

# **R-Factor™ for Companies**

## Frequently Asked Questions

These frequently asked questions are intended to provide you with further information about State Street Global Advisors' R-Factor™ score. With it, we offer additional guidance about how to interpret the score, as well as potential actions to take once you receive it.

Before reading these FAQs, we suggest you first review [“R-Factor™: Reinventing ESG Investing Through a Transparent Scoring System”](#), which describes the R-Factor™ methodology in detail and lays out the rationale for how the score is constructed.

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### **What is R-Factor™?**

R-Factor™ — short for “Responsibility-Factor” — is a transparent ESG scoring system developed by State Street Global Advisors. It measures the performance of a company's business operations and governance as it relates to financially material ESG issues facing the company's industry. R-Factor™ is designed to help companies identify, manage and disclose the most relevant ESG risks facing their business

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### **Why did State Street Global Advisors build R-Factor™?**

Investors and companies are increasingly aware that although ESG issues have historically been considered “non-financial”, they can have an impact on a company's long-term performance: for example, the way a retailer manages its supply chain, or how a pharmaceutical company manages its selling practices. Investors need financially material ESG data to consider in their investment process.

This need is reflected in the proliferation of third party data providers who score companies based on opaque and proprietary ESG frameworks. As we've [written about previously](#)<sup>1</sup>, there is low correlation among the scores of different ESG data providers due to differences in how each provider treats materiality, issue weighting, and other factors. Because such considerations are typically proprietary, when investors make use of these scores, they are selecting the perspective of that data provider without full access to the underlying methodology. We also hear frequently from companies about the challenges with third party scoring systems. In addition to growing reporting fatigue from too many frameworks, companies feel they are scored based on immaterial information, or don't have access to what drives their scores, making it hard to know where to focus on improving.

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We believe that companies should have control over the data that investors use about them. We define good ESG data as that which is financially material, consistently reported, comparable across firms, and as available and accessible as other financial information.

By basing our scoring system on SASB's Materiality Map, a commonly accepted, transparent materiality framework, and by sharing R-Factor™ scores directly with companies, we aim to build more sustainable companies and capital markets. The score's transparent materiality frameworks give companies a roadmap for how to disclose standardized, investor-relevant information that can be used not just by State Street Global Advisors, but by all investors.

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### What makes R-Factor™ unique?

R-Factor™ has four defining characteristics that are collectively designed to help build sustainable markets. It is the combination of these four characteristics that makes R-Factor™ unique. They are:

- **Focus on Financial Materiality** Scores are based on a limited set of ESG issues that matter for your business by streamlining what your company should focus on.
- **Based on Commonly Accepted, Transparent Frameworks** R-Factor™ gives companies a concrete and transparent roadmap, with clarity about what investors are looking for.
- **Powered by Multiple Data Sources** R-Factor™ is powered by multiple sources of ESG data to reduce bias and increase the available information that powers the score.
- **Backed by Strong Stewardship** As partners on the journey, our Stewardship team provides you with your R-Factor™ score and guidance on how to improve.

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### What does R-Factor™ communicate to our company, and what should we do next now that we've received it?

At a high level, we want companies to incorporate material sustainability issues into their long-term strategy. In order to do that, companies need to:

- Have a perspective on the ESG issues investors consider material to their business
- Develop infrastructure to measure performance against these material ESG issues
- Share information about company performance with senior management, directors, and investors

R-Factor™ is designed to assist with this process. The score provides insights into your company's performance relative to peers on ESG issues that are financially material to your industry. In early feedback from portfolio companies, we have heard that board members and senior management value the insights provided by R-Factor™ and the SASB framework. It has caused them to seek more regular reporting against the issues that SASB considers material for those companies, so that they can consider this information as part of their strategic planning processes.

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## How are scores used? How does a high or low score impact a company? How will my score impact your vote on my proxy?

R-Factor™ scores will be used in three main ways at State Street Global Advisors:

- **Stewardship** Over the medium-term, R-Factor™ scores will be fully integrated into our Asset Stewardship program. We are building screens for both engagement and proxy voting based on companies' R-Factor™ scores, and will be incorporating these into our processes over the next two years.
- **Solutions** R-Factor™ scores inform the newly launched Bloomberg/SASB indices, which will be used to build investment solutions at State Street Global Advisors. These indices are also available for use by other investors. Additionally, R-Factor™ scores will be embedded across other investment solutions at State Street Global Advisors. Many of these solutions will weight companies' R-Factor™ scores in the portfolio construction process. R-Factor™ scores are generated at the issuer level, meaning they can be applied to both equity and fixed income solutions.
- **Client Reporting** Some R-Factor™ scores will be available to State Street Global Advisors' clients as part of routine client reporting.

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## Who can access our score? Will this information be made publicly available?

- **Investors** may receive R-Factor™ scores as part of client reporting on investment solutions.
- **Certain employees at scored companies** can request the score online [here](#), and may discuss the score when engaging with SSGA's Asset Stewardship team. Only employees affiliated with a company's Investor Relations, Chief Financial Officer, General Secretary, or ESG/Sustainability organizations will be provided with scores.

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## How often is the score updated if a company publishes new information?

Scores are updated monthly. For the purposes of State Street Global Advisors' asset stewardship activities (including proxy voting, engagement, and sharing with companies), new scores will be available twice per year, in July and January. In our experience, companies require time to begin managing and disclosing ESG information, and this information does not typically change on a frequent basis, making a biannual update appropriate.

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## How did you decide on our industry classification?

R-Factor™ scores rely on SASB's Sustainability Industry Classification System (SICS®), intended to categorize businesses according to their sustainability risks. Each company is assigned a single SICS® code by SASB; SASB provides State Street Global Advisors with an updated list of companies' SICS® codes on a quarterly basis.

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We are aware that single industry classifications have some limitations — for example, for conglomerates who operate in multiple industries, or companies that don't fit neatly in any industry. These are similar to the issues companies face with traditional GICS codes. If you feel you are mischaracterized, we encourage you to engage with SASB, both to ensure appropriate classification, and so that future standards better reflect the nature of the businesses in a given industry. We engage with SASB on this topic as well on an ongoing basis.

We have seen companies address the concern of not fitting neatly into a single SIC<sup>®</sup> industry by reporting on the financially material issues in multiple relevant industries. We welcome this additional disclosure.

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**My company uses a different materiality assessment than SASB (e.g. GRI), and as a result, we disclose a different set of issues from the ones SASB suggests for our industry. Can you score us based on this?**

No. Many companies undertake bespoke materiality assessment exercises to identify ESG topics that matter to a broad group of their stakeholders. While this information is important for those audiences, we selected the SASB framework because it uniquely offers the potential to provide investors with standardized, financially material ESG data. We define good ESG data as that which is financially material, consistently reported, comparable across firms, and as available and accessible as other financial information.

We consider SASB reporting a floor, not a ceiling, and encourage you to consider SASB disclosure as a primary ESG disclosure for investors, while continuing to draw on other frameworks as appropriate. If there are ESG issues you feel are material to your business which are not reflected in the SASB framework, we encourage you report against them, and to engage with SASB to share this information.

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**Why did you select the data providers, materiality frameworks, and methodology that powers the R-Factor™ score? What is SASB and why is it such an integral part of the score?**

Please refer to the whitepaper [“R-Factor™: Reinventing ESG Investing Through a Transparent Scoring System”](#).

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**Will publishing a SASB report improve my company's R-Factor™ score?**

Yes — over time, publishing more detailed information on a company's financially material ESG issues should improve a company's R-Factor™ score. This will take time, as the third party data providers whose metrics power R-Factor™ absorb this new information and update their data. We have recently seen that these data providers have begun to align some of their metrics directly with SASB accounting standards, making it easier to recognize when companies are disclosing these topics.

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When companies disclose in a way that is aligned with the SASB framework, we encourage them to name this explicitly in their reporting. Doing so helps contribute to the development of more sustainable capital markets by advancing a common materiality framework. If a company chooses not to disclose on a particular SASB topic, we encourage companies to explain their rationale for opting not to disclose, in order to more fully adhere to the disclosure framework.

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**Can we provide SSGA with ESG information directly (e.g. send a copy of its CSR report) to ensure the R-Factor™ score is up-to-date?”**

Because our purpose is to bring high-quality ESG data into the market for all investors, sending State Street Global Advisors your ESG disclosure directly will not impact the R-Factor™ score. The score reflects publicly available data, as collected by our data provider partners (Sustainalytics, Vigeo-Eiris, ISS-ESG, and ISS-Governance).

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**Will engaging with the State Street Global Advisors Asset Stewardship Team impact my score?**

R-Factor™ scores are driven by your public disclosure, and are a function of the information we receive from third party data providers.

Our Stewardship team leverages the score in both their proxy voting and engagements. Engagements with the team may include discussions about incorporating sustainability into long-term strategy, or other related topics that may be helpful as you manage the ESG issues that are relevant to your score.

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**Where should I be disclosing the information suggested by SASB and my corporate governance code? Do you have a preference?**

We do not have a preference, and welcome you to disclose this information wherever makes sense for you. We see companies disclosing in sustainability / corporate responsibility reports, annual reports, and in their proxy filings. What matters is that you disclose it publicly, and that the material is easily accessible to investors.

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**I have issues with the data on my company provided by data providers. What should I do?**

We encourage you to engage directly with the data providers to amend relevant information. Changes to R-Factor™ scores may take time as information gets updated in all systems.

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### **What if my company has no R-Factor™ score?**

We are continuously working to expand our coverage; at this time, we are constrained by the data available from our data providers. However, even if you are not yet covered by R-Factor™, you may still make use of the framework. Here are some steps you can take:

- Use the SASB materiality map to identify, manage, and disclose against the issues in the industry classification(s) that make sense for your business
- Use the corporate governance code for your region to evaluate and, if necessary, enhance your corporate governance practices (for a full list of regions and codes, see the appendix of this document)
- If you disclose ESG information and are not being covered:
  - Check with the ESG data providers that power the R-Factor™ score on their coverage of your company
  - Let us know at [myfactorscore@ssga.com](mailto:myfactorscore@ssga.com), so that we can provide that feedback to our data providers

## Appendix

### Corporate Governance Codes

Below are the corporate governance codes used to form the basis of the CorpGov Scoring Model.

National Market	Issuing Authority and Code
Australia	ASX: Corporate Governance Principles and Recommendations
Denmark	Committee on Corporate Governance: Recommendations on Corporate Governance
Finland	Securities Market Association: Finnish Corporate Governance Code 2015
France	AFEP & MEDEF: Corporate Governance Code of Listed Corporations
Germany	Regierungskommission: Deutscher Corporate Governance Kodex
Hong Kong	HKEX: Corporate Governance Code and Corporate Governance Report
Italy	Borsa Italiana Corporate Governance Committee: Corporate Governance Code
Japan	JPX: Japan's Corporate Governance Code
Netherlands	Monitoring Committee Corporate Governance Code: The Dutch Corporate Governance Code
Norway	Norwegian Corporate Governance Board: The Norwegian Code of Practice for Corporate Governance
Singapore	Monetary Authority of Singapore: Code of Corporate Governance
Spain	Comisión Nacional del Mercado de Valores: The Unified Good Governance Code of Listed Companies
Sweden	Swedish Corporate Governance Board: The Swedish Corporate Governance Code
Switzerland	Economiesuisse: Swiss Code of Best Practices for Corporate Governance
United Kingdom	Financial Reporting Council: The UK Corporate Governance Code
United States*	Investor Stewardship Group: Corporate Governance Principles
<b>All Other Markets</b>	
International*	International Corporate Governance Network: Global Corporate Governance Principles

\*Denotes code designed by investors rather than by regulators.

## Further Reading

We encourage you to explore the following resources to learn more about the R-Factor™ methodology and rationale:

["The ESG Data Challenge"](#)

["R-Factor™: Reinventing ESG Investing Through a Transparent Scoring System"](#)

["Putting Companies in the Driver's Seat to Enhance ESG Reporting"](#)

[The Sustainability Accounting Standards Board](#)

## Learn More

For more information, please contact [governance@ssga.com](mailto:governance@ssga.com).

## Endnotes

- 1 Bender, Jennifer and Bridges, Todd Arthur and He, Chen and Lester, Anna and Sun, Xiaole, A Blueprint for Integrating ESG into Equity Portfolios (October 1, 2017). The Journal of Investment Management, Volume 16, No. 1, 2018. Available at SSRN: <https://ssrn.com/abstract=3080381>

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\* AUM reflects approximately \$36 billion (as of June 30, 2019), with respect to which State Street Global Advisors Funds Distributors, LLC (SSGA FD) serves as marketing agent; SSGA FD and State Street Global Advisors are affiliated

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