



Ethifinance

Controversy analysis Methodology 2025

ESGRA Controversy Analysis Methodology – July 21, 2025

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1. INTRODUCTION

1.1. EthiFinance Group and ESG Rating Agency

1.1.1 EthiFinance Group

EthiFinance is an independent European rating, research and advisory group, fully committed to Sustainable Finance. Our group provides investors, banks, insurances, corporates and organisations of all sizes with impactful analysis and solutions to the challenges of financing as well as environmental and societal transformation.

Now present in six locations in France, Germany and Spain, EthiFinance provides investors, banks, insurance companies, companies and organizations of all sizes with high-impact analysis and solutions to the challenges of financing, environmental and social transformation.

1.1.2 EthiFinance ESG Rating Agency

Our business unit “ESG Rating Agency” offers data and research for investors (off-the-shelf ESG ratings and datasets) and for issuers (second party opinions and solicited sustainability assessments). Our products are rooted in proprietary and publicly available methodologies using a double materiality approach. We deliver in-depth insights into the sustainability performance of issuers and instruments, allowing investors to make informed decisions, and organisations to understand their positioning against regulatory frameworks as well as their peers.

Our highly qualified analyst team is specialized by sector and located across Europe in our offices in France, Germany and Spain. Overall, our team combines close to 30 sector and product experts, and we have partnered up with likeminded experts supporting us in data collection and media screening.

We have implemented a clear separation from the teams that provide ESG advisory solutions and bespoke research to investors as well as from those providing credit ratings and research. We do not provide any consulting services to issuers. We are part of the ESMA list of external reviewers for European Green Bonds and are preparing for registering as a regulated ESG Ratings provider in 2026.

We constantly stay at the forefront of new developments in the fast-paced and strongly regulated area of sustainable finance, responsible investment and corporate sustainability. Our team is dedicated to delivering innovative products through agile methodology and product development.

1.2. Purpose of this methodology document

This methodology document describes EthiFinance’s controversy analysis methodology as proposed by our ESG Rating Agency business unit to asset managers, asset owners and banks to evaluate the sustainability performance of their investees, clients or prospects.

The methodology document is reviewed on an annual basis and approved by the ESG Rating Agency’s methodology committee.

1.3. Definition of our controversy analysis

An ESG controversy consists of any event regarding environmental, social or ethical/governance issues that is likely to have a negative impact (reputational, legal or financial) on the rated entity and its sustainability performance. EthiFinance defines ESG controversies as a questioning of a company or project by its stakeholders (employees, trade unions, NGOs, regulators, customers, shareholders,

etc.). Stakeholders may express their concerns by various means: Reports, notifications, campaigns, media articles, and sometimes by legal action such as lawsuits, formal notices, fines or sanctions.

EthiFinance collects data on controversies involving companies in its coverage and assesses their level of severity, as well as each company's overall exposure to controversies.

The controversy analysis is carried out by our analysts, who are specialized in corporate sustainability and ESG and are either EthiFinance employees or part of our sub-contractor in charge with data collection. This methodology has been developed to ensure that the same results are achieved regardless of the analysts involved in the assignment.

1.4. Scope of the controversy analysis methodology

EthiFinance's controversy analysis methodology applies to all companies assessed by the ESG Rating Agency, regardless of their industry or geographic location. It covers the identification, documentation, and evaluation of ESG-related controversies that may impact a company's sustainability performance.

The scope includes both past and ongoing controversies, provided they are relevant to the company's current ESG profile.

Controversy monitoring is conducted on an ongoing basis, and scores are updated monthly to reflect the most current information available.

2. METHODOLOGY OVERVIEW

EthiFinance's controversy analysis is a structured, multi-step process designed to assess the ESG-related risks and impacts associated with companies.

1. Methodological Structure (paragraph 3.1)

The process is organized into four key steps:

- **Identification of Relevant Articles:** ESG-related content is sourced via automated web-scraping and validated by analysts.
- **Event Consolidation:** Articles referring to the same facts are grouped into events.
- **Controversy Analysis:** Events are aggregated into controversies, which form the actual unit of analysis.
- **Issuer-Level Exposure Assessment:** A company's overall exposure is determined based on the severity and recurrence of controversies.

2. Sustainability Classification (paragraph 3.2)

Each controversy is classified under a **sustainability pillar** (Environmental, Social, or Governance) and a **specific topic**, ensuring relevance and alignment with international standards.

3. Controversy-Level Assessment (paragraph 3.3)

Controversies are evaluated using six criteria across three dimensions:

- **Impact on the Company:** Financial/operational and reputational consequences.
- **Impact on Stakeholders:** Number and type of stakeholders affected, and intensity of the impact.
- **Responsibility Level:** Legal status and the company's degree of involvement.

A seventh criterion, **Company Response**, is qualitatively assessed for high or critical controversies.

4. Scoring System (paragraph 3.4)

- **Controversy Severity:** Rated from *Low* to *Critical*.
- **Company Exposure Score:** Ranges from *No Controversy Identified* to *Critical Exposure*.

5. Compliance with International Standards (paragraph 3.5)

In addition to severity and exposure, each controversy is assessed for alignment with three key international frameworks:

- **UN Global Compact (UNGC)**
- **OECD Guidelines for Multinational Enterprises**
- **ILO Core Conventions**

This assessment results in a compliance score that measures a company's alignment with international standards.

6. Temporality and history of data (paragraph 3.6)

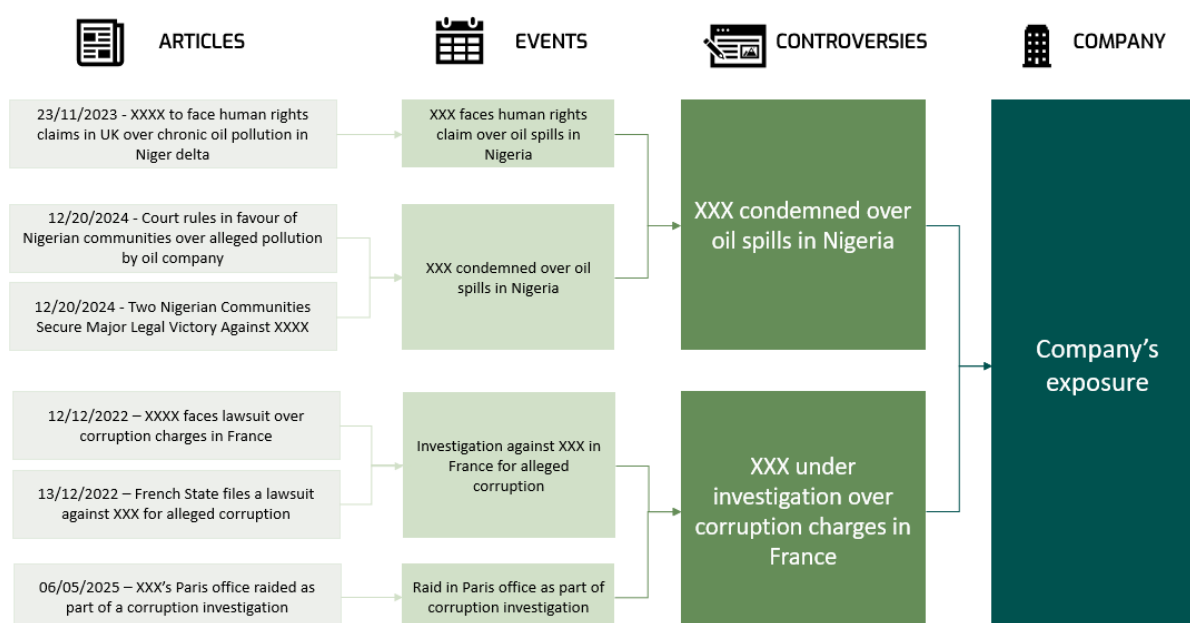
The severity of a controversy is retained for two years, after which the score gradually decreases—except for high or critical cases, which are reviewed annually by an Arbitration Committee¹.

Controversy data is monitored continuously, and when a new company is added to Ethifinance's ESG rating universe coverage, a two-year retrospective analysis is conducted.

3.DETAILED METHODOLOGY DESCRIPTION

3.1. Structure of the methodology

Exhibit 1 - OVERVIEW OF THE METHODOLOGY



The controversy analysis methodology is structured as a multi-step process comprising the following elements:

1. Identification of Relevant Articles

Controversy-related content is sourced through:

- A web-scraping tool
- Additional manual research and validation

2. Event Consolidation

Articles referring to the same facts are grouped into **events**, defined as a series of related incidents involving a company at a specific point in time.

¹ The monthly Controversy Arbitration Committee is composed of members of the ESGRA Leadership Team and is responsible for reviewing controversies rated 4/5 or 5/5 to determine whether the rating should be maintained or downgraded. Only the committee has the authority to lower controversy ratings at these levels.

3. Controversy Analysis

Events are then linked to form a **controversy**, which serves as the unit of analysis for severity, company exposure, and compliance scoring.

4. Company-Level Exposure Assessment

The company's overall exposure to controversies is calculated based on:

- The **severity** of its most serious controversy
- The **recurrence** of controversies over time

3.2. Sustainability Pillars and Topics

Each controversy is assigned a sustainability pillar and a specific topic. If a controversy spans multiple topics, the most prominent topic is selected for classification.

This classification ensures that each controversy is analysed in relation to its most relevant sustainability domain, facilitating targeted evaluation and alignment with international standards.

3.3. Assessment at controversy level

Our evaluation of ESG controversies is based on a combination of **six criteria**, grouped into **three key dimensions**:

1. Impact on the Company

- Financial/Operational Impact
- Reputational Impact

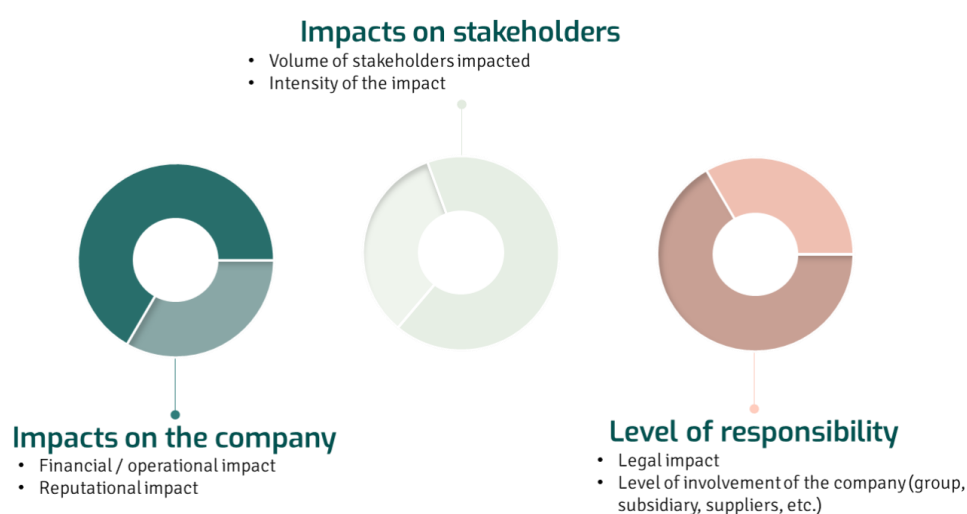
2. Impact on Stakeholders

- Volume of Stakeholders Impacted
- Intensity of Impact

3. Responsibility level

- Legal Impact
- Level of Involvement

Exhibit 2 - OVERVIEW OF ASSESSMENT CRITERIA



An **additional criterion**, the **Company's Response**, is also assessed in cases where the overall severity of the controversy is rated as "**High**" or "**Critical**." While this criterion is not scored numerically, it provides important context for understanding the company's handling of the issue.

The assessment levels provided in this document are for guidance purposes only and may vary depending on specific circumstances. In all cases, the analyst must provide a clear justification for the chosen assessment.

3.3.1. Impact on the company

Financial/operational impact

This criterion is assessed in terms of the proportion of revenue and/or net income lost or at risk due to the controversy.

Reputational impact

This criterion is evaluated based on the extent of media coverage, taking into account the size and visibility of the company.

3.3.2. Impact on stakeholders

For this dimension, we take into account the stakeholders directly affected by the facts of the controversy. The stakeholder accused of the facts is not to be considered affected by the controversy. (Example: A CEO is charged with insider trading. The CEO is not considered a directly affected stakeholder). Using this criterion, we assess, in accordance with the CSRD², the magnitude and scope of the impact through the affected stakeholders.

Stakeholders can include employees, clients, local communities, shareholders, suppliers, the environment, etc.

Volume of Stakeholders Impacted

This criterion evaluates the **scope** of stakeholder impact, considering both the **number of stakeholder groups affected** and the **proportion of individuals** impacted within each group.

Intensity of impact

This criterion evaluates the **scale** of the impact and its **irreversible character**.

3.3.3. Level of responsibility of the company

Legal impact

This criterion assesses the **legal status** of the controversy, based on the existence and outcome of any legal or administrative proceedings.

Level of involvement

This criterion assesses the degree of the company's responsibility in the controversy, based on its position in the value chain and the level of involvement of top management. It helps distinguish between **structural issues** and **isolated or external incidents**.

² Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022

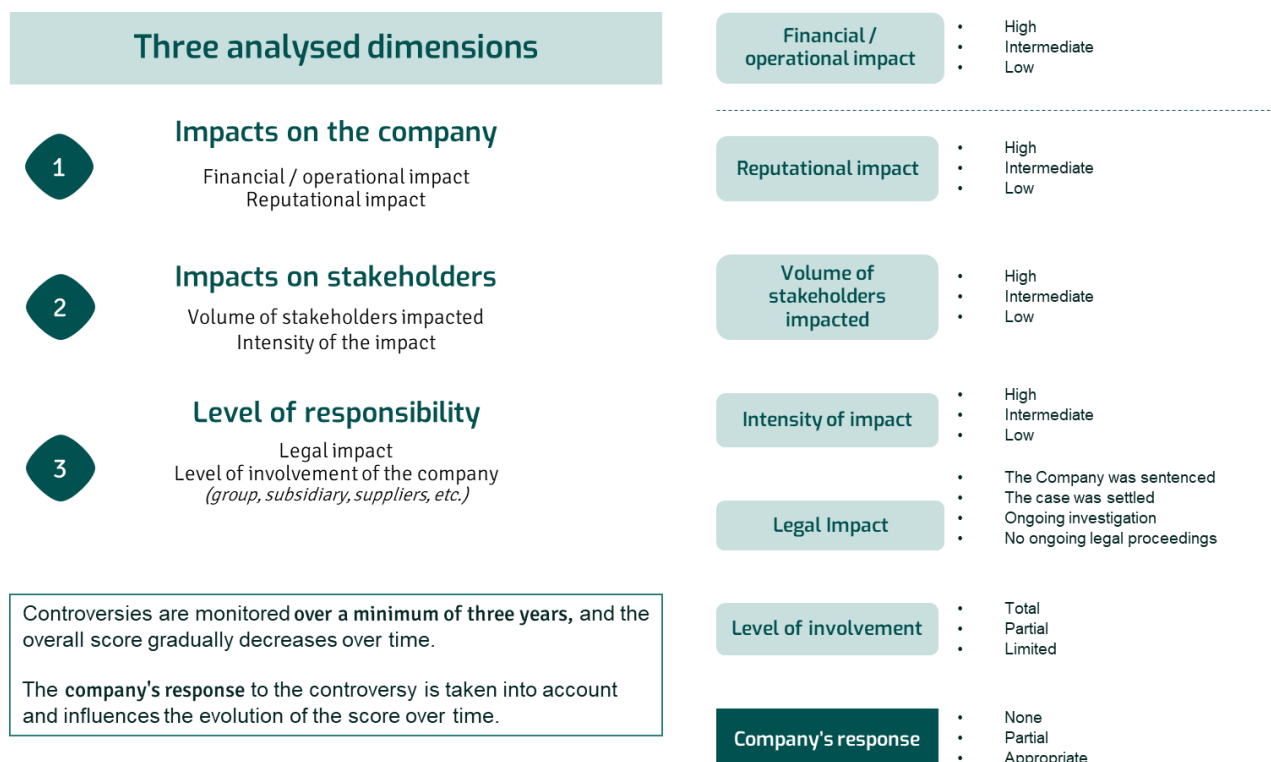
3.3.4. Company's Response

This criterion is analysed when a controversy is assessed as high risk or critical. It evaluates the adequacy and timeliness of the company's actions in response to the controversy, based on both public disclosures and private dialogue with the company.

Although this criterion is not included in the controversy severity score, it plays a key role in:

- Monitoring the controversy over time
- Supporting the Arbitration Committee's decision-making

Exhibit 3 - CONTROVERSY ANALYSIS METHODOLOGY - SUMMARY



3.4. Aggregation of scores

3.4.1. Severity score at controversy level

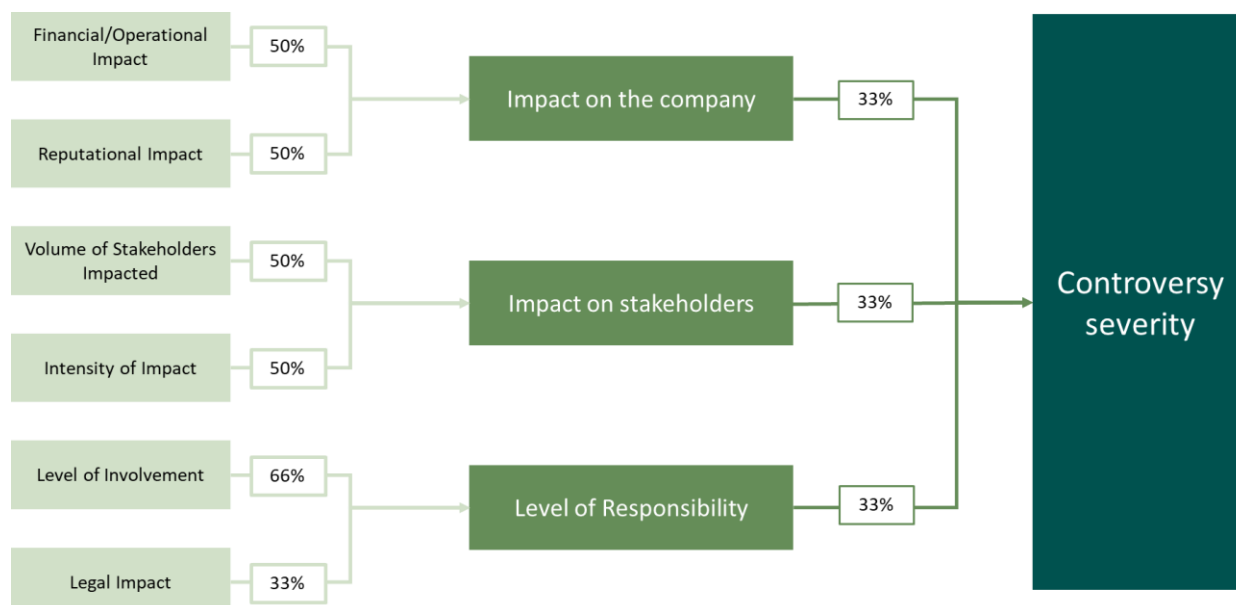
Each of the six criteria is assessed on a three-level scale, with scores ranging from 1.5 to 5 points.

These scores are then aggregated to obtain the controversy's severity score.

Within each of the three dimensions, the criteria are equally weighted, except for the "Level of Responsibility" dimension, where Legal Impact is deliberately weighted less to avoid overemphasizing minor legal outcomes (e.g., small fines).

The final severity is the average of the three dimensions scores, as summarized in the graph below.

Exhibit 4 - CONSOLIDATION OF SCORES AT CONTROVERSY LEVEL



The final severity is a value between 0 and 5, corresponding to the following levels:

Exhibit 5 - SEVERITY RATING SCALE

Score	Severity Level
0–1	Neutral
2	No Significant Controversy
3	Significant Risk Controversy
4	High Risk Controversy
5	Critical Risk Controversy

Controversies receiving a **severity score of 4 (High Risk) or 5 (Critical Risk)** must be reviewed by the **Arbitration Committee**, composed of senior members of the ESG Agency. The committee will validate or adjust the score based on the analyst's presentation and supporting evidence.

3.4.2. Exposure Score at Issuer Level

Our controversy assessment tool automatically calculates an **exposure score** for each issuer, reflecting both the **severity** and **recurrence** of controversies. This score helps identify issuers with a pattern of repeated or serious ESG issues.

Scoring Methodology

- The **exposure score** ranges from **1 to 5**, with **5** indicating the highest level of exposure.
- The score is determined by:
 - The **highest severity level** of any controversy linked to the issuer.

- The **number of controversies** at each severity level.

3.5. Compliance with International Standards

In addition to the **severity** and **exposure** scores, Ethifinance evaluates each controversy and company's alignment with three key international standards:

- United Nations Global Compact (UNGC)
- OECD Guidelines for Multinational Enterprises
- ILO Core Conventions

These assessments help determine whether the company's practices align with, pose a risk with respect to, or conflict with internationally recognized principles on human rights, labour, environment, and anti-corruption.

The non-compliance of a controversy with one or more of these standards is assessed based on the topic of the controversy. Indeed, each sustainability topic is mapped to each of these texts.

3.5.1. Topic-Based Mapping

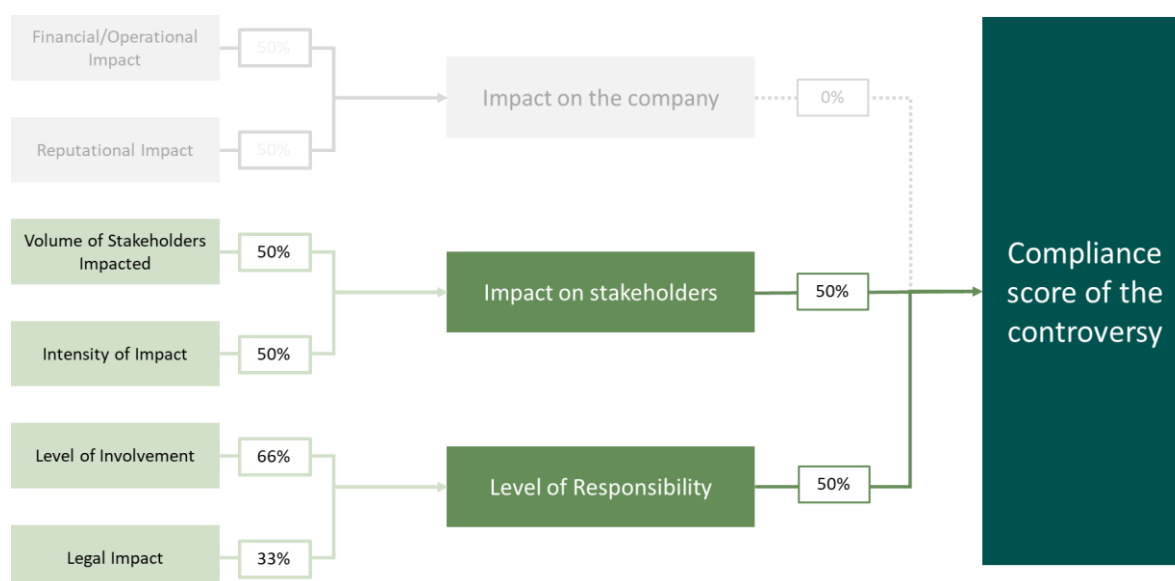
Each controversy is linked to one or more of the above standards based on its sustainability topic. This mapping ensures that the evaluation is normatively grounded in the relevant international framework(s).

3.5.2. Scoring Methodology

The compliance score is calculated using the same weighting structure as the exposure score, with one key difference:

- Only the Impact on Stakeholders and Level of Involvement are considered
- The Impact on the Company dimension is excluded, as the focus is on normative impact, not business consequences.

Exhibit 6 - CALCULATION OF THE COMPLIANCE SCORE



The average score obtained is then converted in a compliance level:

- **Compliant**
- **At Risk**
- **Not aligned**

The overall compliance score for a company under each standard is determined by the worst score among its related controversies.

These scores are evaluated independently from the severity and exposure scores but provide essential context for understanding the normative implications of each controversy.

3.6. Temporality and history of data

EthiFinance has maintained a controversy database since 2021, with historical data extending back to 2019. Once recorded, controversies are never deleted from the database.

Controversies remain “active” in the platform, thus impacting the company’s exposure, during at least 3 years. Each controversy retains its severity level for two years, after which the severity is automatically downgraded by one level per year—except for those rated High or Critical, which are reviewed annually by the Arbitration Committee and are not subject to automatic downgrading.

Controversy data is monitored continuously, and all scores are updated monthly to reflect the latest developments. When a company enters EthiFinance’s coverage, an initialization process is conducted to identify and assess relevant articles and controversies from the previous two years.

4. DELIVERABLES

Controversy data is accessible through the Controversy module of EthiFinance’s ESG Ratings platform. Clients can explore detailed company controversy pages and export data in Excel or CSV formats. For more advanced integration, data can also be retrieved via API or connected to external aggregators.

The platform provides a historical view of each issuer’s controversies, including:

- The severity level of each controversy
- Its alignment with key international standards (UN Global Compact, OECD Guidelines, ILO Core Conventions)
- A summary of the controversy (available for significant, high, and critical cases)

Each controversy is supported by clearly identified source links, including press articles, NGO reports, and company publications.

5.SOURCES AND ASSESSMENT PROCESS

5.1. Sources

Our controversy assessment methodology combines different sources of information:

Use	Source
Sources used for developing our assessment framework and analyst guidelines (this list is not comprehensive)	<ul style="list-style-type: none">• ILO Core Conventions• OECD (2023), OECD Guidelines for Multinational Enterprises on Responsible Business Conduct, OECD Publishing, Paris, https://doi.org/10.1787/81f92357-en• United Nations Human Rights Council (2011), UN Guiding Principles on Business and Human Rights, United Nations Publishing Service, Geneva• United Nations Global Compact (2015), The Ten Principles of the UN Global Compact, unglobalcompact.org/what-is-gc/mission/principles• UNGC, Business and Human Rights Navigator, accessed in 2025, https://bhr-navigator.unglobalcompact.org/
Sources used during the assessment process	<ul style="list-style-type: none">• List of articles provided by an external data provider that screens several million web sources and uses algorithms to pre-categorise the risk level of information. The sources do not include blogs or social networks to guarantee the reliability of the information.• Media articles, NGO websites• Company's public information or additional non-confidential information provided by company (used to assess the company's response)

5.2. Process

Our controversy analysis is a process involving four successive and iterative stages:

- **Identifying relevant news:** We receive a daily list of articles related to ESG controversies that have occurred in companies covered by Ethifinance. These articles are 'pre-qualified' using a "negativity" score and an "intensity" score. Our analysts also perform web searches to supplement the information provided.
- **Selecting information (quality check):** Analysts sort the articles identified by the external data provider to distinguish between relevant information and "false positives" (i.e. errors made by the algorithm).
- **Grouping articles into events:** Articles dealing with the same information are then grouped together to create an 'event' linked to a company. Each event is named and is linked either to³ an existing controversy (e.g. conviction of a company in a case that had already been identified on the platform) or to a new controversy.
- **Assessing controversies.** This stage is at the heart of controversy management. Our analysts measure the severity of controversies and carry out a precise assessment of each individual case, based on the criteria described above.

³ The 'negative' score is a negative sentiment score calculated using deep learning models trained on hundreds of thousands of annotated sentences. The 'intensity' score is based on the volume of articles mentioning the event compared to the company's usual coverage and a Large Language Model (LLM) that replicates ESG analysts' assessments of the risks that events pose to companies, using criteria including impact on the company (reputation, finances, operations), impact on stakeholders (number and degree of impact) and level of corporate responsibility (accident, negligence, intent).

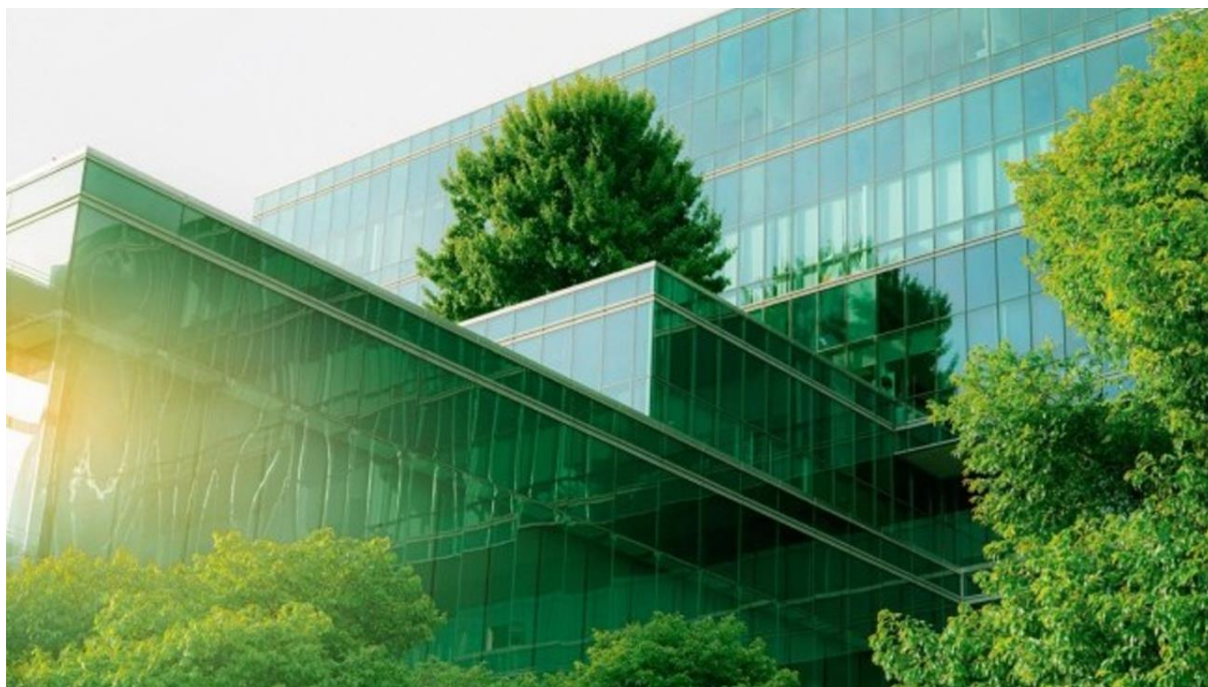
- **Quality check:** Once the initial analysis of the controversy has been carried out, a second analyst systematically re-reads the first analyst's work and comments on it if necessary. Once the comments have been integrated by the analyst who carried out the data collection, the analyst must be systematically validated by the quality analyst.
- **Arbitration Committee:** Controversies rated 'high' (4/5) or 'critical' (5/5) after this analysis are systematically reviewed by an Arbitration Committee made up of senior analysts, managers and directors. The committee meets at least once a month and as often as necessary. The committee can either confirm or change the severity level of the controversy. The committee's decisions are documented through meeting minutes and within the Ethifinance Controversy Platform.
- **Publication of data:** once validated, controversies are published on the ESG Rating Platform and companies' exposures are automatically updated. In addition, at the end of each month, ESG scores are recalculated to take into account any modification in the controversy penalty.

The entire process takes place on a proprietary platform (the Ethifinance Controversy Platform) where each step is documented, and all relevant sources are stored.

5.3. Estimation of input data

All the data used to perform the controversy analysis is public data or non-confidential data supplied by companies. Ethifinance does not rely on estimated data to build its controversy analysis.

Contact



📍 EthiFinance SAS

153 Boulevard Haussmann

75008 Paris

✉ contact.esgagency@ethifinance.com

🌐 www.ethifinance.com