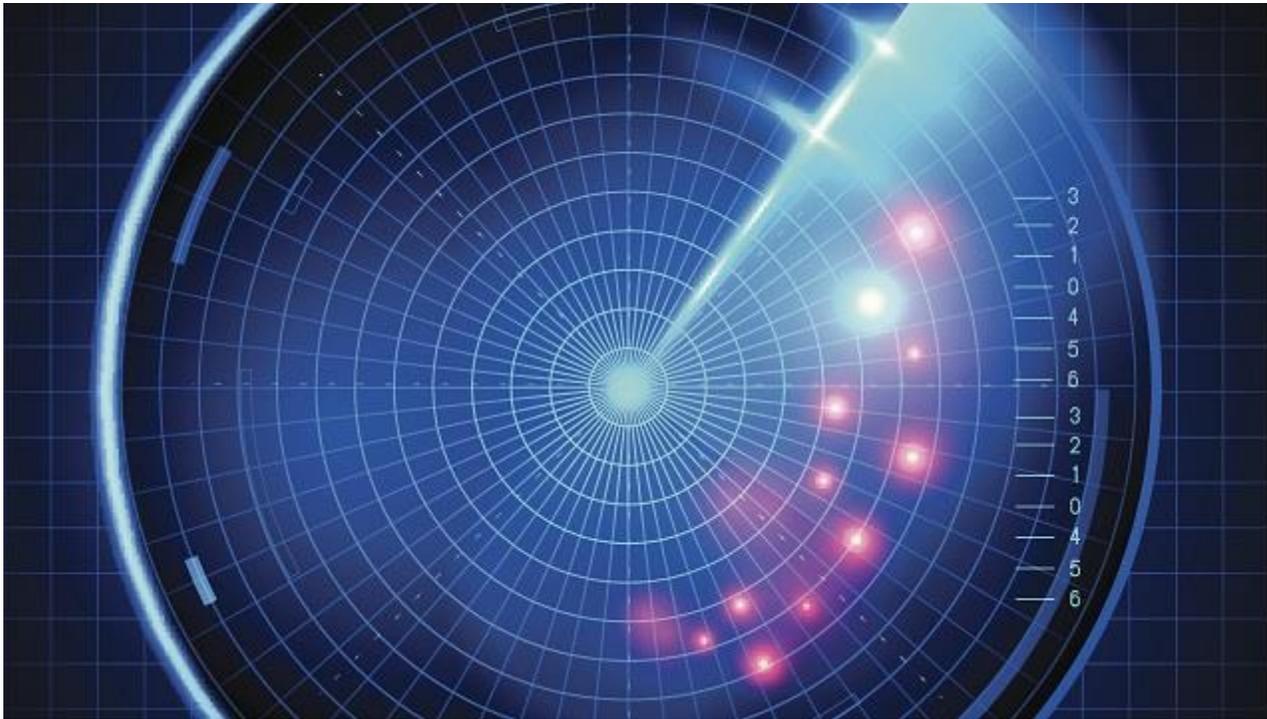


STOXX

A Red Flag for Firms in Conduct Breach

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Cases such as BP Plc's Deepwater Horizon oil spill and Volkswagen's carbon emissions cover-up have highlighted the reputational and financial cost of neglecting environmental, social and governance (ESG) standards.

This month, [RepRisk](#), owner of the world's largest due diligence database on ESG and business conduct risks, launched the UN Global Compact (UNGC) Violator Flag to identify companies that have a high or potential risk of violating one or more of the ten [Principles of the UN Global Compact](#) (UNGC Principles).

The UNGC Principles cover topics in the fields of human rights, labor, the environment and anti-corruption.

A radar for corporate infringements

RepRisk, which counts Norway's state pension fund and BASF among clients, specializes in ESG risk incidents, taking a different angle to ESG research providers that analyze companies' internal sustainability policies.

RepRisk scans over 80,000 public sources daily, in 15 languages and around the globe, for ESG-risk stories relating to any company, listed or privately held, worldwide. Currently, around 95,000 companies have had risk exposure. This event-driven data is based on sources that are external to companies, such as the media and NGOs.

The new feature in the RepRisk ESG Risk Platform will label a company as a 'UNGC Violator' when a team of analysts deems that the business has had significant exposure to ESG risk incidents associated with one or more Principles over the last two years. A previous level defines companies as 'Potential Violators' when incidents exist, but at a smaller number, severity or reach.

Thereby, the UNGC Violator Flag complements RepRisk's existing offering of a pure news count, with a noticeable feature that assesses each company's actual risk of an ESG breach and works as an alert in portfolios.

"While the Platform already allows you to detect how many incidents each company has had in relation to each Principle, you can now very quickly identify where the potential violations are, and exactly where there are risks in your portfolio," said Alexandra Mihailescu Cichon, RepRisk's Head of Sales and Marketing.

Risks in investments or client portfolios

The RepRisk Platform can help institutional investors such as pension funds assess where there are risks in their investment holdings. Banks can screen for liabilities within a client portfolio, and large companies with foreign operations can detect potential ESG issues within its supply chain.

The threshold for being classified as a UNGC Violator is higher for closely scrutinized companies, such as multinationals. These companies are more exposed to ESG news than smaller peers due to their size, global footprint, and saliency towards media and stakeholders.

The Violator Flag can be used as an additional daily-updated risk overlay for ESG integration in portfolios and investment analysis across all asset classes.

BP as case study

Capturing external scrutiny on companies can prove key to control ESG risks. Before the Deepwater Horizon oil rig exploded in April 2010, killing 11 workers and triggering the worst environmental disaster in US history, manager BP was ranked highly for its ESG policies by traditional ESG research/ratings providers.

However, assessment from external stakeholders painted a different picture. From March 2008 to March 2010, RepRisk had identified as many occupational health and safety risk incidents at BP as in its five largest competitors combined – including Royal Dutch Shell and Exxon Mobil Corp. This adverse data ranked BP higher as a potential ESG risk violator in RepRisk's Platform.

ESG investing through passive vehicles

Responsible business conduct has become a corporate imperative and is a recognized long-term value driver.

This can be testified by the increasing interest in STOXX's wide range of sustainability indices, which allow investors to incorporate a [wide range of responsibility factors](#) into their investment processes.

From the [STOXX® Global ESG Leaders index](#) to the [STOXX® Low Carbon Indices](#) and the [STOXX® Climate Impact and Climate Awareness indices](#), investors can put in place the specific passive strategy that best fits their sustainability goals.

At PULSE ONLINE, we will keep monitoring all progress and interesting developments in the world of ESG investing.