

Scorecard

# ISS Quality Score

## About ISS ESG

COVERAGE OF COMPANIES

**5,200**

LAUNCH DATE

**NA**

FOCUS

**Company ESG scores and disclosure quality**

LINK:

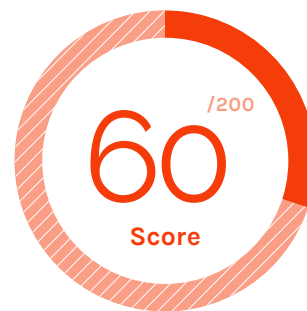
<https://www.issgovernance.com/esg/ratings/corporate-rating/>

# ISS Quality Score

## Score

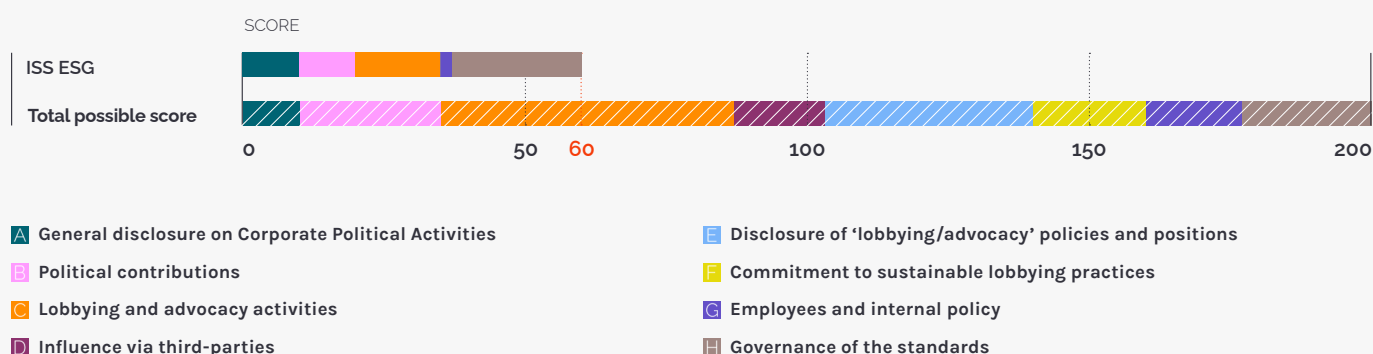
### Tracker Rank and Score for ISS Quality Score

The score is out of a total of 200 and the rank describes the standards position in the 27 standards assessed by the Tracker.



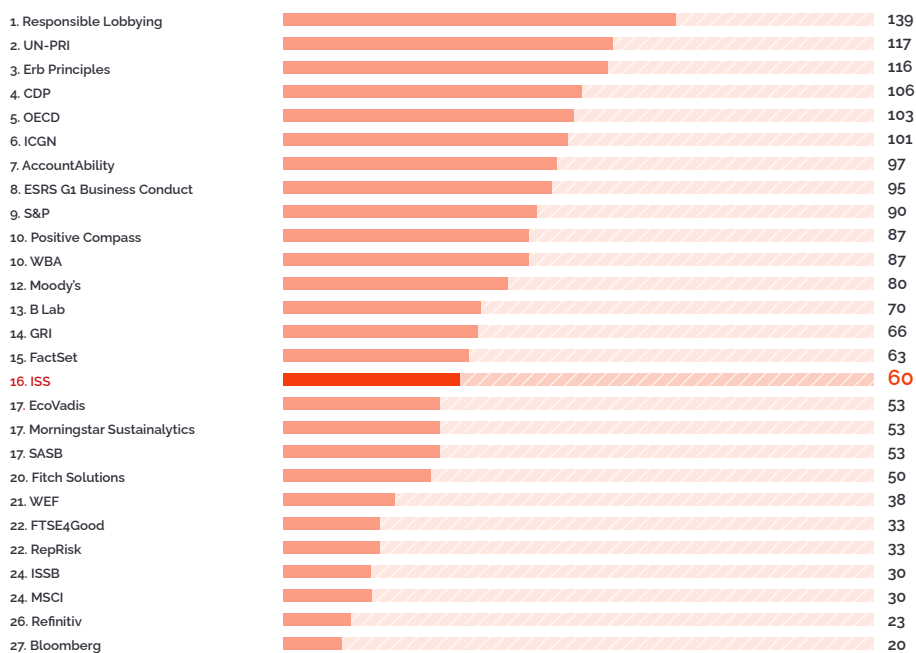
Rank 16 <sup>/27</sup>

### Category scores of ISS ESG



\*Categories where the standard received no points do not appear in the colour-coded graph

### Rank and scores for all standards



# Description

The ISS ESG Corporate Rating is designed to enable institutional investors to support their investment strategies by assessing the environmental, social, and governance (ESG) performance of corporate issuers. In the context of the ESG Corporate Rating, ESG performance refers to a company's demonstrated ability to adequately manage material ESG risks, mitigate negative and generate positive social and environmental impacts, and capitalise on opportunities offered by transformation towards sustainable development. The ESG Corporate Rating measures performance on an absolute twelve-point letter and underlying numerical scale from A+/4.00 (excellent performance) to D-/1.00 (poor performance). In addition to aggregated rating scores, the underlying data components can be leveraged to support tailored applications at the discretion of subscribing investors.

According to ISS, their ESG Corporate Rating methodology builds on wide range of international normative frameworks, including the UN Global Compact Principles, the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, and the UN Guiding Principles on Business and Human Rights, as well as the UN Sustainable Development Goals (SDGs). The methodology also takes into account disclosure standards covered elsewhere in the Tracker, including the Global Reporting Initiative (GRI); the Sustainability Accounting Standards Board (SASB); CDP; as well as the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations. These inputs are combined with regulatory updates and technological developments, such as machine readable corporate reporting, to create a complete score. This approach and the resulting ESG scores are supposed to enable institutional investors to align their investments with global standards.

The ESG Corporate Rating is made up of two dimensions: (a) a company's Social and Governance Rating; and (b) the Environmental Rating. These two dimensions are further subdivided into three categories and further broken down into topics and indicators that can be located at different layers of the rating hierarchy. Drawing on a pool of approximately 700 indicators, each industry-specific rating structure contains both standard and industry-specific indicators, with a total of approximately 100 assessed indicators per overall rating. Standard indicators generally account for around 40% of the indicators used in the rating, while industry-specific indicators account for around 60%. Standard indicators assess performance regarding ESG topics relevant for all companies regardless of industry.

The Governance QualityScore is a data-driven scoring and screening solution designed to enable quality reviews of corporate governance across four key areas: (a) Board Structure; (b) Compensation; (c) Shareholder Rights; and (d) Audit & Risk Oversight. Governance QualityScore uses a reference library of more than 260 governance factors across the coverage universe, of which up to 169 are used for assessing any one company. According to FTSE, the factors used in this process are based on the region in which a company is based, highlighting both potentially shareholder-adverse practices at a company as well as mitigating factors.<sup>1</sup> The comprehensiveness of the methodology would lead one to expect that corporate political activities and other forms of lobbying are well covered in the methodology, but this is not the case.

# Score summary

The ISS ESG Corporate Rating methodology receives a Tracker score of 53 out of 200, indicating both some good practices but also a number of significant areas for improvement. The ISS methodology scored points for including lobbying and political engagement as one pillar in their social analysis process. Transparency on lobbying activities is flagged only as a key issue in Tobacco and Pharmaceutical industry categories.<sup>2</sup>

But the focus is on company disclosures, rather than on assessing conduct or the full scope of company political activities that may impact on corporate performance. A key question in the methodology asks ‘Does the company have a publicly disclosed policy relating to the use of company funds for political purposes?’ earning points in Tracker Category A, ‘general disclosure on corporate political activities.’ But this question looks for a company policy rather than asking for details of the extent or nature of a company in-kind and financial contributions to political actors. There are questions on political finance and lobbying, but these only relate to regulatory disclosure requirements linked to the conduct of registered lobbyists, which only exist in a handful of countries.

The methodology starts to make basic enquiries on corporate political activities but is currently missing a wide range of elements covered in the Tracker assessment methodology. For example, the ISS E&S Quality Score asks ‘Does the company disclose information about stakeholder engagements carried out during the past year?’ and receives points for this limited approach to assessing regulated lobbying disclosures. But it could go further in this analysis to provide users with more complete information. The methodology also provides opportunities for companies and other stakeholders to provide feedback.

## Opportunities for improvement

The ISS ESG methodology has significant room for improvement across the 8 Tracker assessment categories. In particular, ISS analysts could improve the framework’s approach to understanding broader lobbying and advocacy activities that go beyond basic disclosure and cover the types of direct and indirect influence companies can engage in, covered in Tracker assessment Category C. Tracker Category F on ‘Commitment to sustainable lobbying practices’ is another area where the ISS standard could be enhanced. Finally, a number of gaps in Tracker Category G on employee conduct should be addressed. Improving the coverage of political activities in the ISS methodology would provide companies with a more accurate assessment of their own conduct, as well as enabling investors and index providers to build more accurate and transparent strategies that account for the full scope of corporate political activities.

### Endnotes

- 1 ‘Governance Quality Score Methodology:’ <https://www.issgovernance.com/file/publications/methodology/Governance-QualityScore-Methodology.pdf>
- 2 (methodology document at p. 79)

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