majorityaction

October 21, 2020

Institutional Shareholder Services
702 King Farm Boulevard, Suite 400
Rockville, MD 20850
Via email: policy@issgovernance.com

Re: Proposed Benchmark Policy Changes for 2021

Dear colleagues at Institutional Shareholder Services:

It is our pleasure to provide feedback on the proposed change in "Director Elections: Material E&S Risk Oversight Failures" (pages 31-32) of *Proposed Benchmark Policy Changes for 2021* released by ISS on October 14, 2020. Climate scientists, economists, and financial regulators agree that the systemic risk of climate change to investors' portfolios is large, material, and undiversifiable, therefore this proposed policy change is warranted.[1]

ISS proposes to consider failures of risk oversight with respect to climate-related issues only where it is likely to have a large negative impact on future company operations at the specific company in question. However, climate change is a systemic risk that has the potential to negatively impact the entire portfolio value of investors, and as such the climate performance and greenhouse gas emissions of individual companies can have an impact on the value of other investments as well.[2] The policy should be broad enough to enable votes on director elections to hold boards accountable for companies' climate performance and impact on climate outcomes.[3]

ISS indicates that it expects this policy change to impact only a small number of directors each year. However, given the systemic risk posed by climate change and the failure of many companies to align their operations with the scientific recommendations to limit warming to 1.5°C over preindustrial levels by the end of the century, this policy should be applied as broadly as warranted by the consideration of the factors set out below rather than arbitrarily limited to a small number of directors each year. In targeting the application of this policy, focus should be placed on companies that have the largest impact on climate outcomes, for example,

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[1] Majority Action, *Climate in the Boardroom 2020,* https://www.majorityaction.us/s/MA_ClimateintheBoardroom_2020.pdf, pp. 6-9
[2] Majority Action, *Climate in the Boardroom 2020,* pp. 10-11
[3] Majority Action, Letter to U.S. Department of Labor, Re: Proxy Voting and Shareholder Rights NPRM, Fiduciary Duties Regarding Proxy Voting and Shareholder Rights, October 2, 2020, http://bit.ly/MajorityActionFiduciaryDutyProxyVoting

companies that are responsible for driving the demand and supply of fossil fuels in industries such as electric power production, automotive manufacturing, oil and gas, and banking.[4]

Majority Action recommends the following factors be considered in assessing whether a board has demonstrated poor risk oversight with respect to managing climate performance:

- Whether the company has set a science-based net-zero emissions target that is aligned with the goal of limiting global warming to 1.5°C over preindustrial levels by the end of the century;
- Whether the company has made public its net-zero transition plan and taken steps to ensure that its capital expenditure plans are consistent with implementing such emissions targets;
- Whether the company's financial statements reflect climate change risks and impacts, the consistency of the assumptions and estimates used in preparing the financial statements with those underpinning the transition plan, and the robustness of the company's disclosures on climate-related risks;
- Whether there are one or more directors on relevant board committees whose previous experience or actions are inconsistent with robust oversight of climate change risk;
- Whether the company has aligned its political and public policy activity with its net-zero transition, including a public commitment to not lobby to oppose or weaken action on climate change or to contribute dues or other funds to organizations, such as trade associations and politically active 501(c)3 and 501(c)4 organizations, that engage in such lobbying; and
- Whether the incentive compensation arrangements applicable to named executive officers, including the selection of metrics and targets by the compensation committee, are consistent with the transition plan.

We believe that ISS should proactively identify boards that have failed to prepare for future risks. The systemic risk posed by climate change is foreseeable, and companies have been on notice since the release of the 2018 International Panel on Climate Change Report[5] that in order to avoid the worst impacts of climate change on the financial and economic system, global carbon emissions must halve by 2030, and fall to net-zero by 2050 at the latest.[6] The failure to prepare for these foreseeable future risks is a material governance failure and waiting until such risks are made fully manifest to hold boards accountable for risk oversight of these issues is not in the best interests of shareholders.

We appreciate the opportunity to provide this feedback.

Sincerely,
Eli Kasargod-Staub, Executive Director

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[4] Majority Action, *Climate in the Boardroom 2020,* pp. 11-15

[5] *Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty*, October 6, 2018, https://www.ipcc.ch/sr15/

[6] Majority Action, *Climate in the Boardroom 2020,* pp. 6-9