

# WHAT YOU NEED TO KNOW ABOUT ISS' NEW CLIMATE VOTING POLICY

Today, climate change risk is one of the top issues for many institutional investors. As such, ISS have released their [international climate proxy voting guidelines](#) for 2020, which allows investors to assess a range of climate-related factors for the purposes of proxy voting. In line with this, ISS is launching a new ISS Custom Climate Voting Service, which uses ISS ESG's climate data and research to inform voting recommendations. We have summarised the key takeaways of this comprehensive policy below.

ISS' model draws on widely recognised frameworks including the Task Force on Climate-related Financial Disclosures (TCFD) and balances the need for good disclosure on climate-related risks with a company's performance on key climate-related factors. It includes a view on a company's greenhouse gas (GHG) emissions, its climate strategy, and the impact of its activities on climate, putting these into context within its sector and incident-based climate risk exposure.

The factors ISS will use to evaluate a company's climate-related performance fall under five primary categories:

- Climate norms violations;
- Disclosure indicators;
- Current performance indicators including greenhouse gas emissions data;
- Future performance indicators drawing from the ISS Carbon Risk Classification (CRR); and
- Carbon Risk Classification.

In cases of assessed underperformance, ISS' Climate Policy will provide relevant information, flags, and voting recommendations.

## **Board of Directors**

### **Director Elections**

Aside from ISS' usual policy on director elections, the new Climate Policy includes the following additional reasons for recommending AGAINST a nominee:

- The company does not adequately address climate change-related risks and climate-related performance could be improved; and
- The company continually fails to address climate-related risks and opportunities, and to improve climate related performance.

### **Other Material ESG Failures**

In addition to the above, ISS will vote against or withhold from directors individually, on a committee, or **potentially the entire board** due to:

- Material failures of governance, stewardship, risk oversight, or fiduciary responsibilities at the company, including failure to adequately manage or mitigate environmental, social and governance (ESG) risks;
- Failure to adequately guard against or manage climate-related risks;
- A lack of sustainability reporting in the company's public documents and/or website in conjunction with a failure to adequately manage or mitigate ESG risks;

- Failure to replace management as appropriate; or
- Egregious actions related to the director(s) service on the boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.

### Social and Environmental Proposals-Overall Approach

The new policy outlines the following factors which will be considered when determining recommendations on social and environmental proposals:

- Whether the proposal itself is well framed and reasonable;
- Whether adoption of the proposal would have either a positive or negative impact on the company's short-term or long-term share value;
- The percentage of sales, assets and earnings affected;
- Whether the company has already responded in some appropriate manner to the request embodied in a proposal;
- Whether the company's analysis and voting recommendation to shareholders is persuasive;
- What other companies have done in response to the issue;
- Whether there are significant controversies, fines, penalties, or litigation associated with the company's environmental or social practices;
- Whether implementation of the proposal would achieve the objectives sought in the proposal.

### Climate Change

The policy also describes the proposals on climate change where ISS' custom policy will recommend in favour:

- Vote for shareholder proposals seeking information on the financial, physical, or regulatory risks it faces related to climate change- on its operations and investments, or on how the company identifies, measures, and manage such risks.
- Vote for shareholder proposals calling for the reduction of GHG emissions.
- Vote for shareholder proposals seeking reports on responses to regulatory and public pressures surrounding climate change, and for disclosure of research that aided in setting company policies around climate change.
- Vote for shareholder proposals requesting a report/disclosure of goals on GHG emissions from company operations and/or products.

Our governance team is happy to have a confidential discussion if you would like more information or to better understand how ISS' new Climate Voting Policy will impact investor engagement and voting at your company.