

A man with grey hair and a beard, wearing a light-colored suit and a striped tie, is shown from the chest up. He is looking upwards and to the right with a thoughtful expression. The background is a light grey gradient.

# 6 Good practices

for optimizing interactions with  
non-financial rating agencies

**Practical**



MEDEF

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## → → Introduction

### **An overview of non-financial analysis**

Today sustainable development in a corporate setting, or corporate social responsibility (CSR), is generally understood to cover the following four areas:

1. Corporate governance and ethical business conduct (fair trade practices, fair competition, transparent and ethical information and communication policies, etc.),
2. Social policies (right to unionize, right to collective negotiation, subcontracting, etc.) and human resources policies (non-discrimination, respect for human rights, etc.),
3. Environmental protection policies (preventing pollution, managing waste, fighting climate change, limiting resource consumption, environmentally friendly design, etc.),
4. Social initiatives (economic development of the local job market in the area where the company is located, promoting diversity, patronage, sponsorships, etc.).

**Non-financial rating agencies evaluate all or part of a publicly traded company's sustainable development policies to assess how close they come to meeting environmental, social and governance (ESG) criteria. Based on their analysis, they rate the "non-financial performance" of the company that has been evaluated.**

These agencies perform third-party evaluations, i.e., they are brought in at the request of a third party, usually a company's investors and/or advisers (management companies).

Note: These agencies can also provide solicited evaluations, which are performed at the request of the company itself. We do not address this type of rating in this guide.

According to Article 255 of French Law No. 2010-788 of July 12, 2010 (the "Grenelle 2" Law), companies with more than a certain number of employees and whose balance sheet and turnover exceed a certain threshold are required to include in their annual reports information about how they address the social and environmental consequences of their activity and what they do to support sustainable development.

The environmental, social and governance information provided in the annual report is subject to verification by an independent third party. This type of verification assesses the fair presentation of the information and is thus of a different nature than the ratings carried out by non-financial rating agencies.

### **The purpose of this guide**

The quality of sustainable development policies and the fair presentation of these policies have become criteria for evaluating companies, and the public has come to expect companies to demonstrate accountability and exhibit civic behaviour. Therefore, the findings of non-financial rating agencies can have a positive or negative influence in the short or medium term on a company's reputation or, in the case of a listed company, on the value of its shares.

Consequently, companies make every effort to ensure the evaluations of their sustainable development policies provide a true and fair view of the nature, extent, depth and reality of their CSR initiatives.

The activities of non-financial rating agencies are not regulated yet, nor are their relationships with the evaluated companies subject to any standard, code of ethics, or professional regulatory body. There is however a voluntary standard that is endorsed by the European Commission: the Voluntary Quality Standard for Corporate Sustainability and Responsibility Research (CSSR-QS). Its purpose is to define a quality standard for transparency and independence in research and analysis of companies. This is an initiative of the Association for Independent CSR Research, which is composed of 16 founding members, including Ethifinance, CFIE and Vigeo in France. This body awards certifications based on an independent audit process.

The existence of this voluntary initiative demonstrates that agencies are concerned about the quality of the reports they produce – which depends greatly on the sincere and active cooperation of the companies they evaluate.

To encourage this trend, it is therefore important to define a certain number of rules governing actions and quality during the third-party evaluation process, in order to:

- Ensure that the fundamental rights of companies and non-financial rating agencies are respected,
- Ensure that the constraints on companies are seriously taken into account, particularly those of listed companies, which sometimes prevent them from answering positively or completely to the questions of non-financial rating agencies,
- Help facilitate the evaluation process for non-financial rating agencies, and
- Ensure that the best possible relations are maintained between involved parties.

The purpose of this document is to propose a set of good practices recommended by MEDEF for optimizing relations between companies and non-financial rating agencies in the context of a third-party evaluation, as well as optimizing the quality of the evaluation...

## Practical

## → → **Good practice no.1** **Mutual understanding and respecting the roles and constraints of each party**

As an evaluation is beginning, it is important for the two concerned parties (the company being evaluated and the non-financial rating agency) to understand the role and respect the constraints of the other party.

By choosing to participate in the evaluation process, the company being evaluated agrees to be transparent in order to demonstrate the relevance and effectiveness of its CSR initiatives.

If however, the company refuses to provide the requested information, it must clearly explain its refusal and acknowledge that this may have a negative effect on its ratings or lead to a downgrade. Companies may not be able to answer certain kinds of questions:

- For legal reasons (for example, information that must first be communicated to employee representative bodies or information that might reveal confidential personal data or trade secrets);
- Due to stock market regulations applying to listed companies, specifically when information that has not been made public could have a significant impact on stock prices or performance during the current and/or subsequent fiscal year(s).

For the agency, this means it must ensure that its evaluation is based on:

- Strict procedures (particularly when it comes to maintaining confidentiality and responding in a timely manner);
- Competent analysts (with expertise in the area of activity of the company being evaluated);
- A methodology that is as objective and stable as possible. Any significant variation in the evaluations made by the agency from one year to the next must be substantiated.

It must specify the ways in which the information it collects from a company will (or might) be used, and it must do its best to strictly limit dissemination of this information. If a company does not respond (in whole or in part), the agency must indicate that there was no response and list the reasons provided, if any. If a company is unable to respond to certain questions for the reasons described above, the agency must acknowledge this and should not draw any negative conclusions about the company as a result.

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## → → **Good practice no.2** **Transparency in the** **analysis process**

When a company explicitly agrees to openly and actively participate with the agency performing a third-party evaluation, the company is required to facilitate the agency's work to the extent of its legal obligation (in particular, its obligation in terms of fairness in communication and provision of information) and to provide the necessary documentation.

For its part, the agency must provide the following information to the company:

- Its status (NGO, non-profit organization or company – in which case it must specify who its shareholders are, etc.) and its corporate purpose;
- Its funding sources;
- The professional competence (skills and experience) of the persons performing the evaluation;
- The information sources it plans to use;
- The main elements of its methodology for collecting, processing, analysing and consolidating this information, particularly in the case of companies involved in multiple, distinct business activities;
- The evaluation criteria and how they are weighted;
- The stakeholders it intends to consult (NGOs, trade unions, etc.), while protecting the anonymity of these parties;
- Any certification it may have earned and/or any voluntary initiative it adheres to (Global Compact, VQS, etc.);
- The final intended use of the information provided by the company.

## → → Good practice no.3 Ethics, independence and conflicts of interest

The agency must make every effort to avoid having any special interest that could influence the results in one direction or another.

The two parties must have an arm's length relationship with no shared staff or senior management. If there are any cross-shareholdings, the agency must demonstrate that the mechanisms it applies ensure the independence of its analysis.

No compensation or benefits-in-kind must be sought or accepted by the agency and/or the company except in the specific case of a company itself ordering an audit or other types of products, such as benchmarking covering an industry or topic, from the agency.

The teams performing the analysis must be independent and separate from any team that might potentially provide advising or consulting to the company being audited.

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## → → **Good practice no.4** **Experience, skills, rating process and methodology issues**

The agency will make every effort to assign competent personnel to perform the evaluation:

- Personnel with expertise in the company's sector of activity;
- Personnel with expertise in the domains of sustainable development that the agency intends to assess;

It must ensure that its analysts have a strong understanding of the basic rules governing businesses, as well as the skills necessary to analyse the specific issues of a company in the context of its business sector and sustainable development. To achieve this, the agency should provide training to analysts once they are hired. Particular attention should be paid to the mentoring and professional development of junior analysts.

The information collected by the analysts must be as complete as possible. Methods for information collection must include provisions for cross-checking potentially sensitive information and must ensure that the various information sources are treated with discretion.

The analysis will be in-depth and will result in an objective, precise and fair report that is based on a strict methodology and a rating system that is applied in the same way to all companies evaluated within a given sector.

For its part, the company will provide access to qualified and competent employees and the information or explanations requested within the limits described above and in good faith. In return, the agency acknowledges that distributing questionnaires within the company adds considerably to the employees' workload and will provide a schedule for the evaluation process to the company as early as possible, in order to make it easier for the company to manage internal information collection. Particular attention should be paid to vacation periods and employee absences in order to coordinate the schedules of all involved.

The company also acknowledges that the methodology and sector classification are determined by the agency. However, if the company deems that its sector classification (particularly in the case of diversified groups) is incorrect, or if elements used to measure the sector do not apply to the company due to a particular business configuration, it has the right to make substantiated remarks regarding the methodology. The agency objectively analyses these remarks for relevance as early as possible in the process in order to make changes to its analytical model if it deems them necessary.

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## → → **Good practice no.5** **Transparency of the preliminary report and right of reply**

The agency provides its preliminary report (and/or its draft ESG profile) to the company before publishing it or delivering it to its clients so that the company can identify and indicate in writing to the agency any elements it considers erroneous, incomplete or inaccurate.

A reasonable time period for review would be approximately two weeks. In case of disagreement, a meeting with the agency can be requested by the company or by the agency itself, in a transparent manner.

The company must not abuse this right and should only request modifications that are well-founded.

In case an agreement cannot be reached with the company, the agency will include in its final report a description of the company's objections, or it will indicate the fact that the company has objections.

Once the evaluation process is completed, the agency will provide the company with a copy of its final report (and/or its ESG profile) within a reasonable time frame.

## → → Good practice no.6 Ownership, confidentiality and responsibilities

If a company chooses to submit to non-financial analysis, it must cooperate and provide the requested information. This information remains the property of the company being evaluated.

As a rule, the agency will not use this information for any purpose other than to conduct the evaluation and perform its work as described to the company. If the agency plans to use the information for other purposes, such as industry benchmarking, specific research, etc., it must tell the company being evaluated in advance. The company will then specify which information must remain confidential under all circumstances. In this case, the two parties can sign a confidentiality agreement that establishes their mutual obligations.

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If, in the course of its analysis, the agency inadvertently accesses confidential information (such as manufacturing secrets or methods, or strategic information that has not yet been made public in the case of listed companies), it must inform the company and respect the confidentiality of said information. The agency must not use this information for purposes of its report.

The agency, therefore, must demonstrate responsible and professional methods and behaviour. In particular, it must not disparage the company by making judgments that are beyond the scope of the facts of the evaluation.

**Mouvement des Entreprises de France**  
**Sustainable Development Department**  
55, avenue Bosquet  
75330 - Paris Cedex 07  
Tél. : 01 53 59 19 19  
[www.medef.com](http://www.medef.com)