

Differentiating ESG rating agencies: MSCI vs Sustainalytics

SIMILARITIES

Corporate governance applies across sub-industries in both models

Both use exposure-risk two tier model to determine their ESG ratings

All ESG issues have a weightage and are not treated equally

Both ratings factor in controversies which are company-specific by nature

DIFFERENCES

Corporate governance has a higher weightage on Sustainalytics Risk Rating

Each ESG issue has a weightage for MSCI determined by severity and time horizon whilst Sustainalytics uses a beta framework to determine the company specific ESG issue beta

MSCI breaks down ESG key issues into separate pillars and determine the score of each pillar and adds them up. Sustainalytics only has the corporate governance pillar and how well a company scores on its ESG ratings is dependent on the response to all material ESG issues (which they categorise into 5 events instead of separating E/S/G pillars)

MSCI uses a weightage average scoring to factor in all its 3 pillars and pegs it to a letter rating. Sustainalytics uses a cumulative approach in summing up risk and management values and subtracts managed risk from exposure to get its numerical ESG rating value.