Kathy Belyeu

From:	Thomas, Gareth (London) <Gareth.Thomas@willistowerswatson.com>
Sent:	Friday, October 18, 2019 11:00 AM
To:	Policy
Cc:	Rees, Hazel (London); Norton, Jessica (London); Townsend, Paul (London); Little, Alex (Dublin); Mullins, Callum (London)
Subject:	Proposed benchmark policy changes for 2020 - WTW UK response

Dear ISS Governance team,

The following email provides comments by Willis Towers Watson's Executive Compensation consulting team on the proposed changes to ISS policy for 2020 as it relates to UK & Ireland.

Question: Do you support the proposed policy change?

Yes, the proposed changes formalise what has been long-standing voting practice for a number of institutional investors, particularly the proposals around Board Gender Diversity. WTW is very supportive of momentum in the investor community for greater focus on ESG metrics to drive sustainable business. We note the push from many shareholder groups to make ESG metric reporting more robust and financially related. The proposed changes in the ISS Policy relating to ESG receive qualified support from WTW as set out below.

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

We welcome the introduction of the revised policy changes. WTW are of the view that well governed companies will already be compliant with the revised policy requirements. The revised policy changes around the use of discretion and ESG will increase the level of disclosure to shareholders and in many cases will lead to companies disclosing externally decision-making which already takes place internally. In time we anticipate that ESG will move beyond a discretionary adjustment to be incorporated within incentive metrics.

WTW have a moderate level of concern around how ISS has proposed to implement the revised changes around ESG. It is unclear from how the wording is currently drafted in this section how this will influence vote recommendations on a forward looking basis. ISS stated policy is that "a single, serious deviation from [Good market practice] may be sufficient to justify an "Against" vote recommendation". It is difficult given the current proposed wording of the Policy to determine what would constitute such a deviation.

WTW would therefore like to see ISS provide more clarity on how the new policy change relating to ESG will lead to different voting recommendations over the next 12 months and beyond, and understand more about how ISS will apply this part of the Policy consistently.

Question: If the change contemplates ISS making adverse vote recommendations, are they targeted appropriately?

As mentioned above, the current wording is insufficiently clear to establish the circumstances that would lead to an adverse voting recommendation so cannot be said to be appropriately targeted.

Question: If the change contemplates ISS making adverse vote recommendations, what mitigating factors should be considered?

Mitigating factors to be considered should be around whether the company in question believes ESG to be part of incentive scorecards or to underpin remuneration.

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

As with other Policy changes with previous AGM seasons, it will be important for this part of the Policy to be applied consistently, particularly as it relates to a qualitative assessment on how a company is in line with "Good market practice". WTW has observed a tendency for the interpretation of ISS Policy to change over an AGM season, most recently as they relate to corporate governance reform in the UK.

Do let any of the team cc'ed here know if you have any further comments or questions,

Regards,

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