Dec. 6, 2024

To Whom It May Concern:

We are writing on behalf of the Interfaith Center on Corporate Responsibility (ICCR), a coalition of over 300 global institutional investors that collectively represent more than $4 trillion in managed assets, to provide feedback on the policy changes that you have proposed for your 2025 policies. Thank you for launching Open Comment Period and providing clients, non-clients, and industry participants the opportunity to have their voices heard.

We noticed that ISS did not make any policy changes to its U.S. Benchmark Policy around responsiveness, system stewardship, board accountability for climate risk, nor racial equity**.** Below are the recommendations that we have for ISS around these topics – specifically for ISS' U.S. Benchmark Policy, and an additional suggestion for board non-responsiveness.

Non Responsiveness:

For ISS, non-responsiveness to majority supported resolutions is a cause for concern. For Glass Lewis, the standard is much higher: it is non-responsiveness to any director nomination or management proposal not supported by 20% or more of shareholders, and at controlled and multi-class companies, it's 20% or more of unaffiliated shareholders voting contrary to management.

On shareholder proposals, the 2025 Glass Lewis policy states:

> *"When shareholder proposals receive significant shareholder support (generally more than **30%** but less than majority of votes cast), the benchmark policy generally takes the view that boards should engage with shareholders on the issue and provide disclosure addressing shareholder concerns and outreach initiatives*."

We encourage ISS to consider this in reviewing your approach to responsiveness.

Climate

At a time when a lack of consistent public policy on climate change in the U.S. is matched by the hottest year on record, and when the United States is warming faster than the rest of the world, it is irresponsible to maintain the status quo for boardroom accountability at US climate-critical companies.

We are strongly in favor of analysis on company climate performance in ISS Benchmark reports to assess whether a company's current and future business plans, capital allocation, and political activity are aligned with a 1.5°C scenario and/or science-based sectoral decarbonization plans. The scientific research in 2024 seems to indicate that we are not on that pathway. Sound climate governance and strategy is therefore essential.

Companies' climate transition plans should include, at minimum, all of the following:

- Acceptable emissions targets – both medium-term targets that are compatible with the global imperative to cut absolute emissions in half by 2030, and a net-zero commitment by 2035 at the latest for OECD utilities or 2050 at the latest for all companies.
- Corporate strategy that is aligned with achieving these targets.
- Capital expenditure plans that are consistent with achieving the targets.
- Political spending and lobbying policies and practices that are consistent with these targets.

Failing to meet these standards should result in recommendations to vote against responsible board members at the company in question on the basis of inadequate climate performance and oversight.

Furthermore, the scope of companies considered to be high-emitting should include financial sector actors such as banks and insurance companies, in virtue of their financed, facilitated, and/or insured emissions.

Racial Equity

ICCR members have long raised issues of racial equity and justice to corporations in their portfolio. These issues are not just moral ones but clearly indicate legal, reputational and policy risks to companies and threaten their license to operate in some circumstances. Corporate actions that perpetuate systemic racial inequities can create risks and harms at both the issuer and portfolio levels – ameliorating those disparities can lead to opportunities and benefits for issuers and portfolios. We encourage ISS to modify its Benchmark Policy to generally recommend votes in favor of proposals asking a company to conduct an independent racial equity and/or civil rights audit.

The company should implement the proposal by hiring a qualified independent third party to perform a comprehensive racial equity audit that evaluates not only diversity, equity and inclusion ("DE&I") programs and philanthropic efforts but also impacts of the company's business operations and activities on external stakeholders; an audit assessing only DE&I/non-discrimination policies and programs and/or philanthropic efforts is not considered comprehensive.

We encourage ISS to generally recommend votes in favor of shareholder proposals that substantially foster racial and social equity, including those that call for further action or disclosure related to racial equity or civil rights audits, board diversity, political spending and lobbying activity, human capital management, consumer product safety, climate and environmental justice, executive compensation, and oversight of tech company product and services.

<u>System Stewardship</u>

ICCR members are investors with diversified portfolios and, while ignoring systemic risks may benefit one of the companies they hold, the negative impacts (or externalities) they generate will undermine the performance of the portfolio overall. It is commonly understood that investors are best served by diversifying their portfolios. Diversification allows investors to reap the increased returns available from risky securities while greatly reducing that risk. This core principle is reflected in federal law, which requires fiduciaries of federally regulated retirement plans to “diversify the investments of the plan.” Similar principles govern other investment fiduciaries.

Once a portfolio is diversified, the most important factor determining return will not be how the companies in that portfolio perform relative to other companies (“alpha”), but rather how the market performs as a whole (“beta”). In other words, the financial return to such diversified investors chiefly depends on the performance of the market, not the performance of individual companies. But the social and environmental costs created by companies pursuing profits without regard for broader environmental and social factors can burden the economy. This drag on GDP directly reduces the return on a diversified portfolio over the long term. Indeed, in 2018, publicly listed companies around the world imposed social and environmental costs on the economy with a value of $2.2 trillion annually—more than 2.5 percent of global GDP. This cost was more than 50 percent of the profits those companies reported.

While we appreciate ISS’ case-by-case approach on this subject, we encourage you to be much more transparent in how you consider systemic risks.

We hope that you take this feedback into consideration. If you have any questions regarding these comments, please feel free to contact me at jzinner@iccr.org.

Sincerely,

Josh Zinner,
CEO
Interfaith Center on Corporate Responsibility