

ISS ESG CONTROVERSIAL WEAPONS RESEARCH

ISS ESG's Controversial Weapons Research is based on a well-established, internally developed methodology that helps financial institutions make decisions regarding companies involved in weapons that are deemed particularly controversial because of their indiscriminate effects and the disproportionate harm, superfluous injury or unnecessary suffering they cause. Involvement in controversial weapons can constitute a material sustainability risk.

International humanitarian law and specific arms control instruments constitute the basis for this research. Technical definitions of weapons as given in relevant conventions are used where available, such as for anti-personnel mines and cluster munitions in the Mine Ban Treaty and in the Convention on Cluster Munitions. The following weapon categories are currently covered: anti-personnel mines, biological weapons, chemical weapons, cluster munitions, depleted uranium ammunition and armor, incendiary weapons, nuclear weapons, white phosphorus weapons.

Outputs

Corporate involvement in relevant weapon programs is analyzed for companies involved in complete weapon systems and for companies involved in components of these systems, differentiating between key components and non-key components, and establishing whether such components are specifically designed/modified for controversial weapons or "off-the-shelf". Furthermore, ISS ESG's Controversial Weapons Research is designed to identify all companies in a corporate structure that have control over the relevant business activities, i.e., all immediate parent companies up to the ultimate parent. Bond issuers, joint venture partners and minority shareholders, as well as entities providing advisory and management services for private equity funds holding companies involved in controversial weapons are also covered.

The analysis process results in assessments on weapon program level per company, which are then aggregated per weapon category so that financial institutions have access to lists of companies (listed and non-listed globally) involved in different categories (e.g., anti-personnel mines or cluster munitions). Assessments are categorized using traffic light signals (RED, AMBER, GREEN) and a 10-1 score, which reflect the degree of verification of a company's involvement in controversial weapons and the level of involvement (e.g. parent company vs. minority shareholder).

Research Process

ISS ESG's Controversial Weapons Research team seeks to identify companies involved in relevant types of weapons following several research paths: identification of risk countries and relevant weapon programs; analysis and monitoring of such weapon programs; screening of companies in risk sectors and targeted news source monitoring. Examples of sources monitored in this process include government publications such as procurement databases, corporate releases and filings, defense industry focused publications and databases, aerospace and defense exhibitions, media and non-governmental organizations reports.

The typical Controversial Weapons Research analysis process consists of the following steps:

- Data collection to identify risk companies using the abovementioned sources
- Research and dialogue with companies to understand details of involvement

- Quality assurance: Reports are peer reviewed to ensure they summarize information concerning the company's involvement accurately
- Final dialogue to give companies an opportunity to comment on the report draft and confirm/correct/add/clarify facts used in the analysis

These steps are repeated for regular and ad hoc updates.

**We empower investors and companies to build
for long-term and sustainable growth by providing
high-quality data, analytics, and insight.**

SUCCEED WITH ISS ESG SOLUTIONS

Email sales@iss-esg.com or visit iss-esg.com for more information.

ISS ESG is the responsible investment arm of Institutional Shareholder Services Inc., the world's leading provider of environmental, social, and governance solutions for asset owners, asset managers, hedge funds, and asset servicing providers. With more than 30 years of corporate governance expertise and 25 years of providing in-depth responsible investment research and analytics, ISS ESG has the unique understanding of the requirements of institutional investors. With its comprehensive offering of solutions, ISS ESG enables investors to develop and integrate responsible investing policies and practices, engage on responsible investment issues, and monitor portfolio company practices through screening solutions. It also provides climate data, analytics, and advisory services to help financial market participants understand, measure, and act on climate-related risks across all asset classes. In addition, ISS ESG delivers corporate and country ESG research and ratings enabling its clients to identify material social and environmental risks and opportunities.

This document and all of the information contained in it is the property of Institutional Shareholder Services Inc. ("ISS") or its subsidiaries. The Information may not be reproduced or disseminated in whole or in part without prior written permission of ISS. ISS MAKES NO EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION.

© 2021 | Institutional Shareholder Services and/or its affiliates