

Environmental & Social Disclosure QualityScore FAQ

Scoring Overview

What is E&S Disclosure QualityScore?

Environmental & Social Disclosure QualityScore is a data driven approach to measure the quality of corporate disclosure on environmental and social issues, including sustainability governance, and identify key disclosure omissions. Expectations regarding disclosure practices are defined by industry groups, based on the specific environmental and social risks identified in industry and multi-stakeholder initiatives and reflected in authoritative standards such as the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB) standards and the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

What are the E & S 1–10 scores based upon?

Consistent with the scoring for **Governance QualityScore** the decile scores, 1–10, represent a relative measure based on the raw score calculations of peer companies within a specific industry group. This process is conducted at each pillar category and at the overall pillar score level. Each category as well as the overall pillar score generates an independent range of scores and the resulting decile rankings. A score in the 1st decile indicates relatively higher quality disclosure and transparency practices and relatively fewer disclosure omissions, and conversely, a score in the 10th decile indicates key disclosure omissions and relatively lower quality disclosure and transparency practices.

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, and drastically increasing its responsibility and accountability. Disclosure is core to shareholder expectations as it informs investment decisions and several initiatives have converged around thematic disclosure. The E&S Disclosure QualityScore provides a rounded measure across environmental and social issues.

Where is the information in the reports sourced?

Data is collected from company publications including mainstream filings, Sustainability and CSR reports, Integrated Reports, 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 list made available by the relevant initiatives. Issuers are invited to review and verify their data through routine data verification.

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

No, ISS collects all data independently in-house. The expectation is that companies will be able to incorporate into their reports other reporting regimes or practices.

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 risk-management framework supported by stakeholders. Furthermore, international initiatives enable a standardized and comparable disclosure structure across markets. The selection process of initiatives is stringent, and only a few are considered both reputable and relevant.

What data points are captured?

More than 380 factors across the environmental and social pillars are analyzed. The specific factors under analysis – around 240 - vary by industry group. The factor selection and sector allocation has been informed by the recent developments in disclosure standards and frameworks, such as the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB) standards and the Task Force on Climate-related Financial Disclosures (TCFD). Section 2 below outlines in more detail the Pillars and Categories covered by E&S Disclosure QualityScore.

Why is there no overall score like there is in the Governance QualityScore?

The E & S Pillar scores stand alone alongside the G Pillar overall score.

Does the focus on pure disclosure provide meaningful insights?

Investors report that company disclosure is a meaningful signal in its own right – i.e. limited disclosure is often a sign that further investigation is needed to rule out the presence of poor practice – and a prerequisite to an effective comparison of company performance against peers.

What are investors saying about disclosure?

More and more institutions in their annual update to proxy voting guidelines feature E&S issues and are signaling the need for transparent disclosure around important issues such as board gender diversity, overall diversity, and awareness of material climate risks. Company disclosure practices are key to successfully implementing these updated voting policies.

Blackrock sums it up well in their 2018 voting guideline updates:

Many of our engagements are triggered because companies have not provided sufficient information in their disclosures to fully inform our assessment of the quality of governance, including the exposure to and management of environmental and social factors. We ask companies to review their reporting in light of their investors' informational needs. In our view, companies that report only to meet the regulatory disclosure requirements are missing a prime opportunity to more comprehensively engage new and existing investors about how effectively a business is led and managed. Where reporting requirements are silent on an emerging issue, we believe it is important for companies and investors to develop disclosure guidelines.

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

E&S Disclosure QualityScore can provide a shortcut 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 increased performance from companies.

Does voluntary disclosure really mean anything?

When backed by the growing, and developing body of normative frameworks evaluation of disclosure practices is clearly informative. If disclosure is so robust, why are there so many initiatives focused on it? Why do so many investors continue to seek better disclosure? The reality is the market sees benefits in ratings that are more disclosure focused, and ratings that are more “materiality” based. E&S Disclosure QualityScore’s focus on depth of disclosure on metrics most material to the company’s specific industries and peers resonates with investors.

Coverage

What are the Environmental Pillar categories?

Management of Environmental Risks and Opportunities Carbon & Climate; Waste & Toxicity; and Natural Resources. Under the categories there are 12 subcategories in total.

What are the Social Pillar categories?

Product Safety, Quality & Brand; Stakeholders & Society; Labor Health & Safety; and Human Rights. Under the categories there are 25 subcategories in total.

What are the industry groups?

Industry Groups are based on the 4-digit Global Industry Classification Standard (GICS)¹ Code and are as follows:

Energy; Materials; Capital Goods; Transportation; Automobiles & Components; Consumer Durables & Apparel; Commercial & Professional Services; Consumer Services; Media & Entertainment; Retailing; Food & Staples Retailing; Food, Beverage & Tobacco; Household & Personal Products; Healthcare Equipment & Services; Pharmaceuticals, Biotech & Life Sciences; Banks; Diversified Financials; Insurance; Software & Services; Real Estate; Utilities; Telecommunication Services; Semiconductors & Equipment; and Tech Hardware & Equipment.

¹ 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 <https://marketintelligence.spglobal.com/documents/products/GICS-Mapbook-Brochure.pdf>

How many companies are covered?

Approximately 4,700 publicly traded companies in the Americas, EMEA, and Australasia regions.

Will there be additional coverage?

The intention is to bring the universes of E&S Disclosure QualityScore and Governance QualityScore into alignment, although the timing has not yet been determined.

Where does the data collection occur?

All data is collected by ISS Data Collection Teams which span the globe. ISS E&S Disclosure QualityScore leverages ISS' industry leading global footprint, which includes deep legal, industry, and language expertise across key global capital markets

How often is data updated?

Potentially daily. Companies within the ISS QualityScore 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 Solutions' (ICS) Governance Analytics platform. Submissions of corrected or updated data factors can be made online through the platform. Online QualityScore profiles are updated once daily, at approximately 0500 Eastern.

Aside from issuer data verification, company data is updated annually on a rolling basis, based roughly on the timing of their annual general meeting which is the typical time of filing annual reports and sustainability reports, issuing updates on company policies and introducing other significant changes to corporate disclosures.

General calendar for the updates by industry:

Industry group	Annual Update	Industry group	Annual Update	Industry group	Annual Update
Insurance	April – May	Consumer Service	July – Aug	Health Care Equipment & Services	Sept – Oct
Banks		Media & Entertainment		Technology Hardware & Equipment	Oct – Nov
Diversified Financials		Commercial & Professional Services	Aug – Sept	Semiconductors & Semiconductor Equipment	
Capital Goods	May – June	Transportation		Consumer Durables & Apparel	
Automobiles & Components		Retailing		Household & Personal Products	Nov – Dec
Energy	June – July	Food & Staples Retailing		Telecommunication Services	
Utilities		Food, Beverage & Tobacco	Sept – Oct	Materials	Dec – Jan
Software & Services	July – Aug	Pharmas, Biotechnology & Life Sciences		Real Estate	

Methodology

What is the broad approach to the methodology?

The methodology focuses on quantitative and qualitative aspects of disclosure practices, including global disclosure standards and key industry initiatives. A top-level environmental score is presented in parallel to a top-level social score; these scores are equivalent to the Governance QualityScore company-level G score. Each top-level pillar score is supported by four categories and supporting sub-categories. Only factors relevant to a company's industry group are incorporated within a model.

Will the methodology change?

Annual review by the RI Methodology Review Board ensures the methodology remains in step with disclosure standards as they adapt to reflect developments in company practice and stakeholder expectations.

Q1

Calendar year

ISS E&S Research team conducts the annual methodology update.

Potential changes include:

- E&S QualityScore factors
- Weighting of factors
- Questions included in industry group

The ISS E&S team will proactively profile your company with answers to these new factors. They will pull from publically available sources. You then have the opportunity to verify the new factors.

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

The methodology identifies the range of practices that issuers adopt in each industry on disclosure practices for each factor, and categorizes these to reflect industry good practice.

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. Said another way, factors that are related to these standards are more heavily weighted than other factors. While some may consider these frameworks to be to “new” to be relevant, they do represent very mature standards.

How does the E&S Quality Score relate to the ISS-Ethix Norm-Based Research (NBR) or the ISS-oekom Corporate Rating signals?

- The focus of each product is very different:
 - E&S QualityScore the focus is on the disclosure practices of a company on material E&S issues as a way toward identifying leaders and laggards, which also highlights how companies manage related risks and opportunities. It measures the company's depth of understanding of its environmental and social risks.
 - ISS-Ethix's 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. NBR findings inform investors about prospective reputational risks and potential long-term financial risks linked to the identified adverse impacts of their investments on society and the environment.
 - The ISS-oekom 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 ISS-oekom Corporate Rating goes beyond disclosure and assesses the quality and outcome of a company's risk and opportunity management.

Issuer Specific Questions

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

Issuers will be able to verify the data that has been collected via Data Verification tool on the ICS Governance Analytics platform. If you need an account to log into the Governance Analytics platform, please email contactus@isscorporatesolutions.com. Please note, if you already have a login to the Governance Analytics platform, your current login will provide access to the QualityScore Data Verification tool.

Will the E&S scored be on the ISS Proxy Analysis?

Yes, the Environmental and Social scores appear alongside the Governance Quality Score on the ISS Benchmark Proxy Analysis.

How will the E&S QualityScore affect ISS' vote recommendations on the proxy analysis research report?

As with the Governance score, the Environmental and Social scores have **no impact** on ISS' benchmark proxy voting recommendations.

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

The first step to attempt to change the way something is profiled is through the Data Verification process. If the suggested change is not made and additional clarification is needed please email ESGHelpdesk@iss-esg.com.

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

Through data verification, issuers may request that questions they feel are irrelevant be marked as Not Applicable. The stronger the rationale provided the better chance the analyst will be able to make the change.

What is the difference between “No” and “Not Disclosed”

For the most part, “Not Disclosed” will refer to question that ask about 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. If the company has a policy, disclose it – get credit for the work already done!

Is there a specific period for data verification?

Data verification is available and remains open throughout the year. Blackout periods are anticipated in one-week cycles with the unveiling of the annual methodology updates. Unlike with Governance QualityScore, there will be no blackout period related to filing materials related to company meetings.

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

There is no specific relationship to a company meeting and updating the E&S QualityScore. If there are any specific disclosures related to the meeting materials that the company would like reflected, they may be suggested as changes in the data verification platform.

How does ISS anticipate investors will use the scores and underlying data?

Institutional investors can be expected to use the scores and data to facilitate identifying and targeting portfolio companies with poor environmental and social disclosure and transparency, construct portfolios around environmental and social disclosure and transparency, and consider environmental and social disclosure factors in investment decisions. The additional E&S pillars provide a new metric to use alongside the Governance pillar to provide more holistic ESG evaluation.

How is the ISS scoring methodology similar or different from other ESG ratings?

ISS E&S Disclosure QualityScore has a robust methodology. Methodology focuses on quantitative and qualitative aspects of disclosure practices, including global disclosure standards and key industry initiatives. The methodology is made transparent through the QualityScore Key Issues Tech Doc. Annual review ensures the methodology remains in step with disclosure standards as they adapt to reflect developments in company practice and stakeholder expectations.

Will the scores be included on Yahoo! Finance or other financial platforms?

ISS is evaluating the addition of the E&S scores to be accessible on third-party platforms alongside the Governance scores.