November 2021

Investors Tell ISS They Want More Board Accountability on Climate Change in New Survey

In ISS' first-ever climate policy survey, investors and companies provide details on what types of data and disclosures they find valuable. The proxy advisory firm says it will use this information when developing potential governance criteria for the 2022 proxy season.

In addition to its annual Benchmark Policy Survey, Institutional Shareholder Services (ISS) released a new survey this year focused on various aspects of climate change, voting policy and climate-related material governance failures. The Climate Policy Survey results were released in early October, along with the Benchmark Policy Survey, which we discuss in more detail here.

Responses to the climate survey were evenly split between investors and companies, representing interest in this topic across both stakeholders. Below is a summary of key Climate Policy Survey results that are relevant for companies based in the United States.

New Climate Policy Survey and Results

In its new Climate Policy Survey, ISS sought input on climate-related data and other disclosures that would be considered useful indicators for investors. The feedback can help determine which climate-related actions, or lack thereof, may be considered "material governance failures." These views may inform a forthcoming Specialty Climate Voting Policy for investors interested in a voting approach that is highly focused on climate matters.

Views on Board Accountability for Climate-Related Risks

ISS' climate survey outlines a common tone of expectations for boards to oversee and monitor their companies' climate change plans. Investors, corporate and non-profit/academic respondents indicated broad consensus and robust support for accurate corporate climate reporting.

A majority of investors (88%) expect companies to provide clear climate disclosures aligned with, for example, the Task Force on Climate-related Financial Disclosures (TCFD). Investor respondents strongly support companies setting climate-related emission reduction goals aligned with the more stringent 1.5 degrees of warming threshold, while corporate responders were less supportive of adhering to this benchmark.

Empower Results®

The urgency for board awareness on climate change is underscored by 72% of investors responding that companies should, at minimum, declare a long-term ambition aligning with the Paris Agreement goals for operations emissions (scope 1 and 2) and supply chain emissions (scope 3). While company respondents strongly backed demonstrated improvements and disclosure around climate accountability, investors were much more likely to support commitment to targets in line with the Paris Agreement, with a focus on strategy and transparency.

Views on Shareholders' Right to Vote on Climate Transition Plans

Although so-called Say on Climate proposals seem to have lost steam with U.S. investors who are focused on board oversight of their companies' climate plans, this initiative still has momentum in Australia and Europe. Say on Climate presents a standardized way for companies to establish and report net zero transition plans with the added benefit of shareholder feedback. As reflected in the ISS survey results, most investors did not favor a regular advisory vote on a company's climate transition plan, with 36% of investors citing proposals should be "case specific," which reflects sentiment in the investor and asset manager community that say on climate will have an insulating effect.

On the other hand, investors indicated an interest in dialogue with shareholders on this topic. Forty-two percent of investor respondents said a say-on-climate shareholder vote "tests the efficacy of the company's approach and promotes positive dialogue between the company and its shareholders." Given the fact that say-on-climate proposals did receive some support this past proxy season in the U.S., this effort will likely continue to gain momentum and, at minimum, foster dialogue around climate change transition accountability.

Importance of Net Zero Goals and Other Climate Risk Management Criteria

Net zero frameworks assist companies in assessing climate change oversight and develop targets to reduce their greenhouse gas emission footprint. In 2021, several of these initiatives, such as the Climate Action 100+ and the Science-Based Targets initiative (SBTi), have developed and published more succinct reporting protocols to address what can be an overwhelming list of net zero criteria. There is increasing pressure on climate reporting from investors as well. For example, the Net Zero Asset Owners launched a campaign in January 2021 for companies to provide details on setting short-term greenhouse gas (GHG) emission reduction targets.

The ISS climate survey asked respondents to rank these criteria in order of importance, including board oversight, impact on workers and communities, overall net zero ambitions, GHG emissions reductions targets, lobbying and capital expenditure plans in line with GHG reduction targets. Although corporate respondents rated most criteria as less important than investors, a majority of investor respondents found the criteria to be extremely important to net zero goals and climate risk management.

Market Scope and Higher Impact Companies

Both investors and corporate respondents agree that every company should implement a climate transition plan. This process includes pulling together all of the climate and carbon work that a company has done to reduce emissions and set targets, and then using to outline future strategies and baselines for achieving carbon targets. However, the survey pointed to consensus that companies with a higher GHG footprint should have more skin in the game than lower-emitting companies, citing that higher impact companies should "be subject to a more stringent evaluation of additional indicators than companies that make a less substantial contribution to climate change."

A key survey question around climate policy alignment with net zero goals showed that investors and corporate respondents are mostly in agreement. Given flexibility particular to each company, 86% and 52% of investors and corporate respondents respectively are in favor of net zero climate policy alignment.

Criteria for good management of climate transition plans

Climate transition plans on the ballot are viewed as the forum to discuss adequacy of climate risk mitigation, according to both investor and non-investor survey respondents. ISS asked for potential dealbreakers around shareholder support for approval of a management-proposed climate transition plan. Most investors and companies, at 81% and 63% respectively, cited a lack of governance and strategy around climate change emissions, risk mitigation, metrics and targets aligned with frameworks, such as the TCFD.

Next Steps

Ultimately, overall support for board responsibility and oversight around climate risk mitigation is a resounding takeaway from the survey.

ISS is expected to release draft policy updates and open a public comment period on proposed changes to its voting policies for the 2022 proxy season. The 2022 policy updates should be announced in November, and then followed up in December with the publication of the final policy guidelines. The 2022 updated policies will be applicable to shareholder meetings occurring on or after February 1, 2022.

For questions about the topics in this alert or to speak with one of our experts about how boards can proactively address climate-related risks, please write to humancapital@aon.com.

Author Contact Information

Laura Wanlass
Partner, Corporate Governance & ESG
Human Capital Solutions
Aon
+1.773.358.0522
laura.wanlass@aon.com

Rachel Cohen
Senior Consultant, Corporate Governance & ESG
Human Capital Solutions
Aon
rachel.d.cohen@aon.com

AJ Patterson
Director, Corporate Governance & ESG
Human Capital Solutions
Aon
aj.patterson@aon.com

About Human Capital Solutions

Aon's human capital business provides leaders with a powerful mix of data, analytics and advice to help them make better workforce decisions. Our team, spanning 2,000 colleagues in more than 30 countries, includes the firm's rewards, talent assessment and performance & analytics practices. To learn more, visit humancapital.aon.com.

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance. For further information, please visit aon.com.