## ISS Open Comment Period 2021: Recommended Response Guide for Proposed Climate-related Changes

### Overview

ISS opened its Open Comment Period for the proposed changes to the 2022 Benchmark Policy on November 4. **ISS will be accepting feedback on its proposed changes through COB November 16.** The policy will include several climate-related changes, notably related to director elections and say-on-climate proposals.

Unsurprisingly, the proposed changes include some significant gaps that would make the Benchmark Policy fall short of investor expectations on climate.

The full text of proposed changes can be found [here](https://www.issgovernance.com/file/policy/proposed-benchmark-policy-changes-2022.pdf) on pages 24-28. A summary of the gaps in the proposed changes is outlined below:

### Recommended Feedback for ISS

ISS is seeking feedback on 7 questions to understand how investors (and other stakeholders) are responding to the proposed changes. Below is a guide to help you answer these questions in order to align ISS’s benchmark policy with the investor community’s growing consensus on climate and climate-related accountability.

### FAQs

1. **Why is it important to respond to the open comment period?**
   1. Over the summer, ISS released a Climate Policy Survey to understand stakeholders’ interest in climate accountability. 46% of the respondents were corporations - the subjects of ISS proxy voting recommendations. It is imperative that ISS hear from investors in order to ensure that the policy changes represent investors’ interests, not corporations’.
2. **How do I respond to the open comment period?** 
   1. Submit all comments to [policy@issgovernance.com](mailto:policy@issgovernance.com) You can paste the language below into an email and edit it as you like.
3. **What is the comment deadline?**
   1. ISS will be accepting comments until **5pm ET on Tuesday, November 16, 2021.**
4. **Do I need to be an ISS client to comment?**
   1. You do not need to be an ISS client to respond. ISS is seeking input from all “institutional investors, issuers, and other market constituents.”
5. **Interested in other avenues to communicate to ISS the need for comprehensive climate risk oversight?** 
   1. Majority Action is helping to coordinate a letter to complement this feedback to be sent to ISS before the end of the open comment period. Already, investors representing over $1.9 trillion USD in AUM/AUA have signed on. The full text of the letter can be found [here](https://docs.google.com/document/d/1TzMTWEmOpnvM2kDMwM760dY7lwr9oM4yZzgcGqe2ghw/edit?usp=sharing). Those interested in signing on to the letter should [**fill out this form**](https://docs.google.com/forms/d/e/1FAIpQLSf9A7L5v0Vt1YnXuDIF0J3Y1EzR_OAZ_YkbtXKw6_1vgqs5sQ/viewform) **by COB Nov 15, 2021**.
   2. The letter is intended to complement the responses in this guide. Investors are encouraged to both respond via ISS’s feedback channel and sign the letter.
   3. If you have trouble accessing the Google Doc or have any questions, please reach out to Jessye Waxman at Majority Action (jessye@majorityact.org), who is helping to coordinate the effort.

### Summary of Proposed Changes on Board Accountability

**Board Accountability on Climate**

ISS will nominally start recommending some votes against directors at high emitting companies. It is proposing to start holding boards of CA100+ companies accountable for two climate-related issues: alignment of disclosure with the TCFD framework and “well defined,” “appropriate” greenhouse gas emission reduction targets. “Targets for Scope 3 emissions will not be required for 2022 but the targets should cover at least a significant portion of the company’s direct emissions.”

Notable gaps include:

* ISS will accept “any well defined GHG reduction targets.” This suggests that ISS will not be evaluating the quality of a company’s climate targets.
  + For example, this language suggests that ISS will not require companies to have science-based targets or targets aligned with a 1.5ºC scenario.
* ISS is not holding companies accountable to setting reduction targets for Scope 3, emissions contained in the company’s supply chains and products, which is where the bulk of emissions lie for companies in many sectors.
* ISS is not looking at whether companies are implementing (stated) decarbonization strategies or whether the companies are on track to meet their targets.
* ISS proposes using the CA100+ list to define “high emitting companies.” This omits banks and insurance companies. Financial services companies, as providers of financing, advisory and underwriting services to fossil fuel projects and fossil fuel-intensive companies, have the power to accelerate or stall the decarbonization necessary to limit warming to 1.5°C. Given the capital intensity of the oil and gas, utility, and automotive manufacturing industries, financial services companies have a crucial role to play in decarbonizing those and other sectors.
* The application of this policy remains to be seen. Most, if not all, of CA100+ companies have TCFD-aligned disclosures.
* ISS does not provide detail on how it will determine who "the responsible incumbent director" is or how it will determine whether it is appropriate to recommend against that director, a committee, or the full board.

**For recommendations on shareholder proposals and “Say on Climate” resolutions, please see the optional suggested recommendations at the end of the document.**

### Feedback Guide on Board Accountability - feel free to paste into your email and edit

**1) Question: Do you support the proposed policy change?**

The proposed changes for Item 10, Board Accountability on Climate - US market,

are insufficient.

Directors should be held accountable for setting goals and executing decarbonization plans that align with established scenarios[[1]](#footnote-0) to limit warming to 1.5ºC. The current speed of company action is [wholly insufficient to the scale and speed of the transition necessary](https://www.iea.org/news/world-energy-outlook-2021-shows-a-new-energy-economy-is-emerging-but-not-yet-quickly-enough-to-reach-net-zero-by-2050) to limit warming to 1.5ºC. These shortcomings are ultimately a failure of board leadership to undertake necessary and strategic steps to mitigate climate risk. Furthermore, since the actions of a small number of carbon-intensive companies exacerbate risks for the entirety of client portfolios, boardroom accountability on a *comprehensive slate* of climate-related metrics is key to mitigating both company-specific and systemic risks to whole portfolios.

“Any well defined GHG reduction target” does not hold directors accountable to science-based plans. Such an approach does not align with either the consensus among the scientific community about the need to limit warming to 1.5ºC, the International Energy Agency’s (IEA) sectoral decarbonization roadmaps, the Science Based Targets Initiative’s decision to only accept 1.5ºC-aligned transition plans or investors’ expectations on climate, which are increasingly aligned behind a 1.5ºC standard.

Similarly, company transition plans must account for Scope 3 emissions in order to be comprehensive, especially since Scope 3 emissions constitute the bulk of emissions for many of the CA100+ companies. Companies that set goals for only Scope 1 and 2 emissions are not adequately setting GHG reduction targets.

While setting targets is a step forward, companies need to do more than just set targets to reduce climate risk. Companies need to align their capital expenditures with plans to achieve these targets and demonstrate year-over-year progress. Assessing companies only on target setting falls behind investor expectations, including what investors in the CA100+ initiative are holding companies to. The [CA100+ Net Zero Company Benchmark](https://www.climateaction100.org/progress/net-zero-company-benchmark/) assesses companies on Capital Alignment and Climate Policy Engagement -- two metrics which help investors understand the extent to which companies are putting their transition strategies into practice.

We are past the point where disclosure and goal setting should be the standard; boards need to be held accountable for ensuring that their companies are making measurable progress toward 1.5ºC alignment. Failure to benchmark against metrics on climate transition implementation sends mixed signals to the market and fails to hold companies accountable to the scale and pace of change that is needed to successfully mitigate climate risk. For example, failure to hold companies accountable to publishing -- and carrying out -- 1.5ºC -aligned decarbonization strategies means this critical step will most likely go unaddressed for some time: as of March 2021, only 13% of US-based companies in the CA100+ list had announced a decarbonization strategy to meet their long and medium-term GHG targets.[[2]](#footnote-1)

Additionally, the presence of a management backed Say on Climate proposal cannot be used as justification for not holding directors accountable, especially if the proposed transition plan fails to align a company’s strategy with a 1.5ºC transition scenario.

**2) Question: Do you have any concerns with the proposed policy change?**

Same as above.

**3) Question: If the proposed change contemplates ISS adverse vote recommendations, are they targeted appropriately?**

The initial proposed universe of CA100+ companies misses key industries that are not included in the CA100+ universe, namely banks and insurance providers. Financial services companies, as providers of financing, advisory and underwriting services to fossil fuel projects and fossil fuel-intensive companies, have the power to accelerate or stall the decarbonization necessary to limit warming to 1.5°C. Given the capital intensity of the oil and gas, utility, and automotive manufacturing industries, financial services companies have a crucial role to play in decarbonizing those and other sectors.

In addition, the metrics against which companies are being measured are insufficient. The alignment of company goals, capital expenditures, and policy influence on climate need to be assessed against a 1.5ºC pathway.

Furthermore, companies need to be assessed on implementation and progress, not merely disclosure.

**4)** **Question: If the proposed change contemplates ISS adverse vote recommendations, are the appropriate mitigating factors being considered?**

Given the risk that climate change poses to investors’ portfolios, no mitigating factors need to be considered when deciding whether votes against board members is warranted. Failure to align a company’s business strategy and operations with a 1.5ºC scenario is, at this point, sufficient to warrant votes against board members at companies that are failing to align its emissions reductions goals, capital expenditure plans, and political activity with a 1.5ºC scenario.

Such a standard of accountability is already becoming mainstream. Asset owners and managers have already adopted proxy voting guidelines that will allow them to vote against directors purely on climate-related failures, including three state treasurers, New York State Common Retirement Fund, Norges Bank Investment Management, and Legal and General Investment Management. [See this link for examples <https://majorityaction-proxy-voting.squarespace.com/proxy-voting-language>]

**5) Question: If the proposed change includes a transition period for the implementation of a policy, is it about right, too short or too long?**

Phasing in director accountability on climate performance in 2022 is an appropriate timeline. However, the standards to which directors are being held accountable to in the 2022 AGM season should be higher. Directors should be held accountable on the following additional points:

(1) Target setting for Scope 3 emissions - votes against directors is warranted in 2022 at target companies that have not yet set short-, mid-, and long-term targets for Scope 3 emissions. Holding companies accountable on only Scope 1 and 2 emissions is insufficient for company management of climate risk.

(2) Implementation of Net Zero goals (Scope 1, 2, and 3) - votes against directors are warranted in 2022 at target companies that have either not begun to implement decarbonization strategies or that are not making progress toward goals that are in line with a 1.5ºC scenario, as measured by the [CA100+ Net Zero Company Benchmark](https://www.climateaction100.org/wp-content/uploads/2021/03/Climate-Action-100-Benchmark-Indicators-FINAL-3.12.pdf) indicators.

**6) Question: If the proposed change applies to a particular set of companies, is the proposed coverage universe appropriate?**

The initial proposed universe of CA100+ companies misses key industries that are not included in the CA100+ universe, namely banks and insurance providers. Financial services companies, as providers of financing, advisory and underwriting services to fossil fuel projects and fossil fuel-intensive companies, have the power to accelerate or stall the decarbonization necessary to limit warming to 1.5°C. Given the capital intensity of the oil and gas, utility, and automotive manufacturing industries, financial services companies have a crucial role to play in decarbonizing those and other sectors.

The companies qualifying as “significant GHG emitters” should include companies in these industries.

**7) Question: Are there any other factors that ISS should consider when contemplating the proposed policy change?**

As mentioned above, ISS should consider incorporating the following climate-related metrics for the benchmark policy:

* Benchmarking company performance against a 1.5ºC scenario; not all GHG reduction targets are acceptable.
* Holding directors accountable on company *implementation* of decarbonization strategies, including on capital expenditures, direct and indirect climate-related lobbying, and other related political activities
* Holding directors accountable on the setting of emissions reduction targets for Scope 3 emissions
* Assessing proposed transition plans on their alignment with 1.5ºC transition scenarios, not benchmarking against peers
* Clarifying that voting against an inadequate management-backed Say on Climate proposal does not rule out voting against company directors at companies underperforming on climate risk management.

Furthermore, proposed methodological changes to the Climate Awareness Scorecard are absent from this proposal. While the information included in the Scorecards is not addressed in the Benchmark Policy voting guidelines, investors make decisions on company climate performance based on the information provided by ISS in these annual company reports. The information currently provided in the Scorecards does not elucidate what companies are or aren’t doing to reduce their GHG emissions or otherwise manage climate risk. ISS should start evaluating company performance on climate against a 1.5ºC scenario, regardless of whether management has introduced a Say on Climate proposals.

### Optional Feedback Guide - Shareholder resolutions and Say on Climate proposals

#### Summary of proposed changes

**Say on Climate proposals**

ISS plans to take a case-by-case approach to shareholder Say on Climate proposals. It will assess the “completeness and rigor” of a company’s short, mid-, and long-term targets for Scope 1, 2, and 3 emissions (Scope 3 emissions “if relevant”). ISS will also assess whether the commitments have been approved by a third-party as science-based.

Notable gaps include:

* Failure to specify whether transitions assessments will be benchmarked against a 1.5ºC scenario
* Failure to require companies to address Scope 3 emissions.
* A metric to benchmark company performance against industry peers, rather than an absolute assessment against alignment with a 1.5ºC scenario. No industry is on track for a 1.5ºC transition.

#### Optional Feedback Guide

**With regard to Say on Climate proposals**

ISS needs to assess management-backed transition plans against a 1.5ºC scenario and ensure that all emissions, including Scope 3 emissions, are meaningfully incorporated into a transition plan.

ISS also indicates that it may benchmark a company’s transition strategies to peers. As no industry is on track to meet net zero emissions by mid-century, ISS needs to benchmark company performance -- and proposed transition strategies -- against science-based sectoral decarbonization strategies (e.g., IEA’s sectoral roadmaps).

Additionally, the presence of a management backed Say on Climate proposal cannot be used as justification for not holding directors accountable, especially if the proposed transition plan fails to align a company’s strategy with a 1.5ºC transition scenario.

**With regard to other climate-related shareholder resolutions,** we are disappointed that ISS does not recommend a policy change to move away from a case-by-case approach to climate-related shareholder resolutions. We urge ISS to adopt a policy that more consistently supports shareholder proposals that call for the reduction of greenhouse gas emissions and disclosure of lobbying and political activity.

1. For example, see <https://www.iea.org/reports/net-zero-by-2050> and <https://sciencebasedtargets.org/sectors>. [↑](#footnote-ref-0)
2. <https://static1.squarespace.com/static/5d4df99c531b6d0001b48264/t/615e965ab05f365f2b67113a/1633588829698/Climate+in+the+Boardroom+2021.pdf> [↑](#footnote-ref-1)