

ISS ESG CARBON RISK RATING

The Carbon Risk Rating provides a metric designed to evaluate how well a company is prepared for the low-carbon economy of the future. The Carbon Risk Rating provides an aggregated score indicating a company's overall climate-related risk, using the company-specific risk exposure as a baseline (as reflected in a Carbon Risk Classification) from which a company can take steps toward better alignment with a low carbon economy (which alignment is reflected as a Carbon Performance Score).

The Carbon Risk Classification assesses a company's exposure to carbon-related transition risks by estimating the emission intensity in the company's value chain, based on its industry and business activities. The Carbon Risk Classification considers two elements: (1) The emission-based sector classification, which assesses the average sector emission intensity along the entire value chain (direct and indirect, i.e., scope 1, 2 and 3 emissions); and (2) whether a company's product and services portfolio contributes to climate change mitigation, thus creating a positive impact, or rather obstructs climate change mitigation, thus constituting an adverse impact.

The Carbon Performance Score evaluates the current carbon-related performance of a company as well as a company's risk management and measures to reduce its carbon intensity in the future, thus addressing both material risk as well as adverse impact. The Carbon Performance Score is based on a combination of quantitative indicators (e.g., current intensity and trend of greenhouse gas emissions), and qualitative indicators (e.g., corporate policies, emission reduction targets and action plans, etc.).

Outputs

The Carbon Risk Rating provides a qualitative assessment of companies' preparedness for the transition to a low-carbon economy. By combining the Carbon Risk Classification and the Carbon Performance Score, the Carbon Risk Rating assesses, on a scale from 0 (very poor performance) to 100 (excellent performance), how a company deals with industry-specific climate risks. The scale can be translated into four broader performance categories: Climate Laggard (0-24), Medium Performer (25-49), Outperformer (50-74), and Leader (75-100).

Research Process

The Carbon Risk Rating is largely derived from ISS ESG's Climate Solutions emissions data, ISS ESG's Corporate Rating as well as SDG Solutions Assessment (for more details, please refer to the respective descriptions of those distinct offerings).

While the emission-based sector classification is a qualitative risk value informed by the average sector emissions as provided by ISS ESG Climate Solutions, the SDG Solutions Assessment is entirely quantitative. This data feeds into the Carbon Risk Classification, whereas the Carbon Performance Score is derived from the Corporate Rating, which uses both quantitative and qualitative data. For more details, e.g., regarding data collection within those solutions, please refer to the respective descriptions.

Use of Estimated Data

The Carbon Risk Rating relies upon estimated data in some areas.

- The Carbon Risk Classification is derived from the emission-based sector classification and the SDG Solutions Assessment. When a deficit in reported data is encountered for a sector, ISS ESG's proprietary approach for modeling GHG emissions is used to provide a holistic, representative emissions dataset. Across the covered universe, approximately 80% of data used for the emissions-based sector classification is modeled, mainly pertaining to scope 3 emissions. For the SDG Solutions Assessment, approximately 90% of data is estimated. Analysts are provided with clear guidance to ensure that estimated figures are based on reasonable assumptions with medium to high certainty.
- The Carbon Performance Score is derived from the Corporate Rating. In the Corporate Rating, some types of indicators allow for estimations if no (precise) reported data is available but assumptions with medium to high certainty can be made. The overall share of estimated data across the Corporate Ratings universe is between 5-10%.

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