

## Corporate Rating

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The ISS STOXX's Corporate Rating is designed to enable institutional investors to support their investment strategies by assessing the environmental, social, and governance (ESG) performance of corporate issuers. In the context of the Corporate Rating, performance refers to a company's demonstrated ability to adequately manage material sustainability risks, mitigate negative and generate positive social and environmental impacts, and capitalize on opportunities offered by transformation towards sustainable development. The Corporate Rating applies a holistic and forward-looking concept of materiality that focuses on long-term value creation through a double materiality lens. The rating incorporates a broad range of standard and industry-specific sustainability topics designed to ensure that salient and emerging sustainability risks and opportunities are captured.

Drawing on an overall pool of about 700 indicators, ISS STOXX applies approximately 100 social, environmental, and governance-related indicators per rated entity, covering topics such as employee matters, supply chain management, business ethics, corporate governance, environmental management, eco-efficiency, and others. Differentiated weighting scenarios ensure that the topics most material for a given line of business/industry are duly taken into account.

The Corporate Rating framework recognizes that environmental, social, and governance risks and impacts differ by industry. The extent of industry-specific environmental, social, and governance risks and impacts defines the respective performance requirements, the distribution of weights between these rating dimensions, as well as the Prime threshold per sector. This threshold is a defined industry-specific letter grade ranging from C to B-. Prime status is granted to companies with sustainability performance in line with or above the Prime threshold. Companies in industries with a high risk exposure and elevated level of adverse impacts such as oil and gas, for example, must demonstrate better performance in terms of their overall rating grade than those in industries with a lower risk exposure and comparatively lesser adverse impacts such as educational services to attain Prime status.

The Corporate Rating integrates a detailed assessment of the sustainability risks and impacts of operations and an assessment of management approaches regarding material sustainability topics along the entire value chain ("do no harm"). Additionally, the assessment covers positive and adverse sustainability impacts of product portfolios, assessed based on the share of net sales generated from products/services contributing to or obstructing the achievement of global sustainability objectives ("find impact/opportunity"). Furthermore, the Corporate Rating integrates ISS STOXX's Norm-Based Research's evaluation of corporate compliance with recognized international norms and guidelines as a stress-test of performance while highlighting sustainability risks.

## Outputs

The Corporate Rating provides an absolute qualitative assessment of performance and comprises a range of complementary outputs including the associated “Prime” status. The rating model applies a twelve-point grading system from A+/4.00 (excellent performance) to D-/1.00 (poor performance). All indicators are individually assessed based on clearly defined absolute performance expectations. Based on individual scores and weightings at the indicator level, results are aggregated to yield data on the topic level as well as an overall score (rating). In addition to the overall rating, a decile rank indicates performance relative to industry peers. A decile rank of 1 indicates high relative performance, while a 10 indicates a lower relative performance. The ESG Performance Score allows for cross-sector comparisons using a standardized best-in-class threshold, measuring company performance on a scale of 0 to 100 with 50 representing the Prime threshold applicable for the industry.

Additionally, ratings analysts compile qualitative summaries addressing the sustainability impact of the company’s product portfolio, the performance regarding key sustainability issues, and governance performance ('Analyst Opinion').

## Research Process

The Corporate Rating follows a staged update process: Scheduled annual updates are complemented by ad hoc updates triggered by significant events, including new or evolving controversies involving a rated company.

The rating process can be broken down into the following core steps:

- **Data collection:** Relevant information is retrieved both from the companies being analyzed and from alternative data sources, including media sources (international, local), recognized international or local non-governmental organizations, government agencies, and inter-governmental agencies, among others. Generally, the overall ratio of quantitative to qualitative data used in ratings is about 1:3 (based on type of indicators). At an individual rating level, this proportion can vary depending on the selection of material indicators.
- **Research:** Proprietary ratings and scoring models are applied, resulting in a draft rating.
- **Quality assurance:** Draft ratings are systematically proofread by experienced analysts.
- **Company feedback:** A comprehensive dialogue with the rated issuers is carried out when they are rated for the first time and generally every two to three years thereafter for a voluntary review of their rating, which includes verification and validation of the information reported. Additionally, corporate issuers are welcome to send information/updates regarding sustainability issues for consideration at any time.
- **Final report:** The final Corporate Rating report is made available to the assessed company free of charge on a confidential basis and will be published on our platforms.

## Use of Estimated Data

The Corporate Rating primarily uses disclosed company data wherever available. If no relevant or current company information for a specific indicator is available, and no assumptions can be made on pre-defined standards, the indicator is assessed with D-.

Indicators can be distinguished into qualitative and quantitative indicators. Further, to allow for meaningful and granular assessments, almost all indicators are evaluated regarding both content and coverage of relevant information. Coverage refers to the reach of content in terms of e.g., percentage of (relevant) employees, operations, or revenues covered.

In cases of inadequate or non-existent disclosure, estimations may be necessary in the following situations:

- For quantitative indicators that are based on percentage assessments, estimations can be made if no (precise) reported data is available. Analysts are provided with clear guidance on how and in what instances estimations may be made. Neither estimations nor modelling are applied to all other absolute quantitative data (such as consumption data or intensities).
- If coverage is not clearly specified by the company, estimations are made based on contextual information, provided reasonable assumptions can be made with medium to high certainty.
- All estimations are made transparent in the Corporate Rating report. The overall share of estimated data based on robust evidence across Corporate Rating data is generally between 5 and 10 percent.

*Last Updated/Reviewed: March 2026*

*Version 4.1*



[sales@iss-stoxx.com](mailto:sales@iss-stoxx.com)

[iss-stoxx.com](http://iss-stoxx.com)

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