GLOBAL

Climate-related Policies and Application under ISS Benchmark Policy

Frequently Asked Questions

2024

This FAQ is intended to provide general guidance regarding the way in which ISS' Governance Research teams will analyze certain issues in the context of preparing proxy analyses and determining vote recommendations under ISS Benchmark Policy ("ISS Policy"). However, this general guidance should not be construed as a guarantee as to how ISS Policy will be applied in any specific situation.

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Preamble: ISS Policy Principles and Guidelines

This FAQ document relates to ISS' Benchmark Policy Voting Guidelines ("ISS Policy" herein).

ISS' Global Voting Principles state: "A company's governance, social, and environmental practices should meet or exceed the standards of its market regulations and general practices and should take into account relevant factors that may impact significantly the company's long-term value creation." This principle serves as a reference for the application of the policy guidelines related to climate that are presented in this document.

Under the ISS Policy guidelines that relate to board accountability and governance failures, ISS may recommend that investors vote against directors of a board under extraordinary circumstances due to material failures of governance, stewardship, risk oversight, or fiduciary responsibilities at the company. This may include material failures related to climate board accountability.

Three different policy guidelines that specifically address the topic of climate change are covered by this document. These are:

- Climate board accountability,
- Climate transition plans presented by management, and
- Climate-related shareholder proposals

These apply to the three main types of climate-related resolutions that may be proposed on companies' general meeting agendas.

Climate Board Accountability Policy

For companies that are significant greenhouse gas (GHG) emitters, through their operations or value chain and in cases where ISS determines that the company is not taking the minimum steps needed to understand, assess, and mitigate risks related to climate change to the company and the larger economy, the ISS Policy guideline is to generally vote against the responsible incumbent director(s), or any other appropriate item(s). The policy language and details of the voting items targeted for any negative vote recommendations varies from market to market in order to take into account the market-specific agenda items that are the most relevant for the purpose of this policy.

Why is climate risk included as a factor in evaluating material failures in board accountability?

Climate change and climate-related risks are among the most critical topics for many investors and can be a significant factor in long-term company value creation or protection. Many investors around the world are seeking to better integrate climate risk considerations in their investment, engagement, and voting processes. Scientific experts have stated that there is an imperative to limit cumulative CO2 emissions, aiming to reach net zero CO2 emissions by mid-century, along with strong reductions in other greenhouse gas emissions in order to limit human-induced global warming. The ISS Policy updates for 2022 introduced the climate board accountability policy for the assessment of and focus on the world's highest greenhouse gas (GHG) emitting companies. In response to the 2021 Global Policy Survey on Climate, high percentages of investor respondents supported establishing minimum criteria for companies that are considered to be strongly contributing to climate change. After consultations including soliciting broad ISS investor client feedback, ISS decided the policy would focus on the companies identified by the Climate Action 100+ Focus Group list, and would be to recommend against incumbent directors (or other appropriate voting items) in cases where a company was not considered to be taking the minimum steps needed to understand, assess, and mitigate its risks related to climate change. The minimum steps are currently considered to be the following:

- Detailed disclosure of climate-related risks and opportunities, such as according to the Task Force on Climate-related Financial Disclosures (TCFD), and
- Disclosure of quantitative GHG emission reduction targets that the company has set covering at least a significant portion of the company's direct emissions and emissions from electricity use.

The development of this policy has been informed by the results of ISS policy surveys undertaken since 2020.

ISS 2023 Global Benchmark Policy Survey - Summary of Results
ISS 2022 Global Benchmark Policy Survey - Summary of Results
ISS 2021 Global PolicySurvey on Climate - Summary of Results
ISS 2020 Global Benchmark Policy Survey - Summary of Results

How does this Policy define "significant GHG emitters?

For now, "significant GHG emitters" continue to be defined as the companies targeted for engagement by the investor-led initiative Climate Action 100+. That group has estimated that these companies are collectively responsible for up to 80 percent of global industrial GHG emissions. Many of the companies in this limited universe of high emitters operate in multiple markets and have international supply chains.

In what markets does this Policy consider climate risk as a factor in analyzing board accountability?

The Climate Board Accountability policy currently applies to companies on the Climate Action 100+ focus list in all markets globally.

What data factors regarding climate disclosure are considered under this Policy?

Climate disclosure is assessed based on the disclosure laid out by TCFD: governance, strategy, risk management, and metrics & targets. ISS ESG evaluates the 11 disclosure topics via the ISS ESG Environmental and Social Quality Scorecard product (ESQS).

The questions from ESQS that are used to assess disclosure adequacy under this Policy are the following (the numbers quoted are the number of the relevant question in the ESQS assessment).

Governance
▪ Does the company describe the board's oversight of climate-related risks and opportunities? (110)
▪ Does the company describe management's role in assessing and managing climate-related risks and opportunities? (105)
▪ Does the compensation policy explicitly reference specific science-based targets for reducing GHG emissions with a reference to the 2°C scenario? (289)

Strategy
▪ Does the company describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning? (35)
▪ How far into the future does the company monitor risk management procedures according to its most recent CDP disclosure? (111)
▪ Are the company's GHG emissions reduction targets clearly aligned with the 2°C scenario? (40)
▪ Does the company's climate change disclosure include an impact scenario that references 2°C limits? (37)
▪ Does the company present and describe multiple scenarios for the potential impact of climate-related risks and opportunities on its businesses, strategy, and financial planning? (36)

Risk Management
▪ What frequency of monitoring does the company disclose for their risk management procedures in their most recent CDP disclosure? (108)

▪ In the company's most recent CDP disclosure, which CDP option has been selected as best describing its risk management procedures with regard to climate change risks and opportunities? (102)
▪ Does the company describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management? (106)
▪ Has the company obtained independent third-party verification for its GHG disclosure? (58)

Metrics & Targets
▪ Does the company's climate change disclosure specifically provide analysis of performance against targets? (26)
▪ Does the company's climate change disclosure specifically address climate change performance? (24)
▪ Does the company's climate change disclosure specifically address climate change risks? (22)
▪ Does the company's climate change disclosure specifically address climate change opportunities? (28)
▪ Does the company's climate change disclosure specifically address climate change targets? (25)
▪ Does the company provide quantitative metrics about GHG emissions? (50)
▪ Does the company report GHG emissions data to the CDP? (45)
▪ Does the company disclose targets for reducing GHG emissions? (38)
▪ Does the company disclose its total Direct GHG emissions? (51)
▪ Does the company disclose its total Scope 2 GHG emissions? (52)
▪ Does the company disclose its total Scope 3 GHG emissions? (53)
▪ Does the company disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process? (107)
▪ Does the company disclose its total energy use? (62)

Companies within the ESQS coverage universe are invited to review, verify and provide feedback on the data used to determine their ESQS scores via a complimentary Data Verification tool.

How is adequacy of disclosure assessed?

ISS ESG answers the following question for high-emitting companies: ”Is the company disclosing climate-related oversight, strategy, risks and targets according to a framework such as the one developed by the Task Force for Climate-related Financial Disclosure?". Possible responses are "Standard Unmet," "Partial Alignment," "Meets Standards," and "Exemplifies Standards." The assessment of the adequacy of a company's overall disclosure is provided by rolling up the assessments on the four individual ESQS "pillars." ISS Policy considers the board to be failing in its oversight responsibilities if the company's disclosure receives an overall score lower than “Meets Standard.”

What information does this Policy consider regarding climate change risk mitigation and how up to date will it be?

Relevant company-disclosed information for Climate Action 100+ focus companies is currently collected by ISS as part of the ISS ESG Net Zero Solutions product and will be updated each year before the annual meeting for each such company. Information used for the assessments will be updated in a window between 36 and 29 days prior to the meeting date.

The answers to six questions regarding climate-related risk and opportunity disclosure are presented for clients:

1. Does the company set mid-term GHG emission reduction targets? Possible responses are "Yes," "No," and "Yes, but only partially." A company will receive the answer "Yes, but only partially" if the company's targets do not include Scope 3 targets and Scope 3 are deemed to be relevant based on the company's sector.
    a. Does the company set sufficient mid-term GHG emission reduction targets for its own operations and electricity consumption (Scopes 1 & 2)? Possible responses are "Yes" and "No." A company

will receive the answer "No" if it does not have a target or targets that cover at least 95 percent of its Scope 1 & Scope 2 emissions.

b. Do the mid-term targets include relevant emissions for its products and value chain (Scope 3)? Possible responses are "Yes" and "No." *Scope 3 targets are deemed to be relevant following the Climate Action 100+ methodology on relevance.

2. Does the company set an ambition to achieve net-zero GHG emissions by 2050? Possible responses are "Yes," "No," and "Yes, but only partially." A company will receive the answer "Yes, but only partially" if the company's targets do not include Scope 3 targets and Scope 3 are deemed to be relevant based on the company's sector.

   a. Does the company set sufficient 2050 GHG emission reduction targets for its own operations and electricity consumption (Scopes 1 & 2)? Possible responses are "Yes" and "No." A company will receive the answer "No" if it does not have a target or targets that cover at least 95% of its Scope 1 & Scope 2 emissions.

   b. Do the 2050 targets include relevant* emissions for its products and value chain (Scope 3)? Possible responses are "Yes" and "No."

Of these six questions, the answers to either 1.a or 2.a (those related to Scope 1 and Scope 2 emissions targets) are considered for the application of this policy and voting recommendations.

How is adequacy of company actions regarding climate change risk mitigation assessed?

Disclosure information for the companies covered under this policy is collected by ISS as part of the ESQS product and will be updated each year before the annual meeting as noted above. At this time, an “appropriate GHG Emissions reduction target” will be considered to be either an intermediate target or a net-zero-by-2050 target that cover at least 95 percent of direct emissions (Scope 1) and emissions from electricity use (Scope 2). “Intermediate” is defined as any year through 2035.

Information on whether the company's GHG targets include relevant Scope 3 emissions is included for informational purposes but does not drive ISS Policy vote recommendations at this time.

When and how will this policy be applied?

Under ISS Policy, ISS uses the same analysis framework for all companies in the universe globally, but with differentiated implementation for any negative vote recommendations depending on relevant market and company factors, notably the availability of voting items. For instance, across Continental Europe, where board elections are not always presented annually, the voting guidelines state "generally vote against the responsible incumbent director(s), or any other appropriate item(s)." While in the U.S. and in the U.K., where director board elections are generally voted on annually, the voting guidelines refer only to directors’ elections. For more information see the Current Voting Policies | ISS (issgovernance.com). If CA100+ makes changes to its focus group, ISS may give newly added companies a grace year before the policy is fully applied.

Management Climate Transition Plans ("Say on Climate") Policy

Following a campaign first launched by The Children's Investment Fund (TCI) and supported by others in 2020, the Say on Climate initiative recommends and continues to push for companies to hold an annual shareholder vote on their climate transition plans (the so-called "say on climate" vote). The first company to adopt an annual vote on its climate transition plan was Spanish airport operator Aena in 2020, following a shareholder proposal requesting that the company present its climate transition plan for shareholder approval from TCI that year. The shareholder proposal passed with 98% vote support and Aena's Say on Climate proposal passed with 99% support. Subsequent to the successful resolutions at Aena, similar shareholder proposals were filed at a number of companies globally and several companies have, either voluntarily or after a majority-supported shareholder proposal, put forward advisory votes on their climate plans ("Say on Climate" or "Management Say on Climate" herein), sometimes, although not always, committing to do so on a regular basis.

The Task Force on Climate-related Financial Disclosures (TCFD) defines a climate transition plan as an "aspect of an organization's overall business strategy that lays out a set of targets and actions supporting its transition toward a low-carbon economy, including actions such as reducing its GHG emissions." The OECD[1] stipulates that: "To be credible, a corporate transition plan will clearly set out and explain its net-zero target and associated interim targets. These targets will be in line with the global temperature goal of the Paris Agreement."

A management Say on Climate proposal can encompass different types of proposal requests, including the initial presentation to shareholders of the company's climate transition plan or strategy (that could include climate transition-related ambitions, or commitments to reporting on the implementation of a climate plan) and/or a request for approval of a progress report towards achieving the company's climate plan or strategy.

The ISS Policy on management Say on Climate proposals, is that a case-by-case vote analysis will be done taking into account the completeness and rigor of the plan. Information that will be considered, where available, includes the following:

- The extent to which the company's climate related disclosures are in line with TCFD recommendations and meet other market standards;
- Disclosure of its operational and supply chain GHG emissions (Scopes 1, 2, and 3);
- The completeness and rigor of company's short-, medium-, and long-term targets for reducing operational and supply chain GHG emissions (Scopes 1, 2, and 3 if relevant);
- Whether the company has sought and received third-party approval that its targets are science-based;
- Whether the company has made a commitment to be "net zero" for operational and supply chain emissions (Scopes 1, 2, and 3) by 2050;
- Whether the company discloses a commitment to report on the implementation of its plan in subsequent years;
- Whether the company's climate data has received third-party assurance;
- Disclosure of how the company's lobbying activities and its capital expenditures align with company strategy;
- Whether there are specific industry decarbonization challenges; and
- The company's related commitment, disclosure, and performance compared to its industry peers.

How will this policy be applied?

ISS Policy applies the same analysis framework for all companies who present Say on Climate proposals. In practice Say on Climate proposals have been seen primarily in Europe and more specifically in France and the U.K., Australia is the market with the third highest number of Say on Climate proposals.

When evaluating Say on Climate resolutions under ISS Policy, assessments will include the following: company disclosures and the relative merits of climate transition action plans, related ambitions, commitments, and climate performance. A climate transition plan should be complete, realistic, and sufficiently explained. The credibility of a company's climate transition strategy, its targets, and the company's ambition to achieve net zero emissions

[1] 4. Elements of credible corporate climate transition plans | OECD Guidance on Transition Finance : Ensuring Credibility of Corporate Climate Transition Plans | OECD iLibrary (oecd-ilibrary.org)

should be supported by a detailed action plan, along with disclosure of emission-reduction efforts and their relative contributions to overall targets.

Inconsistencies or significant/accumulation of gaps in the plan may lead to a negative voting recommendation. If disclosure is lacking, ISS considers the rationale provided for its omission and the company's commitment, if any, to future disclosure.

The analysis therefore predominantly centers on two primary criteria: the completeness and the rigor of the company's climate transition action plan. Specific elements that should ideally be included in such plans to meet these criteria are also considered. Each disclosure element listed and considered under the policy is covered in more detail in the following section to help provide clarity on say on climate policy application as regards the level of disclosure, its quality and the minimum standards. Certain elements have been grouped due to their close interrelation. No hierarchical order has been assigned, and the order in which the items are presented below does not denote relative importance.

What factors are considered regarding climate transition plan disclosure and how is adequacy of disclosure assessed?

➢ The extent to which the company's climate-related disclosures are in line with TCFD recommendations and meet other market standards

Companies are expected to commit to reporting in line with the Task Force on Climate-related Financial Disclosures (TCFD)[2] recommendations and therefore present a transition plan that includes information on governance; strategy; risk management; and metrics & targets.

According to the TCFD, a company's effective disclosure shall present relevant information, and be:

- Specific and complete;
- Clear, balanced, and understandable;
- Consistent over time;
- Comparable among organizations within a sector, industry, or portfolio;
- Reliable, verifiable, and objective; and
- Provided on a timely basis.

Where relevant, companies are also expected to meet any other market standards requirements that may apply to their transition plan.

These market standards include a wide range of standards to which the company may either voluntarily commit or is legally subject to. This includes international and national regulatory defined standards, standards from alliances, and commitments to groups and initiatives when the company declares its memberships and commits to meeting the associated expectations. Membership in voluntary climate-related groups is generally viewed positively as it may give external references that help the assessment of the company's climate strategy. Conversely, failure to fulfill commitments to initiatives to which a company has signed on may imply some inconsistency with the company's stated plan or strategy.

2 It should be noted that with the IFRS now overseeing the monitoring of the progress of companies' climate-related disclosures, "Companies can continue to use the TCFD recommendations should they choose to do so, and some companies may still be required to use the TCFD recommendations. Using the recommendations is a good entry point for companies as they move to use the ISSB Standards."

A non-exhaustive list of guidance/framework/alliances is provided here, and include the most prevalent, reliable and recognized references for evaluating the robustness of transition plans:

- Reporting framework related guidance/initiatives
    - International/national regulatory defined standards, such as: France's version of the Corporate Sustainability Reporting Directive (CSRD) and the related European Sustainability Reporting Standard (ESRS), U.S. Securities and Exchange Commission (SEC) climate-related disclosure rule;
    - The Greenhouse Gas Protocol (GHG Protocol);
    - The International Sustainability Standards Board's (ISSB) International Financial Reporting Standards (IFRS) and frameworks developed by the Sustainability Accounting Standards Board (SASB);
    - The Task Force on Climate-Related Financial Disclosures (TCFD);
    - The U.K. Transition Plan Taskforce (TPT);
    - The Global Reporting Initiative (GRI);
    - International Organization for Standardization (ISO) standards;
    - CDP (formerly the Carbon Disclosure Project);
    - The Organisation for Economic Co-operation and Development (OECD) principles; and
    - For the financial sector: Partnership for Carbon Accounting Financials (PCAF).
- Decarbonization-related guidance/initiatives
    - For the financial sector: the Glasgow Financial Alliance for Net Zero (GFANZ) network and its eight sector-specific alliances;
    - For the fossil fuel sector: Oil & Gas Methane Partnership 2.0 (OGMP 2.0);
    - The Climate Action 100+ Net Zero Company Benchmark;
    - The Institutional Investors Group on Climate Change (IIGCC) and its Investor Climate Action Plans (ICAPs) Expectations Ladder;
    - The Transition Pathway Initiative (TPI);
    - The Science Based Targets initiative (SBTi);
    - UN high-level expert report;
    - The International Energy Agency's (IEA) Net Zero Roadmap; and
    - Intergovernmental Panel on Climate Change (IPCC) reports.

Disclosure of a company's operational and supply chain GHG emissions (Scopes 1, 2, and 3) and whether the company's climate data has received third-party assurance

With regards to disclosure relating to operational and supply chain GHG emissions, companies are expected to:

- Disclose the standard or methodology they use to calculate their GHG emissions (e.g., GHG Protocol, PCAF, etc.), any changes in calculation or reporting methodologies, and the reasons for these changes (e.g., change of business perimeters, accounting/methodology, etc.).
- Break down their group's entire Scope 1, 2, and 3 GHG emissions inventory since at least the relevant base year. A qualitative disclosure implies the coverage of all GHGs, ideally expressed in CO2 equivalents (CO2e).
- Disclose whether its Scope 2 emissions are market- or location-based.

In the event a company does not or is unable to break down its full Scope 3 emissions by category, the following question is asked "does the company disclose at least the most relevant Scope 3 emissions?" (refer to Appendix I for "the most relevant Scope 3 categories").

Specifically for financial institutions, it is expected they disclose their Scope 3, category 15 (investments) emissions also known as 'financed emissions,'[3] along with a breakdown of these emissions by asset class, sector, and geography.

The GHG Protocol methodology is the most widely recognized and used international standard for calculating GHG emissions. Its usage allows the aggregation and comparability across organizations and jurisdictions and is therefore considered positively. Financial institutions may calculate their category 15 emissions in line with the methodology developed by PCAF.

Disclosures in line with national reporting methodologies may also be considered sufficient if they are consistent with the GHG Protocol.

With regards to disclosure relating to third-party assurance, ISS takes into consideration whether the company's emissions disclosures are externally and verified by an independent third party. In cases where third-party assurance has been obtained, ISS considers various factors, including the level and scope of assurance, the scope of the engagement, the professional standard(s) against which the engagement was performed, the identity of the assurance provider, and the outcome of the engagement, such as whether the provider's conclusion is unqualified or modified.

➢ Whether the company has made a commitment to be "net zero" for operational and supply chain emissions (Scopes 1, 2, and 3) by 2050

According to the United Nations: "*Net zero means cutting carbon emissions to a small amount of residual emissions that can be absorbed and durably stored by nature and other carbon dioxide removal measures, leaving zero in the atmosphere. […] The science shows clearly that in order to avert the worst impacts of climate change and preserve a livable planet, global temperature increase needs to be limited to 1.5°C above pre-industrial levels. […] To keep global warming to no more than 1.5°C – as called for in the Paris Agreement – emissions need to be reduced by 45% by 2030 and reach net zero by 2050.*"

A credible climate transition plan is therefore expected by many investors and by ISS Policy to include a net zero commitment. In this regard, ISS verifies whether companies explicitly commit to a net zero by 2050 target by stating it will "reach," "achieve," or "become" "net-zero," "zero GHG or carbon emissions," "carbon neutral," or "eliminate all emission" by 2050 or before.

[3] According the PCAF Financed Emissions Standard, "f*inancial institutions shall report the absolute scope 1 and scope 2 emissions of borrowers and investees across all sectors. For reporting the scope 3 emissions of borrowers and investees, PCAF follows a phase-in approach which requires scope 3 reporting for lending to and making investments in companies depending on the sector in which they are active, i.e., where they earn revenues.*"

Specifically, according to the TCFD supplemental guidance for the financial sector:

- *Banks should disclose GHG emissions for their lending and other financial intermediary business activities where data and methodologies allow.*
- *Insurance companies should disclose weighted average carbon intensity or GHG emissions associated with commercial property and specialty lines of business where data and methodologies allow.*
- *Asset owners should disclose GHG emissions for assets they own and the weighted average carbon intensity (WACI) for each fund or investment strategy, where data and methodologies allow.*

ISS considers this meaningful when it is an individual company commitment, not when it is indirectly implied from participation in an alliance with ambitions to achieve net zero or relying on a nation's commitment to net zero.

➢ The completeness and rigor of company's short-, medium-, and long-term targets for reducing operational and supply chain GHG emissions (Scopes 1, 2, and 3 if relevant)

ISS additionally assesses whether a climate transition plan also includes intermediate targets. Should it not be the case, companies are expected to provide explanations as to why they do not consider intermediate targets are needed.

A company's net zero pledge and targets are considered adequate under ISS Policy in its application when they meet the following conditions:

- Organizational boundary: they are set at the parent or group level, incorporating emissions from all subsidiaries according to specified boundary criteria.
- GHG coverage: the targets cover all relevant GHGs, in line with the GHG Protocol Corporate Standard.
- Scope coverage: the net zero commitment covers Scope 1, 2, and 3 emissions, while the targets should cover Scope 1&2 and Scope 3, if relevant.
- Emissions coverage: the net zero pledge and the intermediate targets encompass the majority (>95%) of Scope 1 and 2 emissions and cover the most relevant Scope 3 emissions categories for the company's sector.
- Target settings*:* the company specifies the net zero pledge and intermediate targets and their respective time horizons; whether the targets are absolute- or intensity-based, the base year for measuring progress, the target unit (tCO_2e, $kgCO_2e$/$, etc.) and the key performance indicators used to track progress. It is noted that intensity targets limit the ability to assess the reduction in absolute emissions. Therefore, information is expected to be provided regarding the expected implications of intensity targets on absolute emissions.
- Offsets: the company discloses how much its target/s rely on offsets (carbon capture, carbon credits buyout, etc.) to achieve its transition plan. Offsets are expected to address residual emissions only and account for a very limited part of the target.

The company is expected to disclose the scenario used to establish its targets. ISS will consider whether it is aligned with well-established trajectories such as the IPCC's Special Report on the 1.5° Celsius pathway P1 or the International Energy Agency's (IEA) Net Zero Emissions by 2050 Scenario.

Membership in climate-related groups or recognized initiatives, along with a commitment to adhere to their expectations and guidance, is an indicator of the quality of targets set by the company. It also serves as a benchmark to assess the company's alignment with these commitments.

➢ Whether the company has sought and approved third-party approval that its targets are science-based

ISS also considers whether the company has sought or discloses that it will seek a third-party approval attesting that its pledge is science-based (acknowledging that some sectors currently lack specific well-recognized pathways for such approvals). It will also consider the source of this approval (acknowledging the Science Based Targets initiative as a reliable source), the approval boundaries, and the alignment trajectory (1.5°C/Well-below 2°C).

➢ Whether the company discloses a commitment to report on the implementation of its plan in subsequent years

ISS considers whether the company has committed to reporting on the implementation of its plan after it submitted it to a shareholder vote. Incidentally, committing to giving shareholders a regular vote on the progress towards the transition plan and/or a vote on any material amendment to the plan is considered a positive governance feature. The absence of a commitment to give shareholders future votes is raised as a concern when a company presents a plan that is deemed inadequate or incomplete.

➢ Disclosure of how the company's lobbying activities and its capital expenditures align with company strategy

Lobbying activities - Advocacy and Associations

Companies are expected to align their lobbying activities with their climate strategy. Consequently, companies are expected to meaningfully disclose their lobbying activities in order for shareholders to be able to assess whether:

- The company commits to conducting its lobbying activities in line with the goals of the Paris Agreement and advocating for Paris-aligned lobbying in its associations.
- It regularly reviews the climate-related public positions of the main associations of which it is a member.

When analyzing lobbying disclosures, ISS considers:

- Management policies and board oversight of direct and indirect lobbying spending; lobbying priorities;
- Direct and indirect lobbying payments; memberships and level of support for potential lobbying-related climate controversies involving the company

"Direct" lobbying spending is that made by the company. "Indirect" lobbying spending is lobbying spending made by organizations that the company supports financially, such as through membership dues.

Capital expenditures

Under ISS Policy, ISS evaluates whether the company demonstrates that its capital expenditures are consistent with its underlying transition strategy, consistent with achieving net zero emissions by 2050. This evaluation is based on whether the company:

- Discloses the amount of capital expenditure allocated to unabated carbon-intensive assets or products;
- Explicitly states that it has phased out or is planning to phase out capital expenditure in new unabated carbon-intensive assets or products by a specific year;
- Discloses the amount of capital capital expenditure that it intends that will be dedicated to climate solutions/decarbonisation in the future; and/or
- Has a balance toward investment in unabated carbon assets that appears to be inappropriate compared to the investment in climate solutions.

The company is expected to establish specific targets for enhancing its contribution to the implementation of climate solutions, along with a clear definition of these solutions.

➢ Whether there are specific industry decarbonization challenges

ISS also takes into account as part of its assessment any industry-specific decarbonization challenges that may hinder the development of a robust, transparent, and ambitious transition plan.

➢ The company's related commitment, disclosure, and performance compared to its industry peers

ISS uses peer comparisons to inform its conclusions on the completeness, rigor, and ambition of the company's climate transition plan, although such peer comparisons are not conclusive for its evaluation. These aspects are primarily assessed against TCFD recommendations, other market standards, and the individual company's commitment to follow specific initiatives/guidance/frameworks. When selecting peers, ISS considers the company's industry and may also consider the size, market capitalization, and GHG profile.

Climate-related Shareholder Proposals Policy

What are commonly seen types of climate-related shareholder proposals?

- Requests to adopt targets and other details of a climate transition plan,
- Requests for emissions disclosure,
- Requests for more transparency around climate lobbying,
- Requets for a climate risk assessment, and
- Greater disclosure around a “Just transition.”

What disclosures and publicly available information does ISS look at when evaluating climate-related shareholder proposal requests?

When presented with a climate-related shareholder proposal request under ISS Policy, ISS examines the company's disclosures and publicly available information to evaluate the company's approach to climate-related risks. To begin with, disclosure is looked for on the company's website, such as a sustainability report or an environmental policy that includes a description of the company's strategy development process, related tasks, and long-term goals. ISS considers whether there is clear board oversight of environmental risks and assesses the disclosure regarding the company's climate-related risk assessment, which should show a good understanding of the company's resource use and risk exposure; and the company's strategy to mitigate both financial and environmental/social risks, including the metrics and targets used to measure achievement. Additionally, a peer comparison is often done to see how a company discloses and acts on climate-related topics, such as GHG emissions and long-term goals in the context of its sector.

Disclosure in the framework recommended by the TCFD (now part of ISSB) – corporate strategic planning, scenario analysis, and managing climate-related risks – is also valued.

When evaluating the merits of a shareholder proposal with requests related to greenhouse gas (GHG) emissions, ISS will look at disclosures and strategies related to direct emissions (Scope 1), emissions from electricity (Scope 2), and emissions related to the company's products and supply chain (Scope 3). ISS will evaluate whether the company has set GHG emissions reductions targets that are aligned with the Paris Agreement goals and whether the company has realistic strategies in place to achieve those targets. ISS will also consider if the company reports according to well-regarded reporting frameworks. In the past, ISS Policy has tended not to recommend support for proposal requests for companies to align their strategies with Paris Agreement goals by taking a specific action such as by selling assets by a specific date, but it has tended to recommend support for proposal requests for analysis and disclosure on whether a company's strategy is realistically aligned with Paris Agreement goals, including requests for disclosure of assumptions and scenario analyses.

Shareholder proposal requests to disclose or adopt GHG reduction targets aligned with Paris Agreement goals are evaluated based on the criteria discussed above. The most nuanced parts of these proposals often involve evaluating the value to shareholders of setting targets to reduce indirect emissions related to the company's products and supply chain. ISS has generally sought to assess risks and opportunities related to a company's products and supply chain in the context of existing and potential regulatory, technology, and market changes. For direction on how many investors are weighing these risks and opportunities, ISS looks to peer and market practices like commitments to the Science Based Targets initiative, reputable publicly available research on risks and opportunities, and analyses of potential controversies.

Shareholder proposal requests for climate-related lobbying information are evaluated through the lens of whether shareholders would likely benefit from greater disclosure and alignment between the company's direct and indirect political activities and its goals, policies, or commitments. Part of this assessment is the quality of the company's existing disclosures on board and management oversight, policies, and management related to political contributions, lobbying activities, and payments to trade associations. Another important aspect is the extent to which the company has established climate goals and its disclosure around whether these goals are impacted by public policy outcomes. ISS will look to see if companies are identifying and disclosing the ways in which climate strategies may be impacted by public policy. Often an important issue raised in such proposals is that a company's direct or indirect political actions may be inconsistent with its climate goals. Any alleged incongruencies are considered by looking at signs of controversies, such as legal cases and reputable news reports. Sometimes lobbying activities may not appear consistent with the company's goals and statements, and, when appropriate, ISS looks for companies to provide clear disclosure on how it deals with any inconsistencies and whether it specifies any actions that would be taken if or when inconsistencies are found.

ISS considers the Greenhouse Gas Protocol's standards for reporting greenhouse gas emissions to be a useful framework for understanding how to measure and report a company's climate-related footprint.

The TCFD recommended that companies conduct an analysis on the resilience of their strategies, taking into consideration different climate-related scenarios, including a normative scenario that lays out an energy system deployment pathway and an emissions trajectory consistent with Paris Agreement goals. ISS does not require an analysis with a specific model, but a good example of such a model is the IEA's Net Zero Emissions by 2050 Scenario, which is designed to achieve an emissions trajectory consistent with keeping the temperature rise in 2100 below 1.5 °C (with at least a 50% probability) with limited overshoot.

APPENDIX I: Sectors and most relevant Scope 3 disclosure

GICS INDUSTRY	SCOPE-3 CATEGORY DISCLOSURE REQUIRED
Oil, Gas & Consumable Fuels	Use of sold product - Category 11 of the GHG protocol
Electric Utilities	Use of sold product - Category 11 of the GHG protocol
Gas Utilities	Use of sold product - Category 11 of the GHG protocol
Multi-Utilities	Use of sold product - Category 11 of the GHG protocol
Independent Power and Renewable Electricity Producers	Use of sold product - Category 11 of the GHG protocol
Automobiles	Use of sold product - Category 11 of the GHG protocol
Chemicals	Purchased goods and services (Category 1 of the GHG protocol) and Use of sold products (Category 11 of the GHG protocol)
Diversified Metals & Mining4	Processing of sold products (Cat-10)
Aerospace & Defense	Use of sold product - Category 11 of the GHG protocol
Building Products	Use of sold product - Category 11 of the GHG protocol
Industrial Conglomerates	Use of sold product - Category 11 of the GHG protocol
Machinery	Use of sold product - Category 11 of the GHG protocol
Food & Staples Retailing	Purchased goods and services (Category 1 of the GHG protocol) and Use of sold products (Category 11 of the GHG protocol)
Beverages	Purchased goods and services (Category 1 of the GHG protocol) and Use of sold products (Category 11 of the GHG protocol)
Household Products	Purchased goods and services (Category 1 of the GHG protocol) and Use of sold products (Category 11 of the GHG protocol)
Pharmaceuticals	Purchased goods and services (Category 1 of the GHG protocol) and Use of sold products (Category 11 of the GHG protocol)
Banks	Investments (Category 15)
Thrifts & Mortgage Finance	Investments (Category 15)
Diversified Financial Services	Investments (Category 15)
Consumer Finance	Investments (Category 15)
Capital Markets	Investments (Category 15)
Mortgage Real Estate Investment Trusts (REITs)	Investments (Category 15)
Insurance	Investments (Category 15)

[4] All sectors are classified by GICS industry, except Diversified Metals & Mining, which is the Subindistry of the Indsutry classification Metals and Mining.

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