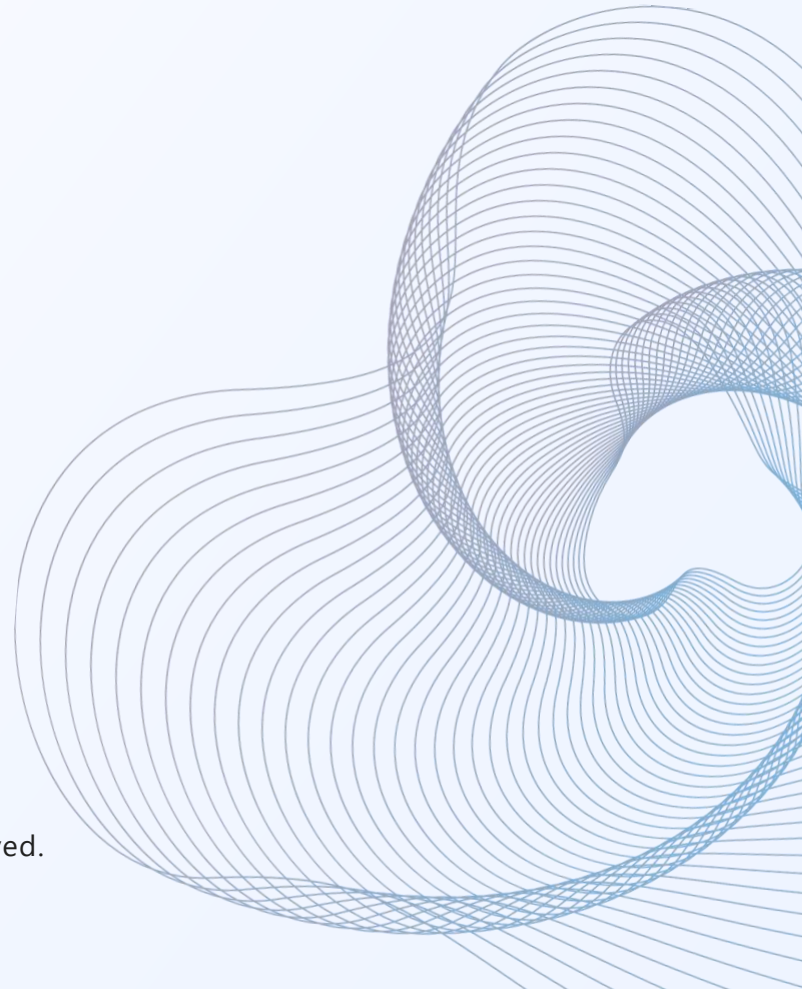
ISS STOXX

Serving global capital markets participants since 1985.

Environmental & Social Disclosure QualityScore:

Key Issues Document

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Overview

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

Environmental and Social Disclosure QualityScore builds on our **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. The selection of factors is informed by developments in disclosure standards and frameworks, such as the Global Reporting Initiative (GRI), the European Sustainability Reporting Standards (ESRS), 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.

Our QualityScore products are data-driven scoring and screening solutions designed to help institutional investors monitor the sustainability practices of their portfolio companies. QualityScore products can be used as a stand-alone service or in combination with other ISS STOXX research and analytical products: **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 **Corporate Rating** which provides a detailed assessment of a company's sustainability 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 Corporate Rating seeks to go 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 approx. 370 individual factors. Only factors relevant to a company's Global Industry Classification Standard (GICS)[1] industry group are reviewed and scored – around 250 – under any industry group, reflecting good practice, established standards and recognized challenges. Some factors may be unscored and included for informational purposes only.

As mentioned above, the selection of factors is informed by developments in disclosure standards and frameworks, such as the GRI, the SASB standards, ESRS and the TCFD recommendations.

Annual reviews help to 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 8,000 publicly traded companies in the Americas, European and Australasia regions.

Scoring

Environmental and Social Disclosure QualityScore applies the **QualityScore** engine and scoring approach and provides two top-level scores, one for each pillar (Environmental and Social). Additionally, each of the four categories within each pillar 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. An additional measure is company participation in multistakeholder 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.

[1] https://www.spglobal.com/spdji/en/landing/topic/gics/

Sources

Data is collected from company publications including mainstream filings, publicly available company policies and information on company websites.

Confirmation of company participation in or formal endorsement of authoritative multi-stakeholder initiatives is collected from websites or member lists 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 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 Compass platform.

Submissions of corrected or updated data factors can be made online through the platform. Data verification remains open throughout the year. Blackout periods are anticipated in one-week cycles after annual methodology changes.

Companies can request their free login from support@iss-corporate.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.

Pillars	Category	Subcategory
Environment	Management of Environmental Risks and Opportunities	Management Policies, Systems and Disclosure
	Carbon and Climate	Management Policies, Systems and Disclosure Energy and Fuel Efficiency Greenhouse Gas (GHG) Emissions Technology and Opportunity
	Natural Resources	Water Land, Forests and Biodiversity
	Waste and Toxicity	Electronic Waste Emissions and Spills Hazardous and Non-hazardous Waste Packaging Material
Social	Human Rights	Management Policies, Systems and Disclosure Consultation and Engagement Ethical Sourcing Supply Chain Standards
	Labor, Health and Safety	Labor Relations and Management Occupational Health and Safety Workforce Diversity and Equality Supply Chain Standards Training and Development Compensation and Benefits
	Stakeholder and Society	Management Policies, Systems and Disclosure Consultation and Engagement Business Ethics and Anti-corruption Sustainability Management and Oversight Motivation and Accountability Lobbying and Political Advocacy Medicine, Health, and Nutrition
	Product Safety, Quality and Brand	Product Safety and Toxicity Data Security and Privacy Product Quality and Safety Ethical Marketing and Communication Animal Welfare

Pillar: Environment

Category: Management of Environmental Risks and Opportunities

Subcategory: Management Policies, Systems and Disclosure

Key Issues:

- Enterprise level environmental policy
- Supplier environmental policy
- Supplier environmental audits
- Environmental management system
- Environmental management system certification to ISO 14001
- Suppliers' operations covered by certified ISO 14001 or EMAS environmental management system

Category: Carbon and Climate

NOTE: CDP participation and disclosure inform some of these issues.

Subcategory: Management Policies, Systems, and Disclosure

Key Issues:

- 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
- 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
- Management role in assessing and managing 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

- Energy derived from renewable and non-renewable sources
- Energy conservation programmes and performance
- Approach to reducing energy consumption from non-renewable sources
- Electrical power use
- Strategy for improving fleet fuel economy
- Fleet fuel metrics

Subcategory: GHG Emissions

Key Issues:

- Clear quantitative GHG emissions reduction targets
- International GHG emissions accounting standard
- Reporting of GHG emissions data to CDP
- 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:

- Endorsement of UN Global Compact CEO Water Mandate
- Water consumption
- Risks associated with water withdrawal or scarcity
- Adapted water management in areas of high-water stress
- Incidents of non-compliance with water quality or quantity permits, standards, or regulations
- Wastewater discharge
- Water recycling metrics
- Water recycled

Subcategory: Land, Forests, and Biodiversity

Key Issues:

- Biodiversity program
- Framework for evaluating projects in critical habitats or other areas with recognized high biodiversity value
- Framework for minimizing impacts in High Conservation Value (HCV) areas
- Framework or policy regarding palm oil
- Roundtable on Sustainable Palm Oil certification
- Total land disturbed
- Approach to reclamation of disturbed lands, including tailing ponds

Category: Waste and Toxicity

Subcategory: Electronic Waste

Key Issues:

- Commitment to follow international guidelines for disposal of electronic waste

Subcategory: Emissions and Spills

Key Issues:

- Quantitative information NOx, SOx, and other significant air emissions
- Efforts to treat tailing waste

Subcategory: Hazardous and Non-hazardous Waste

Key Issues:

- Metrics on total hazardous waste
- Information about non-hazardous waste
- 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:

- Commitment to internationally recognized human rights
- Human rights training
- Policy on human right to water
- Commitment to respect the right to privacy
- Identification of salient human rights risks
- Human rights grievance reporting mechanism
- Suppliers respect of internationally recognized human rights

Subcategory: Consultation and Engagement

Key Issues:

- Policy covering indigenous rights
- Policy for free, prior and informed consent
- Stakeholder involvement in human rights policy

Subcategory: Ethical Sourcing

Key Issues:

- Commitment to ensuring private security forces' respect for human rights
- Participation in the Voluntary Principles on Security and Human Rights
- Conflict minerals reporting

Subcategory: Supply Chain Standards

Key Issues:

- Metrics on corrective actions to mitigate suppliers' non-conformance regarding social issues
- Procedures to mitigate non-compliance with supplier policies
- Policies and practices used to promote economic inclusion when selecting suppliers

Category: Labor, Health and Safety

Subcategory: Labor Relations and Management

Key Issues:

- Commitment to freedom of association and the right to collective bargaining
- Monitoring of employee satisfaction or engagement

Subcategory: Occupational Health and Safety

Key Issues:

- Commitment to a safe and healthy working environment
- Percentage of company certified to ISO 45001
- Occupational health and safety accident metrics
- Measures to improve its health and safety performance
- Occupational health & safety management systems

Subcategory: Workforce Diversity and Equality

Key Issues:

- Gender pay gap
- Prohibition of discrimination against specific demographic groups
- Workforce gender and racial/ethnic group representation

Subcategory: Supply Chain Standards

Key Issues:

- Child labor policy
- Forced labor policy
- Supplier labour policy
- Adherence to the ILO Declaration in supplier policy
- Provisions on working time in supplier policy
- Priority non-conformance rate and associated corrective action covering health and safety

Subcategory: Training and Development

Key Issues:

- Training or professional development programmes for employees

Subcategory: Compensation and Benefits

Key Issues:

- Commitment to a living wage

Category: Stakeholder and Society

Subcategory: Management Policies, Systems, and Disclosure

Key Issues:

- Participation in the UN Global Compact
- Sustainability reporting according to the GRI
- External assurance or independent verification of sustainability disclosures

Subcategory: Consultation and Engagement

Key Issues:

- Community consultation system

Subcategory: Business Ethics and Anti-corruption

Key Issues:

- Business ethics risk assessment or anti-corruption due diligence process for third parties
- Executive oversight for anti-bribery or anti-corruption program
- Whistleblower protections
- Internal monitoring, whistleblower or reporting systems
- Certification to ISO 37001
- Total monetary losses from legal proceedings associated with corruption
- Corruption risk assessments
- Anti-money laundering program
- Payments to governments proportion of disclosed countries
- Country-by country reporting of financial and economic information
- Country-by country payments to governments
- Participation in the Extractive Industries Transparency Initiative

Subcategory: Sustainability Management and Oversight

Key Issues:

- Supplier social audits

- Supplier sustainability risk assessments
- Board schedule for consideration of environmental, health and safety and social matters
- Dedicated Environment, Corporate Social Responsibility, Health and Safety, or Sustainability committee
- Board responsibility for human rights policy

Subcategory: Motivation and Accountability

Key Issues:

- Sustainability key performance indicators in compensation metrics
- Reference to 2°C scenario in compensation metrics

Subcategory: Lobbying and Political Advocacy

Key Issues:

- Prohibition of political donations
- Disclosure of political contributions

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: 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: 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 programmes

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