultation section of this document.

Background

The year 2012 marked the 20th anniversary of the seminal United Nations Conference on Environment and Development (UNCED). Many of the Earth's vital signs—environmental, social and economic—are perilously fragile. Ecosystem destruction continues with minimal abatement. Climate volatility is intensifying. Human and labor rights are under assault in many countries. Although value shifts and technological advances promise to temper these ominous trends, the political will to undertake systemic changes is in short supply. The future prosperity of companies, investors and society-at-large hinges on aggressive efforts to address these threats to long-term human and ecological well-being.

The opportunity and urgency for business to elevate and accelerate its contribution to the global sustainability agenda has never been greater. Companies that embed sustainability into core business

[1] Research, ratings, rankings and indices are sometimes referred to as "R3Is."

strategy and practices are more likely to emerge as innovation leaders poised to prosper in the turbulent decades that lie ahead. A commitment to the preservation and enhancement of all forms of capital is prerequisite for long-term business success. To realize this outcome, a fundamental rethinking of the definition and measurement of corporate value is essential, supported by an infrastructure comprising frameworks, standards and tools that encourages a “race to the top” among companies worldwide. Ratings are one such instrument for driving this transformational change.

At present, more than 100 ROs offer more than 200 investor- and consumer-facing ratings products of companies. In addition, credit ratings, led by three major agencies, assess the worthiness of debt issue in relation to the probability of repayment of the obligation on time and in full. Among credit ratings agencies (CRAs), the language of “social risk,” “political risk” and “environmental risk” is akin to the content commonly associated with sustainability, though credit raters at this juncture have not systematically embraced the concept of sustainability in all its dimensions. As empirical research continues to reinforce a positive association between long-term financial and sustainability performance, CRAs may deepen their integration of sustainability content in their analysis of corporate credit.

From an investor perspective, ratings offer a potentially valuable instrument for assessing a company’s capacity to anticipate and manage opportunities and risks and their effect on long-term competitiveness, reputation, innovation, license to operate and cost of capital. From a company perspective, rigorous ratings provide a valuable benchmarking tool and vehicle for demonstrating leadership practices in ESG performance and a forward-looking management culture. From the perspective of ROs, meeting market needs and expectations through greater transparency, continuous methodological improvement and customized products promises to substantially expand business opportunities in the coming years.

Historically, investor-facing ratings have focused on publicly listed equities in developed nations. Ratings now are poised to make major inroads in emerging economies where private/group/sovereign ownership and/or control are the norm. In the future, these companies are likely to view trusted ratings as instruments for reputation enhancement, risk management and lower costs of capital. Meanwhile, the fields of “mission investing” and “impact investing” have spawned new forms of performance evaluation geared towards measuring corporate social value creation, exemplified by the Global Impact Investment Ratings System (GIIRS).[2] Instruments of this type will benefit from advancement of the ratings practices in general.

In short, the era of large public equities as the sole focus of ratings is fading. Analogous to the evolution of sustainability reporting that has spawned the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB)[3], the emergence of a multitude of ROs invites the formation of an independent, non-commercial entity that advances rating excellence for the benefit of long-term institutional investors, private equity funds and social investors with differing time horizons, appetite for risk and tolerance for volatility. GISR is designed for that purpose.

[2] http://giirs.org/

[3] https://www.globalreporting.org/Pages/default.aspx; http://www.theiirc.org/; http://www.sasb.org/

While financial markets remain a principal audience for sustainability ratings, consumer markets increasingly are attentive to the sustainability performance of the brands behind the products and services they purchase. Consumer-facing ratings applied to pharmaceutical, food, apparel and IT companies focus on issues such as access to affordable medicines; social and environmental conditions in the food supply chain; and privacy and freedom of expression in social networks. While GISR's primary focus is financial markets, its works also promise to drive excellence in consumer-facing ratings in the coming years.

Landscape

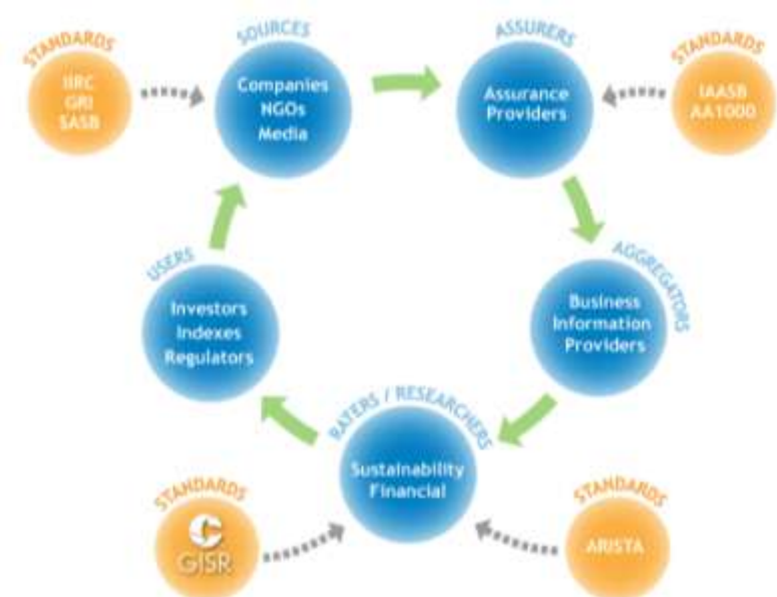
GISR is one player in the evolving suite of initiatives that are collectively shaping the evolving sustainability information value chain, a simplified version of which appears in *Figure 1*. It complements the reporting focus of GRI, IIRC and SASB in its position among three linked functional clusters that constitute the sustainability information value chain:

1. Information sources—e.g., companies, assurers, aggregators;

2. Information intermediaries—e.g., ROs; and

3. Information users—e.g., investors, indexers, regulators, companies.

FIGURE 1
SUSTAINABILITY INFORMATION VALUE CHAIN
(with selected participants)



The inner loop depicts the information flows from sources to intermediaries to users. Raw data from companies, after assurance and bundling by aggregators, are transformed into actionable information through the application of decision-support tools developed by ROs. Next, the output of such analytics informs the decisions of investors, indexers and regulators, among others. These, in turn, drive change in the companies' behavior and practices.

As in any system, impulses triggered by a change in any one link reverberate across all elements in the system. For example, better information from sources enables more rigorous ratings which, in turn, may induce companies to refocus their sustainability practices from one aspect of environmental performance to another, or from environmental issues to social issues. Of course, company and credit ratings are not the only driver of company behavior. But, if rigorously developed and impartially administered, they represent a powerful tool with the potential to move markets toward encouraging and rewarding sustainability performance excellence.

As one player in the information value chain, GISR is complementary to, but distinct from, others that focus on disclosure. Complementarity takes the form of linked functionality—disclosures are inputs to ratings—as well methodological alignment—rating methodologies are directly influenced by the data flowing from disclosure frameworks such as GRI, SASB and IIRC. In addition, the GISR Principles are informed by GRI's reporting principles, the multiple capitals framework advocated by IIRC and SASB, as well as NGO initiatives such as Ceres' Roadmap for Sustainability.[4] At the same time, GISR is distinct from the information supply-side orientation of these disclosure programs. GISR focuses on *how* disclosed information translates into rating analytics for assessing relative company and credit performance.

In the coming years, achieving a high performing ecosystem of initiatives will require collaboration with the three critical actors in the information value chain—companies, investors and ROs. A coordinated approach offers the most promising pathway to realizing the full potential of ratings to accelerate the integration of sustainability into financial markets worldwide.

Program Plan

Implementation of the GISR Framework, comprising Principles and an accreditation process, will evolve in tandem with a suite of related activities in the form of: a Hub comprising Profiles and a Registry of ratings worldwide; a Lab for company and credit rating experiments, innovations and pilot projects; and a Convening Venue offering a diverse range of educational, training and knowledge-sharing. (See *Figure 2: Center of Ratings Excellence (CORE) Program Components* on the following page.)

For the Principles-based Framework component, a multi-stakeholder process will oversee design of the voluntary accreditation structure to ensure the highest levels of integrity and expertise in evaluating the alignment of rating methodologies with the GISR principles. An Accreditation Working Group comprised of investors, companies and ROs will manage this process, leading to launch of the accreditation process in late 2015/early 2016. This voluntary process will be based on a set of criteria with which an accreditation body will assess a rating's alignment with the GISR Principles. The accreditation body will be governed in a form that ensures integrity and efficiency in all its activities.

The Hub will comprise a publicly accessible, searchable data base comprising data from Profiles that describe the key attributes of ROs, including their governance, staff capabilities, product offerings and related information. The Registry, searchable via a secure access system, will contain all Profile information plus supplementary data on the alignment of a rating's methodology with the GISR principles, thereby a precursor to the accreditation process for those ratings opting to pursue this action.

[4] http://www.ceres.org/roadmap-assessment/landing

FIGURE 2
CENTER OF RATINGS EXCELLENCE (CORE) PROGRAM COMPONENTS

Framework	• *Principles* • Accreditation • Periodic revision based on stakeholder feedback
Hub	• *Profiles* of ESG research and rating organizations • *Registry* comprising Principles-based information • Listing of rating products accredited to the GISR Principles • Searchable database of ESG research ratings industry • Reports and Publications
Labs	• Incubation of new ratings approaches and applications • Sector- and issue-based innovations • Advanced concepts in blending financial and sustainability ratings
Convenings	• Education and training for industry stakeholders • Special events, webinars and roundtables • Collaboration with industry groups and standards bodies

Labs, an essential component of GISR's effort to continuously advance the theory and practice of ratings, will focus on sector and issue specific projects, as well as breakthroughs in meshing sustainable and financial ratings into a next generation integrated framework. GISR will partner with companies, investors, ROs and academic experts in prioritizing and executing a broad range of labs in the coming years.

Finally, Convenings builds upon GISR's ongoing involvement in conferences, workshops and webinars to bring market players together for education and training events. These venues will serve to elevate the profile of the GISR Framework worldwide, including in emerging markets where rating activity is minimal but has significant potential to foster sustainable financial markets. Convenings will serve as outlets for disseminating the results of Labs, as well as vehicles for engagement of new ROs appearing in many emerging economies.

Public Consultation

GISR commits to a rigorous internal and external multi-stakeholder review of all aspects of its work. A typical process for major documents comprises the following:

Step 1. Internal development and oversight

GISR's interim governance structure comprises the Secretariat, Steering Committee (SC), Technical Review Committee (TRC) and Expert Advisor Council (EAC). All governance units are under review as of late 2014 in preparation for GISR's transition to independence as a stand-alone, non-profit global organization. However, the core elements of its commitment to robust public consultation will remain intact, along the lines it has historically pursued. The Secretariat drafts initial technical documents for presentation to the TRC. The TRC reviews and modifies content that the Secretariat integrates in preparation for SC review. Individual EAs periodically review portions of working documents connected to their areas of expertise. Working drafts are shared with ROs, companies and investors engaged with GISR at various stages of discussions. The SC, in consultation with the Secretariat, determines the readiness of interim products for public consultation.

Step 2. Public consultation

Draft products, including both Exposure Drafts and Beta Versions, are released for public comment and are accompanied by structured instruments to facilitate public comments. GISR strives to attract diverse and global feedback from all stakeholders. The Secretariat compiles and synthesizes comments for consideration by the TRC. The TRC recommends changes to interim work products, which the Secretariat implements. Revised products are transmitted to the SC for final review prior to release.

Step 3. Release of products and programs

As various products are released, GISR receives feedback from investors, companies, ROs and other stakeholders through formal, open feedback mechanisms. Where appropriate, GISR will issue interim guidance documents, supplemental protocols and related documents to ensure that ROs are able to optimize their activities.

As GISR's work program evolves in the coming years, the above review process will be adapted to ensure GISR's commitment to rigorous public consultation will continue without interruption or diminution.

PART 2
PRINCIPLES

Definitions Pertaining to Principles

1. Rating: A methodology, rules and/or procedures used to assess one or more aspects of the sustainability performance of a company. As shorthand in these Principles, "rating" includes ESG research, ratings, rankings and indexes.

2. RO (rating organization): Any entity, commercial or non-profit, that applies an evaluative methodology to ESG research, ratings, rankings and/or indexes. Rating products and services may be the exclusive, principal or minor activity of such an entity.

3. Corporate Sustainability: Stewardship and enrichment of multiple forms of capital—human, intellectual, natural and social, as well as financial—in ways that enhance human and ecological well-being for present and future generations.

Applicability

1. The Principles apply to any rating applied to companies in relation to, or based on, their sustainability performance.

2. The Principles apply to any rating, both existing and future, regardless of the RO's ownership structure.

3. The Principles intend to guide the development of ratings, as well as inform the decision-making of evaluated entities and rating users.

4. The Principles apply, with or without adaptation, to multi-issue (integrated), single-issue and sector-specific ratings.

Principles

The GISR Principles comprise two categories: *Process and Content* (Figure 3). Interpretive guidance follows each principle to explain its rationale and application. In addition, Appendix A provides the rationale and context for each Principle. GISR's accreditation policies and procedures will provide more details about the criteria by which a rating will be evaluated against each principle.

FIGURE 3
GISR'S 12 PRINCIPLES

Process	
Transparency	A rating should be transparent to those whose decisions are affected by the application of such rating.
Impartiality	The design and application of a rating, whose primary users are external to the evaluated company, should be protected from undue influence by such company.
Continuous Improvement	Through periodic update, a rating should track and integrate the best-available science, measurement techniques, issues and indicators.
Inclusiveness	Development of a rating should identify and systematically engage those stakeholders whose decisions are influenced by the application of the rating.
Assurability	A rating should be designed to allow for independent, third-party assurance that its application comports with the GISR Principles.
Content	
Materiality	A rating should assess performance based on sustainability issues relevant to the decision-making of stakeholders for which a rating is designed.
Comprehensiveness	Evaluating one or more aspects of sustainability performance should systematically assess for impacts on human, intellectual, natural and social capital.
Sustainability Context	A rating should assess performance in the context of science-based thresholds and limits, or, if unavailable, widely-accepted norms pertaining to long-term human and ecological well-being.
Long-Term Horizon	A rating should enable the evaluation of the long-term performance of a company while simultaneously providing insights into short- and medium-term outcomes in alignment with the long-term.
Value Chain	A rating should reflect all portions of a company's value chain over which the company exercises significant influence.
Balance	A rating should utilize a mix of measurement techniques to capture historical and prospective performance.
Comparability	A rating should allow users to compare the performance of the same company over time and of different companies within the same time period.

Process
Principles pertaining to the design, application and maintenance of a rating to ensure excellence, credibility and integrity

1. **Transparency:** A rating should be transparent to those whose decisions are affected by the application of such rating.

The Transparency Principle calls for a compact among parties that honors the need for companies, investors and other stakeholders to understand the rating, while respecting the need for justifiable intellectual property protection. A confidentiality agreement may provide sufficient protection in cases where a user seeks disclosure of core elements of intellectual property, e.g., the weightings and indicator combinations embedded in the methodology. When an RO believes confidential disclosure will adversely affect its interests, it should explain the basis for its judgment, pursuant to a "Disclose-or-Explain" process. In general, all ratings should be subject to a publicly available Transparency Policy that details what is disclosed, to whom and why.

The appropriate level of transparency involves trade-offs between credibility and trust, protection and competiveness. Too much transparency can undermine a critical element of the RO's business model, as well as suppress the incentive to innovate. Too little transparency leaves companies, investors and other stakeholders with inadequate understanding of the scores companies receive. Without adequate transparency, it is not possible to understand why performance assessment by the same RO fluctuates widely from year to year, or within the same year for the same company subject to multiple ratings.

2. **Impartiality:** The design and application of a rating, whose primary users are external to the evaluated company, should be protected from undue influence by such company.

The Impartiality Principle addresses the need for ROs to remain independent from evaluated companies in order to avoid the perception or reality of conflicts of interest that may affect the structure and application of the rating. Undue influence occurs when the integrity of the design and/or implementation of a rating is compromised, leading to deviations from sound analytics and biased outcomes misaligned with a given methodology. Pre-empting such a situation begins with transparency. ROs that market their products to third parties (investors, consumers and/or NGOs) should establish and publicly disclose a code of conduct that fully describes the nature of such relationships and the associated policies and procedures, even if names of specific companies are withheld for competitive reasons.

Even with such disclosure, however, stakeholders who seek an unequivocal detachment between RO and company may question the relationship between the two parties. Two remedies will mitigate this situation. First, ROs routinely should disclose any and all relationships, commercial or otherwise, with evaluated companies, as well as policies and procedures to ensure ratings remain untainted by conflicts of interest. Second, ROs should safeguard against conflicts by establishing a firewall between the rating unit and those units with a commercial relationship with an evaluated company. Historically, firewalls in financial markets have demonstrated imperfect results.

3. **Continuous Improvement:** Through periodic update, a rating should track and integrate the best-available science, measurement techniques, issues and indicators.

Decisions concerning continuous improvement should take into account at least two matters: clustering and disclosure. Clustering refers to the desirability of implementing multiple, significant changes at the same time, judiciously scheduled at regular, predictable intervals. Minor adjustments, defined as small departures from an existing practice, may occur more often. Clustering mitigates the problem of a "moving target" faced by investors, companies and other stakeholders—a situation that undermines a rating's utility, credibility and uptake.

Disclosure refers to timely reporting of improvements in methodology and content to companies, investors and other users. Alerting stakeholders in advance of improvements (the preferred option) or prompt notification when improvements have been implemented (the second-best option), as well as addressing the anticipated frequency of future changes, enhances understanding of shifts in rating outcomes over time. Also, explanations of changes in rating outcomes, e.g., percent of companies significantly upgraded or downgraded, allows users to calibrate the significance of a change. Alerting stakeholders well in advance of a methodological adjustment or addition/deletion of an issue, for example, serves as a valuable tool for stakeholder engagement. This communication, in turn, builds trust and credibility between ROs and their audiences.

4. **Inclusiveness:** Development of a rating should identify and systematically engage those stakeholders whose decisions are influenced by the application of the rating.

Engagement encompasses both the governance and technical aspects of the rating. Governance engagement implies an active and continuing role for stakeholders in supporting the development of a rating, in order to understand and consider the needs and priorities of its user community. Engagement in the technical aspects of the rating helps ensure continuous improvement by tapping the knowledge and insights of stakeholders that might otherwise be overlooked. Relevant stakeholders may include parties whose interests are directly affected by the rating, e.g., investors and companies, as well as those whose interests are affected by the sustainability performance of evaluated companies, e.g., employees, consumers and communities.

Stakeholder engagement takes many forms, including focus groups, surveys, workshops and advisory committees. Documentation of all approaches serves the dual purpose of informing continuous improvement and demonstrating to external parties that the rating considers their views.

Stakeholder engagement entails trade-offs. Deciding the optimal depth and breadth of engagement given limits to financial and human resources necessitates a balance between the scope of engagement, its frequency and the instruments used for information-gathering. Documentation and communication of these trade-offs helps strengthen credibility among users.

5. **Assurability:** A rating should be designed to allow for independent, third-party assurance that its application comports with the GISR Principles.

Assurance assumes a variety of forms and scopes, the details of which vary across countries and the professional assurance bodies that operate therein. Assurance by independent entities, and the attestation statements they prepare, should align with the objective of the exercise and the needs of user communities.

Users may seek evidence of suitable governance and oversight of the rating process, including data quality, documentation procedures and the expertise and objectivity of parties applying the rating. Examples of standards for assurance of some of these key process attributes are included in ARISTA 3.0, ISAE 3000 and AA1000.

Content
Principles pertaining to the scope, quality and measurement aspects of a rating

6. **Materiality**: A rating should assess performance based on sustainability issues relevant to the decision-making of stakeholders for which a rating is designed.

The basic materiality test for a rating is whether exclusion of an issue would significantly alter the decisions of a rating user. Materiality is not constant; it varies over time and across users, even within specific stakeholder groups. Variations over time reflect changing scientific knowledge, societal norms and the understanding of determinants of long-term business prosperity. Variation across user groups occurs even within individual constituencies. Among investors, for example, pension funds, private equity firms and impact investors may hold different views on the substance and/or weighting of specific environmental and social issues. Further, materiality is affected by the governance of environmental and social policies and laws that act to attenuate or amplify opportunities and risks affecting company sustainability performance.

Materiality assessment begins with mapping the universe of sustainability issues germane to a company's core activities. This assessment should encompass issues across the multiple capitals—human, intellectual, natural and social—that underpin the GISR Principles. Evidence of materiality may be found in multiple sources, including academic literature, company reports, the media and shareholder actions. Following this assessment is a prioritization of the universe of issues most likely to impinge upon stakeholder decision-making.

Evidence of both short-term and long-term performance is useful to this process. From the investor standpoint, for example, deficient sustainability management that leads to crises—major product recalls, environmental disasters, supply chain accidents and abuses—have both near-term effects on share price and long-term effects on reputation, in addition to the harms incurred by workers, communities and consumers. On the other hand, evidence that strong sustainability management systems both avoid and mute the adverse repercussions of such crises speaks to the interdependence of sustainability materiality and financial materiality. These assessments have both common themes and specific applications as evidenced, for example, by the different time horizons across asset classes.

Understanding these connections is in the interest of both ROs and the users they serve though, here again, the actions that may follow will vary even within a user community. For example, private and public companies, and private equity, retail and pension funds typically seek different information and apply different time horizons in managing assets.

Ultimately, the test of materiality is uptake by, and feedback from, the user community. When feedback from the market signals the need to add a new rating category or update an existing one, such changes should be executed judiciously in order to avoid undue volatility in rating outcomes and to ensure timely notification to users of impending modifications.

7. **Comprehensiveness:** Evaluating one or more aspects of sustainability performance should systematically assess for impacts on human, intellectual, natural and social capital.

In the course of conducting its business, a company inevitably preserves, expands or depletes various forms of capital. Within the constraints of user needs and resource requirements, a rigorous rating, whether integrated or issue-specific, should attend to these multiple capitals, even if its focus is more narrowly defined. From a systems perspective, changes in one form of capital in an organization are likely to trigger changes in others. Thus, even ratings specific to climate (natural capital-focused), living wages (human capital-focused) or community impacts (social capital-focused) should be attentive to linkages across the other capitals. To illustrate, competitive wages strengthen community well-being which, in turn, builds a more stable, productive and loyal workforce. Stewardship of a stressed aquifer in an arid region helps preserve a critical form of natural capital, which, in turn, reduces company-to-community friction (enhancing social capital) and builds the foundation for long-term job opportunities.

In practice, leading ratings already do this to some degree, even in the absence of an explicit reference to "multiple capitals." Issues and Indicators pertaining to carbon emissions, water use and biodiversity, for example, fall under the umbrella of natural capital. Human rights, occupational health and safety and living wages enrich human capital. Capacity to innovate, patent generation and resources devoted to advanced educational programs for staff training contribute to intellectual capital creation. When ratings address impacts, externalities, intangibles and off-balance-sheet liabilities, such language expresses the concept of multiple capitals, though without explicit reference to the unifying thread that the capitals framework presents.

Implementation of the Comprehensiveness Principle by ratings should be gradual, cover both opportunities and risks, and accommodate variations in RO and user readiness to embrace the multiple capitals framework. Widespread adoption and general acceptance will require pilot programs, experimentation, research and consultation with all stakeholders. GISR, through both its Principles and accreditation program, is committed to supporting this transition, which it believes will yield long-term benefits to companies, rating users, ROs and society at-large.

8. **Sustainability Context:** A rating should assess performance in the context of science-based thresholds and limits or, if unavailable, widely-accepted norms pertaining to long-term human and ecological well-being.

Performance assessment relative to externally-defined targets based on physical limits, thresholds or social norms reflects that companies are not isolated entities. They operate in a local, national, regional and global milieu and are part of larger ecological and social systems, delineated by biophysical limits and socially-defined thresholds. Without contextualization, the capacity to fully assess an individual company's contribution to the collective impact across all companies is compromised. In such cases, despite incremental progress by individual companies, the aggregate impact of business activity may still overshoot ecological thresholds or undershoot social norms.

For some ecological resources, externally-defined thresholds are emerging at the local, regional, national and global levels. Such is the case for climate change, biodiversity and water resources. For social systems, consensus is slower to evolve, though moving forward. Global frameworks, such as the ILO Core Labor Standards and the UN Guiding Principles for the Implementation of the "Protect, Respect, and Remedy" Human Rights Framework, offer guidelines for assessing aspects of a company's social performance. Living-wage levels, for example, exemplify a social issue where norms may be expressed in the form of purchasing power parity established by an independent, non-partisan body. While externally-defined thresholds offer the advantage of independence from both companies and ROs, internal thresholds and norms serve as valuable, interim exercises in building familiarity with the concept of Sustainability Context.

Incorporating Sustainability Context into ratings should evolve slowly and in concert with the emergence of scientifically-developed thresholds and limits and social norms at various geographic scales. With the benefit of continuous experimentation, Sustainability Context should take its place alongside time series, goal-based benchmarks and peer group benchmarks as an integral element in current and future sustainability ratings.

9. **Long-Term Horizon:** A rating should enable the evaluation of the long-term performance of a company while simultaneously providing insights into short- and medium-term outcomes in alignment with the long-term.

Ratings routinely should favor outcomes associated with stewardship and enrichment of the multiple capitals that materialize in the 3-5 year time horizon and beyond. This perspective does not preclude short-term considerations. Near-term actions that align with desirable long-term outcomes are indispensable to rigorous sustainability ratings. Examples include yearly R&D expenditures focused on sustainable products and services; percentage of products and services that meet sustainability standards; investments in training that elevate employee IT-competency; and development of advanced data systems that track and report the societal cost of environmental externalities. All of these measures entail short-term operating or capital expenses with returns in the form of multiple capital expansion, spanning many years. All signal a company's commitment to the long-term via the yearly budgeting process. Such a perspective is essential to sound ratings.

10. **Value Chain:** A rating should reflect all portions of a company's value chain over which the company exercises significant influence.

A systematic assessment of control and influence of the evaluated company, informed by the scale of impacts and their materiality to stakeholders, is integral to a credible rating. Such assessments represent new territory for many ROs, as they require data that only now is emerging via sustainability reports, business information services and questionnaires administered to companies. While significant data and cost barriers exist now, over time ratings should incorporate the full array of outsourcing and procurement characteristics of company operations worldwide, where such operations are considered to present significant influence over suppliers.

Delineation of the entity for evaluation purposes may be addressed through methodologies developed by leading standard-setters. Examples include the Corporate Value Chain Accounting and Reporting Standard developed by the World Resources Institute and the Guidance for Report Boundary Setting of GRI. Transparency, with regard to the methodology and data sources in delineating the boundary of the evaluated company, is essential for both interpretation and credibility of the resulting assessment of sustainability performance.

11. Balance: A rating should utilize a mix of measurement techniques to capture historical and prospective performance.

Pertinent to the Balance Principle are a number of dimensions that define performance measurement:

- **Lagging vs. leading:** Lagging indicators describe past performance at either a point in time or in a time series, e.g., water intensity or dollars spent on lobbying for the prior one, two or five years. In contrast, leading indicators anticipate future performance, most usefully in the mid- and long-term.
- **Process vs. outcome:** Process indicators comprise statements of sustainability-relevant strategy, policy and procedures of the company. Outcome indicators provide measures of the actual effects, or impacts, on strategy, policy and procedures.
- **Quantitative vs. qualitative:** Quantitative indicators are expressed in numerical form. Qualitative indicators convey the character or nature of an aspect of performance without numerical expression.
- **Absolute vs. relative:** Absolute indicators communicate performance without reference to either internal or external benchmarks. Relative indicators communicate performance relative to the company's own past or future performance, a peer group, a physical threshold/limit or social target established by external parties, per the above Sustainability Context Principle.

A rigorous rating contains a mix of the above. Users seek insights into the mindset, culture and quality of a company's management, as well as the hard, quantitative evidence of the company's capacity to achieve its performance objectives. In some instances, quantitative indicators may serve as proxies for qualitative aspects of the organization, e.g., employee turnover past, present and future may indicate the long-term prospects for attracting and retaining human capital in the form of top talent. A commitment to carbon neutrality or zero waste within five years, or a commitment to measure and report the cost of environmental externalities within three years, represents a mix of policy, forward-looking and quantitative attributes.

12. Comparability: A rating should allow users to compare the performance of the same company over time and of different companies within the same time period.

Achieving comparability is a multifaceted challenge. When tracking performance of a single company, a rating must be reasonably stable to avoid excessive year-to-year volatility driven by changes in the methodology, as opposed to actual company performance. If significant organizational change occurs, for example, through acquisition, merger or divestiture, comparability over time likely will be undermined in the absence of data normalization. In such cases, a rating should both acknowledge and strive to balance the tradeoff between comparability and adaptability, in alignment with the Principle of Continuous Improvement.

Comparability of evaluations of peer companies within a single time period requires a high level of uniformity and quality of data across evaluated companies. Where uneven and/or incomplete data is in play, sound comparisons are not possible. Where data deficiencies severely compromise comparability, a rating should seek reasonable proxy issues and/or indicators to maximize analytically defensible comparisons.

Comparability is enhanced when the rating provides clarity and consistency as to whether increases or decreases in numerical values reflect higher or lower levels of performance. Ratings that rely on ratios to measure performance need adequate explication. Only through full and understandable disclosure of ratio data can users properly interpret shifts in company performance that are expressed in ratio forms.

Comparability across ratings, as opposed to across companies or within peer groups, is a separate but equally critical challenge. Users understandably seek multiple ratings to guide decision-making. Diversity is strength, providing a variety of perspectives based on different issues, indicators, weightings and other features of each rating. At the same time, when performance assessment of the same company in a single time period varies dramatically across ratings, users are left wondering about the causes of such disparities. Adherence to both the Comparability Principle and the above Transparency Principle will mitigate such confusion.

Appendix I: Rationale for GISR's 12 Principles

The 12 Principles comprise the foundation of the GISR Framework for excellence in sustainability ratings. They define the process and content attributes to achieve outcome. The Principles evolved over a period of 18 months during 2012-2013 in coordination with the SC and TRC and through public consultation during the Exposure Draft and Beta Version stages. This appendix provides the rationale and context for each Principle and serves as a supplement to the interpretive guidance found within the main text of this document.

1. **Transparency:** A rating should be transparent to those whose decisions are affected by the application of such rating.

   The Transparency Principle addresses the need for stakeholders to understand a rating's data sources, assumptions, scoring methodology and extrapolations (in cases where data gaps exist). Transparency is essential for making informed decisions as to which ratings are best suited to specific needs and how such ratings generate the resulting performance outcomes.

   Companies benefit from understanding the methods, algorithms, issues, indicators and analytical models that determine how ROs measure and rate their performance. Such transparency also helps companies identify targets for improvement. In most cases, companies understand that boundaries will exist between information essential to understanding a rating and information that ROs regard as intellectual property.

   Investors benefit when ratings are fully transparent because full disclosure of information affords a higher degree of confidence when applying the rating to an investment decision. It also enables investors to effectively communicate to their clients why specific investment decisions are made.

   Whether a rating is constructed solely on company data or in conjunction with data from the media, NGOs and other sources should be disclosed. Investors purchase ratings from outside vendors to augment the analytical models developed internally because they prefer to outsource data collection and development of analytical tools. In cases where they do, confidential disclosure of a rating may be negotiated with the client on a confidential (non-disclosure agreement) basis.

2. **Impartiality:** The design and application of a rating whose primary users are external to the evaluated company should be protected from undue influence by such company.

   Maintaining impartiality is a balancing act. ROs benefit from—indeed, require—regular interaction with evaluated companies in the process of data collection and quality assurance. Similarly, engagement with investors and other stakeholders enriches the quality of the rating. At the same time, interaction between the RO and evaluated company that compromises the integrity of the outcome undermines the credibility of both parties. Instances where an RO establishes a consulting, advisory or other commercial relationship with an evaluated company without proper transparency undermines trust on the part of users seeking a truly independent, unbiased assessment of performance. Ratings applied to financial organizations that offer services to both evaluated companies and clients are particularly vulnerable to perceived conflicts of interest.

3. **Continuous Improvement:** Through periodic update, a rating should track and integrate the best-available science, measurement techniques, issues and indicators.

The Continuous Improvement Principle speaks to the need for periodic enhancement of a rating in light of methodological and scientific innovations, as well as the emergence of new issues, indicators and widely-accepted norms in the field of sustainability performance assessment. Responding to these changes involves trade-offs. Too much change in content and/or methodology exacerbates the problem of excessive volatility and incomparability of rating outcomes, whereas too little change runs the risk of stagnation amidst evolving definitions of corporate value and value creation.

4. **Inclusiveness:** Development of a rating should identify and systematically engage those stakeholders whose decisions are influenced by the application of the rating.

The Principle of Inclusiveness in various forms is common to most contemporary standards, including GRI, SASB, IIRC and ARISTA. It signifies that relevant stakeholders and experts should be identified and engaged on a continuing basis in the development, application and evolution of a rating. Stakeholder engagement is prerequisite to ensuring that the process of building a rating is credible, informed and useful to its intended audiences. It is an asset that strengthens relevance and utility. Engagement builds trust in the user community that the rating's coverage, methodology and content align with the interests of relevant stakeholders.

5. **Assurability:** A rating should be designed to allow for independent, third-party assurance that its application comports with the GISR Principles.

The Principle of Assurability concerns the "assurance-readiness" of a rating. Assurability requires the use of objective and verifiable criteria for assessing alignment of a practice to a specific standard or set of principles. Investors and others who elect to rely on GISR-accredited ratings may seek assurance that such ratings comport with the GISR Principles. Further, assurance may play a role for GISR itself in assessing, after initial accreditation, that a rating is still being faithfully applied at the level of accreditation granted.

The goal of assurability is to provide rating users the confidence that the rating adheres to the requirements embodied in the GISR Principles. Because GISR is global in scope, international auditing and assurance standards should be applied wherever possible, either internally or with assistance from a third party, regardless of the geographic location of the assurance body.

6. **Materiality**: A rating should assess performance based on sustainability issues relevant to the decision-making of stakeholders for whom a rating is designed.

The use of terminology such as "Material Business Impacts" versus "Material Sustainability Impacts," or "Financial Materiality" versus "Sustainability Materiality" connotes a distinction that may be valid in the short-term, but is misleading from a long-term perspective. The horizon inherent to all matters pertaining to sustainability is by and large long-term. While the future is by definition uncertain, large-scale social and ecological shifts are subject to increasingly powerful analytics that provide insights, however imperfect, relative to opportunities and risks relevant to long-term business prosperity. Companies whose vision and strategies are rooted in long-term horizons recognize that business/financial materiality and sustainability materiality likely will converge over time. Business prosperity in the long-term is inseparable from healthy and productive workers, communities, societies and ecologies. While ratings will always be customized to user needs, it behooves ROs to not simply respond to, but to help foster, market interest in ratings that reflect this convergent trajectory.

A starting point for identifying the material, universal issues are the "aspects" contained in the GRI G4 framework. For sector-specific materiality, indicators under development by SASB and GRI's Sector Supplements (and future sector-specific products) also provide useful guidance.

7. **Comprehensiveness:** Evaluating one or more aspects of sustainability performance should systematically assess for impacts on human, intellectual, natural and social capital.

The concept of multiple "capitals"—financial, human, intellectual, manufactured, natural and social—refers to the stock of resources, tangible or intangible, attributable to the company's activities that advance both company and societal well-being. Leading reporting initiatives such as IIRC and SASB include references to multiple, or "vital," capitals. GISR embraces the multiple capitals framework as well. For the purpose of ratings, four capitals—human, intellectual, natural and social—are the most germane.

The advantage of the capitals framework is three-fold: (1) the concept of capitals, measurement complexities notwithstanding, provides a common denominator for expressing the various forms of value that companies create in the course of advancing organizational, human and ecological well-being; (2) "capital," in the sense of a stock of valued assets, is foundational in the language of financial markets; and (3) unbundling impacts into categories of capital provides a more precise taxonomy to guide the future development of ratings. Further, as much as 75 percent of a company's market value is attributable to intangibles, though they are largely absent in financial reports. In practice, the multiple capitals concept represents a next step in the evolution of the ESG framework that dominates contemporary ratings. The capitals framework lends itself more effectively, both conceptually and analytically, to rigorous sustainability performance assessment than the contemporary ESG framework.

Ratings are user-driven, and users may resist methodologies that reach beyond the narrow confines of measuring performance along a single dimension of sustainability. The Comprehensiveness Principle encourages ROs to pursue a holistic approach when interacting with users. Failing to do so will result in ratings that may affect sustainability performance in ways that misrepresent the full range of business impacts, opportunities and risks. Further, in the absence of a comprehensive approach, a rating user will be unable to detect whether enhancement of one form of capital is occurring at the expense of other forms of capital. A rigorous rating will, in effect, provide a multiple capitals "balance sheet."

8. **Sustainability Context:** A rating should assess performance in the context of science-based thresholds and limits or, if unavailable, widely-accepted norms pertaining to long-term human and ecological well-being.

Performance assessment may be expressed from several perspectives including: (1) performance across time periods, i.e., time series; (2) performance relative to an internally defined goal; (3) performance relative to a peer group, e.g., recognizing "best in class" or "top 15 percent"; and (4) performance relative to externally-defined targets based on physical limits, thresholds or social norms, i.e., "sustainability context."

The first three of these approaches dominate contemporary ratings. Together, they offer valuable, but incomplete, perspectives on sustainability performance. The fourth, sustainability context, appears to some extent in, for example, sector- or facility-based environmental regulations built on maximum tolerable thresholds to protect human health. The sustainability context goes beyond such practices to encourage greater company-level accountability for adhering to science-based thresholds, limits and norms that capture the collective impacts of business activity.

The GRI G2 reporting framework, launched in 2002, pioneered a Sustainability Context Principle that was carried forward to the G3 and G4 versions. Ratings should follow suit to provide greater value to users by helping to identify long-term sustainability opportunities and risks. In an increasingly resource-constrained environment, and amidst rising expectations that companies should create social value, companies that apply the Sustainability Context Principle are likely to emerge as leaders in forward-looking strategy, management acuity and long-term value creation.

9. **Long-Term Horizon:** A rating should enable the evaluation of the long-term performance of a company while simultaneously providing insights into short- and medium-term outcomes in alignment with the long-term.

The Long-Term Horizon Principle stresses the intrinsic long-term (e.g., > 5+ years) nature of sustainability, while recognizing the role of medium- (e.g., 3-5 years) and short-term (e.g., < 3 years) benchmarks that occur along the way. The Principle confronts the dominance of short-term measures for business success, such as daily/weekly share price, quarterly earnings or revenue growth, while drawing attention to the interdependency of sustainability performance and long-term financial success.

Investor propensity to employ long-term horizons varies widely, even among institutional asset owners, whose responsibilities are intergenerational. Pressures to outperform near-term market benchmarks flow from beneficiaries to trustees to asset managers to companies. The Principle of Long-Term Horizon seeks to infuse sustainability considerations in assessing portfolio risk and opportunity, and to encourage longer-term horizons among asset owners, asset managers and companies. It supports the notion that a long-term perspective in strategy, management, R&D and products and services will be rewarded, even if short-term financial metrics fall short of conventional analysts' expectations.

10. Value Chain: A rating should reflect all portions of a company's value chain over which the company exercises significant influence.

The Value Chain Principle addresses the boundaries of accountability that define the evaluated company's principal impacts. Because of the complexity and reach of contemporary value chains, the questions of "control" and "significant influence" loom large. Shifting impacts backwards and forwards along the value chain does not absolve the parent entity of responsibility for positive and negative impacts on the supply and demand of goods and services. Evaluating companies in industries with complex and far-flung value chains—e.g., apparel, electronics and food—necessitate coverage of upstream and downstream impacts that are integral from a holistic perspective of long-term sustainability performance. Value chains are dynamic, with frequent boundary shifts inevitable in a fast-changing, global economy. A credible rating will disclose and normalize for such changes to enable reliable time series comparisons and to minimize misleading volatility in performance outcomes.

11. Balance: A rating should utilize a mix of measurement techniques to capture historical and prospective performance.

The Principle of Balance concerns the use of different types of data sources, issues and indicators that characterize a company's performance. Companies benefit from such diversity that translates ratings into instruments that drive continuous improvement. Investors benefit from both lagging and leading indicators, though the latter most directly influence long-term valuation. Other stakeholders, including consumers, suppliers and employees, look to both past and anticipated performance in making judgments as to the quality and prospects of a company.

In general, contemporary ratings overweight backward-looking historical measures of performance and underrepresent forward-looking, leading measures. Correcting this imbalance is complicated by the inherent difficulty in quantifying the future. That is, what indicators will most accurately predict the performance of a company 3-5 years in the future and beyond? Rigorous ratings should contribute to this critical challenge.

A rating that comprises a balance of indicators is more likely to achieve strong market uptake than one that leans heavily in one direction or another. Further, ratings that rely exclusively on backward-looking, policy- and procedure-based indicators, with minimal attention to forward-looking, measurable outcomes, are unlikely to satisfy users who seek insights into a company's long-term prospects of becoming both a sustainability leader and a prosperous organization.

12. Comparability: A rating should allow users to compare the performance of the same company over time and of different companies within the same time period.

The Principle of Comparability seeks to bring sufficient consistency to a rating such that users can, with confidence, compare performance for the same company over time and across peer companies within the same time period. Comparability is critical to decision-making, investment or otherwise. Choices on the part of asset owners and asset managers, for example, require analysis of a time series, single-company perspective, as well as cross-company comparisons within sectors. The utility of a rating is compromised when it falls short on either of these conditions.