



GOVERNANCE & ACCOUNTABILITY INSTITUTE'S

TO THE POINT™



Timely News, Insights & Perspectives on Corporate Sustainability, Responsibility & Citizenship

January 2018

Governance & Accountability Institute shares timely news, insights and perspectives with corporate managers in key topic areas:

- ⦿ *Corporate Citizenship,*
- ⦿ *Corporate Responsibility,*
- ⦿ *Corporate Sustainability,*
- ⦿ *Community Affairs, and*
- ⦿ *Sustainable Investing.*

**To the Point!** is a fee-based educational resource for corporate executives and managers distributed each month with periodic brief updates for critical items.

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## **THE UNIVERSE OF ESG RANKERS SERVING INSTITUTIONAL INVESTOR CLIENTS EXPANDS to Include a Significant Player: Institutional Shareholder Services (ISS)**

***ISS' Traditional Corporate Governance Focus Expanding to Encompass Environmental & Social QualityScores for Roughly 1,500 Public Companies Coming in January...And Expanding to 5,000 Issuers in Q2***



***A significant new player is now entering the universe of the growing number of third-party organizations providing institutional investors with ESG rankings and data and related services. The "new" player is a well-known, very influential force in investor circles with three decades of focus on corporate governance - Institutional Shareholder Services (ISS).***

At G&A Institute, we track the growth of the universe of ESG analytics and service providers that are focused on ESG — including **MSCI, Sustainalytics, RobecoSAM, Bloomberg, ASSET4- Thomson Reuters, EIRIS**, and others.

We work with our corporate clients to help their management understand, optimize and utilize these important intelligence points coming from the rapidly-growing number of investors considering ESG.

## **ISS**

Founded in 1985, ISS today is the world's leading provider of corporate governance and responsible investment solutions for asset owners, asset managers, hedge funds, and asset service providers.

Institutional investors rely on ISS' expertise to help them make informed corporate governance decisions, integrate responsible investing policies and practices into their strategy, and execute upon these policies through end-to-end proxy voting.

Among the issues monitored, analyzed and perspectives and opinions offered to the investors by ISS: corporate boardroom makeup; qualifications of individual board candidates standing for election; CEO compensation; separation of the posts of chair of the board and chief executive officer; proposed transactions such as merger or acquisition; shareholder rights; transparency and disclosure of board and C-suite activities; "over-boarding by directors"...and more.



Over the decades since the mid-1980s ISS has been a powerful and very visible force in annual corporate proxy voting issues, offering advice to the investor client base to help the institutions exercise their fiduciary duties, including the mechanics of the voting process during the annual electoral season.

Consider the influence of ISS in the capital markets: the organization covers 117 global markets; 40,000 corporate meetings are reviewed; this, on behalf of 1,700 global institutional investor clients.

## New: ESG Issues and the ISS QualityScore for Companies

Now, “E” and “S” along with “G” issues are coming into sharper focus for the ISS organization – due to the demand of its institutional clients, the organization notes, and corporate E and S performance is included in the comprehensive E and S **QualityScore** process.



Tune in now to an important development that significantly expands the influence of ISS and communicates new dimensions of “G” (governance) into the ESG space (E=environmental, S=social, societal issues).

The **E and S QualityScore** builds on ISS’s market-leading **Core Governance QualityScore**, which provides a measure of governance risk, performance, disclosure and transparency in Board Structure, Compensation, Shareholder Rights, and Audit & Risk Oversight.

The new E&S QualityScore, explains ISS, is designed to provide a greater measure of corporate disclosure practices and transparency to shareholders and stakeholders. This is the **Disclosure and Transparency Signal** that investor-clients seek, and is a resource that enables effective comparison with company peers.

Limited [corporate] disclosure, ISS points out, is often indicative that further investigation is needed to rule out the presence of poor practice.

The selection of factors and allocation to industry groups is informed by developments in disclosure frameworks and standards such as those of the **Global Reporting Initiative (GRI)**, **Sustainable Accounting Standards Board (SASB)**, and the





Financial Stability Board's Task Force on Climate-related Financial Disclosure recommendations (FSB/TFCD).

## Company Background

ISS was established as an independent organization, then was acquired by **MSCI**, and later divested, becoming a unit of the P/E firm Vestar Capital; ISS was purchased by **Genstar Capital** in October 2017.

To rebuild the firm's ESG capabilities lost as a result of the 2014 spinoff from MSCI, ISS in September 2015 acquired **Ethix SRI Advisors**, one of Europe's leading ESG analytics and advisory firms with offices in Scandinavia.

In January 2017, ISS also acquired **IW Financial**, one of the leading ESG analytics firms in the United States (based in Maine), and in June of 2017 acquired the climate investment data unit of Zurich-based **South Pole Group**.

*ISS's initial expansion of analysis beyond its traditional "G" focus to include Environmental and Social issues in the QualityScore, which will be announced in January 2018, covering companies in six industries: Autos and Components; Capital Goods; Consumer Durables & Apparel; Energy; Materials; and, Transportation - roughly 1,500 companies in all.*

## To Keep In Mind

- Public company managements have been invited to respond to the new "E" and "S" data verification process for their company (the period ends January 12<sup>th</sup>).
- In 2Q the program expands to include 3,500 more corporate entities in other industries (the total corporate universe in focus by mid-year will be 5,000-plus public companies).
- These ratings will be a critical part of a company's ESG profile for the rapidly expanding number investors with Assets Under Management (AUM) that are considering ESG in their investment decision-making.

This number of AUM, as of the latest 2016 US SIF survey includes US\$8.72 trillion out of \$40.3 trillion total of professionally-managed AUM in the United States. This is now \$1-out-of-every-\$5 in the U.S. capital markets –and globally the numbers are even more striking with the latest **GSIA** report showing even larger percentages and rapid expansion in every other part of the world.

## Important Details of the ISS "E" and "S" Scoring

There are more than 380 individual factors to be considered; factors are relative to a company's GICS, with around 240 factors for any industry group.

- The universe of publicly-traded companies covered is about 5,000 entities in the Americas, Europe, and Asia-Pacific.
- This begins with about 1,500 companies in key sectors in late-January: Energy, Materials, Capital Goods, Transportation,





- Automobiles & Components, Consumer Durables, Apparel.
- Then, an additional 3,500 companies will be covered by 2Q 2018.
- Data is being collected from company reporting and disclosures – mandatory filings, CR and Sustainability reports, Integrated reports (financial & non-financial content), corporate websites, and other publicly-disclosed data and narrative.

## **“E” - Environmental Issues in Focus for ISS’s QualityScore**

*Consider these factors being considered for a company’s “E” QualityScore on Disclosure & Transparency....*

The Company’s Management Policies, Systems and Disclosures for:

- Carbon and Climate (such as GHG emissions, Energy and Fuel Efficiency, Water).
- The same for Natural Resources (Water; Land, Forests, Biodiversity).
- And for Waste and Toxicity (Electronic Waste; Emissions & Spills; Hazardous Waste).

## **“S” - Social Issues in Focus for ISS’s QualityScore**

These factors are being considered for the company’s “S” Social Quality Score on Disclosure & Transparency:

- Human Rights (Ethical Sourcing; Business Ethics; Anti-corruption; Supply Chain Standards).
- Labor, Health, Safety (Labor Relations; Workforce Diversity & Equality; Supply Chain Standards; Training & Development; Compensation and Benefits).
- Stakeholder & Society (Motivation and Accountability; Lobbying and Political Advocacy).
- Product Safety, Quality, and Brand (Data Security and Privacy; Ethical Marketing and Communications; Animal Welfare; Product Safety & Toxicity).

Note that there are overlapping subcategories found in the main categories (such as Supply Chain Standards) and the above is a sampling of categories and subcategories content. The individual category (such as Carbon & Climate) have extensive sub-category considerations.

## **For Your Information, “G” Scoring - For The Traditional Corporate Governance Scoring, ISS Considers**

- Separation of positions of CEO and Chair titles and functions.
- “Overboarding” by directors (serving on too many boards).
- Advice on mergers (such as in the case of Hewlett-Packard and Compaq Computer – vote “yes”).
- “No” to Staggered voting for directors (ISS favors single-class boards, all directors being elected at the same time).
- Board “Refreshment” (encouraging new blood, periodic board turnover).
- Qualifications of Board Members (at election time).



- More disclosure of political contributions.
- More disclosure of climate change risk oversight.
- “Pay for Performance” for executives.
- Boardroom compensation practices.
- No to Poison Pills (takeover defenses).
- Yes to Increased Shareholder Access to the Proxy Process

## Conversation With Marija Kramer, Head of Responsible Investment Business and Products at ISS

The G&A Institute team had a conversation with Marija Kramer as the new “E” and “S” QualityScores neared launch in early 2018.

(A recording of this conversation is available here:

<https://issgov.webex.com/issgov/lr.php?RCID=752a9ce1d6da4248893cb467c2615439>)

**G&A Question:** *What signal do you think it sends to the institutional investor community (your clients) and issuers (company managements) that the leader in the corporate governance space is embracing ESG?*

**A: ISS/Marija Kramer:** Corporate Governance has long been of interest to the investment community and in recent years the “E” and “S” in corporate assessments have been growing and becoming more important considerations, led by the asset owner community. Long-term investors are benchmarking peer companies and corporate managements are responding. There is an uptick with asset managers in the investment management process. This is about managing risk and the management of resources.



Marija Kramer, Head of Responsible Investment Business & Products at ISS

We are seeing investor pressure on companies to increase their disclosure of more on E and S as well as G. Companies are now much more aware of the topics covered by ESG.

And with the increase of engagement by investors and their portfolio companies, there has been a lot of recognition of E and S attributes in the investment process.

**Q:** *Considering the long-term view, what are you looking at in the E and S categories, and how does that relate to the G (governance) aspects?*

**A: ISS/Marija Kramer:** Similar to the Governance pillar with four CG topics to look at, we have four topic areas in the E and S categories. In Environmental, for example, we look at environmental risk management, natural resources, waste and climate change. In Social, we look at stakeholders and important business-society topics, such as Labor, Product Safety as



well as Human Rights.

The examination is both qualitative and quantitative, with a set number of factors for each category and sub-category. Our process is informed by such standards and frameworks as SASB, the FSB/TCFD, and the new GRI Standards, for disclosure and reporting.

**Q:** *Do the companies ISS deals with “get it” on the importance of disclosure on E, S and G issues?*

**A: ISS/Marija Kramer:** With the increase in GRI Initiative work, SASB recommendations and other corporate disclosure initiatives, there is a stronger corporate awareness of the topics. A number of companies do take into account these topics but even then, some companies have not been disclosing as much as information investors are now demanding. Our approach is to work to increase the relevance and quality of data that companies are putting forward regarding risk and provide the data in ways that investors can analyze it.

**Q:** *What will the scoring methodology be, and how will scores or ratings be communicated? To what extent will this be public information? What should investors know?*

**A: ISS/Marija Kramer:** Similar to the Governance Score, we do look only at publicly-disclosed information. First, there is a qualitative analysis that is industry-specific, such as what is material to a company and the best practice in the industry, and then we weigh the company’s practice to determine the score.

The E and S top-level score will be reflected in the ISS proxy research. The full company reports will be embedded in various ISS client platforms. These will also be available on the Bloomberg and on FactSet platforms. That way the information can be embedded in investors’ workflow.

Companies that access their Governance Score can, in the same way, access their E and S Scores on the platform. All covered companies are able to verify their data in advance of getting scored.

To do this, we had an open period for corporate review in advance of publicly-disclosed information in 1Q 2018. The initial period for covered companies in the six industries was open for a month’s time prior to the public release.

There will be an additional 3,500 companies contacted (to include all Russell 3000 companies not in the initial round) during mid 1Q 2018.

**Q:** *Can a company look at their peers and other companies in their industry?*

**A: ISS/Marija Kramer:** Yes, companies will be able to view their own Scores, as well as benchmark themselves against their peers.

**Q:** *How should companies engage with ISS (before) and then (after) their company’s E&S scores are released? Is there a mechanism for companies to review and provide feedback to ISS?*

**A: ISS/Marija Kramer:** The open period for verification of data by companies covered in this first wave of coverage ran for



four weeks. Once scores are released, companies will again have access to the data verification site for subsequent requested changes.

**Q:** *As we move into the 2018 proxy voting season, what kind of factor will the new E and S Scores be?*

**A: ISS/Marija Kramer:** A covered company's E and S scores will be on the Proxy Research reports, alongside the existing G score for reference by subscribing investors. The scores do not drive ISS' benchmark voting recommendations; however, they are available to investors for integration into their own bespoke voting policies.

**Q:** *What about investors – what kind of demand have you had for this new service?*

**A: ISS/Marija Kramer:** We canvassed our institutional investor clients to determine their Environmental and Social information needs...they were open and responsive to a quality product with deep data and a transparent methodology. The most recent feedback is demand for a benchmarking capability, and information on key issues. They also asked for customized risk management tools which we are working on for delivery later in the year.

A recording of this conversation is available here:

<https://issgov.webex.com/issgov/lsr.php?RCID=752a9ce1d6da4248893cb467c2615439>

## Notes

ISS clients include: Labor Pension Funds; Public Employee Retirement Funds; Mainstream Asset Managers; Specialty Funds; Hedge Funds – the client span the gamut of investor types.

***According to ISS: Transparency is very important, including what the rules are for our work and so the company is working to assure greater transparency of its operations.***

The **G&A Institute** team will continue to share information about this important new initiative by ISS in the weeks ahead, through our various communications channels. For more information, contact **EVP Louis D. Coppola** at: [lcoppola@ga-institute.com](mailto:lcoppola@ga-institute.com) or ISS at [ESGHelpdesk@Issethix.com](mailto:ESGHelpdesk@Issethix.com)

There are details here on the E and S and G QualityScores:

<https://www.issgovernance.com/file/faq/es-key-issues-discloure-transparency-qualityscore.pdf>

For those interested in the Quality Score for Core Corporate Governance Practices in Focus:

[https://www.issgovernance.com/file/products/1\\_QS-2017-Methodology-Update-27Oct2017.pdf](https://www.issgovernance.com/file/products/1_QS-2017-Methodology-Update-27Oct2017.pdf)

Information on ISS Corporate Solutions is here: <https://login.isscorporatesolutions.com/galp/login>





## Background: Marija Kramer

Marija Kramer is Head of ISS' Responsible Investment Business. She is responsible for all aspects of RI offerings, including policy development as well as research and data screening services covering more than 13,000 global companies for institutions seeking to fully integrate ESG into their investment decision-making. Marija also oversees new product development and strategic alliances in all regions of the world where RI solutions are delivered to ISS clients.

Additionally, Marija manages ISS' technology initiatives related to new product introductions and product enhancements. She works closely with industry constituents and partners to advance ESG solutions for the benefit of institutional investors.

A member of ISS' Leadership Team, Marija joined ISS in 2003 and previously headed Global Product Management and Global Account Management.

Before joining ISS, Marija was with Thomson, where she was responsible for the design and implementation of Thomson's flagship investment management and banking portals. Prior to receiving her M.B.A. in Finance and Marketing IT from American University, Marija worked for the Croatian Foreign Ministry where she focused on U.S.-Croatian bilateral relations.