S&P Global
Ratings

Environmental, Social, And Governance (ESG) Evaluation

American Water Works Co. Inc.

Summary

American Water Works Co. Inc. (American Water) is a publicly traded utility holding company that provides, through its subsidiaries, water and wastewater utility services to about 15 million people in about 1,600 communities across 16 U.S. states. Based in Camden, N.J., American Water is the largest investor-owned water utility company in the U.S. and one of the largest in the world, as measured by operating revenues and population served.

American Water's ESG Evaluation score of 87 reflects our view that the company prioritizes commitments to safety, environmental stewardship, and public health in its strategy, and that ESG goals are a natural fit for and align well with its business model. Examples include the company's commitment to provide safe drinking water to its customers and safe workplace conditions to its employees. American Water also has a demonstrated commitment to diversity and inclusion. Furthermore, the company's governance benefits from strong structure and oversight, as demonstrated through its board structure and remuneration policies.

Additionally, we view American Water's preparedness assessment of 'best in class' as reflective of its ability to identify, assess, and act on risks and opportunities its business faces, such as climate change, infrastructure replacement, water contamination, and an aging workforce. The company fosters an effective culture to contend with sustainability-related risks, and it prioritizes safety and compliance with mandated regulations across all lines of operations to protect and enhance its financial and reputational standing.

Entity	American Water Works Co. Inc.
Headquarters	U.S.
Primary operation location(s)	U.S.
Publication date	April 7, 2020
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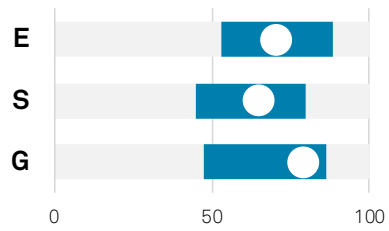
ESG Profile Score

72/100



Entity-specific attainable and actual scores

Preparedness Opinion

Best in class

Awareness	**Excellent**
Assessment	**Excellent**
Action	**Excellent**
Culture	**Good**
Decision-making	**Excellent**

ESG Evaluation

87/100

A higher score indicates better sustainability.

Component Scores

Environmental Performance			Social Performance			Governance Standards		
Sector/Region Score		**38/50**	**Sector/Region Score**		**30/50**	**Sector/Region Score**		**31/35**
	Greenhouse gases	**Good**		Workforce and diversity	**Strong**		Structure and oversight	**Strong**
	Waste	**Good**		Safety management	**Strong**		Code and values	**Strong**
	Water	**Strong**		Customer engagement	**Good**		Transparency and reporting	**Good**
	Land use	**Good**		Communities	**Good**		Cyberrisks and systems	**Good**
	General factors (optional)	**0**		General factors (optional)	**0**		General factors (optional)	**0**
Entity-Specific Score		**33/50**	**Entity-Specific Score**		**35/50**	**Entity-Specific Score**		**48/65**
E-Profile (30%)		**71/100**	**S-Profile (30%)**		**65/100**	**G-Profile (40%)**		**79/100**

ESG Profile (including any adjustments) **72/100**

Preparedness Summary

American Water's best-in-class preparedness reflects a very high-level awareness of its risk environment, both in the near term and over the long term. The company engages in a wide array of scenario planning to anticipate both the physical impacts of climate change as well as changes in regulation that could impact its business. It partners with a number of outside parties to inform its understanding of risks, and has successfully implemented changes to its business model in the past in response to perceived opportunities. Despite an effective culture that is geared toward sustainability, the company often faces challenges maintaining it as it acquires new, and often underperforming, water systems.

Preparedness Opinion **Best in class**

ESG Evaluation

ESG Profile	**72/100**
Preparedness Opinion	**Best in class (+15)**
Further Adjustment (if any)	**None (0)**

87/100

ESG Profile

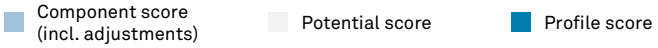
72/100

Overview

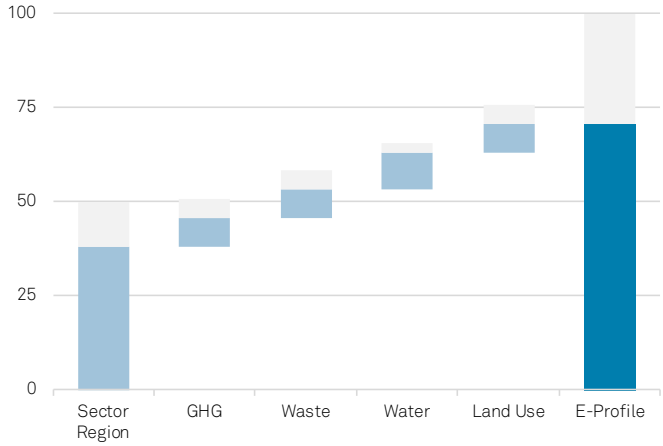
American Water's environmental profile score of 71 reflects the regulated utilities network sector's moderate exposure to environmental risks such as water-borne illnesses, efficient water use, and proper handling and disposal of biosolids and other waste related to sanitary sewer treatment. Water use and conservation are the key environmental risks for American Water, and it has favorable leak detection methods compared with water sector peers. Most of American Water's greenhouse gas (GHG) emissions are indirect and Scope 2 emissions related to energy use at both its drinking water and sanitary sewer treatment facilities and the regional transmission organizations where the company and its subsidiaries operate. Although its Scope 2 emissions are elevated compared to peers, this is not a material factor for the company's operations. Furthermore, land use and biodiversity are not highly material, though both management and the board still oversee these issues.

American Water's social profile score of 65 incorporates our view of the sector's relatively high exposure to social risks, in particular community engagement. While the sector in general faces exposure to managing community relationships, the company has been successful attenuating this risk. Furthermore, we believe that the company's commitment to safety for both its customers and employees--who are encouraged and empowered to report any situation needing corrective action--goes beyond the industry average. Diversity is particularly noticeable at the executive and board levels, as women and minorities represent over half of the board's members. The company's turnover rates are about half of the industry average.

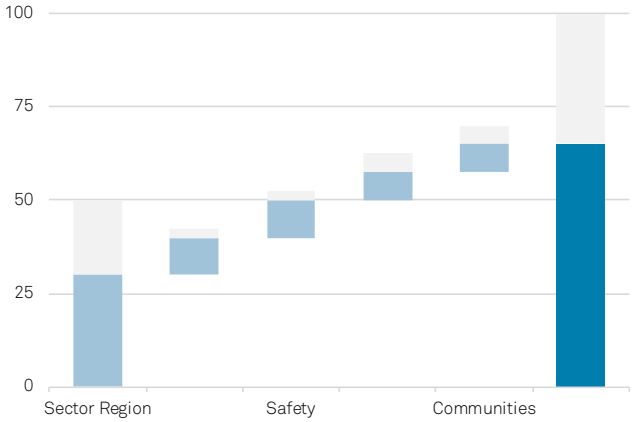
American Water's governance score of 79 primarily reflects our view of the high governance standards in the U.S. It also reflects our assessment that the board is actively engaged in the company's oversight and risk mitigation efforts. Aside from the CEO, all board members are independent, and a nonexecutive chairman. The board's pay structure promotes commitment to shareholder value as well as employee satisfaction, as demonstrated by the company's CEO/average employee pay gap, which is low compared to that of other large corporations. Although the company has an effective cybersecurity framework to protect its operations and data, like other utilities, it is not immune from cyberthreats.



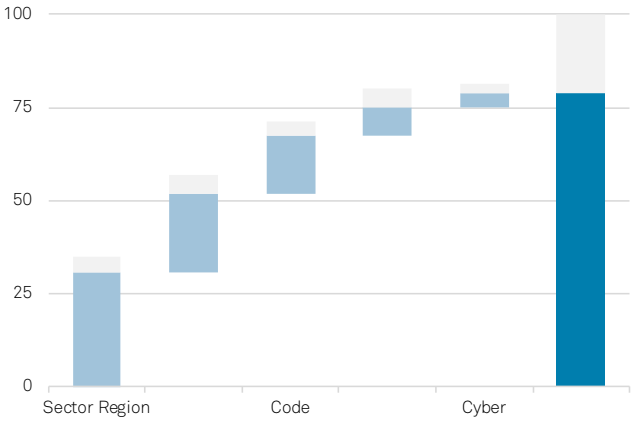
Environmental Profile (30%)



Social Profile (30%)



Governance Profile (40%)



Environmental Factor Analysis



Greenhouse gas Emissions

Good

- Our score reflects the company's efforts to comply with and monitor environmental regulations and disclose emissions, though this is less material in the water subsector compared with the overall regulated utilities sector. American Water has an established goal to reduce GHG emissions 40% by 2025 from a base year of 2007. To date, it has achieved a 31% reduction.
- The company's Scope 1 carbon dioxide emissions rate is below the global utility sector average, given that most of its energy-related risks come from purchased power, not generation. However, the company's Scope 2 emissions are elevated compared to peers.



Waste

Good

- A key operations factor is compliance with environmental permits regarding the proper handling and disposal of biosolids and any heavy metals or hazardous waste associated with wastewater treatment. American Water is in line with its peers in this regard.
- The company does not track recycling data relating to its supplier packaging material, consumable goods, or other components of its waste footprint. However, this is generally consistent with its peers.



Water

Strong

- American Water is strong versus other water utilities in efficient water use, as measured by favorable trends in leak detection and reduction and compliance with operating and environmental permits.
- Two-thirds of the total water supply comes from surface water that, while requiring more treatment than groundwater to achieve potable standards, is considered a more sustainable source of supply that avoids risks such as subsidence or seawater intrusion.
- Water scarcity risk is small relative to peers, as most geographic areas in which the company operates have abundant supply and flat-to-declining demand because of demographic trends and public education to promote efficiency and conservation by retail customers. Furthermore, less than 10% of the company's water comes from water-stressed regions.



Land use

Good

- Our score reflects American Water's exposure to land use and biodiversity risks, because of its operations in the US, which has a high number of endangered species.
- However, we believe that American Water mitigates this risk by allocating most capital to upgrade or replace existing infrastructure, rather than building greenfield developments.
- While land use is not a focus of the company's core business, its operating permits require considerations of riparian wildlife and flora.
- Both American Water's board and executive team have formal oversight of the company's biodiversity and land use, and the board receives annual updates on the topic.



General factors (0)

- American Water has significant exposure to the physical impacts of climate change because surface water supplies are particularly vulnerable to drought and weather volatility. Also, 21% of its customers--representing 24% of 2018 operating revenues--are concentrated in New Jersey, a coastal state that faces rising sea levels. However, American Water has stringent risk management and resiliency policies to protect its assets from rising sea levels. Most of the company's footprint has low overall exposure to water scarcity issues, and American Water's stated commitment to environmental stewardship appears to be embedded throughout the organization.

Social Factor Analysis

Workforce and diversity

Strong

- We believe that American Water's workforce is significantly more diverse than peers. A diverse workforce is evident at all levels but especially among executive leadership and the board, with female and minorities making up close to 64% of the board.
- We believe the company benefits from high job satisfaction, based on a turnover rate that is about half of the industry average.
- As the company strategically focuses on acquiring distressed water systems to further its regulated investment, new integrated employees' working conditions generally improve as they benefit from transitioning from a distressed system to American Water's high standards.
- An aging workforce is a risk for this sector, but due to effective succession planning to reflect the business' changing needs, there are now twice as many employees younger than 30 as there are older than 50, which is atypical for the sector. Additionally, there is limited reliance on contract labor.
- The company has a robust workforce skills development program, with minimum training hours required for full-time employees, in addition to professional certifications required for certain operational areas.

Safety management

Strong

- Our strong score reflects our view of American Water's high safety standards, supported by policies and commitments that exceed those of the subsector and that have resulted in key performance indicators consistently stronger than industry peers. This is a priority because of the risk's high materiality. Furthermore, the company has avoided high-profile safety incidents that some municipalities in the U.S. have faced, and it has achieved compliance with regulatory contaminant levels across its water systems.
- The company's commitment to overall safety and safe drinking water exists above all other goals--it uses much of its capital to upgrade existing pipes for safety purposes and empowers employees to report incidents, even if it interrupts operations.
- This results in a favorable profile relative to peers for work hours lost due to sickness or injury. It's also been steadily improving its safety performance as shown by injury rates. The company has had a 0% fatality rate for at least the past five years.
- The company has reduced workplace injuries significantly and injury rates are better than the industry average. The company has reduced its OSHA reportable incidents rate 63% and its days away, restricted, or transferred rate 72% since 2014 and targets further reductions going forward.

Customer engagement

Good

- American Water's scale has allowed it to propose rate adjustments to regulators that have been smaller versus its smaller, mainly municipal-owned (and not rate-regulated) peers. We view this as important because affordability is one of this sector's most socially sensitive issues.
- We view the company to be in line with peers based on its regular customer satisfaction surveys, which indicate positive results.
- Given the company's economies of scale, it has improved the water quality of smaller struggling water systems through acquisition while limiting bill increases, thereby improving customer satisfaction.
- Although customers and regulators in the New York service territory were displeased with American Water's billing practices, this is not a material factor for the company given the relative size of these operations and the fact that it is in the process of selling this business.

Communities

Good

- American Water shows very solid commitment to its communities and has community partner programs to encourage employee-driven philanthropic efforts, including its own charitable foundation and gift-matching program.
- The company partners with local vocational and post-secondary educational institutions to foster skill-building and training to promote the development of a potential future workforce.
- Acquisition of failing systems is a driver of its current strategy. Sometimes driven by environmental regulator mandates as a "rescue", sometimes as a strategic move, American Water subsequently invests in these communities to bring the acquired systems up to utility quality and scale.
- The company relocated its headquarters to Camden to help New Jersey revitalize the city.

General factors (0)

- We have not made any adjustments to the social profile.

Governance Factor Analysis

Structure and oversight

Strong

- American Water's governance structure and oversight is strong compared with global best-practice standards. Ten of the 11 board members are independent directors. The only nonindependent director is the CEO, who does not serve as the board's chairperson or on any board committees.
- There are many board committees tasked with identifying and mitigating business risks.
- The board's pay structure supports director motivation for the company to perform well, as about half of director compensation is share-based. Furthermore, directors must hold five times their annual cash retainer in shares by the fifth anniversary of their service as a director if they wish to stay on the board. That requirement incentivizes directors to act in the company's best interest.
- The board of directors benefits from an effective structure. This includes diversified and relevant experiences and the requisite skill sets to support the resultant strategies. There has not been an unexpected board member departure in the past five years, and attendance rates demonstrate strong commitment from board members to their fiduciary duties.

Code and values

Strong

- The core business revolves around environmental stewardship and sensitivities toward social responsibilities. Along with these principles, ethical values and a codified commitment to diversity and inclusion and compensation expectations are embedded among the board and senior management. The company has demonstrated an ongoing commitment to these values, including by maintaining an overarching strategy committed to the regulated water and wastewater utility space.
- In addition to establishing companywide expectations, American Water tracks confirmed code of conduct breaches and has procedures to take immediate corrective actions, as well as to establish cultural improvements to lessen the risk of repeat violations.
- The company's executive-to-nonexecutive pay gap indicates an egalitarian culture, as its CEO-to-average-worker pay gap of about 58 times is much lower than that of other large U.S.-based corporations.
- Several best-management practices exist, and the core values and expectations of employees are well-aligned with environmental and social values.

Transparency and reporting

Good

- We base American Water's transparency assessment on its ongoing commitment to disclosure, which we view as comparable to industry peers with regard to timeliness and quality.
- American Water has several investor relations options both online and in print that supplement the required SEC disclosures and filings, quarterly investor webcasts, and periodic shareholder and stakeholder presentations. Water utilities are generally required to make annual environmental reports based on water quality. In addition, the company discloses generally more information on ESG efforts compared to peers.
- American Water also uses performance-based internal benchmarks to measure operational efficiencies, and it generally includes those that are not deemed proprietary and confidential in its annual report.

Cyberrisks and systems

Good

- Because of the potential for malevolent acts to disrupt operations and customer and employee privacy, American Water has significant exposure to cyberattacks.
- Several of American Water's subsidiaries operate in jurisdictions in which minimum standards have been statutorily imposed, establishing minimum guidelines for cybersecurity.
- In addition to implementing best practices for securing physical assets from external and internal threats, the management team uses staff and vetted industry experts and standards to protect utility infrastructure, as well as customer data, from disruptions and attacks.

General factors (0)

- We have not made any adjustments to the governance profile.

Preparedness Opinion

Preparedness	Low	Emerging	Adequate	Strong	**Best in class**

Awareness	Developing	Good	**Excellent**
Assessment	Developing	Good	**Excellent**
Action	Developing	Good	**Excellent**
Culture	Developing	**Good**	Excellent
Decision-making	Developing	Good	**Excellent**

Summary

We view American Water's preparedness as best in class, reflecting its excellent awareness of long-term risks and opportunities, excellent assessment of the potential impact of its business, and excellent action planning, which reflects a track record of effectively responding to risks and opportunities. Furthermore, the company's culture demonstrates a strong commitment to long-term sustainability at all levels. Finally, we assess the entity's decision-making as excellent, reflecting its track record of decisions that have successfully reinforced strategic objectives.

American Water has fostered a culture that promotes risk awareness. Employees at all levels are asked to identify, escalate, and communicate risks, while the board and senior management's creation of key committees and workgroups to nimbly address emerging risks and standardize best practices helps it gain visibility into the strategic risks it is likely to face as an enterprise.

Utilities and other critical infrastructure companies remain exposed to disruptions related to climate change, cyberrisks, changing demographics, and customer demand. However, the board and senior management have positioned themselves to be diligent in responding to these risks and opportunities as they grow over time, and they have a track record of doing so.

Awareness	Developing	Good	**Excellent**

We assess awareness as excellent because the board has shown it can identify long-term material disruptions and opportunities in developing its strategy. Independently, the board requires that management members interact with risk and audit committees multiple times per year, and business unit heads are accountable for identifying exposure in their respective businesses. In addition, the company partners with governmental agencies, regulatory bodies, and industry groups to discuss, teach, and identify ways to address risks and opportunities across the industry. It identifies risks both from bottom-up and top-down approaches, with the executive leadership team coordinating risk identification among business lines, support functions, and an internal audit team, to ensure appropriate expertise on the topic, as well as alignment with the broader long-term strategy.

For example, American Water recognizes the potential risks to public health and safety, as well as its reputation, from unregulated contaminants. Environmental regulators could establish maximum contaminant levels and have systems continuously monitor the internal and external environment to detect signals that could translate into emerging and strategic risks or opportunities. The company has an internal team dedicated to the research and development (R&D) of ways to detect and treat contaminants for which no devices currently exist.

Preparedness

Assessment Developing | Good | **Excellent**

American Water is, in our view, excellent at assessing the potential impact of risks and opportunities on its operations and strategy because management systematically measures risk and opportunity potential over the long term and the board independently does the same. Findings are also shared amongst the board and management. Assumptions and scenarios guided by internal and external expertise support both groups. In constructing their assets, for example, the company assumes either 100- or 500-year flood scenarios, based on its assessment that rising sea levels could pose a material risk to operations.

In addition, the company monitors contaminant levels mandated by numerous state and federal regulations. However, because the regulations for measuring these contaminants are often inconsistent, it also monitors and assesses over 70 additional contaminants that it believes could pose risks to its customers or may become regulated. These actions are the result of multiple scenario analyses conducted and assessed by senior management and the board on an ongoing basis. Consequently, senior management articulates potential impacts and mitigation strategies associated with the company's assessments while continually quantifying the company's risks and opportunities. Although we have not seen all details and assumptions, we believe the team evaluates and reassesses risks through impact and probability matrices and discusses results monthly. The board also conducts similar activities, using the work of external consultants such as demographers, hydrologists, and scientists to opine on possible outcomes for each disruptor. For example, American Water is constantly reassessing impacts of water scarcity given an operating subsidiary's footprint in California using regularly updated data.

American Water has also identified the physical impacts of climate change as a risk and has quantified how much it could be financially affected by climate-related risks in its Carbon Disclosure Project (CDP) report. In particular, some of the climate-related risks relate to water scarcity and flooding, and management continuously reviews the impact that these risks can have on the company's operations through its enterprise risk-management processes.

Action Plan Developing | Good | **Excellent**

American Water demonstrates excellent action planning and makes efforts to align action plans with the day-to-day activities of its employees. Management has emphasized that each of these action plans must be dynamic, practiced, and executable. To that end, the company has developed drills and practices for near term, unanticipated risk scenarios such as disaster response to cyberattacks and extreme weather. We believe success in developing these scenarios and resulting action plans has tangibly facilitated rapid change management in the face of risk and opportunity. The results of these analyses are escalated from business unit leaders to management and the board for review as part of ongoing risk assessments.

For instance, after identifying climate change and water-borne contaminants regulations as a material long-term risk, American Water established concrete actions to reduce its exposure to possible regulations, and it has become an industry leader by capitalizing on opportunities it has identified. For example, the company has its own R&D and central laboratory divisions that have become established enough in the industry that they conduct pilot testing and sample monitoring on behalf of other water utilities in the U.S. Along these lines, the company has continually implemented measures, such as the promotion of water conservation, the repair of leak-prone pipes, revenue decoupling mechanisms, water conservation surcharges, and the building of floodwalls in response to what it has perceived as growing risks around the physical impacts of climate change.

Preparedness

American Water also partners with governmental agencies and regulatory bodies to promote water conservation and establish other environmental, health, safety, and water quality standards and regulations. In doing this, the company is further able to purchase and invest in systems that may not meet regulatory standards and uses its economies of scale and operational effectiveness to limit bill increases to new customers, thereby supporting sustainable growth for the company.

Culture Developing **Good** Excellent

We view American Water's culture as good because staff at all management levels understand that the company's strategy must align with ESG principles in order for it to grow and operate sustainably, given its role as an environmental steward. This culture is embedded throughout the board and executive management's risk mitigation and goals setting for its employees. Most importantly, there is a demonstrated effort to discover, manage, and ameliorate disruptions that could pose a threat to employees, customers, or the environment, as the company encourages employees to bring work to a halt or raise issues when safety is a concern. The company expects the same level of discipline in its partners.

Furthermore, American Water incorporates new employees from acquisitions rather seamlessly through its commitment to employee safety and further investment in these systems compared to what was done previously. Still, as purchasing underperforming water systems is a core piece of the company's growth strategy, this will remain a challenge, albeit one that the company has successfully managed in the past.

Management and the board members communicate a consistent message on sustainability strategy both internally and externally. For example, American Water publicly commits to "do well by doing good" and incorporates its long-term planning and goals into its public statements. American Water also engages its communities with its plans to further its goals.

Decision-making Developing Good **Excellent**

We view the decision-making at American Water as excellent because the CEO and the board have demonstrated deep involvement and commitment to ESG themes, and they have organized the board's risk management structure and practices to reflect that. Executive and employee incentive compensation and performance are linked to sustainability targets, including safety performance indicators, customer satisfaction, operational efficiency, and environmental leadership. Furthermore, the board's Safety, Environmental, Technology, and Operations Committee assists the company with oversight and reviews various issues that relate to the company's long-term sustainability.

Spending on sustainability is inherent to the nature of the company, as American Water's business requires it to be an environmental steward. The company focuses its operations and spending on the safe and reliable maintenance and delivery of water. It aims to limit water leakage within its system in order to minimize the use of a finite resource, and it dedicates much of its R&D spending to study the impact that contaminants can have on its water supply and how it can adequately treat unregulated contaminants to advance its long-term strategy. Management also discloses its long-term capital spending plans and operational goals more transparently than its peers do, as shown by its recent public disclosure of a summary of its 10-year capital plan and operating performance goals over a five-year time frame. This further evidences its long-term commitment to be primarily a regulated water and wastewater services provider.

Climate-Related Financial Disclosure

TCFD Recommendations Alignment Assessment: Not adopted | **Partially adopted** | Adopted

We assessed to what extent the entity has adopted the Financial Stability Board's Taskforce on Climate-related Financial Disclosures' (TCFD) recommendations. We do not opine on the quality of the entity's disclosure or the climate change scenario assumptions, if any. Rather, we comment on the number of disclosures made, based on the TCFD's suggested disclosure list.

Based on the entity's publicly available information, in our opinion American Water Works Co. Inc. has partially adopted the TCFD recommended disclosures.

The company does provide a description of both board and management roles in identifying and managing climate risk. Additionally, the company's CDP disclosure provides high-level detail on identified climate risks over short, medium, and long-term horizons. According to the disclosure, these risks are factored into the company's capital allocation process. The company also discloses a variety of climate-related metrics, including water metrics and Scopes 1 and 2 GHG emissions data; it does not, however, disclose Scope 3 GHG emissions data.

Governance	Strategy	Risk management	Metrics and targets
Description of the board's oversight of climate-related risks and opportunities.	Description of the climate-related risks and opportunities identified over the short, medium, and long term.	Description of the organization's processes for identifying and assessing climate-related risks.	Disclosure of the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
Adopted	**Adopted**	**Adopted**	**Adopted**
Description of management's role in assessing and managing climate-related risks and opportunities	Description of the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	Description of the organization's processes for managing climate-related risks	Disclosure of Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
Adopted	**Adopted**	**Partially adopted**	**Partially adopted**
	Description of the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Description of how the organization integrates its processes for identifying, assessing, and managing climate-related risks into overall risk management.	Description of the targets used by the organization to manage climate-related risks and opportunities and performance against targets.
	Partially adopted	**Adopted**	**Partially adopted**

Sector And Region Risk

Primary sector(s)	Regulated utilities network
Primary operating region	U.S.

Sector Risk Summary

In our view, the regulated utilities network generally has moderate risk. This is driven primarily by contaminants to drinking water and aging infrastructure that will pressure rates on a sector for which affordability is already a sensitive issue and may therefore be a consideration of rate regulators. We have not made any adjustments in our analytical approach for this sector's risk exposure.

Environmental exposure

Environmental risks include precipitation patterns and extreme weather, as exacerbated by climate change, insofar as it its effects on raw water supplies. Source water tends to be heavily localized given the implacability of transporting large volumes of water over great distances, which places pressure on the utility to be efficient with its underground infrastructure and storage to minimize leaks and loss. There are about 90 regulated contaminants in the U.S., which has more robust minimum acceptable standards than even those outlined in the World Health Organization's Guidelines for Drinking Water Quality. There are also unregulated contaminants such as lead, hexavalent chromium and perfluoroalkyl substances, which the mainstream media has brought to the public's attention. Utilities that provide wastewater treatment must also be mindful of nutrient removal, as excess nitrogen and phosphorus in the discharged effluent creates risks of algal blooms, which can foul water supplies and kill fish.

Social exposure

In addition to affordability and the perception of environmental justice issues that may cause reputational damage, regulated utilities play an important role within their communities because they provide an essential service that is expected to be continuously available without interruption. Large vertically integrated companies often have unionized staff and contribute to the local property-tax base. Regulators have increasingly been focusing on affordability, and we believe this could translate into further remuneration pressure for regulated networks, especially in countries where the bill relative to income or poverty indicators is already unfavourable.

Regional Risk Summary

With robust institutions and rule-of-law standards, the U.S. demonstrates many strong characteristics but lags several countries with respect to ESG regulations and social indicators. Income inequality is higher than in other Organization for Economic Cooperation and Development countries, but it has been so for over a century. U.S. social services are similarly less generous than in most wealthy countries. Governance is characterized by a very stable political system, strong rule of law, a powerful judiciary, and effective checks and balances. Conditions of doing business are generally high. The U.S. follows a rules-based approach to corporate governance, focused on mandatory compliance with requirements from the major exchanges (New York Stock Exchange [NYSE] and NASDAQ), as well as legislation. Exchanges requirements mandate high standards of corporate governance. The NYSE requires companies

listing on its exchange to have boards made up of a majority of independent directors and have separate remuneration and nomination committees. However, in the U.S. establishment of formal requirements on ESG reporting are behind those of European countries. While a growing number of companies have an independent chair, the combination of CEO and chair roles is still popular, which can create issues regarding management oversight. Remuneration continues to be a contentious point, because U.S. executive pay dwarves global pay levels. The CEO-to-worker pay ratio is ever-increasing, leading to social tensions and shareholder criticism.

This report does not constitute a rating action.

Appendix

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