

Environmental and Social Metrics Added to ISS QualityScore

February 12, 2018 | Client Update | 3-minute read

Along with its four pillars for governance which score companies on a one to ten scale, ISS has launched Environmental & Social (E&S) QualityScore to measure corporate disclosure on environmental and social issues. Similar to the Governance QualityScore, the measures are relative based on peer companies within a specific industry group.

An initial set of 1,500 companies is being covered globally, including Energy, Materials, Capital Goods, Transportation, Automobiles & Components, and Consumer Durables & Apparel. It is expected that by Q2 2018, an additional 3,500 companies across 18 industries will be included. The scores will be part of the companies' proxy voting reports, but like all of the QualityScores, will not impact the vote recommendations.

More than 380 E&S factors, of which at least 240 apply to each industry group, will be assessed. Broad topics for the environmental disclosure include: (a) Management of Environmental Risks and Opportunities; (b) Carbon and Climate; (c) Natural Resources; and (d) Waste and Toxicity. There are 12 subcategories below this level. Social-related disclosures evaluated include: (a) Human Rights; (b) Labor, Health, and Safety; (c) Stakeholder and Society; and (d) Product Safety, Quality, and Brand. There are 25 subcategories in total.

The [Key Issues document](#) outlines for each subcategory the factors examined. For example, the category Carbon and Climate has a subcategory on Energy and Fuel Efficiency that checks whether companies have disclosed 11 metrics, including total energy use and energy derived from renewable and non-renewable sources. The category Labor, Health and Safety has a subcategory on Compensation and Benefits that looks at whether a company has made a commitment to a fair or living wage and responses to living wage controversies.

[According to the ISS FAQ](#), the scores measure company disclosure. Unlike some of the other ESG "raters," ISS does not include assessments of corporate practices based on outside reports. ISS notes that investors report that company disclosure "is a meaningful signal in its own right."

Data is collected from company filings, sustainability and CSR reports, publicly available company policies and information on corporate websites. An additional measure is company participation in "multi-stakeholder initiatives," which are collected from those stakeholders' websites or member lists. Some of the company participation that is scored include participation in the UN Global Compact, the Global Network Initiative and the Voluntary Principles on Security and Human Rights.

The expectations for the disclosure are defined by industry and certain standard-setters that include the Global Reporting Initiative (GRI), the Sustainability Accounting Standard Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD). ISS stated that these standards were used in both selecting the factors and the weighting of those questions relative to the overall score, meaning that the factors related to these standards are more heavily weighed than other factors.

ISS indicated that the data could be updated daily. Like the Governance QualityScore, issuers can verify their data, and make submissions of corrected or updated data factors, through the ISS data verification site.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

Ning Chiu

+1 212 450 4908

ning.chiu@davispolk.com

This communication, which we believe may be of interest to our clients and friends of the firm, is for general information only. It is not a full analysis of the matters presented and should not be relied upon as legal advice. This may be considered attorney advertising in some jurisdictions. Please refer to the firm's privacy notice for further details.