

**MSCI: Measuring Political Risk –
Assessing the probability of change in regulatory standards
SIPAU9000.001**

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Meeting Date/Times: Wednesday, 4:00 - 5:50 pm

Location: INTERNATIONAL 409

Office Hours: By Appointment

Credits: 3

Course Overview

Client description:

MSCI Inc. is a leading provider of investment decision support tools to investors globally, including asset managers, banks, hedge funds and pension funds. MSCI products and services include indices, portfolio risk and performance analytics, and governance tools.

Built upon the expertise of sustainability pioneers Innovest, KLD, and IRRRC, MSCI ESG Research is a leading source of environmental, social and governance (ESG) ratings, screening and compliance tools to advisers, managers and asset owners worldwide. It offers an industry-leading suite of products and services that support the integration of ESG factors into investment decisions.

MSCI's clients worldwide, especially those who are signatories to the United Nation's Principles for Responsible Investing (UNPRI), are increasingly focused on ESG issues. As a growing number of asset managers are now subject to ESG-related mandates, ESG issues will shape their strategies going forward. MSCI ESG Research is committed to providing innovative tools to support its clients in this expanding market.

Summary of project:

MSCI ESG Research is currently working on developing tools to help investors assess their exposure to key social and regulatory risks across a range of sectors and countries.

Key objective: Develop and score a scalable framework to assess regulatory standards for stringency, enforcement and trends across a wide range of developed and developing countries on each of three key issues:

1. Privacy and Data Security: Where do we expect to see the most regulatory movement in the medium-term (2-5 years) in the area of privacy and data security? How can we differentiate

and rank countries based on: (1) the likelihood of new legislation in this area; and (2) the existing regulatory environment?

2. Labor Standards and Workplace Practices: What countries have the highest/lowest labor standards, ranging from basic human rights and working conditions to employee benefits and workplace practices? On what bases can we compare labor standards across countries?
3. Product Safety and Consumer Protection: As a result of large-scale globalized manufacturing and agricultural production, companies face increasing risks related to product quality management, as evidenced by recent food safety outbreaks and large-scale product recalls (e.g. Toyota).

In what countries do we anticipate companies to face such regulatory risks in the near to medium term? What key factors can be used to differentiate one company from another? What data sources are available in key countries to assess performance in this area (e.g. recall data, complaints, investigations, sanctions)?

The key objectives of the methodology intended to capture these risks are transparency, scalability, reproducibility and relevance to the intended audience (investors concerned with these risks). These country ESG rankings will be used by the MSCI analyst team in several ways, including (1) as initial screens to determine which companies to investigate further on specific issues; (2) as inputs into our company rating model; (3) as a larger 'risk map' project for our clients; and (4) as potential inputs into the construction of indices.

Tasks:

Conceptualization

1. Initial internal scoping of the issue areas described above focused on initial contact with client, identify: questions to ask, which issues are most compelling from an investment angle, etc.;
2. Final scoping of project with client;
3. Preliminary research on existing frameworks and country rankings, available data sources, interviews with issue experts;

Operationalization

4. Development of a framework: determine concepts and definitions, indicators selection, data transformations, and create an aggregation process (algorithm) to calculate scores which will be transformed into a final ranking;
5. Collection of data from various sources from government, international organizations, interviews, and creation and application of a surveys instrument to cover gaps in available data;

Validation

6. In-depth analysis of specific cases (countries) to demonstrate assessment tool in action and highlight specific areas of concern;
7. Checking face validity (does it look right) of the aggregates and testing against identifiable proxies;
8. Synthesis of findings in a format that is digestible by analyst and investment community.

Deliverables to client:

1. **Detailed work plan** (January): including more specific scoping of issues to be covered and division of labor;
2. **Mid-term presentation** (March): conceptualization including literature review findings and data; and operationalization methodology to present to our senior analyst team for feedback;
3. **Data file** (May): including raw data, rating framework, transformed data, and final rankings for approximately 50 countries (country selection will be determined in negotiation with the client);
4. **Methodology document** (May): detailed methodology document including sources used, discrete survey questions asked, transformations to the data, and aggregation process. The objective is that the research method be reproducible and possible to execute on a larger set of countries;
5. **Issue briefs and case studies** (May): 2-3 page report on each issue area, including discussion of global trends and summary of key findings; brief case studies on key countries of concern to investors.

Special skills/knowledge needed by team members:

Required: Fluency with excel, research and analysis skills;

Preferred but not required: issue expertise in one of the areas of focus, regional or language expertise, and experience preparing and presenting work to a financial or investment audience.

Client meetings:

MSCI will be available on a frequent (bi-weekly) basis to check in and provide ongoing feedback, most likely via phone with a few in-person meetings. Main point of contact will appoint a key analyst from the MSCI team on each of the three issue areas at the beginning of the project to be a reference on any content-specific questions, and will organize 1) a mid-term global conference call to a core group of analysts (to provide different sector and regional perspectives), and 2) a final presentation to the senior team in our New York office (which will likely also be broadcast to the wider global team of about 10 senior analysts).

Field component:

We don't anticipate there will be any travel.

Student selection:

All eligible students may apply for up to five workshops through a special online application process from October 15th until October 31st. Assignment of students will be coordinated by the Office of Academic Affairs, and relevant faculty will be consulted about team membership for their workshop(s).

Grading:

Grades for the workshop will be based on the following criteria:

- Quality of individual written work (10%)
- Quality of participation in class and peer review (20%)
- Feedback from the client (20%)
- Overall professionalism, including timeliness, ability to work with team (20%)

- Quality of team's final report and briefing (30%)

Readings:

Readings to be determined during initial internal scoping of project and will likely vary according to the three issue areas describe above.

Academic Integrity Statement:

The School of International & Public Affairs does not tolerate cheating and/or plagiarism in any form. Those students who violate the Code of Academic & Professional Conduct will be subject to the Dean's Disciplinary Procedures. Cut and paste the following link into your browser to view the Code of Academic & Professional Conduct online.

http://sipa.columbia.edu/resources_services/student_affairs/academic_policies/deans_discipline_policy.html

Please familiarize yourself with the proper methods of citation and attribution. The School provides some useful resources online; we strongly encourage you to familiarize yourself with these various styles before conducting your research:

http://sipa.columbia.edu/resources_services/student_affairs/academic_policies/code_of_conduct.html

Violations of the Code of Academic & Professional Conduct should be reported to the Associate Dean for Student Affairs.