

Regulatory Information

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This document describes the methodology used for the production of ESG ratings and related products distributed globally under the LSEG brand. References to LSEG products, methodologies, governance frameworks and related disclosures reflect the global operating framework supporting those products and services. This methodology document forms part of the disclosure framework established to support compliance with the Regulation (EU) 2024/3005 and should be read together with the publicly available disclosure documents at: <https://www.lseg.com/en/data-analytics/sustainable-finance/regulatory-disclosures>.

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Ref	Annex.	Article.	Requirement	Relevant / Disclosure	Methodology Reference (Section / Title & Page)
ESMA Reference:					
RTS on Article 23					
Rating Product Disclosures	Annex III 1.f	Article 3(1)	Information on the ESG rating's clearly defined objective and marking whether the rating is assessing risks, impacts, or both, according to the double materiality principle, or any other dimensions, and in the case of double materiality the proportion of the risk and impact materiality.	The ESG Factor-In framework is a dataset which aims at assessing the ESG performance of a country compared to its wealth. The first part introduces the concept of the Sustainable GDP which evaluates the impact a certain country has on the global scene relative to its wealth. The second part explains the chosen econometric approach (scoring and Partial Least Squares regressions). From a materiality standpoint, both the impact and risk components are included in the present assessment, a mix of both is present in all three of the pillars. An example could be that both governmental policies and corporate behaviour affect the Pollution theme.	Section 1 Methodology Overview, page 4
			(a) A description of the risks covered, where the ESG rating is assessing risks.	Figure 2 (page 5) describes the themes included in the computation of the factors, from which themes such as Energy Security, Pollution, Water Scarcity, Economic Inequality, Vulnerability, Lifestyle Risks and Corruption constitute risk-oriented themes.	Sub-section 1.2 Sustainable GDP, ESG Performance and Scores, page 5
			(b) A description of the impacts covered, where the ESG rating is assessing impacts.	Figure 2 (page 5) describes the themes included in the computation of the factors from which themes such as Energy Infrastructures, Resource and Depletion, Water Infrastructures, Land Resources, Transport Infrastructures, Demographics - Life conditions, Economic Inequality, Health Infrastructure, Business Rights and Political Stability constitute impact-oriented themes.	Sub-section 1.2 Sustainable GDP, ESG Performance and Scores, page 5
			(c) Information on how the risk and impact materiality are taken into account according to the double materiality principle, where applicable.	The ESG Factor-In framework is a dataset which aims at assessing the ESG performance of a country compared to its wealth. The first part introduces the concept of the Sustainable GDP which evaluates the impact a certain country has on the global scene relative to its wealth. The second part explains the chosen econometric approach (scoring and Partial Least Squares regressions). From a materiality standpoint, both the impact and risk components are included in the present assessment, a mix of both is present in all three of the pillars. An example could be that both governmental policies and corporate behaviour affect the Pollution theme.	Section 1 Methodology Overview, page 4
			(d) Where the ESG rating is based on other materiality dimensions, a description of those dimensions.	The ESG rating is not based on other materiality dimensions.	N/A
	Annex III 1.g	Article 3(2)	The ESG rating's scope, namely, whether it covers an individual E, S, or G factor or whether it is an aggregated rating aggregating E, S and G factors, or whether it covers specific issues such as transition risks.		
			(a) A description of what is covered under the E, S or G factors and which factors are aggregated, where applicable.	Please refer to Figure 2 (page 5) which describes the themes included in the computation of the factors.	Sub-section 1.2 Sustainable GDP, ESG Performance and Scores, page 5
			(b) A description of the specific issues that the ESG rating covers.	The ESG Factor-In framework is a dataset which aims at assessing the ESG performance of a country compared to its wealth. The first part introduces the concept of the Sustainable GDP which evaluates the impact a certain country has on the global scene relative to its wealth. The second part explains the chosen econometric approach (scoring and Partial Least Squares regressions). From a materiality standpoint, both the impact and risk components are included in the present assessment, a mix of both is present in all three of the pillars. An example could be that both governmental policies and corporate behaviour affect the Pollution theme.	Section 1 Methodology Overview, page 4
	Annex III 1.h	N/A	In the case of an aggregated ESG rating, the weighting of the three overarching E, S and G categories of factors (for example 33 % for the E factor, 33 % for the S factor, 33 % for the G factor), and the explanation of the weighting method, including weight per individual E, S and G category.	Sustainable GDP: Depending on one's conviction on the order of importance of the 3 pillars, the end user can define a sustainable GDP as the weighted average of the three sustainable GDPs, and specify the associated weights. The agnostic version of sustainable GDP is obtained as a simple average of the three components ($ESG = 1/3 * E + 1/3 * S + 1/3 * G$). ESG, E, S, and G Performance: Based on the 4 sustainable GDPs thus estimated (E, S, G and ESG), we define a country's performance E (resp. S, G and ESG) as the relative gap between real GDP and sustainable GDP E (resp. S, G and ESG). It represents a form of sustainability level of the produced wealth as well as the capacity of a state to act on the long-term determinants covered by the ESG perimeter.	Sub-section 1.2.4 Calculation of Scores, page 10
	Annex III 1.i	N/A	Within the E, S or G factors, specification of the topics covered by the ESG rating, and whether they correspond to the topics from the sustainability reporting standards developed pursuant to Article 29b of Directive 2013/34/EU.	The data sources are not mapped against sustainability statements under the Corporate Sustainability Reporting Directive (CSRD) or from information disclosed under the Sustainable Finance Disclosure Regulation (SFDR), or EU Taxonomy.	Section 2, Data Collection Process, page 14
	Annex III 1.j	N/A	Information on whether the rating is expressed in absolute or relative value.	The expected value is the expected indicator value of a country given its level of wealth. It can also be viewed as a peer average (i.e. the average value of countries with similar wealth).	Sub-section 1.2.2 Expected Value and Performance, page 9
	Annex III 1.o, Annex III 1.p	Article 3(3)	If an ESG rating of a rated item covers the E factor, information on whether that rating takes into account the targets and objectives of the Paris Agreement or any other relevant international agreements.		
			(a) Include an indication of whether the rating takes into account the targets and objectives of the Paris Agreement and which other international agreements are taken into account, with reference to basic identifying information on these agreements together with an explanation of their relevance to the rating;	As described in Table 1. List of data providers for the inputs, the model takes into account the outputs of the Climate Liabilities Assessment Integrated Methodology which assesses the pledged emissions for each country.	Sub-section 1.2 Sustainable GDP, ESG Performance and Scores, page 5
(b) Specify whether the rating is benchmarking commitments against the objectives of those agreements.			The rating itself does not benchmark any rated entity against the agreements noted.	N/A	
			An overview of the rating methodologies used and changes thereto, including whether analysis is backward-looking or forward-looking and the time horizon covered.	The ESG Factor-In model provides a statistical and agnostic approach to ESG analysis by linking country economic performance and ESG. This quantitative model assesses the overall ESG performance of a country relative to its peers, highlighting the ESG factors that contribute to the sustainable growth of a country.	Executive Summary, page 3
			(a) the title of the rating methodology used;	ESG Factor-In Model	Executive Summary, page 3
			(c) the time horizon over which the ESG rating is considered valid, where applicable	This process is centralized upstream of the Sovereign Database, which is the master database for sovereign SFI data. The data checks are performed before each model run (for the input data) and after each model run (for the output data), the model is refreshed annually. The scores are considered valid at any point in time after the latest refresh.	Sub-section 3.1 Model Input/Output Validation, page 15

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Basic Methodological Disclosures	Annex III.1.a	Article 4(1)	(d) a list and overview of the relevant supporting models and key rating assumptions, where applicable; information on measures and procedures to ensure the quality and reliability of data used;	The methodology is subject to data and modelling limitations inherent to multi-source ESG datasets and econometric techniques. Source coverage varies across countries, indicators and time, which may affect comparability, particularly for lower-income countries; this is mitigated through the use of curated data providers and systematic validation processes. Missing data are handled through rule-based imputation (carry-forward/backward or interpolation) and neutral assumptions for fully missing series, with smoothing applied to reduce artefacts. The econometric framework relies on statistical assumptions from PLS regressions and LOESS smoothing (e.g., linear relationships, local stability, and noise reduction), which may not fully capture structural breaks; these are mitigated through income-group-specific models, parameter calibration and robustness checks. Income-group segmentation improves comparability but may introduce boundary effects; this is addressed by using homogeneous peer groups and development-adjusted benchmarking. Outliers are controlled through winsorisation and smoothing techniques, while ongoing monitoring and validation controls (including threshold-based flagging and expert review) mitigate data and model drift over time.	Sub-section 1.3 Limitations, assumptions and mitigation steps, page 12
			(e) a description of the defined ranking system of rating categories used, with reference to: i. the meaning of each rating category for absolute and relative values and how the ranking system should be interpreted; ii. in the case of relative values, an explanation as to whether they are relative to a specific industry, geographical area, peer groups or other comparative references and their respective description	ESG Factor-In does not have an implemented ranking or comparison system between scores.	N/A
			(f) the dates of the most recent update of the methodology and a description of the changes introduced to the previous version.	Effective Date 1st July 2026; Version 1.0	Model Change Log - Version Control Table, page 2
	Annex III.1.b	Article 4(2)	The industry classification used.		
			(a) The name of the issuing body for the industry classification used. (b) The name and version of the industry classification used. (c) Any publicly available link to the official documentation of the industry classification system, if available.	Industry classification not used.	N/A
	Annex III.1.c	Article 4(3)	An overview of data sources, including whether data is sourced from sustainability statements required under Directive 2013/34/EU or from information disclosed under Regulation (EU) 2019/2088 and whether sources are public or non-public, and an overview of data processes, estimation of input data in case of unavailability and frequency of data updates.		
			(a) An overview of data sources, including whether data is sourced from sustainability statements, and whether sources are public or non-public; overview of data processes, estimation of input data in case of unavailability and frequency of data updates. (b) A description of the engagement process with rated items or issuers of these items, including how the input from such engagement is considered.	Input data is collected on a yearly basis for the December refresh. The full history is revised every year to ensure the consistency across the full period. For the full list of data providers, refer back to Table 1. Input data is collected from website through flat files. The list of Quality Checks that are performed on input data are available in the Model Input/Output Validation section. Any changes are captured by the data the model uses without any intervention outside the present methodology. The data sources are not mapped against sustainability statements under CSRD or from information disclosed under SFDR, or EU Taxonomy. Access to nonpublic data is performed in two ways, depending on the provider. Where supported, we access the data directly through the provider's platform using authorized login credentials supplied for this purpose and managed in accordance with our security controls. Alternatively, when direct access is not available or when automation is required, we retrieve the data via the provider's API, using a Python based script to authenticate, request, and process the data securely and in line with the provider's technical and usage requirements.	Section 2 Data Collection Process, page 14
	Annex III.1.e	Article 4(4)	Information on whether and how the rating methodologies are based on scientific evidence	No AI was used in the data collection or rating process, and the rating methodology is not based on scientific evidence.	Section 2 Data Collection Process, page 14
			Where applicable, describe the process for identifying relevant scientific evidence.		
	Annex III.1.k	N/A	Where applicable, reference to the use of artificial intelligence in the data collection or rating process including information about current limitations and risks of using artificial intelligence.	No AI was used in the data collection or rating process and the rating methodology is not based on scientific evidence	Section 2 Data Collection Process, page 14
Limitations in data sources, methodologies and information	Annex III 1.m, Annex III 1.q	Article 5	Any limitation in data sources and methodologies used for the construction of ESG ratings. Any limitation on the information available to ESG rating providers.		
			(a) the availability or consistency of data used in the rating process; (b) the completeness, timeliness and accuracy of information;	The methodology is subject to data and modelling limitations inherent to multi-source ESG datasets and econometric techniques. Source coverage varies across countries, indicators and time, which may affect comparability, particularly for lower-income countries; this is mitigated through the use of curated data providers and systematic validation processes. Missing data are handled through rule-based imputation (carry-forward/backward or interpolation) and neutral assumptions for fully missing series, with smoothing applied to reduce artefacts. The econometric framework relies on statistical assumptions from PLS regressions and LOESS smoothing (e.g., linear relationships, local stability, and noise reduction), which may not fully capture structural breaks; these are mitigated through income-group-specific models, parameter calibration and robustness checks. Income-group segmentation improves comparability but may introduce boundary effects; this is addressed by using homogeneous peer	Sub-section 1.3 Limitations, assumptions and mitigation steps, page 12

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			(c) the use of assumptions, proxy reference points and data estimation.	groups and development-adjusted benchmarking. Outliers are controlled through winsorisation and smoothing techniques, while ongoing monitoring and validation controls (including threshold-based flagging and expert review) mitigate data and model drift over time.	
Organisational	Annex III.1.d	Article 6(1)	The ownership structure of the ESG rating provider.	Refer to ESG Ratings Organisational Structure Statement available via LSEG's Regulatory Disclosures Website.	Refer to ESG Ratings Organisational Structure Statement document.
	Annex III.1.l	Article 6(2)	General information on criteria used for establishing fees charged to clients, specifying the various elements taken into consideration, and general information on the business/payment model.	Refer to ESG Ratings Pricing Framework available via LSEG's Regulatory Disclosures Website.	Refer to ESG Ratings Pricing Framework document.
	Annex III.1.n	Article 6(3)	The main risks of conflicts of interest and the steps taken to mitigate them.	Refer to Conflicts of Interest Policy Statement available via LSEG's Regulatory Disclosures Website.	Refer to Conflicts of Interest Policy Statement document.

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