# ISS ESG ▷

## Environmental & Social Disclosure QualityScore

FAQ

October 2024





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### Table of Contents

Scoring Overview4
What is E&S Disclosure QualityScore?4
What do the E & S decile scores (1–10) mean?4
What does the score measure?4
Where is the information in the reports sourced?4
Does ISS use other ESG surveys or data providers as a source?4
Why is participation in initiatives considered a relevant factor?4
What data points are captured?5
How does E&S Disclosure QualityScore help investors in this area?
Coverage
What are the Environmental Pillar categories?6
What are the Social Pillar categories?6
What are the industry groups?7
How many companies are covered?7
How often is data updated?8
Methodology9
When was the latest methodology update and what did it include?9
Will there be regular methodology updates?9
How does the methodology reflect the differences companies face across industries?9
How are GRI, SASB, and TCFD incorporated into the methodology?9
How does the E&S QualityScore relate to the ESG Corporate Rating or Norm-Based Research (NBR) signals?
Issuer Specific Questions
How can my company access my E&S Disclosure Quality Score?
Will the E&S Disclosure QualityScore be included in ISS' governance research and vote recommendations?
How will the E&S QualityScore affect ISS' vote recommendations in the governance research report?
Who do I contact if I think something is incorrectly profiled?11
I do not think certain questions are relevant for my company and should not apply. What can I do?



What is the difference between "No" and "Not Disclosed"?11	L
What if my company has a policy, but it is not public?11	L
Is there a specific period for data verification?11	L
Does a company filing their proxy agenda/meeting information affect their score?	<u>)</u>
Are the scores made public on any financial or third-party platforms?	<u>)</u>
What is the lookback period used for the review of disclosure sources?	<u>)</u>
What is the data collection cycle?	<u>)</u>
Why are some factors not open for Data Verification?13	3



### Scoring Overview

### What is E&S Disclosure QualityScore?

**Environmental & Social Disclosure QualityScore** is a data-driven scoring and screening solution designed to provide a measure of corporate disclosure practices and degree of transparency provided to shareholders and other stakeholders. The selection of factors is informed by developments in disclosure standards and frameworks, such as the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB) standards, the European Sustainability Reporting Standards (ESRS), and the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

### What do the E & S decile scores (1-10) mean?

Environmental and Social Disclosure QualityScore applies the QualityScore engine and scoring approach and provides two top-level scores, one for each pillar (environmental and social). Additionally, each of the four categories within each pillar has a score.

The scores are decile scores, 1 - 10, which represent a relative measure based on the raw score calculations of the other companies in their specific industry group. A score in the 1st decile indicates relatively higher quality disclosure and transparency practices, and conversely, a score in the 10th decile indicates relatively lower quality.

### What does the score measure?

Scores measure the depth and extent of disclosure. This showcases the company's understanding of its environmental and social risks, along with its preparedness to face and mitigate them. An additional measure is company participation in multistakeholder initiatives. This provides a risk-management framework supported by stakeholders, gives access to shared learning on best practice from industry peers, and confirms the company's commitment to expected standards.

### Where is the information in the reports sourced?

Data is collected from company publications including mainstream filings, publicly available company policies and information on company websites. Confirmation of company participation in or formal endorsement of authoritative multi-stakeholder initiatives is collected from websites or member lists made available by the relevant initiatives.

Companies within the **Environmental & Social Disclosure QualityScore** coverage universe can review, verify and provide feedback on the data used to determine their scores via a complementary Data Verification tool accessed through ISS-Corporate <u>Compass platform</u>.

### Does ISS use other ESG surveys or data providers as a source?

ISS collects most data independently in-house. The expectation is that companies will be able to incorporate other reporting regimes or practices into their reports. One exception is CDP data, which is used for a small subset of the climate dataset.

### Why is participation in initiatives considered a relevant factor?

While companies are duly credited for their policies and associated environmental and social disclosure, participation in relevant and reputable ESG-focused initiatives is also prized. This is because



such initiatives have a threshold of conduct for participation, give access to shared learning on best practice from industry peers, and confirm and reaffirm the company's commitment to expected standards. In addition to standard industry initiatives, multi-stakeholder initiatives provide a riskmanagement framework supported by stakeholders. Furthermore, international initiatives enable a standardized and comparable disclosure structure across markets. The selection process of initiatives is often stringent, as their standards need to be internationally accepted, broadly adopted by key stakeholders (issuers, investors, government agencies) and enable comparability across companies.

### What data points are captured?

The **Environmental and Social Disclosure QualityScore** framework covers more than 340 individual factors. Only factors relevant to a company's Global Industry Classification Standard (GICS)<sup>1</sup> industry group are reviewed and scored – around 240 – under any industry group, reflecting good practice, established standards and recognized challenges.

As mentioned above, the selection of factors is informed by developments in disclosure standards and frameworks, such as the GRI, ESRS, the SASB standards and the TCFD recommendations.

### How does E&S Disclosure QualityScore help investors in this area?

**E&S Disclosure QualityScore** can provide information in the decision-making process for investors seeking to engage with companies to improve disclosure practices. Investors may also use the signal to identify companies with good disclosure as a proxy for forward-thinking management which may be used to identify improved performance from companies.

<sup>&</sup>lt;sup>1</sup><u>https://www.spglobal.com/spdji/en/landing/topic/gics/</u>



### Coverage

### What are the Environmental Pillar categories?

Category	Subcategory
Management of Environmental Risks and Opportunities	Management Policies, Systems and Disclosure
Carbon and Climate	Management Policies, Systems and Disclosure Energy and Fuel Efficiency GHG Emissions Technology and Opportunity
Natural Resources	Water Land, Forests and Biodiversity
Waste and Toxicity	Electronic Waste Emissions and Spills Hazardous and Non-hazardous Waste Packaging Material

### What are the Social Pillar categories?

Category	Subcategory
Human Rights	Management Policies, Systems and Disclosure
	Consultation and Engagement
	Ethical Sourcing
	Supply Chain Standards
Labor, Health and Safety	Labor Relations and Management
	Occupational Health and Safety
	Workforce Diversity and Equality
	Supply Chain Standards
	Training and Development
	Compensation and Benefits
Stakeholder and Society	Management Policies, Systems and Disclosure
	Consultation and Engagement
	Business Ethics and Anti-corruption
	Sustainability Management and Oversight
	Motivation and Accountability
	Lobbying and Political Advocacy
	Medicine, Health, and Nutrition
Product Safety, Quality and Brand	Product Safety and Toxicity
	Data Security and Privacy
	Product Quality and Safety
	Ethical Marketing and Communication
	Animal Welfare



#### What are the industry groups?

Industry groups are based on the 4-digit GICS<sup>2</sup> and are as follows:

- Energy
- Materials
- Capital Goods
- Commercial & Professional Services
- Transportation
- Automobiles & Components
- Consumer Durables & Apparel
- Consumer Services
- Consumer Discretionary Distribution & Retail
- Consumer Staples Distribution & Retail
- Food, Beverage & Tobacco
- Household & Personal Products
- Health Care Equipment & Services
- Pharmaceuticals, Biotechnology & Life Sciences
- Banks
- Financial Services
- Insurance
- Software & Services
- Technology Hardware & Equipment
- Semiconductors & Semiconductor Equipment
- Telecommunication Services
- Media & Entertainment
- Utilities
- Equity Real Estate Investment Trusts (REITs)
- Real Estate Management & Development

#### How many companies are covered?

Current coverage is 8,000 publicly traded companies listed in major indices in the Americas, European, and Australasia regions.

<sup>&</sup>lt;sup>2</sup> The Global Industry Classification Standard (GICS) was developed by Standard & Poor's and MSCI in response to the financial community's need for a reliable, complete (global) standard industry classification system. GICS is based upon a classification of economic sectors, which is further subdivided into a hierarchy of industry groups, industries and sub-industries. The GICS methodology is widely accepted as the industry analysis framework for investment research, portfolio management, and asset allocation. ISS does not classify companies into the GICS codes. A company should contact Standard & Poor's at 1-800-523-4534 if it believes it has been misclassified. URL <a href="https://www.spglobal.com/spdij/en/landing/topic/gics/">https://www.spglobal.com/spdij/en/landing/topic/gics/</a>



#### How often is data updated?

Scheduled updates occur at least once a year, and twice if companies release their annual and sustainability reports separately.

Companies within the coverage universe are invited to review, verify and provide feedback on the data used to determine their scores via a complementary Data Verification tool accessed through ISS-Corporate Compass platform.

Submissions of corrected or updated data factors can be made online through the platform. Companies' submissions are reviewed within a five-day turnaround time, and these can lead to data revisions. Online QualityScore profiles are updated once daily, at approximately 5:00 AM EST.



### Methodology

### When was the latest methodology update and what did it include?

The latest update for the **Environmental & Social QualityScore** was released on September 23<sup>rd</sup> 2024. The update is part of an annual review to maintain alignment with the evolving landscape of sustainability reporting and increasing disclosure expectations, particularly in response to the release of the European Sustainability Reporting Standards (ESRS), the disclosure requirements of which will be rolled out from 2025. To make sure the **Environmental & Social QualityScore** remains aligned with these important new standards, the ESQS dataset is being reoriented towards ESRS to better evaluate covered companies' disclosure preparedness and provide comparably reported data to subscribing investors. In September 2024, 26 new factors were introduced as part of the update to include coverage of evolving areas such as workforce management, circular economy, and water resources. Conversely, 45 datapoints now considered less salient have been retired to prioritize the modernized, international framework-informed datasets.

### Will there be regular methodology updates?

The methodology is reviewed annually to ensure it remains in step with disclosure standards as they adapt to reflect developments in company practice and stakeholder expectations.

Potential changes may impact:

- E&S QualityScore factors
- Weighting of factors
- Industry applicability

### How does the methodology reflect the differences companies face across industries?

The methodology identifies, categorizes, and ranks the range of disclosure practices in each industry for each factor.

#### How are GRI, SASB, and TCFD incorporated into the methodology?

These standards were used in both selecting the factors that made it into the ultimate methodology and the weighting of those questions relative to the overall score.

### How does the E&S QualityScore relate to the ESG Corporate Rating or Norm-Based Research (NBR) signals?

The focus of each product is very different:

- Environmental & Social QualityScore focuses on the disclosure practices of a company around environmental and social issues to identify leaders and laggards, helping to inform how companies manage related risks and opportunities.
- The ESG Corporate Rating provides a detailed assessment of a company's ESG performance, indicating to what extent a company successfully manages risks and seizes opportunities in a world undergoing major transformational processes. While disclosure is an important aspect and in many cases a prerequisite for a performance assessment, the ESG Corporate Rating



goes beyond disclosure and assesses the quality and outcome of a company's risk and opportunity management.

 NBR analyzes reported allegations of adverse impacts by business on society and the environment in line with business principles on human rights, labor rights, environmental protection and anti-corruption as recognized under the UN Global Compact.



### Issuer Specific Questions

#### How can my company access my E&S Disclosure Quality Score?

Subject Issuers will be able to verify the data that has been collected via the complimentary Data Verification tool on the ISS-Corporate platform, Compass. If you need an account to log into the Compass platform, please email: <a href="mailto:support@iss-corporate.com">support@iss-corporate.com</a>.

Please note, if you already have a login to the Compass platform and are part of the research universe, your current login will provide access to the Data Verification tool.

### Will the E&S Disclosure QualityScore be included in ISS' governance research and vote recommendations?

Yes.

### How will the E&S QualityScore affect ISS' vote recommendations in the governance research report?

No.

### Who do I contact if I think something is incorrectly profiled?

Please contact the <u>ISS Help Center for further assistance</u>.

### I do not think certain questions are relevant for my company and should not apply. What can I do?

Through the Data Verification tool in Compass, issuers may request that questions they feel are irrelevant be considered accordingly. To this end, issuers are encouraged to provide a rationale as to why the factor is not applicable.

### What is the difference between "No" and "Not Disclosed"?

For the most part, "Not Disclosed" will refer to questions that ask whether a company discloses a certain policy or action. "No" will generally refer to whether a certain disclosed policy has certain attributes.

### What if my company has a policy, but it is not public?

No credit can be given for non-public information. E&S Disclosure **QualityScore** measures the disclosure and transparency related to a company's management of environmental and social risks and opportunities.

### Is there a specific period for data verification?

Data verification is available and remains open throughout the year. Blackout periods of one to two weeks are anticipated following the release of methodology updates.



### Does a company filing their proxy agenda/meeting information affect their score?

There is no specific relationship between a company meeting and updates to the E&S **QualityScore**. If there are any specific disclosures related to the meeting materials that the company would like reflected, please submit change requests via the Data Verification tool.

### Are the scores made public on any financial or third-party platforms?

Scores are currently accessible on **Bloomberg**'s Data Management Services, **Crux**, **BlackRock Aladdin**, and **Calibre**. Since June 2023, the E&S Disclosure QualityScore is also available through **Snowflake**.

### What is the lookback period used for the review of disclosure sources?

The lookback period is generally limited to the current data collection cycle. For example, if a company does not disclose certain data by the end of the 2022 data reporting cycle, the data will be considered "Not disclosed" for 2022.

There are two exceptions:

- Policy documentation and codes of conduct: These are considered current as long as they remain publicly available.
- First profiling: When profiling a company for the first time, ISS uses a 24-month lookback period to help ensure data is not missed.

This lookback period helps to ensure that the data remains up to date for investors, comparable within the company profile (energy consumption from 2021 does not get mixed with GHG emissions from 2022) and contemporaneous across issuers.

### What is the data collection cycle?

Data collection is continuous. Each company is profiled annually according to each company's fiscal year end (FYE). Issuers that report their annual and sustainability reports separately are profiled twice to capture the data shortly after publication. The start of a data collection cycle is issuer-individualized and is dependent on the previous year report's publication date as well as its FYE. ISS looks for corporate disclosures 50 weeks after the publication of the previous one. *For example, if last year's sustainability report was published on 25 July 2022, ISS looks for the new sustainability report from 11 July 2023*. ISS checks regularly until the disclosure is found, or until the company's current cycle's FYE is exceeded by 10 months, upon which the data is considered not disclosed and the cycle is closed. *For example, if the company's FYE is 31 March 2022 and by 31 January 2023 no new sustainability report is published, the cycle is closed, and the as-yet undisclosed sustainability data will be considered not disclosed.* Should new data be disclosed at a later point, it will be collected upon commencement of the next cycle.



### Why are some factors not open for Data Verification?

The majority of factors are collected from company disclosures and corporate websites. A small number, however, refer to corporate membership and participation in relevant and credible initiatives; these are sourced from the third-party websites listed below. As these are not company-reported data points, they are not subject to Data Verification.

Third-party organization	URL
CEO Water Mandate	https://ceowatermandate.org/about/endorsing- companies/
Extractive Industries Transparency Initiative	https://eiti.org/supporters/companies
Global Reporting Initiative	http://database.globalreporting.org/search/
Roundtable on Sustainable Palm Oil	http://www.rspo.org/members/status-of-complaints/
Science Based Targets initiative	http://sciencebasedtargets.org/companies-taking- action/
United Nations Global Compact	https://www.unglobalcompact.org/what-is- gc/participants
Voluntary Principles on Security and Human Rights	http://www.voluntaryprinciples.org/for-companies/
Women's Empowerment Principles	https://www.weps.org/companies
Task Force on Climate-Related Financial Disclosures (TCFD) supporter list	https://www.fsb-tcfd.org/
RE100	https://www.there100.org/re100-members
Global Reporting Initiative (GRI)	https://www.globalreporting.org/
CDP	https://www.cdp.net/



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