Environmental & Social Disclosure QualityScore

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Overview

Continued and growing focus on investor stewardship increasingly places environmental, social and governance (ESG) considerations into a central role in investment decision making, as well as proxy voting and engagement activities. ISS offers multiple research and analytical products to assist investors in assessing the portfolio risk exposure.

Environmental and Social Disclosure QualityScore builds on ISS’s market-leading Governance QualityScore which provides a measure of governance risk, performance, disclosure and transparency in the areas of Board Structure, Compensation programs, Shareholder Rights, and Audit & Risk Oversight.

Environmental and Social Disclosure QualityScore provides a measure of corporate disclosure practices and degree of transparency provided to shareholders and other stakeholders. Investors report that company disclosure is a meaningful signal in its own right – i.e. limited disclosure is often indicative 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. The selection of factors and their allocation to industry groups is informed by 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) recommendations. Environmental and Social Disclosure QualityScore uses a numeric, decile-based score that indicates a company’s disclosure practices relative to their industry group.

ISS’ QualityScore products are data-driven scoring and screening solutions designed to help institutional investors monitor the ESG practices of their portfolio companies. QualityScore products can be used as stand-alone service or in combination with and supportive of other ISS research and analytical products; ISS-Ethix’s Norm-Based Research (NBR) which analyses 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 or 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.
Framework

The Environmental and Social Disclosure QualityScore framework covers more than 380 individual factors. Only factors relevant to a company’s Global Industry Classification Standard (GICS) \(^1\) industry group are reviewed and scored – around 240 – under any industry group, reflecting good practice, established standards and recognized challenges.

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Annual reviews ensure the methodology remains in step with disclosure standards as they adapt to reflect developments in company practice and stakeholder expectations.

Coverage

The company universe covered under the Environmental and Social Disclosure QualityScore comprises approximately 4,700 publicly traded companies in the Americas, European and Australasia regions. The intention is to bring the universes of E&S QualityScore and Governance QualityScore into alignment, although the timing has not yet been determined.

Scoring

Environmental and Social Disclosure QualityScore applies the QualityScore engine and scoring approach and provides two top-level scores, one for each pillar. Additionally, each category 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.

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. An additional measure is company participation in multi-stakeholder 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.

Sources

Environmental and Social Disclosure QualityScore focuses on a company’s disclosure practices. Data is collected from company publications including mainstream filings, Sustainability and CSR reports, Integrated Reports, publicly available company policies and information on company websites.

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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.

Aside from issuer request for update (see Data Verification below), 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.

**Data Verification**

Companies within the Environmental and 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 Solutions’ Governance Analytics platform.

Submissions of corrected or updated data factors can be made online through the platform.

Data verification remains open throughout the year. Additional blackout periods are anticipated in one-week cycles after annual methodology changes.

Online QualityScore profiles are updated once daily, at approximately 0500 Eastern. Therefore, when the ISS proxy analysis is released containing the updated QualityScore scores, the application may not yet reflect the updated scores and profile. The online score and profile will be updated the next day.

Companies can request their free login from contactus@isscorporatesolutions.com. Multiple users within a company can be granted access on request.
Structure

The structure of Environmental and Social Disclosure QualityScore is set out below.

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Pillar: Environment

Category: Management of Environmental Risks and Opportunities

Subcategory: Management Policies, Systems, and Disclosure

Key Issues:

› Response to major environmental controversy.
› Identification of salient environmental risks in annual, integrated or sustainability report.
› Enterprise level environmental policy.
› Applicability of environmental policy to suppliers or vendors.
› Environmental impact of supplier products or services.
› Supply chain audits for environmental management.
› Strategy to increase proportion of products with eco-label.
› Environmental Management System.
› Environmental Management System certification and/or attestation to ISO 14001.
› Suppliers' operations covered by certified ISO 14001 or EMAS environmental management system.

Category: Carbon and Climate

NOTE: CDP participation and disclosure informs these issues.

Subcategory: Management Policies, Systems, and Disclosure

Key Issues:

› Policy or equivalent information that specifically addresses climate change risks, performance and opportunities.
› Impact of climate-related risks and opportunities on businesses, strategy and financial planning.
› Multiple scenarios for the potential impact of climate-related risks and opportunities on businesses, strategy and financial planning.
› Frequency of monitoring and disclosure of climate-related risk management procedures.
› Risk management procedures regarding climate change risks and opportunities.
› Integration into overall risk management of processes for identifying, assessing and managing climate-related risks.
› Metrics used to assess climate-related risks and opportunities in line with strategy and risk management procedures.
› Timeframe for monitoring risk management procedures.
› Management role in assessing and managing climate-related risks and opportunities.
› Reporting lines for risk management procedures regarding climate-related risks and opportunities.
› Board oversight of climate-related risks and opportunities.
Subcategory: Energy and Fuel Efficiency
Key Issues:
› ISO 50001 coverage.
› Energy consumption metrics.
› Total energy use.
› Energy derived from renewable and non-renewable sources.
› Energy conservation programs and performance.
› Approach to reducing energy consumption from non-renewable sources.
› Electrical power use.
› Percentage of consumed energy from the grid.
› Approach to increase generation capacity from renewable sources.
› Strategy for improving fleet fuel economy.
› Fleet fuel metrics.

Subcategory: GHG Emissions
Key Issues:
› Targets for reducing GHG emissions.
› ISO 14064 coverage.
› Reporting of GHG emissions data to CDP.
› CDP Score over 3-year period.
› GHG emissions metrics.
› Percentage of scope 1 emissions covered under a regulatory program.

Subcategory: Technology and Opportunity
Key Issues:
› Investments in low carbon opportunities.
› Strategy for managing exposure to investments in the fossil-fuel sector.

Category: Natural Resources
Subcategory: Water
Key Issues:
› Response to CDP water questionnaire.
› Endorsement of UN Global Compact CEO Water Mandate.
› Water use.
› Risks associated with water withdrawal or scarcity.
› Strategies to mitigate water withdrawal or scarcity risks.
› Incidents of non-compliance with water quality or quantity permits, standards, or regulations.
› Wastewater discharge.
› Water recycling program.
› Water recycled and reused.
**Subcategory: Land, Forests, and Biodiversity**

Key Issues:

- Use of GMOs.
- Biodiversity program.
- Framework for evaluating projects in critical habitats or other areas with recognized high biodiversity value.
- Response to CDP forest questionnaire.
- Forest Stewardship Council (FSC) or similar certification.
- Framework for minimizing impacts in High Conservation Value (HCV) areas.
- Framework or policy regarding palm oil.
- RSPO (Roundtable on Sustainable Palm Oil) certification.
- Total land disturbed.
- Approach to reclamation of disturbed lands, including tailing ponds.

**Category: Waste and Toxicity**

**Subcategory: Management Policies, Systems, and Disclosure**

Key Issues:

- Mitigation of environmental risks linked to deep-water drilling.

**Subcategory: Electronic Waste**

Key Issues:

- Commitment to follow international guidelines for disposal of electronic waste.

**Subcategory: Emissions and Spills**

Key Issues:

- Targets for reducing NOx, SOx, and other significant air emissions.
- Quantitative information on significant air emissions.
- Water discharge relating to hydraulic fracturing, including quality.
- Percentage of wells with public disclosure of all fracturing fluid chemicals used.
- Efforts to treat tailing waste.

**Subcategory: Hazardous and Non-hazardous Waste**

Key Issues:

- Hazardous waste generation.
- Information about non-hazardous waste.
- Waste management and recycling programs.
- Targets for reducing hazardous and non-hazardous waste.
Subcategory: Packaging Material
   Key Issues:
   › Quantitative information on packaging and packaging materials.
   › Strategies to reduce the environmental impact of packaging.

Pillar: Social

Category: Human Rights

Subcategory: Management Policies, Systems, and Disclosure
   Key Issues:
   › Enterprise level human rights policy.
   › Human rights training.
   › Identification of the right to water as a fundamental human right.
   › Support of public conventions.
   › Commitment to respect the right to privacy.
   › Participation in the Global Network Initiative.
   › Identification of salient human rights risks.
   › Human rights grievance reporting mechanism.
   › Applicability of human rights policy to operations, suppliers, vendors or partners.

Subcategory: Consultation and Engagement
   Key Issues:
   › Policy covering community consultations and indigenous rights.
   › Policy for free, prior and informed consent (FPIC).
   › Stakeholder involvement in human rights policy.

Subcategory: Ethical Sourcing
   Key Issues:
   › Policy covering security arrangements.
   › Participation in the Voluntary Principles on Security and Human Rights (VPSHR).
   › Conflict minerals reporting.
**Subcategory: Supply Chain Standards**

- Child labor policy.
- Forced labor policy.
- Audit program covering suppliers’ human rights performance (including trafficking and slavery).
- Priority non-conformance rate and associated corrective action covering human rights.
- Programs to assist suppliers in improving human rights performance.
- Policies and practices used to promote economic inclusion when selecting suppliers.
- Program to screen new suppliers for environmental performance, labor practices or human rights performance.
- Efforts to address the risks of trafficking and slavery in the supply chain.

**Category: Labor, Health, and Safety**

**Subcategory: Labor Relations and Management**

- Workforce/labor rights policy.
- Policy covering freedom of association and the right to collective bargaining.
- International Framework Agreement with a global union federation.
- Monitoring of employee satisfaction or engagement.
- Response to labor controversies.
- Applicability of workforce/labor policy to suppliers/vendors.

**Subcategory: Occupational Health and Safety**

- Occupational health and safety policy (OH&S).
- Percentage of supplier operations certified to OHSAS 18001.
- OH&S performance, including injuries, occupational diseases, and work-related fatalities.
- Efforts to reduce the occurrence of injuries, occupational diseases, and work-related fatalities.
- Management systems used to integrate a culture of safety and emergency preparedness.
- OH&S policy applicability to suppliers.

**Subcategory: Workforce Diversity and Equality**

- Gender diversity strategy.
- Diversity strategy.
- Anti-discrimination policy.
- Workforce demography.
- Workforce gender and racial/ethnic group representation.
Subcategory: Supply Chain Standards
   Key Issues:
   › Code of Vendor Conduct conformance with ILO standards.
   › Working hours in Code of Vendor Conduct.
   › Priority non-conformance rate and associated corrective action covering health and safety.
   › Labor rights certification for suppliers.

Subcategory: Ethical Sourcing
   Key Issues:
   › Participation in the Bangladesh Accord.

Subcategory: Training and Development
   Key Issues:
   › Training or professional development programs for employees.

Subcategory: Compensation and Benefits
   Key Issues:
   › Commitment to a fair or living wage.
   › Response to living wage controversies.

Category: Stakeholder and Society
Subcategory: Management Policies, Systems, and Disclosure
   Key Issues:
   › Participation in the UN Global Compact.
   › Sustainability reporting according to the Global Reporting Initiative (GRI).
   › Sustainability reporting.
   › External assurance or independent verification of sustainability disclosures.

Subcategory: Consultation and Engagement
   Key Issues:
   › Stakeholder consultation process.
Subcategory: Business Ethics and Anti-corruption
Key Issues:
› Business Ethics Policy or Code of Conduct applicability to suppliers.
› Executive oversight for anti-bribery or anti-corruption program.
› Anti-corruption policy governing personnel receiving and giving gifts, bribes, or facilitation payments.
› Anti-corruption training.
› Whistleblower protections.
› Internal monitoring, whistleblower or reporting systems.
› Independent accreditation of anti-corruption program.
› Fines associated with violations of bribery, corruption, or anti-competitive standards.
› Prevention of corruption throughout the value chain.
› Anti-money laundering program.
› Country-by-country tax payments.
› Country-by-country financial information.
› Country-by-country payments to governments.
› Participation in the Extractive Industries Transparency Initiative.

Subcategory: Sustainability Management and Oversight
Key Issues:
› Board schedule for consideration of environmental, health and safety and social matters.
› Dedicated Environment, Corporate Social Responsibility, Health and Safety, or Sustainability committee.
› Reporting lines of environmental management system lead.
› Board responsibility for human rights policy.
› Code of Vendor Conduct.

Subcategory: Motivation and Accountability
Key Issues:
› Link between consideration of ESG risks and performance, and executive remuneration.
› Non-financial targets in executive compensation plans.
› ESG key performance indicators (KPIs) in compensation metrics.
› Reference to 2°C scenario in compensation metrics.
› Variable pay and non-financial performance.
› Major controversies and director salaries or bonuses.

Subcategory: Lobbying and Political Advocacy
Key Issues:
› Use of company funds for political purposes.
› Use of company funds for lobbying.
Subcategory: Medicine, Health, and Nutrition
Key Issues
› Access to medicine.
› Policy on clinical research.
› Third-party verification of clinical research.

Category: Product Safety, Quality, and Brand
Subcategory: Product Safety and Toxicity
Key Issues:
› Approach to risks associated with harmful chemicals in products.
› Strategy for reducing the use of pesticides and herbicides in food production.

Subcategory: Supply Chain Standards
Key Issues:
› Supply chain audits for product safety.

Subcategory: Data Security and Privacy
Key Issues:
› Approach to data security risks.
› Quantitative information on data security breaches.

Subcategory: Product Quality and Safety
Key Issues:
› Customer satisfaction or retention.
› Product recalls.

Subcategory: Ethical Marketing and Communication
Key Issues:
› Notices of non-conformance with regulatory labeling and/or marketing codes.

Subcategory: Animal Welfare
Key Issues:
› Zero tolerance to animal testing for cosmetic purposes.
› Promotion and implementation of the "3Rs".
› Use and treatment of animals in pharmaceutical or non-pharmaceutical testing programs.