
FTSE Blossom Japan Index and ESG Ratings

Frequently Asked Questions



Table of Contents

1. FTSE Russell ESG Rating	3
1.1 Who is FTSE Russell?	3
1.2 What are “FTSE Russell ESG Ratings”?	3
1.3 What is the purpose of the FTSE Russell ESG Ratings?	3
1.4 Who can access the data?	3
1.5 Who is carrying out the research?	3
1.6 How often will companies be assessed?.....	4
1.7 How does applicability work? Why have certain themes been indicated as “not applicable” to our company?.....	4
1.8 How can I change the ICB classification of my company?.....	5
1.9 What sources of information do you use to assess companies?.....	5
1.10 Why do you only use public information?.....	5
1.11 Do you only use English information?.....	6
1.12 How can I see my ESG Ratings?	6
2. About the FTSE Blossom Japan Index:	7
2.1 What is the the FTSE Blossom Japan Index?	7
2.2 What is the main difference between FTSE4Good Index Series and the FTSE Blossom Japan Index?	7
2.3 Who is eligible (the research universe) for FTSE Blossom Japan Index?	7
2.4 What is the inclusion criteria of the FTSE Blossom Japan Index?.....	8
2.5 How is the FTSE Blossom Japan Index being used.....	8
2.6 How does the index respond to ESG related controversies?	8
2.7 Where can I see the constituents of the Index?.....	8
2.8 Is the FTSE Russell ESG Ratings data also used as the basis for the FTSE Blossom Japan Index?	8
2.9 My company has an ESG Ratings score of 3.1 and above. Why is it not in the FTSE Blossom Japan Index?	8
2.10 Why are companies with a score of below 2.5 included in the Index when the deletion threshold is 2.5?	9
2.11 Will the inclusion/deletion threshold for the FTSE Blossom Japan Index ever change?.....	9
2.12 How can I improve my company’s ESG Ratings and be included in the Index?.....	9



FTSE Russell ESG Rating

1. FTSE Russell ESG Rating

1.1 Who is FTSE Russell?

[FTSE Russell](#) is a part of London Stock Exchange Group and a leading global provider of benchmarking, analytics and data solutions.

1.2 What are “FTSE Russell ESG Ratings”?

FTSE Russell’s ESG Ratings is a transparent measurement of how companies are performing with respect to their ESG (Environmental, Social and Governance) practices. The Ratings are based on an annual assessment of companies based on data collected from publicly available sources.

Further details on FTSE Russell’s ESG Ratings can be found [here](#).

1.3 What is the purpose of the FTSE Russell ESG Ratings?

The FTSE Russell ESG Ratings can be used to inform investment decisions and dialogue with investee companies by investors who are interested in integrating ESG into their process.

FTSE Russell’s ESG Ratings are also used to determine the constituents of the FTSE Blossom Japan Index as well as the FTSE4Good Index Series.

1.4 Who can access the data?

FTSE Russell clients can access the ESG Ratings and underlying data upon subscription. Our major clients for the ESG Ratings include large institutional investors who integrate ESG performance data into their investment processes. Companies who are assessed are able to access their own ESG Ratings results.

1.5 Who is carrying out the research?

The data collection process is conducted by a global team of data analysts based around the world, who are trained to collect data to FTSE Russell’s specifications. They collect data from company reports and websites as well as from other public sources.

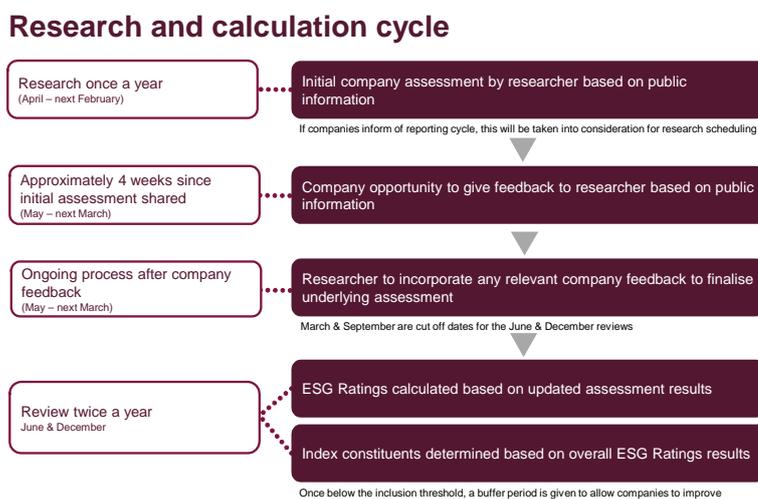
Once the data analysts have completed an initial assessment of a company, a copy will be sent to the company for review and input within a 4-week window. This is an opportunity for companies to see their assessment, and FTSE Russell encourages them to review and to identify gaps where the

analysts may have missed information. This data should already be in the public domain and companies are encouraged to provide the location of such information for the analysts to capture.

1.6 How often will companies be assessed?

Companies are assessed once a year within each research cycle which runs from April to the following February. Companies are assessed all around the year but there is an effort, where feasible, to conduct this close after their annual reporting of relevant information, depending on the schedule of the company being researched.

FTSE Russell's ESG Ratings are reviewed twice a year in June and December, which will incorporate any updates from the annual research cycle as is illustrated below:



December Review: This mid-research-cycle index review includes all companies with a review process completed by September. Company assessments are finalized to take account of relevant company feedback, and enter a scoring process. ESG Ratings results are available only after implementation of the Index review, approximately three weeks into December.

June Review: The end-of-research-cycle review includes all companies with a review process completed by March, and comprises all companies assessed during the remainder of the research cycle. ESG Ratings results for this review are available only after implementation of the index review approximately three weeks into June.

1.7 How does applicability work? Why have certain themes been indicated as “not applicable” to our company?

For each Theme, a company is categorised as having an Exposure that is High, Medium, Low, or Negligible/Not Applicable (N/A), depending on how relevant and material the Theme is to the company. The Exposure categorisation is carried out for each company applying a rules-based methodology¹ to assess the Theme materiality. This draws from company fundamentals and characteristics including:

- **Subsector:** The ICB Subsector definitions are used to identify company relevance, and degree of relevance, for a Theme.² Diversified companies will also be identified for multiple Subsectors if it has significant operations in more than one.

¹ The methodology for the Exposure classification methodology is developed in consultation with external experts and the FTSE Russell ESG Advisory Committee.

² [The Industry Classification Benchmark \(ICB\)](#) is a definitive system categorising over 70,000 companies and 75,000 securities worldwide. A company is allocated to the Subsector of ICB whose definition most closely fits the business that accounts for the primary source of the company's revenue.

- **Geography:** This assesses whether the company has operations in countries that are defined as being most relevant to the Theme and hence where the associated impacts are considered greatest. The country lists are developed according to a rules-based methodology which uses publicly available data.³
- **Multinational:** This assesses whether a company has over 30% of its revenues derived from outside its domestic region.⁴

So, if some Themes are not applicable to your company, it is because your company has not been identified through the application of this rules-based methodology as, for example, having involvement in the countries or subsectors relevant to that Theme.

1.8 How can I change the ICB classification of my company?

Each company is assigned a primary ICB subsector, which is used to categorise the company within all FTSE Russell indexes. This is not determined by the ESG Research process; it is part of the a separate FTSE Russell industry classification process.

Should the assessed company disagree with their Primary ICB classification (marked as ICB-0 in the web-platform), please contact FTSE Russell Client Service Team (info@FTSERussell.com) and submit a request form and outline the rationale for the classification challenge. The relevant team will review the request and update if appropriate. Please note that the ICB review takes place quarterly.

For all other subsector activities, all companies are welcome to provide comments during the initial assessment feedback period.

1.9 What sources of information do you use to assess companies?

We use information that is disclosed in the public domain. Historically, many ESG rating systems were based on private surveys of companies' procedures and behaviors. A risk in investors using non-public data for ESG ratings is that standards of due diligence are frequently weaker, leading to a question of data credibility. In 2013 FTSE Russell ended its use of private surveys and now only makes use of public data in its ESG Ratings. Every company is individually contacted to check that all relevant publicly available information has been found, but no privately submitted information is accepted. This encourages transparency through the disclosure of ESG information and data, and benefits the wider market.

Data sources reviewed and assessed include company published information; such as their own web-sites, Annual Reports, CSR Reports, Sustainability Reports, Integrated Reports, Corporate Governance Reports, and Compliance handbooks.⁵

1.10 Why do you only use public information?

For the ESG analysis conducted by FTSE Russell, the methodology is to use publicly available information on companies. This is for the following reasons:

- **Change in data availability:** When the FTSE4Good Index was first launched in 2001 there was very little data available in the public domain and FTSE used privately sourced data. However over time the data disclosed by companies improved and FTSE played a role in that through setting tougher criteria for companies to meet over time including better public disclosure. Over

³ A wide range of publicly available databases, statistics, indexes, listings and Ratings are used depending on the issue e.g. World Bank lists and indexes.

⁴ This draws from the FTSE Multinationals Index Series definition. Multinationals are defined as companies that derive 30% or more of their revenue from outside of the domestic region in which they are incorporated.

<http://www.ftse.com/products/indexes/Multinationals>

⁵ CDP Reports: we encourage companies to disclose their CDP responses on their websites so that the data is publicly available and therefore can be part of the assessment process.

time more and more information was published by companies. Eventually in 2013/14 there was a switch to using publicly disclosed data for the basis of the ESG Ratings and for the FTSE4Good Index Series.

- **Credibility of data:** When a company provides information privately there typically tends to be lower levels of due diligence applied than when information is published. Where information is publicly available a number of teams internally tend to check and confirm the accuracy of the disclosure. Ultimately in the future key quantitative data points should be independently verified but public disclosure is an important first step in this direction.
- **Regulation:** Historically benchmarks have not been regulated but following the controversies relating to benchmark manipulation, regulators are developing benchmark regulations. Removing reliance on private data is aligned with the need for increased transparency over data sources.
- **Objective approach:** Meetings, calls, interviews and surveys may be appropriate for active managers, but can lead to subjectivity which is best avoided in benchmark creation. Whilst FTSE Russell is happy to explain the standard methodology to assessed companies via e-mail and/or phone calls, the assessments will consistently be based on public information and standard methodology.
- **Reduce duplication and questionnaire fatigue:** There are many requests for different but overlapping information to companies. It is very difficult for companies to support large volumes of information requests from index providers, ESG research firms, sell side brokers, asset managers, asset owners, NGOs and other stakeholders. It is much better if a company can provide comprehensive reporting that is public and available to all parties. By focusing on one set of disclosures the company can focus its resources to ensure that the information is complete and accurate.
- **Driving improvements market wide:** Since FTSE Russell engages companies regarding its ESG standards and criteria for index inclusion it catalyzes improvements in data and information disclosure by companies that improve information that is available to the whole market.
- **The future:** FTSE Russell believes that the future for all ESG indexes will be able to rely on transparent and public data.

1.11 Do you only use English information?

Although English is the commonly used business language, FTSE Russell recognizes the importance of local languages. Therefore provision has been made in the research process for other languages.

The key languages covered are as follows: English, French, Spanish, German, Portuguese, Japanese and Chinese.

1.12 How can I see my ESG Ratings?

If your company is a constituent of the FTSE Japan Index, you will be provided a log-in to a dedicated web portal. Please access the web portal and you will see your ESG Ratings. The portal will show your ESG Ratings results from the June 2016 review. The relevant information, including log in details, has been sent to you in an e-mail from us but in case you did not receive this, then please contact us at ESG-Japan-Co@ftserussell.com.



FTSE Blossom Japan Index

2. About the FTSE Blossom Japan Index:

2.1 What is the the FTSE Blossom Japan Index?

The FTSE Blossom Japan Index is designed as an industry neutral benchmark that reflects the performance of companies demonstrating strong environmental, social and governance practices (ESG) in Japan.

2.2 What is the main difference between FTSE4Good Index Series and the FTSE Blossom Japan Index?

The ESG threshold applied to both indexes is the same meaning that there is a very high level of overlap between the index constituents. However there are important differences:

- The FTSE4Good Japan Index is a market cap weighted index which has additional sector/product screens eg tobacco.
- The FTSE Blossom Japan Index is an industry neutral index (meaning the weights of the companies can be varied to achieve equivalent industry weights to the FTSE Japan Index) and to improve the industry neutrality it does not apply any sector/product screens.

For further details, please go to the respective ground rules of the indexes.

[FTSE Blossom Japan Index](#)

[FTSE4Good Japan Index](#) (within the FTSE4Good inclusion rules)

2.3 Who is eligible (the research universe) for FTSE Blossom Japan Index?

Companies included in the FTSE Japan Index are eligible for inclusion in the FTSE Blossom Japan Index. This represents companies that are defined by FTSE Global Equity Index Series as large and mid size by market capitalization.

The inclusion methodology for the parent index, the FTSE Japan Index, can be found within the FTSE Global Equity Index Series Ground Rules at the following link:

http://www.ftse.com/products/downloads/FTSE_Global_Equity_Index_Series.pdf

The inclusion methodology for the FTSE Blossom Japan Index can be found on the FTSE Blossom Japan Index Ground Rules at the following link:

[FTSE Blossom Japan Index](#)

For further information please contact FTSE Russell directly at info@ftserussell.com.

2.4 What is the inclusion criteria of the FTSE Blossom Japan Index?

Please refer to [the Ground Rules](#) (Section 4.0)

2.5 How is the FTSE Blossom Japan Index being used?

The FTSE Blossom Japan Index is a new index which provides a performance benchmark and tool for the creation of index-tracking investments, financial instruments or fund products focused on sustainable investment

The Japanese Government Pension Investment has selected this index as one of its ESG Indexes in a significant new mandate. For more information, please visit FTSE Russell's Press Release and GPIF's website.

2.6 How does the index respond to ESG related controversies?

As laid out in the Ground rules for the FTSE Blossom Japan Index:

3.4.1 Companies that have been identified as having significant controversies, and otherwise meet the inclusion criteria set out in Section 3.2, are not added to the FTSE Blossom Japan Index.

2.7 Where can I see the constituents of the Index?

A snapshot of the parent index constituents will be made available on the FTSE Russell webpage under the index page for the [FTSE Blossom Japan Index](#). No part of this information may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior written permission of FTSE Russell. Use and distribution of the index data and the use of the data to create financial products require a licence from FTSE Russell.

For daily files for investment purposes, please contact FTSE Russell at info@ftserussell.com.

2.8 Is the FTSE Russell ESG Ratings data also used as the basis for the FTSE Blossom Japan Index?

Yes, the FTSE Blossom Japan Index uses the ESG Ratings and applies specific thresholds to identify companies for inclusion in the indexes. In order to gain inclusion into the index, a company is currently required to obtain an Overall ESG Rating of 3.1 or above.

2.9 My company has an ESG Ratings score of 3.1 and above. Why is it not in the FTSE Blossom Japan Index?

There can be a number of reasons why the company is not included in the FTSE Blossom Japan Index.

Market capitalisation

- The eligible universe for the FTSE Blossom Japan Index is the FTSE Japan Index, which consists of large and mid size companies by market capitalisation based on the FTSE Global Equities Index Series definitions.
- FTSE Russell currently has an extended research universe of approximately 750 companies (as of June 2017), which covers some additional small cap companies.

- Therefore, if your company is a small sized company by market cap, then it may receive an ESG Rating above this threshold but not be eligible for inclusion in this index. Note that investors can still access the ESG Ratings of such companies and use this information for investment processes and decision making.

Companies with High Exposure and Low Score

From the ground rules for FTSE Blossom Japan Index:

3.5 Companies with a Low Score in a Theme Assessed as High Exposure

3.5.1 Companies that have a score of zero or one in any applicable High Exposure Theme will not be added to the FTSE Blossom Japan Index.

Companies with significant controversies

From the ground rules for FTSE Blossom Japan Index:

3.4.1 Companies that have been identified as having significant controversies, and otherwise meet the inclusion criteria set out in Section 3.2, are not added to the FTSE Blossom Japan Index.

2.10 Why are companies with a score of below the inclusion threshold remain in the Index?

Please refer to [the Ground Rules](#) (4.2.3 & 4.24).

2.11 Will the inclusion/deletion threshold for the FTSE Blossom Japan Index ever change?

The index aims to reflect the constantly evolving corporate ESG practices and expectations of investors and the wider stakeholder community. Therefore, both the inclusion and deletion thresholds may change over time, which will be governed by the Ground Rules of the index reflecting advice from the FTSE Russell ESG Advisory Committee.

2.12 How can I improve my company's ESG Ratings and be included in the Index?

FTSE Russell's ESG Ratings are based on publicly available information, so good public disclosure on ESG issues is the first stage of getting recognition for what you are already doing and therefore improving your ESG Rating.

The second is to improve practices and performance across ESG issues that are most relevant for your company, and particularly those Themes where the Exposure levels are medium or high.

More information on the ESG assessment methodology can be found on FTSE Russell's website, or please contact FTSE Russell directly at info@ftserussell.com.

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

© 2017 London Stock Exchange Group plc and its applicable group undertakings (the “LSE Group”). The LSE Group includes (1) FTSE International Limited (“FTSE”), (2) Frank Russell Company (“Russell”), (3) FTSE TMX Global Debt Capital Markets Inc. and FTSE TMX Global Debt Capital Markets Limited (together, “FTSE TMX”) and (4) MTSNext Limited (“MTSNext”). All rights reserved.

FTSE Russell[®] is a trading name of FTSE, Russell, FTSE TMX and MTS Next Limited. “FTSE[®]”, “Russell[®]”, “FTSE Russell[®]”, “MTS[®]”, “FTSE TMX[®]”, “FTSE4Good[®]” and “ICB[®]” and all other trademarks and service marks used herein (whether registered or unregistered) are trade marks and/or service marks owned or licensed by the applicable member of the LSE Group or their respective licensors and are owned, or used under licence, by FTSE, Russell, MTSNext, or FTSE TMX.

All information is provided for information purposes only. Every effort is made to ensure that all information given in this publication is accurate, but no responsibility or liability can be accepted by any member of the LSE Group nor their respective directors, officers, employees, partners or licensors for any errors or for any loss from use of this publication or any of the information or data contained herein.

No member of the LSE Group nor their respective directors, officers, employees, partners or licensors make any claim, prediction, warranty or representation whatsoever, expressly or impliedly, either as to the results to be obtained from the use of the FTSE4Good Index Series or ESG Ratings or the fitness or suitability of the FTSE4Good Index Series or ESG Ratings for any particular purpose to which they might be put.

No member of the LSE Group nor their respective directors, officers, employees, partners or licensors provide investment advice and nothing in this document should be taken as constituting financial or investment advice. No member of the LSE Group nor their respective directors, officers, employees, partners or licensors make any representation regarding the advisability of investing in any asset. A decision to invest in any such asset should not be made in reliance on any information herein. Indexes cannot be invested in directly. Inclusion of an asset in an index is not a recommendation to buy, sell or hold that asset. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

No part of this information may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior written permission of the applicable member of the LSE Group. Use and distribution of the LSE Group index data and the use of their data to create financial products require a licence from FTSE, Russell, FTSE TMX, MTSNext and/or their respective licensors.

FR_8.1

About FTSE Russell

FTSE Russell is a leading global index provider creating and managing a wide range of indexes, data and analytic solutions to meet client needs across asset classes, style and strategies. Covering 98% of the investable market, FTSE Russell indexes offer a true picture of global markets, combined with the specialist knowledge gained from developing local benchmarks around the world.

FTSE Russell index expertise and products are used extensively by institutional and retail investors globally. For over 30 years, leading asset owners, asset managers, ETF providers and investment banks have chosen FTSE Russell indexes to benchmark their investment performance and create investment funds, ETFs, structured products and index-based derivatives. FTSE Russell indexes also provide clients with tools for asset allocation, investment strategy analysis and risk management.

A core set of universal principles guides FTSE Russell index design and management: a transparent rules-based methodology is informed by independent committees of leading market participants. FTSE Russell is focused on index innovation and customer partnership applying the highest industry standards and embracing the IOSCO Principles. FTSE Russell is wholly owned by London Stock Exchange Group.

For more information, visit ftserussell.com.

To learn more, visit ftserussell.com; email info@ftserussell.com; or call your regional Client Service Team office:

EMEA

+44 (0) 20 7866 1810

North America

+1 877 503 6437

Asia-Pacific

Hong Kong +852 2164 3333

Tokyo +81 3 3581 2764

Sydney +61 (0) 2 8823 3521