

ISS ESG CARBON RISK RATING

The Carbon Risk Rating provides a metric designed to evaluate how well a company is prepared for the low-carbon economy of the future. The Carbon Risk Rating provides an aggregated score indicating a company's overall climate-related risk, using the company-specific risk exposure as baseline (as reflected in a Carbon Risk Classification) from which a company can take steps toward better alignment with a low carbon economy (which alignment is reflected as Carbon Performance Score).

The Carbon Risk Classification assesses a company's exposure to carbon-related transition risks by estimating the emission intensity in the company's value chain, based on its industry and business activities. The Carbon Risk Classification considers two elements: (1) The emission-based sector classification, which assesses the average sector emission intensity along the entire value chain (direct and indirect, i.e., scope 1, 2 and 3 emissions); and (2) whether a company's product and services portfolio contributes to climate change mitigation, thus creating a positive impact, or rather obstructs climate change mitigation, thus constituting an adverse impact.

The Carbon Performance Score evaluates the current carbon-related performance of a company as well as a company's risk management and measures to reduce its carbon intensity in the future, thus addressing both material risk as well as adverse impact. The Carbon Performance Score is based on a combination of quantitative indicators (e.g., current intensity and trend of greenhouse gas emissions), and qualitative indicators (e.g., corporate policies, emission reduction targets and action plans, etc.).

Outputs

By combining the Carbon Risk Classification and the Carbon Performance Score, the Carbon Risk Rating assesses, on a scale from 0 (very poor performance) to 100 (excellent performance), how a company deals with industry-specific climate risks. The scale can be translated into four broader performance categories: Climate Laggard (0-24), Medium Performer (25-49), Outperformer (50-74), and Leader (75-100).

Research Process

The Carbon Risk Rating is derived from ISS ESG's Corporate Rating as well as SDG Solutions Assessment (for more details, please refer to the respective descriptions).

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