

2021 Update on BMS Verification Data Used for the FTSE4Good Index Series

Introduction

FTSE Russell has assessed companies in the area of marketing of Breast Milk Substitutes (infant formula, follow-on formula (for infants aged 0-12 months) and complementary foods (for infants aged 0-6 months)) since 2010. Since then, FTSE's work has contributed to change and improvements in industry policies and practices. This is an important issue but is only relevant for a handful of companies of the thousands being assessed by FTSE Russell on a variety of environmental, social and governance performance areas¹.

FTSE Russell has now moved away from a "facilitating" function with regards to verification of companies' BMS marketing practices, and instead will draw on information provided by ATNI².

As such, a new approach to the verification element of FTSE's assessment of companies' BMS marketing practices has been adopted. This document explains the new approach and explains the role of ATNI, largely drawing from a document prepared together with ATNI in 2019 to answer frequently asked questions on how the two organisations interact in this area. This document is available in full on ATNI's website³.

For background on the FTSE4Good Indexes, an overview of the BMS Marketing Criteria⁴ and their basis on and reflection of the WHO Code, see the document on the FTSE Russell website 'Providing Context to the 2016/17 FTSE4Good BMS Verification Process'⁵.

1. Background

Manufacturers of BMS products⁶ are assessed against the FTSE4Good BMS criteria during the course of FTSE Russell's assessment of companies' ESG disclosures. This entails desk research by our data analysts

¹ Less than 0.5% of companies assessed by FTSE Russell

² The Access To Nutrition Initiative

³ https://accesstonutrition.org/app/uploads/2020/04/BMS_ATNI-FTSE_FAQS_final.pdf

⁴ 'BMS criteria' hereafter

⁵ This can be found in the 2016-2017 section of the following web page: <https://www.ftserussell.com/ftse4good-breast-milk-substitutes-bms>

⁶ This includes manufacturers of infant formula for infants aged 0-12 months, and complementary foods for infants aged 0-6 months.

to identify whether information published by the company meets our stated BMS criteria. Once a BMS manufacturer meets the BMS criteria and is included in the FTSE4Good index⁷, outcomes from third-party verification assessments are considered. In future we may look at how to incorporate such assessments into the normal ongoing assessment of all companies involved in BMS activities.

The analysis and verification of company practices on the ground is not a one-off assessment but an on-going requirement of inclusion in the index series. If there is evidence a company is no longer meeting the criteria and failing to address this then exclusion from the index is considered by FTSE Russell, informed by its advisory committees.

Between 2011 and 2018, the whole process was led by FTSE Russell, advised by the BMS Marketing Advisory Group. Up until the 2018 Index cycle, FTSE Russell selected a suitably qualified verification firm to conduct these assessments (PwC), as an independent third party to verify whether the companies' implement their marketing policies in practice. This aspect of FTSE Russell's evaluation of BMS companies was facilitated by external funding from the Bill & Melinda Gates Foundation (BMGF).

For the past several years, ATNI has also conducted similar in-country assessments of BMS marketing, also funded by BMGF. Given this duplication of effort, and because ATNI's processes were by then well-established and robust, in 2019 FTSE Russell decided instead to draw on data from the verifications conducted by ATNI. This synergistic approach was supported by both ATNI and BMGF. FTSE Russell has taken a number of steps between 2019 and 2021 to work with and use outputs from ATNI and expects to move further in this direction in future.

2. The updated verification process

2.1 Verification overview

As outlined earlier, in addition to meeting the rest of the FTSE4Good criteria, BMS manufacturers also need to meet the BMS criteria. This includes aspects such as whistleblowing procedures, senior executive responsibility, training of sales and marketing staff, internal monitoring, compliance mechanisms and responding to allegations. The verification exercise then assesses whether the practices on the ground follow the companies' required policies and procedures, and whether the criteria are being met in practice.

FTSE Russell has moved to draw upon data from ATNI's verification process, to avoid duplication of effort. Since 2019, ATNI has contracted PwC to conduct some elements of the most recent verification, and Westat to conduct others.

The verification conducted by PwC involved examining documentation provided by the three companies that met the BMS Criteria and interviewing staff at:

- The company's global headquarters;
- Country operations in two 'higher-risk' countries⁸;
- Key distributors of the companies in those two countries

Westat undertook studies in the same two higher-risk countries following the NetCode Protocol, which involved:

- Interviews with mothers and healthcare workers in a representative sample of clinics, hospitals, health centres⁹;

⁷ Subject to meeting all FTSE4Good Index inclusion requirements

⁸ For a list of higher-risk countries, see: https://research.ftserussell.com/products/downloads/F4G_BMS_Criteria.pdf

⁹ Performed in the first country only; the activities in the second country were limited by the impacts of the global outbreak of COVID-19.

- Data collection in healthcare facilities, at physical and online retail outlets, and from a variety of traditional and online media;
- Analysis of all labels and inserts of companies' legitimate products.

ATNI provided to PwC the subset of Westat assessment data which is relevant for the FTSE Russell criteria and methodology. ATNI does not currently use any of the output from the assessment performed by PwC in its own published analysis.

ATNI will also draw on the results of the Westat in-country assessments for its BMS and Complementary Foods Marketing Index (due to be published in Q2 2021), using the ATNI methodology.

As a result of restrictions caused by the COVID-19 pandemic, the scope of Westat data collection in the second higher-risk country was reduced compared to data collection performed for the first country visit. For the second country visit, HCF visits and the related observations were not performed and fewer retailers were visited than the first country visit.

2.2 Full BMS assessment process overview

FTSE Russell's BMS assessment process between 2019 – 2021 is set out below:

- 1) Companies assessed against the FTSE4Good BMS criteria by FTSE Russell's ESG analysts.
- 2) If a company meets the criteria and retains its position or enters the FTSE4Good index series, data from the latest ATNI verification assessment is considered.
 - a) In 2019, ATNI commissioned Westat, a large U.S.-based health research company, to undertake two in-country assessments using the most recent version of the NetCode¹⁰ Protocol for Periodic Assessment. The assessments were undertaken in the Philippines and Mexico between late 2019 and early 2021¹¹.
 - b) ATNI also worked with PwC under contract to undertake its verification assessments, as outlined above. ATNI and PwC jointly undertook interviews with relevant stakeholders of the three BMS companies that had met the requirements for FTSE4Good index inclusion at their international headquarters and in the local office of each selected country, as well as with a sample of their distributors in each selected country.
 - c) ATNI provided to PwC the findings from the Westat studies for three product types (outlined earlier) within the scope of the FTSE Russell BMS criteria. PwC prepared reports on factual findings in line with FTSE Russell's requirements based on its own verification assessments and the Westat findings. PwC prepared a report for each company for each country (i.e. a total of six reports, two per company)¹². Based on the procedures performed, PwC also provided an update on findings reported in prior verification assessments.
- 3) The PwC reports for the Philippines were reviewed by the FTSE4Good BMS Marketing Advisory Group. The role of this group has since been incorporated into the FTSE Russell independent ESG

¹⁰ NetCode is the Network for Global Monitoring and Support for Implementation of the International Code of Marketing of Breast-milk Substitutes and Subsequent relevant World Health Assembly Resolutions <https://www.who.int/nutrition/netcode/en/>

¹¹ The global pandemic caused significant delays to the assessment process.

¹² In previous verifications cycles, PwC produced a report for each company that included the findings from interviews with staff at Corporate Head Office and in two higher risk country local offices. Due to restrictions resulting from the COVID-19 pandemic, the second country assessment had to be delayed. As a result, PwC split the reports into two.

Advisory Committee. This committee has been briefed on the findings of the Mexico reports. These reports, based on FTSE Russell analysis, may impact each company's eligibility for FTSE4Good Index inclusion.

- 4) Where areas of non-compliance with the FTSE4Good criteria are identified over multiple verification cycles, this can lead to a company being determined not to be meeting the relevant BMS criteria, which would lead to its deletion from the FTSE4Good Index Series.

2.3 Specific aspects of the verification process

Country selection

As previously for both ATNI and FTSE Russell, assessments were carried out only in higher-risk countries. Countries chosen for each assessment were determined by ATNI, using a methodology that reflects but builds upon FTSE Russell's risk category approach.

A set of higher-risk countries was first identified where the three companies that met the FTSE4Good BMS criteria were present; the market presence of the other companies which ATNI assesses was then used to narrow down the list of potential countries. Data on levels of infant deaths and malnutrition was collated for these countries. Additional contextual information, such as likely institutional support for a potential study in the country, country safety and security, language used for BMS product packaging and marketing, and the status of implementation of the Code was also taken into account.

The final selection was made through consultation and based on an agreement between ATNI, FTSE Russell, and ATNI's Expert Group.

Company notice of verification locations

ATNI does not tell companies which countries have been selected for the Westat studies until data collection in healthcare facilities and retailers is complete.

PwC's assessment requires company staff to be available for interviews to determine appropriate accountability from senior executive staff down to country sales and marketing representatives. Interviews are conducted to assess whether staff understand the policy and are being properly trained, and checking that appropriate corrective actions are taken following non-compliance. Additionally, distributors of the companies in those two countries are selected and interviewed. This requires a level of upfront planning and coordination with the companies.

Therefore, in FTSE's first verification exercise, some years ago, around four weeks of advance notice was given. Following stakeholder feedback, this was reduced to 2-3 weeks for the second verification and just one week for the third and fourth verification assessments. This time, the companies were informed of the country selection seven working days in advance of the interviews being conducted, and only after Westat had completed data collection in healthcare facilities and retailers.

2.4 Publication of verification reports

Following previous verification exercises, FTSE Russell published PwC's final reports, and the companies' responses, on its website. This was a significant departure from FTSE Russell's approach to other ESG assessments. Given FTSE Russell moving from facilitating verifications to instead measuring and applying the outcomes of third-party analysis and verification, this year will be the last in which FTSE Russell publishes the reports on its own website. Any company responses to the reports will not be published by FTSE Russell, but an excerpt along the lines of '*If the companies have issued a public response to their respective reports, they can be found on the companies' own websites*' will be included on the web page alongside the reports.

3. The FTSE4Good BMS Marketing Advisory Group

The BMS Marketing Advisory Group was established in 2004 to develop criteria to assess BMS manufacturers' eligibility for inclusion in the FTSE4Good Index series. Since the criteria were developed and companies began being assessed against them, three companies have moved to meet the criteria and have been subject to verifications, which in turn were scrutinised by the advisory group.

This has been the only ESG topic for which FTSE Russell has maintained the oversight of a subcommittee, rather than deferring to FTSE Russell's ESG Advisory Committee. The work of the BMS Marketing Advisory Group is now being folded into that of the FTSE Russell ESG Advisory Committee as the standardised approach is applied to BMS marketing. This became effective in 2021.

FTSE Russell is immensely appreciative of the contribution of the BMS Marketing Advisory Group members, and the significant role they have played to catalyse change in the industry.

4. Next steps

Given recent developments in relation to BMS marketing, notably the BMS Call to Action¹³ that was published by WHO, UNICEF and other CSOs in 2020, FTSE Russell supports greater consolidation of approaches and collaboration between actors in this area. We believe most progress can be made in advancing corporate standards if assessment and methodologies are consolidated and align. We look forward to playing our role supporting such developments by enabling investors to assess companies' BMS marketing practices in a manner that differentiates between companies, identifies leading corporate approaches, and incentivises positive change.

During 2021, FTSE Russell and ATNI will agree the approach to be used to generate the necessary data on BMS marketing for the FTSE4Good Indexes from 2022 onwards.

¹³ www.bmscalltoaction.info

For more information about our indexes, please visit ftserussell.com.

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