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Preamble

The sustainability rating is intended as a tool to complement the financial rating. It focuses on evaluating the environmental, social and cultural aspects of companies, organisations and countries and thereby supplements the purely economic approach to rating adopted in the past, taking sustainable development as its guiding principle.

The sustainability rating undertakes to observe the following three fundamental principles:

Independence

The absolute independence of the sustainability rating is a fundamental precondition for its credibility – in the eyes of both the subjects of the rating and the users of the rating.

Completeness

The sustainability rating must be based on a complex and comprehensive list of criteria covering all relevant facts and circumstances in the environmental, social and cultural fields.

Comparability

The results of the evaluation must enable comparisons to be made between the subjects of the rating – in terms of both absolute performance and performance relative to others.

These three fundamental principles form the basis for the principles for sustainability rating set out below, the observance of which should be reviewed at regular intervals by means of independent checks.

I. General duties of the rating agency

1. Independence

The rating agency must not enter into any commitments which restrict or could restrict its freedom of decision-making. The rating agency and its executive bodies must maintain their personal and economic independence in all their dealings. This shall apply especially with regard to their independence from companies to be evaluated: evaluating and advising companies simultaneously conflicts with the principle of independence. Provision must also be made to ensure that there is an institutional separation between the drawing up of a sustainability rating and its use in the investment process. The provisions of § 319.3 of the German Commercial Code (HGB) must be applied analogously.

2. Ban on conflicting interests; neutrality

The consent of the company or country to be assessed shall not be required in order for the rating agency to draw up a rating. The rating agency shall draw up its rating report without regard to the parties interested in the outcome of the rating.

3. Qualification of analysts

When recruiting analysts, the rating agency must examine candidates' professional and personal suitability and in particular check that they have appropriate experience. The authority to select and to conclude contracts with analysts must be regulated clearly. Provision must be made for the initial and further training of analysts.

Analysts must be informed about their responsibilities and their duties. Prior to commencing work with oekom research, they must enter into a written commitment to observe secrecy, data protection and insider regulations and to comply with the "Principles of sustainability rating".

4. Overall approach to rating

The rating agency shall put together a team of analysts for each rating assignment. The members of the team should be suitably qualified to assess all those areas of the company concerned which are key to analysing its performance against the sustainability criteria.

5. Ensuring that analyses are conducted conscientiously

The rating agency shall be obliged to ensure that analyses are conducted conscientiously. In particular, it must check at appropriate intervals that analysts are fulfilling their duties and redress any shortcomings.

6. Safeguarding confidentiality

Internal information provided by a company must be treated confidentially by the rating agency. This shall apply particularly with regard to the marketing and/or publication of rating reports.

The rating agency must take care to ensure that confidential information is not disclosed to unauthorised persons and must take corresponding precautions. These obligations shall continue to apply after a contractual relationship has been terminated.

7. Objectivity of methods of analysis

The rating agency must apply methods of analysis which ensure the greatest possible objectivity. It must use an appropriate combination of quantitative and qualitative methods as expediency requires. There must be suitable provisions to ensure that ratings are future-oriented and sector-specific.

In particular, measures must be taken to ensure that the analysis covers all the relevant criteria for a comprehensive sustainability evaluation of a company or country. Criteria must be drawn up on the basis of generally recognised guidelines, sets of rules, declarations, etc.

To ensure the objectivity of evaluations, an evaluation manual must be drawn up for each individual survey criterion, setting out binding regulations on fundamental evaluation principles for the analysts.

The rating agency must review the methods of analysis at regular intervals and, if necessary, adapt them to current developments or other circumstances serving to increase their objectivity.

8. Ensuring that professionally sound verdicts are reached

The surveying of primary data must be carried out personally by the analysts. The quality of the verdict reached must be assured by applying the double verification principle, for example, by using a rating committee. The transparency of the verdict reached must be ensured.

9. Use of clearly defined rating symbols

In order to maximise the clarity and comprehensibility of rating results, the rating agency must use clearly defined rating symbols for its rating scale. The degree of complexity of the rating scale must match the actual complexity of the evaluation. An explanation of the rating symbols must be published.

10. Regular updating of data

The rating agency must ensure that the rating results are up to date. To this end, it shall carry out fresh data surveys and assessments at regular intervals.

11. Consideration of country-specific conditions

In its survey, the rating agency must give consideration to country-specific conditions such as e.g. culture-specific factors and local social and environmental legislation. In addition, it shall use as a basis for its evaluation internationally recognised minimum standards in the relevant areas of investigation.

The rating agency shall incorporate these standards into its evaluation in such a way that, given comparable criteria, the assessment of a company from one country will not differ from that of a company from another country.

12. Defining the subject of the rating

In assessing the subject of the rating, the rating agency shall take into account the system boundary defined in advance and, in the corporate rating, the relevant sectoral affiliation of the company being assessed.

13. Transparency of results

In the interest of transparency, the rating results should be rendered accessible both to the companies evaluated and to the public.

II. Survey principles

1. Separating the survey from the assessment

Initially, only those factors in the performance of the subject of the rating that are of relevance to the assessment should be recorded and evaluated. Then, as a separate processing step, the survey results must be summarised, assessed and graded according to the rating scale. When assessing the results, it is essential to ensure that the exertion of influence of any kind by the subject of the rating is ruled out.

2. Diversity of survey methods and data sources

Both quantitative and qualitative methods of analysis must be used as survey methods. In addition, for corporate ratings, both internal and external data sources must be used, such as:

Internal data sources:

- Written and oral surveys of company representatives
- Analysis of all relevant corporate publications such as e.g. sustainability and financial reports

External data sources:

- Written and oral surveys of pertinent representatives of non-government organisations, academic or public institutions, e.g. associations, authorities, unions, as well as the media.
- Analysis of relevant documentation from pertinent non-government organisations, academic or public institutions, e.g. associations, authorities, unions, as well as the media.

Throughout the whole process of survey and analysis, a close dialogue shall be sought with the company being evaluated. In the event of a lack of co-operation by the company being evaluated, the rating agency may draw up a rating solely on the basis of publicly available information, provided this information constitutes an adequate basis for evaluating the sustainability performance of the company.

3. Standardisation of survey and analysis

In the interest of the objectivity of the survey and of the comparability of the results of ratings, the rating agency must ensure that there is a high degree of standardisation with regard to the survey and its analysis. This shall not preclude sector-specific and country-specific forms of survey and analysis, provided that these contribute toward ensuring that a professionally sound verdict is reached.

4. Documentation of survey

The survey must, as part of the analysis, be fully documented. This documentation must be stored together with working papers and/or files and be rendered accessible in particular to those persons responsible for the assessment.

5. Obligation to give reasons for deviating from standards

If analysts deviate from the recommended standard in the analysis, then they must give reasons for this deviation, particularly where special company-specific factors are involved.

6. Plausibility checking; double verification principle

The rating agency must, when implementing the survey and subsequently drawing up the basis of the assessment, ensure that adequate plausibility checks are carried out. These shall be supported by completeness checks as well as by analysts' verbal summary remarks on the survey results.

It must be ensured that the double verification principle is applied throughout.

III. Assessment principles

1. Individual assessment of performance factors

For an assessment within the framework of a rating, all evaluation criteria must be subject to individual assessment. The summary of the results of the individual assessments shall be included in the overall verdict. It shall be permissible here to combine categories of performance factors and assign an appropriate weighting to them.

2. Balance between reference to past and future

Since the rating represents not just an assessment of disclosed past results but also a statement about the potential for the future, the rating agency must ensure in an appropriate way that there is a balance in its survey and analysis methods between reference to the past and to the future.

3. Sector-specific and country-specific orientation

Proper assessment of a company is generally only possible with the aid of sector-specific and country-specific evaluation criteria and by taking into account the nature and development of sustainability factors in the particular sector and/or country concerned.

The rating agency must therefore take care to ensure that the analysis is appropriately sector-oriented and country-oriented.

4. Comprehensibility

Appropriate means must be used to ensure the comprehensibility of the assessment. A report about any controversial points in the assessment must be drawn up for retention with the rating agency's working papers.

IV. General duties of the analyst

1. Impartiality

Analysts must behave impartially, particularly in the conduct and analysis of their investigations. They must withhold their involvement if there is concern about bias in the execution of an assignment.

2. Acting in person

The analyst, or members of the team of analysts responsible, shall conduct surveys in person. Only support activities may be delegated to other staff.

3. Conscientiousness

In fulfilling his/her duties, the analyst shall be bound by these rating principles. He/She must obtain information about the rules for exercising his/her profession laid down by the rating agency and must observe these rules. He/She must upgrade his/her skills as required under 1.3 to maintain his/her professional competence and to ensure that he/she can cope with his/her duties as an analyst.

The analyst must take on an assignment only if he/she possesses the expert knowledge required.

The analyst must establish the conditions necessary for assignments which have been taken on and assignments which are anticipated to be carried out properly and in compliance with these rating principles.

If circumstances arise after an assignment has been accepted which would have resulted in the assignment being refused, the contractual relationship must be terminated.

4. Individual responsibility in reaching a verdict

In internal arrangements, the analyst must take responsibility for his/her own actions. Each individual analyst must reach a verdict himself/herself when assessing their investigations.

5. Incompatibility of work as an analyst and consultancy work

Work as an analyst is incompatible with the provision of advice to a customer by the same analyst. In case of doubt the analyst has to consult with the rating agency.

6. Other incompatibilities

The analysts may survey and analyse a situation only if he/she did not himself/herself contribute substantially to the situation arising.

7. Disclosure by analyst in accordance with § 319 (2 and 3) of the German Commercial Code (HGB).

The analyst is liable to disclose the supervisory board if one or more aspects of §319 (2 and 3) HGB (German Commercial Code) apply (see Annex).

8. Use of assessments, evaluations and findings of third parties

The analyst must make clear if the use of assessments, evaluations and findings of third parties is involved.

9. Comprehensibility of the verdict

The analyst must suitably ensure that his/her verdict regarding the individual subjects of a survey is comprehensible. He/She shall be obliged to provide the rating agency with a written explanation in response to queries.

10. Duty to apply a standard methodology

The analyst shall apply exclusively the standard methodology prescribed for the survey concerned by the rating agency. He/She shall use customised rating scales where these are required due to the sector-specific or country-specific orientation or special nature of the company or country concerned.

11. Duty to observe secrecy

The analyst must not disclose to unauthorised persons any facts and circumstances which are confided to him/her or become known to him/her in the course of his/her work.

The analyst must take care to ensure that facts and circumstances as defined under para. 1 are not made known to unauthorised persons, and he/she must take appropriate precautions.

The duties set out under paras. 1 and 2 shall continue to apply after termination of the contractual relationship.

12. Observance of intellectual property rights

The analyst must observe the intellectual property rights of the rating agency in respect of the rating procedures and the rating instruments. This obligation shall also continue to apply after termination of the contractual relationship.

13. Insider regulations

The analysts must observe the currently applicable insider regulations.

14. Acceptance of bribes

The acceptance of rewards and gifts (as well as other benefits) which are offered to an analyst in relation to his/her work and which exceed the scope of usual business connections shall not be permissible.

The acceptance of customary and reasonable hospitality during the course of their work shall be permitted.

Annex:

Extract: § 319 German Commercial Code (HGB)

(2) An auditor or sworn auditor may not be the auditor of the annual accounts if he/she or a person with whom he/she practises his/her profession jointly,

1. owns shares in the joint-stock company to be audited;
2. is, or in the last three years before his/her appointment was, a legal representative or member of the supervisory board or employee of the joint-stock company to be audited;

3. is a legal representative or member of the supervisory board of a legal person, partner in a partnership or owner of a company, insofar as the legal person, the partnership or the individually-owned company is affiliated to the joint-stock company to be audited or owns more than twenty per cent of the shares in the latter;
4. is an employee of a company which is affiliated to the joint-stock company to be audited or owns more than twenty per cent of the shares in the latter, or is an employee of a natural person who owns more than twenty per cent of the shares in the joint-stock company to be audited;
5. has, over and above the auditing work, assisted in the bookkeeping or the drawing up of the annual accounts of the joint-stock company to be audited;
6. is a legal representative, employee, member of the supervisory board or partner of a legal or natural person or of a partnership or is the owner of a company, insofar as the legal or natural person, the partnership or one of its partners or the individually-owned enterprise under item 5 may not be an auditor of the annual accounts of the joint-stock company to be audited;
7. employs for the audit a person who under items 1 to 6 may not be an auditor of the annual accounts;
8. has in each of the last five years derived more than thirty per cent of total earnings from his/her occupational work from auditing and advising the joint-stock company to be audited and from companies in which the joint-stock company to be audited owns more than twenty per cent of the shares, and this is also anticipated to be the case in the current business year; to avoid hardship cases, the chamber of auditors can issue special licences for limited periods of time.

An auditor may also not be an auditor of the annual accounts if he/she would be excluded in application *mutatis mutandis* of paragraph 3 item 6.

(3) An auditing company or firm of auditors may not be auditor of the annual accounts if

1. it owns shares in the joint-stock company to be audited or is affiliated to the latter or if a company affiliated to it owns more than twenty per cent of the shares in the joint-stock company to be audited or is affiliated to the latter;
2. it may not under paragraph 2 item 6 as a partner of a legal person or of a partnership or under paragraph 2, item 5, 7 or 8 be an auditor of the annual accounts;
3. in an auditing company or firm of auditors which is a legal person, a legal representative or a partner who possesses fifty per cent or more of the voting rights to which the partners are entitled, or in other auditing companies or firms of auditors, a partner, may not under paragraph 2 items 1 to 4 be auditor of the annual accounts;
4. one of its legal representatives or one of its partners may not under paragraph 2 item 5 or 6 be an auditor of the annual accounts;
5. one of its supervisory board members may not under paragraph 2 item 2 or 5 be an auditor of the annual accounts or, in auditing a joint stock company which has issued shares with a stock exchange listing, it employs an auditor who, in the ten years preceding the business year being audited, has in more than six cases signed the audit certificate under § 322 concerning the auditing of the annual or consolidated financial statements of the joint stock company.”

The principles of sustainability rating have been drawn up by **oekom research AG** in co-operation with the **Ethical and Environmental Rating project team** at the University of Frankfurt (headed by Prof. Johannes Hoffmann) and **oekom research AG's Scientific Advisory Committee**. They are based on **Rating Cert e.V.**'s principles of corporate rating.