



ISS ESG



NORM-BASED ENGAGEMENT



Methodology

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INTRODUCTION

This document outlines the methodology and process for conducting and evaluating corporate engagements under ISS ESG’s Norm-Based Engagement solution.

ISS ESG’s Norm-Based Engagement solution allows investors to participate in joint outreach and dialogue with companies on material sustainability-related themes. By engaging collaboratively, institutional investors can increase their focus on ESG issues and effectively communicate their concerns to corporate management. ISS ESG acts on behalf of the participating clients to promote positive change through active ownership and dialogue.

In its Collaborative Engagement services, ISS ESG leverages its extensive proprietary ESG research and data, the ISS ESG Global Methodology team, as well as ISS ESG’s expertise and monitoring of ESG trends and developments.

NORMATIVE FRAMEWORK

ISS ESG’s Norm-Based Engagement is based on in-depth research performed under Norm-Based Research, which identifies corporate controversies resulting in adverse impacts on society or the environment and assesses how companies mitigate and remediate such adverse impacts. The scope covers adverse impacts on society and the environment in line with established expectations for Responsible Business Conduct. The core normative framework consists of the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights and the UN Sustainable Development Goals. Further details on the normative framework are available in Annex 1.

NORM-BASED ENGAGEMENT PROCESS

Norm-Based Engagement involves a number of specific steps carried out over an engagement cycle.

Chart 1: Norm-Based Engagement process



Identification of target companies

Norm-Based Engagement focuses on companies that are assessed under ISS ESG's Norm-Based Research to be involved in alleged or verified severe, systematic, or systemic failures to respect international norms, as reflected through an Amber or Red flag.

On an annual basis, ISS ESG facilitates engagement with around 100 companies. The engagements are carried out in cycles initiated on a rolling quarterly basis, with around 25 companies each quarter. The identification of relevant companies and topics for each quarter takes into consideration developments in the specific controversies, optimisation of timing of the dialogue during the calendar year, topic focus areas and spread, geographical distribution as well as client preferences. ISS ESG runs a survey for clients to vote for their preferred engagements as part of each quarterly selection.

Definition of goals

At the start of each engagement, goals are established considering the grounds upon which the Amber or Red controversy flag has been issued, and the conditions that need to be met for its revision to a Green flag. Engagement goals are established across four different categories:

- Disclosure of relevant information
- Implementation of relevant policies
- Implementation of remedial action
- Termination of problematic practice

Note that not every goal category will be required for an engagement. For example, if a company is alleged to have been involved in incidences of bribery from 2015-2018, the "Termination of problematic practice" goal category may not be relevant for an engagement initiated after that timeframe.

Engagement dialogue

All relevant activities and dialogue with companies, such as the initial enquiries, reminders, engagement meetings and written responses, are logged. This enables the tracking of engagements both in terms of the stage each engagement has reached, as well as the status of each engagement.

At the beginning of the engagement cycle, ISS ESG crafts letters outlining the scope and nature of the enquiry to each company. Norm-Based Engagement clients have the opportunity to review and opt in or out of the engagements before the letters are sent to companies.

When a response is received from a company, ISS ESG facilitates the engagement dialogue between companies and investors through written communication or through the planning and moderation of meetings, followed by the compilation of meeting reports. Clients are given the opportunity to participate in engagement meetings, and/or submit questions ahead of the meetings. If clients are unable to attend the meeting, meeting notes are provided after being factually verified by the company.

Engagement stage

Each engagement is tracked across the following stages, and categorised by status of the dialogue:

- **Ongoing Dialogue** – The company is entering into a dialogue with the investors through ISS ESG and is providing answers to the questions raised or providing further information. The dialogue can be carried out through virtual meetings or written correspondence. ISS ESG facilitates the engagement dialogue through planning, moderation, and the compilation of meeting reports.
- **Reminder** – Some companies require repeated follow-ups to respond, and regular and courteous follow-up is built into ISS ESG’s approach.
- **Escalation** – If there is no response to the initial enquiry to the Investor Relations team, this is escalated to the CEO. Once every effort has been made to engage both Investor Relations and the company CEO, and should the company remain unresponsive, enquiries are escalated to the attention of the Board.
- **Suspended** – Constitute engagements that have been suspended pending developments in the controversy or the disclosure of further information by the company. Note that the issue has not been resolved, however, no progress may be expected in the dialogue at that time.
- **Discontinued** – Constitute engagements that have been discontinued, owing to a poor outlook for the attainment of the goals of the engagement. This is used in limited circumstances, when it has been determined that engagement goals will not be met as the company maintains an unsustainable status quo or fails to respond to repeated engagement enquiries over more than one cycle. If developments signal a prospective change in the company’s approach to an issue, the engagement may be re-opened.
- **Closed** – Constitute engagements that have been closed as further dialogue on the topic has been deemed to be unnecessary as the controversy has been resolved or is no longer assessed as ongoing.
- **Cancelled** – Constitute engagements that have been cancelled, owing to a significant change in circumstances (e.g., the completion of a corporate action such as sale of the controversial entity). This is applied in limited circumstances.

Escalation process

Some companies require repeated follow-ups to respond, and others steadfastly fail to respond to investor concerns. Regular and courteous follow-ups are built into the Norm-Based Engagement approach to address these communication challenges. Once every effort has been made to engage investor relations and the executive management team, the feasibility of engagement is re-evaluated.

Chart 2: Norm-Based Engagement reminder and escalation process



ENGAGEMENT OUTCOMES

The outcome of the engagement dialogue is assessed at regular intervals. At each response from a company, ISS ESG assesses the quality of the company's participation in the engagement, as well as the status of each goal category. In addition, the status of each goal category is also assessed at the close of an engagement.

Quality of Participation

For each company response (written or through engagement meeting), ISS ESG assesses the company's participation in the engagement. The assessment considers the extent to and depth in which the company has addressed the questions posed and is separate from the measurement of progress against the engagement goals. The quality of participation is assessed using the following categorisation:

- **Excellent** – The company has replied and substantially addressed all elements of the questions.
- **Good** – The company has replied and addressed most elements of the questions.
- **Adequate** – The company has replied, but only partially addressed the questions posed.
- **Poor** – The company has replied but did not address the questions posed.
- **Deferred** – The company has replied, acknowledging the enquiry, but has requested more time to respond and/or transferred the responsibility to another function in the company.
- **None** – The company has not replied.

Response rate

The response rate is a calculation of the percentage of topics where the company's participation is evaluated, at the minimum, as "Poor". The response rate is not impacted by the number of responses received from an individual company but does dynamically change in the participation of the company in the engagement (e.g., when a company's initial "deferred" response is improved by a supplemental response which is assessed to be "good").

Engagement goal status

In the evaluation of progress towards the engagement goals, the following categorization is used:

- **Credible Measures Adopted** – The course of action and/or steps taken to address the issue are, or have been, assessed and confirmed by a third party (where available). The company can demonstrate this through the provision of supporting documentation from the third party or detailed information. In limited circumstances, where supporting documentation is not available, detailed information disclosed by the company on the third-party, and if relevant, its mandate, and the dialogue held during the consultation period may be taken into consideration. Where no stakeholders are available, the information provided by the company would be assessed against guidance provided by the relevant standards and guidelines on the issue.

- **Measures Initiated** – The company has initiated implementation of measures to address the issue. The company is able to demonstrate this through the provision of detailed information and/or supporting documentation on the measures being taken. The communication of a clear time-bound plan, resulting from the review and identification of the issues, would constitute action in this regard.
- **Commitment Expressed** – A commitment has been expressed by the company to review and/or dedicate resources to addressing the issue. This information, which may be presented through a corporate statement or in dialogue with ISS ESG, must not be shared on a confidential basis.
- **No Measures Announced** – The company has not announced any measures to address the allegations raised.

Engagement intensity

All engagements are categorised by level of intensity, according to the definitions and guidance set by the UN-supported Principles for Responsible Investment (PRI)¹.

- **Comprehensive** – Engagements are assessed on a topic level and one of the following requirements must be met: multiple and substantive interactions took place (e.g., letters, meetings and calls) on a topic, with at least one of these interactions constituting an “adequate” response; and/or detailed discussion with the company on a topic (e.g., virtual or in-person meeting).
- **Moderate** – Engagement interactions (e.g., letters, meetings, and calls) that do not meet the threshold for comprehensive.

REPORTING

Clients are informed of the engagement progress through several channels. The annual and quarterly progress reports provide details of progress of engagement activities that were carried out on behalf of institutional investors in the period, summary statistics of new engagements initiated in the period (including company responsiveness), highlights of notable engagements as well as summaries of engagement responses received in the period. The annual report also includes details of engagements that have been closed during the period, as well as an overview of companies which have remained unresponsive, including to repeated reminders and escalations.

In addition, clients can access real-time data on ISS ESG’s [Pooled Engagement Tool](#). Clients can use the tool to review proposed engagement topics for the coming quarter, opt in or opt out of proposed engagements, as well as access timelines, key metrics and notes covering all engagement activities. The tool also enables the export of customisable data files at company, topic, and activity level to support internal or PRI reporting purposes. Clients can also use the tool to download individual company engagement reports, as well as the annual and quarterly progress reports.

¹ Note that the PRI no longer requires signatories to report on the intensity of engagement. Definition previously set by the PRI: “A comprehensive engagement includes multiple, substantive, detailed discussions or interactions with a company (e.g., letters, meetings and calls) relating to a particular ESG issue.” All other interactions are classified as moderate.

QUALITY ASSURANCE

The engagement dialogue is conducted by dedicated ESG Engagement Managers with significant experience of sustainability and corporate engagement. Engagement notes and assessments are subject to rigorous peer review, particularly with regard to the implementation of the assessment criteria as well as the interpretation of sources. Additionally, notes from engagement meetings are shared with companies for their opportunity to review, confirm or supplement the facts presented.

In order to ensure objectivity and consistency in the engagement process, ISS ESG's model for Norm-Based Engagement references dynamic data updates from Norm-Based Research. The Norm-Based Engagement methodology and related processes are regularly reviewed by the ISS ESG Global Methodology team.

ANNEX 1: NORMATIVE FRAMEWORK

NBR NORM AREA	UN GLOBAL COMPACT PRINCIPLE	OECD GUIDELINES FOR MNE	SAMPLE OF RELEVANT INTERNATIONAL INSTRUMENTS & GUIDANCE
Human Rights/Labour Rights	Principle 1: Support and respect human rights	IV. Human Rights V. Employment and Industrial Relations VIII. Consumer Interests XI. Taxation	<p>International Instruments: Relevant targets under the Sustainable Development Goals; The International Bill of Human Rights; Declaration on the Rights of Indigenous Peoples & ILO Convention 169 on Indigenous and Tribal Peoples; Tripartite declaration of principles concerning multinational enterprises and social policy (MNE Declaration) - 5th Edition (March 2017); Geneva Conventions (I-IV); Hague Convention;</p> <p>Guidance: General Comments and Recommendations by UN Treaty Bodies; UN Agencies and Bodies (e.g. Office of the High Commissioner of Human Rights); International Labour Organization (ILO) Committee of Experts on the Application of Conventions & Recommendations (i.e. with respect to ILO Convention 169) & relevant material by the ILO on indigenous rights and the ILO Tripartite declaration of principles concerning multinational enterprises and social policy (MNE Declaration) - 5th Edition (March 2017); The UN Guiding Principles on Business and Human Rights & the UN Working Group on business and human rights.</p>
	Principle 2: Ensure non-complicity in human rights abuses (complicity in human rights abuses committed by third parties – e.g., States)	IV. Human Rights	<p>International Instruments: Relevant targets under the Sustainable Development Goals; The International Bill of Human Rights & relevant UN Security Council Resolutions.</p> <p>Guidance: General Comments and Recommendations by UN Treaty Bodies; UN Agencies and Bodies (e.g. Office of the High Commissioner of Human Rights); International Labour Organization (ILO) Committee of Experts on the Application of Conventions & Recommendations (i.e. with respect to ILO Convention 169) & relevant material by the ILO available here; The UN Guiding Principles on Business and Human Rights & the UN Working Group on business and human rights.</p>
Labour Standards	Principle 3: Uphold freedom of association and right to collective bargaining	V. Employment and Industrial Relations	<p>International Instruments: Relevant targets under the Sustainable Development Goals; ILO Convention 87 concerning Freedom of Association and Protection of the Right to Organise & ILO Convention 98 concerning the Application of the Principles of the Right to Organise and to Bargain Collectively</p> <p>Guidance: Compilation of decisions of the Committee on Freedom of Association; the ILO Helpdesk for Business on International Labour Standards.</p>
	Principle 4: Eliminate forced labour and compulsory labour		<p>International Instruments: Relevant targets under the Sustainable Development Goals; ILO Convention 29 concerning Forced or Compulsory Labour & ILO Convention 105 concerning the Abolition of Forced Labour</p> <p>Guidance: ILO Helpdesk for Business on International Labour Standards; International Labour Organization (ILO) Committee of Experts on the Application of Conventions & Recommendations; material produced by ILO (e.g. Overview available here and The meanings of forced labour).</p>
	Principle 5: Abolish child labour		<p>International Instruments: Relevant targets under the Sustainable Development Goals; ILO Convention 138 concerning Minimum Age for Admission to Employment & ILO Convention 182 concerning the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour; Convention on the Rights of the Child</p> <p>Guidance: ILO Helpdesk for Business on International Labour Standards; International Labour Organization (ILO) Committee of Experts on the Application of Conventions & Recommendations & material produced by ILO's</p>

NBR NORM AREA	UN GLOBAL COMPACT PRINCIPLE	OECD GUIDELINES FOR MNE	SAMPLE OF RELEVANT INTERNATIONAL INSTRUMENTS & GUIDANCE
	Principle 6: Discrimination in respect of employment and occupation		<p>International Programme on the Elimination of Child Labour (IPEC) (e.g. What is child labour).</p> <p>International Instruments: Relevant targets under the Sustainable Development Goals; ILO Convention 100 concerning Equal Remuneration for Men and Women Workers for Work of Equal Value & ILO Convention 111 concerning Discrimination in Respect of Employment and Occupation</p> <p>Guidance: ILO Helpdesk for Business on International Labour Standards; International Labour Organization (ILO) Committee of Experts on the Application of Conventions & Recommendations & material produced by ILO concerning forced labour available here.</p>
Environment	Principle 7: Support precautionary approach to environmental challenges	VI. Environment	<p>International Instruments: Relevant targets under the Sustainable Development Goals; Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal; Convention on Biological Diversity; & Rio Declaration on Environment and Development; The Kyoto Protocol & United Nations Framework Convention on Climate Change (1992, Paris Agreement 2015); Rio Declaration on Environment and Development & Agenda 21</p>
	Principle 8: Promote environmental responsibility		
	Principle 9: Encourage development and diffusion of environmentally friendly technologies		
Business Malpractice	Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.	III. Disclosure VII. Combating Bribery, Bribe Solicitation and Extortion X. Competition	<p>International Instruments: Relevant targets under the Sustainable Development Goals; OECD Financial Action Task Force on Money Laundering; United Nations Convention against Corruption; United Nations Convention against Transnational Organised Crime; United Nations Office on Drugs and Crime Model Terrorist Financing Bill</p> <p>Guidance: Financial Action Task Force on money laundering</p>

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