



ISS BENCHMARK POLICY UPDATES

Executive Summary

2021 Global Proxy Voting Guidelines Updates and
Process for ISS Benchmark Policy Development

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Summary of ISS' Policy Development Process

Each year, ISS conducts a robust, inclusive, and transparent global policy review process to update the ISS Benchmark Proxy Voting Guidelines (“benchmark guidelines” or “policies”) for the upcoming year.

The policy update process begins with an internal review of emerging issues, relevant regulatory changes and notable trends seen across global, regional and individual markets. Based on information gathered throughout the year (particularly feedback from investors and companies during and after proxy seasons), ISS internal policy working groups examine various governance and other voting topics across global markets. As part of this process, the working groups also examine relevant academic research, other empirical studies, and commentary by market participants. To gain further insights from a broad range of market participants, ISS then conducts a global policy survey, convenes multiple roundtable discussions, and posts draft policy change proposals for an open review and comment period. After considering this broad input and completing the extensive review process, the final policy updates are reviewed by the ISS Global Policy Board and approved for the following year. For most markets, updated policies are announced in November of each year and apply to meetings held on and after February 1 of the following year. Different timetables apply to a small number of markets that have off-cycle main proxy seasons.

This annual review and update process also informs updates to ISS' various specialty (or thematic) policies. ISS solutions include specialty policies for socially responsible investors, faith-based investors, Taft-Hartley (labor) funds and their external asset managers, and public employee pension funds. The content of the research and the vote recommendations issued under these thematic policies may differ from those under the ISS benchmark voting policies.

ISS also helps clients to develop and implement their own voting policies based on their organizations' specific mandates and requirements. As part of the annual review process, ISS custom research teams work with many institutional investor clients that use ISS research to help implement their own customized approaches to proxy voting. ISS helps clients apply more than 400 specific custom policies that reflect clients' unique corporate governance philosophies and investment strategies.

Key Attributes of the ISS Policy Development Process

Industry-Leading Transparency: ISS promotes openness and transparency in the development of its proxy voting policies. A description of the policy development and application process, and copies of all final ISS policies and FAQ (Frequently Asked Questions) documents, are posted on the [issgovernance.com](https://www.issgovernance.com) website under the Policy Gateway section.

Robust Engagement with Market Constituents: Listening to diverse viewpoints is critical to effective policy review, development and application processes. ISS' analysts regularly interact with institutional investors, company directors and other issuer representatives, shareholder proposal proponents, and other parties to gain deeper insight into critical issues. This ongoing dialogue enriches ISS' policy development, analysis and informs the research and recommendations provided to clients. The policy review process also includes a global policy survey and a public comment period on proposed policy changes that are open to all interested market constituents.

Global Expertise: ISS' policy development process is rooted in global expertise. ISS' network of global expertise and locations provides access to regional and local market experts across the Americas, Europe/Middle East/Africa (EMEA), and Asia-Pacific regions.

2020 Outreach

Policy Survey

ISS launched its global benchmark policy survey on July 29, 2020 and closed it on Aug. 28, 2020. The survey was structured to include questions related to ISS policy guidance released earlier this year in response to the COVID-19 pandemic as well as questions related to a wide range of governance topics to guide future policy development. The COVID-19 guidance topics included AGM formats, dividends, capital raising, poison pills and stakeholder expectations regarding compensation and adjustments to incentives. The other global questions related to climate change risk, sustainable development goals, auditors and audit committees, and racial and ethnic diversity on corporate boards. Survey topics at the regional and market levels included independent board chairs in the U.S.; pan-European executive and director remuneration; director independence classifications in Russia; board and corporate governance reports in the Middle East; auditor fees in Sub-Saharan Africa; board independence, capital misallocation tied to cross-shareholdings and director elections in Japan; director independence related to tenure in India; and material governance failures in Korea. The survey was available publicly and attracted input from investors and companies, as well as from a range of other market constituents.

ISS received 519 responses to this year's online survey. Responses were received through the online survey from 175 investors and related organizations. Of the institutional investor respondents, 74 percent represented asset managers and 18 percent represented asset owners. Responses were also received from 344 non-investors to the online survey that included public corporations, corporate directors, corporate advisors, and others. Responses from representatives of public corporations were the most prevalent.

One institutional investor provided responses to ISS after the close of the survey bringing the total investor responses to 176. Two non-investors provided responses to ISS without taking the online survey bringing the total non-investor responses to 346. In total, ISS received 522 responses to the survey.

One-half of the respondents to the online survey – 258 in all – represented organizations based in the U.S. 149 respondents were based in Continental Europe or the UK, and 49 respondents were based in Canada. Responses came in from 29 organizations based in Asia. Most investor respondents had a market focus that goes beyond their own home country or region.

Policy Roundtables/Other Feedback

In the U.S., ISS held five virtual roundtable discussions with various market constituents as follows:

- **Board and Shareholder Rights:** Two roundtable discussions included 11 institutional investors and two corporate directors in the aggregate. The topics covered included racial and ethnic diversity on boards, poison pills, audit-related matters, exclusive forum provisions, and special meeting and written consent proposals.
- **Compensation:** Two roundtable discussions included 12 institutional investors in the aggregate. The topics focused on executive compensation changes in light of the COVID-19 pandemic, including base salary reductions, changes to short- and long-term incentive programs, one-time/discretionary awards, and board responsiveness to low say-on-pay support.
- **Environmental and Social:** One roundtable discussion was held with eight institutional investors covering ISS' global approach on environmental and social shareholder proposals, climate change risk, human capital management, and proposals related to companies' support for the Business Roundtable's statement on the purpose of a corporation.

In Canada, ISS held a virtual roundtable discussion with eight institutional investors, and which covered gender diversity on boards; virtual-only meetings; pandemic-related changes to annual bonus programs; option exchange programs; and exclusive forum provisions.

In Europe, six separate virtual roundtable discussions were held with institutional investors as follows:

- ISS held two roundtable discussions in French with at least 24 institutional investors in aggregate covering global issues and potential European policy developments around the impacts of the Covid-19 pandemic; board composition and diversity; and say on pay framework and policy applications in the French market following recent trends.
- For the UK market, ISS held two roundtable discussions with 20 institutional investors (representing 18 organizations) and 25 institutional investors (representing 20 organizations, respectively). The discussions covered potential policy developments around the impact of COVID-19 across a range of issues, along with a separate discussion on board diversity, both in terms of gender and on race and ethnicity.
- ISS held two roundtable discussions with at least 20 institutional investors in aggregate covering AGM meeting format; executive compensation in light of the COVID-19 pandemic (Europe and U.S. considerations); remuneration report disclosure in the context of the new SRD II votes on the remuneration report and European Commission guidance on minimum disclosure expectations; adding EVA to the ISS Pay-for-Performance methodology; board diversity (Europe and U.S. considerations); and director overboarding (European and U.S. perspectives).

In Japan, one-on-one meetings were held with 17 institutional investors over the July-to-September time period to discuss cross-shareholding; director independence criteria; and board diversity; among other topics applicable to Japan.

In other Asian markets, ISS received feedback on its policy and policy application in various Asian markets through one-on-one meetings held with two institutional investors from August through October. With one institutional investor, the specific topics discussed were board independence, director tenure, gender diversity on boards, overboarding, and equity incentive plans applicable to Southeast Asia, China, Hong Kong, Singapore, Taiwan, and Korea. Specific topics with the other institutional investor included gender diversity on boards, director tenure, and dividend policy for China, Hong Kong, and Taiwan; director tenure, director fees, and auditor fees for Malaysia, Indonesia, Thailand, and Vietnam; and gender diversity regulation and material governance failures applicable to Korea.

In addition, ISS participated in numerous one-on-one and other discussions throughout the year with institutional investors and/or issuers and other stakeholders, including in the U.S., Canada, UK, Continental Europe, Japan, Asia and Australia.

Public Comment Period on Proposed Policy Changes

On Oct. 14, 2020, ISS opened its public comment period and invited institutional investors, corporate issuers, and any other interested constituents to provide their views and feedback on the main proposed policy changes for 2021. The comment period, which ran through Oct. 26, 2020, sought feedback on 17 proposed updates to ISS' benchmark policy guidelines.

With respect to proposed policies on director elections, feedback was sought on race/ethnic diversity on U.S. boards and board gender diversity in Canada, Brazil, Latin America, UK, Ireland, and Continental Europe. Feedback was sought on board independence in Brazil and other Latin American markets covered under the America's Regional Policy; director independence classification in Russia; and outside directors and cross-shareholdings in

Japan. Feedback was also sought on director overboarding limits in Continental Europe, and material environmental and social risk oversight failures applicable to all global policies.

Other proposed policies included exclusive forum proposals in U.S. and Canada; compensation-related proposals as it relates to remuneration disclosure expectations in Continental Europe; approval of corporate governance/board reports proposals as it relates to disclosure expectations in the Middle East and North Africa; and auditor-related proposals as it relates to disclosure of auditor fees in Sub-Saharan Africa; and share issuance requests for investment companies in the U.K. and Ireland.

By the close of the comment period, ISS had received feedback from 36 commenters, including 23 in English and 13 in Japanese. Of these, ten were from institutional investors and 26 were from a variety of non-investors, including corporate issuers, non-profit organizations, special-interest trade associations, law firms, and others. A summary of the comments is included in Appendix A. Comments from all respondents, except those who requested confidential treatment of their submissions, were posted on ISS' website under the Policy Gateway.

COVID-19 Guidance

On April 8, 2020, ISS issued policy guidance in response to the impact of the pandemic. This guidance covered a wide array of topics, generally recognizing that increased flexibility would be appropriate in several areas given the impacts and unknowns of the pandemic. The topics included AGM format and timing, poison pills, shareholder rights, director attendance, changes to boards, and changes to compensation, capital structure, dividends and other payouts. Details of the guidance can be found [here](#). In line with strong feedback received from ISS' 2020 global benchmark policy survey, ISS intends to carry this or similar policy guidance into 2021 and update going forward as needed.

ISS issued a [FAQ document](#) published Oct. 15, 2020, giving general guidance as to how ISS U.S. Benchmark Research may approach pandemic-related pay decisions in the context of pay-for-performance qualitative evaluation (as applicable to meetings covered under U.S. Benchmark Research policy). ISS' qualitative evaluation will take into consideration the impact on company operations as a result of the pandemic. As in the past, an elevated concern from the pay-for-performance quantitative screen will continue to result in a more in-depth qualitative review of the company's pay programs and practices.

Upcoming Milestones

November-December 2020:

- *Late November:* Publication of all updated ISS benchmark policies (proxy voting guidelines) for 2021 on ISS website.
- *By December 2020:* Publication of updated Frequently Asked Questions (FAQ) documents on ISS website.

January-June 2021:

- *January:* ISS will evaluate new U.S. shareholder proposals anticipated for 2021 and update its Proxy Voting Guidelines as needed.
- *February 1:* The updated 2021 ISS benchmark policies (proxy voting guidelines) will take effect for meetings occurring on or after this date.

- *First half 2021*: Policy guidelines for off-cycle markets (i.e., markets where the main proxy seasons occur in the autumn or winter seasons of the Northern Hemisphere) may be updated.

Summary of Policy Updates

ISS' Benchmark Proxy Voting Guidelines consider market-specific regulations and best practices (such as those found in listing rules, local codes of best practice, etc.), investors' growing demand for transparency in corporate reporting, and direct input from institutional investor clients and other market constituents in addressing topics such as board structure and diversity, director accountability, corporate governance standards, executive compensation, shareholder rights, corporate transactions, and social/environmental issues. The updates contained in this document reflect changes to proxy voting policies within ISS' three global research regions – the Americas, Europe/Middle East/Africa (EMEA), and Asia-Pacific. The changes have been based on significant engagement and outreach with multiple constituents, along with a thorough analysis of regulatory changes, best practice codes, emerging governance and voting trends, and academic research.

The 2021 policy updates in this summary are grouped by region, and with separate documents addressing Americas, EMEA, and Asia-Pacific policy changes in further detail. These updates are also available through the ISS Policy Gateway. Previews of the more significant policy updates below were provided to the market for comment prior to adoption:

- United States – Director Elections: Racial/Ethnic Board Diversity
- United States – Exclusive Forum Proposals
- Canada (TSX-Listed Companies) – Director Elections: Board Gender Diversity
- Canada (TSX-Listed Companies and Venture Companies) – Exclusive Forum Proposals
- Americas Regional – Director Elections: Board Independence
- Brazil – Director Elections: Board Independence
- Americas Regional and Brazil – Director Elections: Board Gender Diversity
- Continental Europe – Director Elections: Board Gender Diversity
- Continental Europe – Director Elections: Extending Overboarding Policy to Full Market
- Continental Europe – Compensation-Related Proposals: Remuneration Disclosure
- UK and Ireland – Director Elections: Board Gender Diversity
- UK and Ireland – Share Issuance Proposals (Investment Companies)
- Russia and Kazakhstan – Director Independence Classification
- Middle East & North Africa – Approval of Corporate Governance and/or Board Reports Proposals: Report Disclosure
- Sub-Saharan Africa – Auditor-related Proposals: Auditor Fee Disclosure
- Japan – Director Elections: Cross Shareholding and Board Composition
- Global – Director Elections: Material E&S Risk Oversight Failures

As detailed in the regional policy documents, ISS is also making a number of other policy changes. These changes and clarifications generally relate to regulatory requirements, shifting market practices and the expiration of transition periods. A listing of these changes is available below in Appendix B. The full text of these updates, along with detailed results from the policy surveys and posted comments during the open comment period, are all available on the ISS website in the Policy Gateway.

The ISS 2021 Global Policy Updates will be effective for meetings that occur on or after Feb. 1, 2021, except for those, as noted, that are being announced now with a one-year transition period and will become in 2022.

Policy Updates: Policies subject to Comment Period

Americas Updates

U.S. - Director Elections: Racial/Ethnic Board Diversity

Recent social unrest has put racial and ethnic injustices and inequalities at the forefront of many investors' minds and many boards' deliberations. Many investors have expressed interest in seeing increased ethnic or racial diversity on boards, citing reasons of equality and good corporate governance.

In line with investor responses from ISS' 2020 global benchmark policy survey and feedback received during our policy roundtables and comment period, ISS will adopt, subject to a one-year transition period, a new voting policy with respect to U.S. boards that appear to lack racial and ethnic diversity. For 2021, ISS benchmark research reports for companies in the Russell 3000 or S&P 1500 indexes will highlight boards that lack racial and ethnic diversity (or lack disclosure of such) to help investors identify companies with which they may wish to engage and foster dialogue between investors and companies on this topic.

For 2022, for companies in the Russell 3000 or S&P 1500 indexes where the board has no apparent racially or ethnically diverse members, ISS will recommend voting against or withhold from the chair of the nominating committee (or other directors on a case-by-case basis). Aggregate diversity statistics provided by the board will only be considered if they are specific as to racial and/or ethnic diversity. An exception will be made if there was racial and/or ethnic diversity on the board at the preceding annual meeting and the board makes a firm commitment to appoint at least one racial and/or ethnic diverse member within a year.

U.S. – Shareholder Litigation Rights (Exclusive Forum Proposals)

Charter and bylaw provisions designating US federal courts as the exclusive forum for cases arising under federal securities law (the Securities Act of 1933, as amended), which had previously been held to be impermissible by the Delaware Court of Chancery, were deemed to be facially valid under Delaware law in a March 2020 ruling by the Delaware Supreme Court. Some companies began incorporating such provisions into their governing documents almost immediately, either in the form of a bylaw amendment (which can be accomplished unilaterally by the board) or a charter amendment (which requires shareholder approval). This necessitated a new ISS policy on these new voting items and provided an opportunity to re-examine the existing policy on exclusive forum provisions for state law matters and to reorganize the entire litigation rights section for clarity.

Federal forum selection provisions seen to date generally require only that federal securities litigation be brought in the district courts of the United States, and generally do not specify a particular federal district. Plaintiffs are therefore free to file such suits in the district courts in their home states. Without the argument that an exclusive forum provision for federal law cases would seriously inconvenience plaintiffs, the benefits of eliminating duplicative litigation and ensuring that cases are heard by courts that are well-versed in the applicable law carry greater weight. Under the new policy, ISS will generally recommend a vote for federal forum selection provisions in the charter or bylaws that specify "the district courts of the United States" as the exclusive forum for federal securities law matters and recommend a vote against provisions that restrict the forum to a particular federal district court.

Because Delaware has a separate court system specializing in corporate law cases, with a large body of precedent stemming from Delaware's status as the most common state of incorporation in the US, the likelihood of a speedy and efficient resolution of Delaware corporate law cases, in particular, is considered to be greater if they are heard in Delaware courts. Therefore, under the updated policy for exclusive forum provisions for state law matters, in the absence of concerns about abuse of the provision or about poor governance more generally, ISS will generally recommend in favor of charter or bylaw provisions designating courts in Delaware as the exclusive forum for state corporate law matters at companies incorporated in that state.

Canada (TSX-Listed Companies) – Director Elections: Board Gender Diversity

ISS has received ongoing feedback from institutional investor clients on its current Gender Diversity Policy for Canada, which provides that a widely-held company must have either one woman on the board, or a formal gender diversity policy including goals and defined targets to attain representation of women on the board to avoid adverse voting recommendations. A number of large Canadian institutions are signatories of the 30% Club Statement of Intent, calling for a minimum of 30 percent women on boards and at the executive management level of S&P/TSX Composite Index companies by 2022. Additionally, a number of Composite Index issuers are signatories of the 2022 Catalyst Accord, calling for similar objectives to that of the 30% Club.

Accordingly, beginning in February 2022, ISS will generally recommend withhold votes for the nominating committee chair at companies where women comprise less than 30 percent of the board and the company has not disclosed a formal written gender diversity policy; or the company's formal policy does not include a commitment to achieve at least 30 percent women on the board over a reasonable timeframe.

Canada (TSX-Listed Companies and Venture Companies) – Exclusive Forum Proposals

In Canada, a number of Canadian companies have adopted exclusive forum by-law provisions. Canada is therefore adding a new policy to codify its current approach, which is to analyze the proposals on a case-by-case basis, considering the jurisdiction of incorporation, the board's rationale for adopting the provision, the legal actions subject to the exclusive forum provision, evidence of past harm to shareholders, and any other problematic provisions that may raise concerns regarding shareholder rights.

Americas Regional – Director Elections: Board Independence

The current ISS' benchmark Americas Regional Policy for board elections which includes Latin American markets excluding Brazil is focused mainly on the timely disclosure of the nominees' names and on the overall board independence. Based on ISS data, however, market practices and disclosures in the region have improved, and the average board independence is now above the minimum threshold included in the Americas Regional policy guidelines.

Considering evolving market practices and the average board independence levels of companies covered by ISS, the updated policy increases the minimum independence threshold for all markets covered by such policy to one-third of the board or two independent directors, whichever is higher. This represents an increase from the existing thresholds which range from one director to 25 percent of the board depending on the market.

Therefore, for bundled elections, ISS would recommend a vote against the election of all directors if the company does not have at least one-third of the board or two directors, whichever is higher, classified as independent under ISS policy. For unbundled elections, if the board falls below the updated minimum independence levels, ISS would recommend votes against the non-independent candidates. In making the above vote recommendations, in the absence of other governance concerns ISS generally will not recommend against the election of the board chair, due to the relevance of the board leadership position.

The policy update harmonizes the minimum board independence requirements throughout the region and brings the minimum threshold in line with ISS policies for other regions.

Brazil – Director Elections: Board Independence

According to ISS data, average board independence of Brazilian companies covered by ISS that held board elections in 2020 is currently 40.6 percent, including all listing segments (Novo Mercado, Nivel 2, Nivel 1, and Traditional). Considering evolving market practices and the current average independence levels seen at Brazilian companies, the updated policy increases the minimum board independence threshold for all listing segments, maintaining a more stringent requirement for companies listed in the B3 segments with the highest corporate governance standards. Under the updated policy, ISS will recommend a vote against the bundled election of directors if the post-election board at companies belonging to Novo Mercado and Nivel 2 listing segments (adhering to the country's highest levels of corporate governance) would not be at least 50-percent independent (an increase from the current 30 percent threshold).

The updated policy has a two-year transitional phase-in period. For Novo Mercado and Nivel 2 listing segments, a 40 percent independence threshold will be required in fiscal years 2021 and 2022 and the 50 percent independence level will be implemented in 2023.

As for the Nivel 1 and Traditional listing segments, under the updated policy, from 2021 ISS will recommend a vote against the bundled election of directors if the post-election board of companies in those segments would not have at least one-third board independence or two independent directors, whichever is higher, increasing from at least one independent director.

The updated policy will align Brazil's policy with those common in other markets covered by ISS (i.e., one-third and 50 percent independent).

Americas Regional and Brazil – Director Elections: Board Gender Diversity

Boards of Latin American companies generally suffer from low gender diversity levels. Regional markets have few hard or soft laws on the subject, and many issuers have failed to adopt best practices regarding board gender diversity. Many investors globally as well as civil organizations in the region and throughout the world have made strides to advance board diversity in general, often with a focus on increased female participation. Moreover, many large institutional investors have recently committed publicly to board diversity principles, reflecting the importance of diversity including gender diversity to improve companies' corporate governance and long-term success.

In this context, ISS is adopting a new policy for the Brazil and Americas Regional policies to require the presence of at least one female director on boards of public companies with a one-year transition period to provide companies with adequate time to incorporate gender diversity into their board compositions if they wish to do so. For

meetings on or after Feb. 1, 2022, ISS will generally recommend voting against director elections at companies where the post-election board contains no female directors. For bundled elections, this would be a vote recommendation against the entire slate. For unbundled elections, ISS will recommend a vote against the chair of the Nominating Committee or chair of the committee designated with the responsibility of a nominating committee, or all such committee members if no committee chair has been identified. In case no nominating committee has been disclosed, the recommendations will generally be to vote against the chair of the board, or the entire board if no board chair has been identified.

European, Middle East and Africa Updates

Continental Europe – Director Elections: Board Gender Diversity

The updated policy sets a new higher minimum threshold of 30 percent of the under-represented gender for widely held companies, recognizing the thresholds applicable in many EU jurisdictions, and which is an increase from the current minimum threshold of at least one female director. And, for non-widely held or smaller companies, the updated policy will extend the requirement to have both genders represented on a listed company's board.

Under the updated policy, ISS will generally recommend a vote against the chair of the nomination committee (or other directors on a case-by-case basis) if the underrepresented gender accounts for less than 30 percent (or any higher domestic threshold if there is one) of board directors of a widely held company or both genders are not represented on the board of a non-widely held company. Mitigating factors will be taken into account and may include compliance with the relevant standard at the preceding annual meeting and a firm public commitment to comply with the relevant standard within a year; or other relevant factors as applicable.

A one-year transition period will apply to widely held companies in 2021. During this period, ISS vote recommendations will not be impacted by the policy change applicable to those companies. The policy will go into effect in 2022.

Continental Europe – Director Elections: Extending Overboarding Policy to Entire Market

ISS is extending the current Continental European director overboarding policy to all European companies instead of just to widely held companies as at present. ISS' policy for Continental Europe will be that any person who holds more than five mandates is considered overboarded, applicable to all companies. For the purposes of calculating this limit, a non-executive directorship counts as one mandate, a non-executive chairmanship counts as two mandates, and a position as executive director (or a comparable role) is counted as three mandates.

The harmonization of overboarding standards across Continental European markets to all companies will be beneficial in terms of equal treatment between listed companies under ISS coverage.

Continental Europe – Compensation-Related Proposals: Remuneration Disclosure

Given that SRD II has been widely implemented across Europe, practically all companies will now be required to have an annual vote on their remuneration reports. The policy change establishes minimum disclosure expectations for the remuneration report in alignment with SRD II requirements, best practice recommendation

under the European Commission's Guidelines for the Presentation of the Remuneration Report, and general expectations by the investment community.

UK and Ireland – Director Elections: Board Gender Diversity

First published in 2016, the Hampton-Alexander Review in the UK called for 33 percent female representation on FTSE 350 boards by 2020. There has been significant progress towards the target but there are still many companies that fall short, despite pressure from shareholders and investor bodies such as the Investment Association. Many institutional investors support the Hampton Alexander Review and have begun voting against chairs in recent years due to lack of progress. In line with the recommendations of the Hampton-Alexander Review, the updated policy increases the minimum threshold from the current one female director to 33 percent for FTSE 350 boards (excluding investment trusts).

For smaller companies and those in other indices, which include those in the FTSE SmallCap, ISEQ 20 and on AIM (AIM companies with a market capitalisation of over GBP 500 million) and in each case, excluding investment trusts, a minimum requirement of one female director on the board is uniformly being introduced. This acknowledges developments in market practice and expands minimum board diversity expectations to a significant proportion of the companies covered by ISS within the UK and Ireland. This approach was broadly supported by institutional investors in ISS' policy roundtable discussion, most of whom already apply bespoke diversity voting standards to companies listed in the UK and Ireland.

Under the updated policy, ISS will generally recommend a vote against the chair of the nomination committee (or other directors on a case-by-case basis) if the company is a constituent of the FTSE 350 (excluding investment trusts) and the board does not comprise at least 33 percent representation of women or the company (excluding investment trusts) is a constituent of the FTSE SmallCap, ISEQ 20, or the AIM with a market capitalisation of over GBP 500 million and there is not at least one woman on the board. Mitigating factors include compliance with the relevant board diversity standard at the preceding annual meeting and a firm commitment, publicly available, to comply with the relevant standard within a year and other relevant factors as applicable. In 2021 only, for FTSE 350 constituents, a public commitment to bring the composition of the board in line with the recommendations of the Hampton-Alexander Review by the following annual meeting will be considered an acceptable mitigating factor, regardless of the previous composition of the board.

The strengthening of the minimum thresholds runs in parallel with the similar changes to ISS policy across Continental Europe.

UK and Ireland – Share Issuance Proposals (Investment Companies)

Closed-ended investment companies are pooled investment vehicles which fundamentally differ from operating companies in a number of important ways. Many investors hold the view that for these companies, the benefits of share issuances generally outweigh concerns about the dilution of voting rights, so long as shares are issued at a premium to the underlying net asset value per share. Accordingly, ISS will recommend support for all share issuance proposals at these investment companies when accompanied by an explicit commitment that shares will only be issued at or above net asset value. This change aligns the ISS policy to the position set out by the Pre-Emption Group as it applies to investment companies in the UK and Ireland.

Russia and Kazakhstan – Director Independence Classification

In Russia, directors are elected through cumulative voting. In this system, each share confers a number of votes equal to the number of board seats up for election, which can be allocated in any combination to one or more of the nominees. In some cases, the number of candidates exceeds the number of available seats making these elections contested. ISS has noted an increase in Russian companies classifying candidates as non-independent when they have been nominated by minority shareholders as independent nominees. These determinations of independence are often made by companies without further explanation or any compelling rationale.

Current policy for Russia takes the company designation of a candidate as non-independent as the de-facto classification. The increase in the number of Russian companies classifying minority-nominated candidates as non-independent, however, indicated a reappraisal of the policy was warranted. According to ISS' 2020 global benchmark policy survey, a majority of investor respondents indicated they agreed with a changed approach, considering both the classification provided by the company and by the minority shareholders on a case-by-case basis. In line with these survey results, the policy is updated to apply a case-by-case analysis of independence based on publicly available information if there are discrepancies between the classifications of a director provided by the board and by the minority shareholders.

Middle East & North Africa – Approval of Corporate Governance and/or Board Reports Proposals: Report Disclosure

As corporate disclosure standards continue to rise around the world, ISS is making some policy changes that establish expectations for the disclosure of information that will help shareholders assess companies' operations. In the Middle East and North Africa, ISS will make vote recommendations in line with the expectation that corporate governance and/or board reports are disclosed in a timely manner.

Sub-Saharan Africa – Auditor-related Proposals: Auditor Fee Disclosure

In Sub-Saharan Africa, ISS will recommend in line with the expectation that audit-related fees are disclosed in a timely manner.

Asia-Pacific Updates

Japan – Director Elections: Cross Shareholding and Board Composition

Board Composition

There are three types of corporate board structures in Japan: (1) a U.S.-style three committee structure, (2) an audit committee structure, and (3) a statutory auditor structure. ISS Japan Policy requires companies in the first two categories to have a board composed of at least one-third outsiders. However, for companies with a statutory auditor structure (found at roughly 65 percent of companies in the current ISS Japan coverage universe), ISS has required only two outside directors. That was based on a recognition that unlike companies with an audit committee structure or with a U.S.-style three-committee structure, companies with a statutory auditor system assume the board's function as operational rather than supervisory. In fact, until 2019, only 40 percent of Japanese

companies with a statutory auditor system (in the ISS research universe) had boards with more than one-third outsider representation. ISS has noted a trend of rising outsider representation on Japanese boards with statutory auditor structures. As of June 2020, roughly 54 percent of such companies now have boards with one-third outsiders or more.

In line with ISS' 2020 global benchmark policy survey results and one-on-one discussions with institutional investors, the updated policy for boards with statutory auditor structures increases to at least a one-third outsider board representation requirement, from the current requirement of at least two outside directors, thus harmonizing it with the other two board structures. So, at companies with a statutory auditor structure, the updated policy will be to generally recommend voting against the top executive(s) if at least one-third of the board members will not be outside directors.

The updated policy has a one-year transition period such that the policy will not be implemented until February 2022 to give time to Japanese companies who wish to recruit more qualified candidates.

Cross-Shareholdings

Capital misallocation and reduced market discipline resulting from cross-shareholdings have long been viewed as among the most serious corporate governance problems in Japan. It is common for Japanese companies to own long-held shares of other companies for reasons other than pure investment purposes, for instance, in order to strengthen relationships with customers, suppliers, or borrowers. Here, "cross-shareholdings" refer not only to mutual cross-shareholdings but also to unilateral holdings where these are designated by the company as shareholdings for non-investment purposes (the typical description for such shareholdings). Such cross-shareholdings may place the company's desire to strengthen its business relationships in conflict with its responsibility to create long-term value for shareholders, as funds used to buy such shares are not available for acquisitions, CapEx, dividends or share buybacks. Moreover, such practices reduce market discipline as management-friendly shareholders will almost always support board-backed resolutions and oppose shareholder proposals.

ISS is adopting a new policy to recommend against the top executive(s) of companies that allocate a significant portion (20 percent or more) of their net assets to cross-shareholdings. This is in line with ISS' 2020 global benchmark policy survey results and feedback from investors.

The new policy will be subject to a one-year transition period and implemented from February 2022 to give time to companies who wish to address shareholder concerns about cross-shareholding practices.

Global Updates

Director Elections: Material E&S Risk Oversight Failures

ISS is making a clarification in global ISS benchmark policies where appropriate that explicitly notes that significant risk oversight failures related to environmental and social concerns may constitute material governance failures, and as such, may trigger vote recommendations against board members.

Off-Cycle Market Updates

Markets where the main proxy seasons occur in the autumn or winter seasons of the Northern Hemisphere may have a different cycle for policy updates. These markets include Australia, New Zealand, South Africa, and Israel.

Updated proxy voting guidelines for South Africa, effective October 1, 2020 were published on Sept. 25, 2020 and are available [here](#). The details of these policy updates are included in the 2021 Europe, Middle East, and Africa (EMEA) Proxy Voting Guidelines Updates document and summarized in Appendix B.

Australia policy updates, effective Feb 1, 2021, are included in the 2021 Asia-Pacific Proxy Voting Guidelines Updates document, and summarized in Appendix B. Additional policy changes may also be made prior to the start of Australia's proxy season in September 2021.

Other Policy Updates

ISS is also making a number of other policy updates that were not included in the public comment period, including bringing policies into effect that were announced previously but delayed for a transition period. Appendix B provides a full list of these other policy updates.

Appendices

Appendix A – Summary of Comments

Board Diversity, Race and Ethnicity (U.S)

Other than one company response that urged ISS not to make voting recommendations on the basis of race or ethnicity, almost all of the commenters supported the proposed policy change to recommend against director(s) on the basis of a lack of ethnic and/or racial diversity, starting in 2022. Some investors recommended that ISS expand the policy to different markets in the future. Two commenters said they would like to see ISS not only recommend against directors for a lack of racial and/or ethnic diversity but also to take adverse actions against a board that does not disclose demographic information about its members. Some commenters also requested that ISS clarify some language about the policy change and potential mitigating factors. Others also requested that ISS not recommend against female or racial and/or ethnic minority directors for lack of board diversity.

Board Diversity, Gender (Canada, Latin America, UK, Ireland, Continental Europe)

Commenters generally supported the proposed changes in board gender diversity policies and understood that the differentiated thresholds were reflective of local market conditions and regulations.

One company cautioned against penalizing Canadian companies for not meeting the gender diversity threshold because it defined "diversity" more broadly.

Another company stated that ISS should not include company executives that serve on the board in its gender diversity target because that person would be included in company diversity targets set by management.

An industry group for smaller companies in the UK urged ISS to set the minimum capitalization threshold for the board gender diversity policy at £1 billion (instead of £500 million) so that small companies with small boards and a prevalence of founder chairs and members would be given time to be held to the same board diversity standards as larger companies.

Board Composition (Latin America, Russia, Kazakhstan, Japan)

No commenters raised objections to the proposed increase in board independence thresholds in Brazil and Latin American markets.

Regarding the proposed Russia and Kazakhstan policy update, one commenter indicated that it is reasonable for ISS to perform a case-by-case analysis where the board and shareholder nominator disagree on the director independence classification.

Several investors expressed support for the changes in the Japanese guidelines intended to harmonize expectations on outside directors for all board types.

Regarding the Japan policy on companies with significant cross shareholdings, some expressed support and others suggested changes. Some suggested making the policy stricter now or over time (such as by using a 5 percent threshold instead of a 20 percent threshold). One commenter requested that ISS require companies to sell all cross shareholdings within three years. Several investors that submitted comments in Japanese recommended

adjustments to the proposed policy, including taking the company's explanation and policy into account, analyzing how the cross shareholdings may have changed over time, comparing cross shareholding to total assets instead of net assets, including shares of "equity method affiliates," and using the acquisition cost instead of the market price to calculate the size of cross shareholdings.

Director Accountability (All Global Policies)

Most commenters supported the proposed changes explicitly noting that significant risk oversight failures related to environmental and social concerns may be considered material governance failures in extraordinary circumstances.

Several commenters expressed the opinion that ISS should go farther to proactively identify boards that have failed to prepare for future risks. Some provided their views of factors to consider in assessing whether a board has demonstrated poor risk oversight, including failure to respond to an environmental or social shareholder proposal that get more than 30 percent shareholder support, failure to disclose information under the TCFD framework and/or emissions, contributing to lobbying in opposition to GHG emission regulation, being involved in environmental controversies, having board members with previous experience or actions inconsistent with robust oversight of climate risk, and failing to credibly align the company's strategy (including capital expenditure, executive compensation, and other components of its strategic plan) to Paris Agreement goals of limiting warming to well below 2 degrees Celsius (which would necessitate a large-scale transition away from the use of fossil fuels in the coming decades). Some commenters emphasized that the credibility of a company's strategic plan could be measured by whether the company included both its own emissions and the emissions of its products in its reduction plans, whether targets for emissions reductions were set in short- and medium-term timeframes in addition to longer-term ones, and whether the company relied excessively on the use of currently unproven technologies, such as carbon capture and storage and other unproven negative emission technologies.

An industry group for smaller companies in the UK urged ISS not to hold small and mid-sized companies to the same standards regarding climate risk oversight as those for larger companies.

Director Overboarding (Continental Europe)

Commenters raised no criticisms regarding the proposal to extend the current Continental European director overboarding policy to the full European markets instead of just to widely held companies as at present.

Shareholder Litigation Rights (U.S. and Canada)

Comments on ISS's proposed policy on shareholder litigation rights on exclusive forum provisions ranged from generally supportive, to supportive but requesting more clarity on policy application to not supportive due to a belief that companies should not restrict the venue for shareholder claims.

One investor requested clarity on why ISS was proposing to consider the unilateral adoption of an exclusive forum provision to be only a one-time governance failure, while the updated ISS fee-shifting policy considers unilateral adoption to be an ongoing failure. A respondent from a law firm urged ISS to reconsider its proposed policy relating to the designation of a particular court in a state, stating that an exclusive forum bylaw should be able to specify a forum with a "reasonable nexus to the corporation." Similarly, one company respondent stated the belief that it is appropriate for companies to implement a limited forum selection provision specifying federal district court(s) located within the company's state of incorporation.

Disclosure (Continental Europe, Middle East and Africa)

Commenters raised no criticisms regarding the proposal to establish new expectations for the disclosure of information in the Middle East and North Africa and in Sub-Saharan Africa.

Regarding the policy on remuneration disclosure in Continental Europe, most commenters were generally supportive of the proposed new policy. Some commenters requested that ISS phase in its expectations over a longer period of time.

Capital Issuances for Investment Companies (U.K./Ireland)

There were few criticisms of the proposed policy change to recommend support for share issuance requests when trusts provide an explicit commitment that shares will only be issued above net asset value. One group representing investment companies suggested that ISS change its references from "investment trusts" to "investment companies," which is a broader category of company.

Appendix B – Full List of Other Policy Updates

The following table summarizes revisions to ISS policy guidelines for 2021 not previewed under the Comment Period.

Regional Guideline Document (Market)	Topic	Policy Change
Americas		
Brazil, Americas Regional	Overboarding	A new policy on overboarding is being introduced, establishing overboarding thresholds in these markets. ISS will recommend against management nominees sitting on more than five public companies, and against CEOs who sit on the boards of more than two other public companies- only at their outside boards.
U.S.	Advance Notice Requirements	ISS will now recommend for advance notice provisions that require notification 120 days prior to the meeting, a change from the previous policy of no early than 60 days prior to the meeting, in alignment with market practice.
U.S.	Board Refreshment (Age /Term Limits)	While ISS considers board refreshment to be best implemented through an ongoing program of individual director evaluations, with the growing emphasis on achieving board diversity, ISS is changing its policy on management and shareholder proposal for term limits from generally against to a case-by-case approach. ISS will continue to recommend against age limits.
U.S.	Closed-End Funds	This change states that ISS Policy is to recommend a vote against directors at closed-end management investment companies (CEFs) that have not provided a compelling rationale for opting-in to a Control Share Acquisition statute, nor submitted a by-law amendment to a shareholder vote.
U.S.	"Deadhand" Poison Pill Provisions	While ISS generally recommends on a case-by-case basis on directors who adopt a short-term pill without a shareholder vote, the inclusion of a deadhand or slowhand feature will result in an withhold/against recommendation on directors.
U.S.	ISS' Classification of Directors	The primary change being made to the ISS classification of directors is to limit the "Executive Director" classification to only officers, not other employees. This change will not result in any vote recommendation changes under the ISS Benchmark Policy. However, for institutional investors whose overboarding policies consider each Executive Director position as a mandate, this change will result in a more accurate assessment of the number of executive positions.
U.S.	Gender Diversity	This change is to remove transitional language. Under ISS' newly implemented policy regarding board gender diversity on boards, a transitional year (2020) was provided so that a company that previously had not had a female director could make a commitment to add one by the following year.
U.S.	Gender Pay Gap Shareholder Proposals	Adds language to establish that ISS will consider local laws and the fact that definitions of racial and ethnicity minorities differ from region to region, so a "global race/ethnicity" statistic is not meaningful.
U.S.	Mandatory Arbitration	The addition is to state that ISS will recommend on a case-by-case basis on requests for a report on a company's use of

	Shareholder Proposals	mandatory arbitration on employment-related claims. It also defines some criteria for analysis.
U.S.	Sexual Harassment Shareholder Proposals	The addition is to state that ISS will recommend on a case-by-case basis on requests for a report on company actions taken to strengthen policies and oversight to prevent workplace sexual harassment, or a report on risks posed by a company's failure to prevent workplace sexual harassment. It also defines some criteria for analysis.
U.S.	Virtual Meetings	The addition will establish a policy in the U.S. benchmark guidelines regarding the format of the annual meeting. The policy will be to generally support management proposals allowing for the convening of hybrid shareholder meetings as long as the intention – in the absence of health or safety concerns – is not to hold virtual-only meetings to the preclusion of in-person meetings.
EMEA		
Europe	Auditors and Auditor fees, Election of Former CEO as Board Chair, Election of Censors (France)	In addition to the overboarding policy mentioned above on page 12, ISS intends to expand application of the following policies to all companies in its market, rather than only widely held companies: appointment of auditors and auditor fees, election of former CEO as Board Chair, and election of censors in France.
Europe	Director Terms	Transitional language removed. The policy going forward will be to recommend against the election or re-election of any director if his or her terms exceeds four years and adequate explanation has not been provided.
Europe	Executives in Key Board Committees	Make expectations against company executives serving on audit and remuneration committees applicable to all Continental European countries. This update reflects currently widespread standards and practices in the European market.
Europe	Remuneration Committee	This policy change extends the current policy on independence of the remuneration committee in some European countries to all of Continental Europe in line with best practices.
Europe (France)	Auditor Report Including Related Party Transactions	Language regarding severance packages and pension benefits are stricken from the policy on auditor reports on related party transactions because that language was removed from the scope of the report in the relevant regulation.
Europe (France)	Capitalization of Reserves as Antitakeover Mechanism	Language regarding capitalization of reserves is stricken from the policy on antitakeover mechanisms because clients do not consider such an act to be frequently used or a large impact if used.
Europe (France)	Florange Act Double Voting Rights	Remove language regarding the Florange Act double voting rights because it is not relevant any more under relevant regulations.
Europe (Germany and Italy)	Use of Derivatives, Buy-backs	The amendment repeals the market specific exceptions on the use of derivatives in the context of share-repurchase plans. These exceptions to the ISS general guidelines currently concern Germany and Italy only.
UK & Ireland	Overboarding	The language change is to codify ISS's existing practice of taking a more lenient view of less complex companies when applying its overboarding policy. Our view is that directorships at investment trusts involve a commitment of significantly less time than do those at operating companies.

UK & Ireland	Remuneration	These amendments reflect ISS' position on pension contributions and post-cessation shareholding requirements as potential drivers of the vote recommendation where the remuneration policy is submitted for shareholder approval. ISS had already established a position on these issues as part of previous policy update cycles.
Russia and Kazakhstan	Auditors and Auditor Fees	The one-year transition period regarding the absence of disclosure of itemized audit fees has now passed.
EMEA Regional, Middle East & North Africa, Sub-Saharan Africa	Approval of Article Amendments	A framework for vote recommendations on amendments to the Articles of Association is provided.
EMEA Regional, Middle East & North Africa, Sub-Saharan Africa	Approval of Donations	A framework for vote recommendations on the approval of donations is provided.
EMEA Regional (Turkey)	Audit Committee Independence	In alignment with Turkish law requiring fully independent audit committees, ISS will recommend against any non-independent audit committee members.
Middle East & North Africa	Creation of separate policy guidelines for the Middle East and North Africa	ISS is creating a new standalone policy document outlining the voting guidelines for the Middle East and North Africa (MENA) region. Previously, the MENA countries formed a part of the markets covered by the EMEA regional voting guidelines. This change is being made was to provide an in-depth policy framework that best presents the unique characteristics of the MENA region.
Middle East & North Africa	Compensation - Board Fees	Establish the expectation that board fees to non-executive directors should be disclosed in a timely manner and should not be excessive. ISS will recommend against proposals to introduce retirement benefits for non-executive directors.
Sub-Saharan Africa	Creation of separate policy guidelines for Sub-Saharan Africa	ISS is creating a new standalone policy document outlining the voting guidelines for the Sub-Saharan Africa (SSA) region. Previously, the SSA countries formed a part of the markets covered by the EMEA regional voting guidelines. This was done to provide an in-depth policy framework that best presents the unique characteristics of the SSA region.
Sub-Saharan Africa	Remuneration Report	Establishes framework for voting recommendations on remuneration policy and reports.
Sub-Saharan Africa (Nigeria)	Related Party Transactions	This change states that ISS will generally recommend voting for proposals renewing a company's general mandate to enter into related party transactions for Nigerian companies (as opposed to its general stance to analyze these proposals on a case-by-case basis). This is due to relevant laws covering related party transactions in Nigeria.
South Africa	Auditors Reappointment	The policy is updated to take into consideration the effectiveness of auditors in their re-election.
South Africa	Director Tenure	Starting in Oct 2021, ISS will consider a non-executive director's independence to be impaired if he/she served on the board for more than 15 years or if he/she served concurrently with an executive director for over 12 years.
South Africa	Audit Committees	In line with the King IV Report, ISS will recommend against the election of a board chair to the audit committee at widely held companies

South Africa	Fees for Non-Executive Directors	ISS will recommend against open-ended fee structures or fees for consultancy work for non-executive directors.
South Africa	Incentive Schemes	ISS will oppose accelerated vesting upon termination and will look for pro-rating to reflect any reduced time in service.
South Africa	Shareholder Proposals	The South Africa Guidelines are updated to include the Global Approach to shareholder proposals.
Asia-Pacific		
Australia	Board Size	ISS will generally recommend against caps on board size.
Australia	Auditor Appointment	The treatment of tax-related fees and one-time capital events in the consideration of audit fees is clarified.
Australia	Issuance of Shares	The policies for advance approval and retrospective approval of share issuances are updated to provide guidance in line with ASV Listing Rules.
Australia	Director Classification	Substantial shareholders and cross-directorship relationship categories are added to the Non-Independent Non-Executive Director relationships.
Australia	Director Elections	Among other items, ISS will generally recommend against the board chair for lack of attendance disclosure or a director with poor attendance for one year, as opposed to two years under the previous policy; against executives serving on audit or remuneration committee; against a director who serves as both CEO and Chair, and against the chair of the nomination committee for the lack of gender diversity on the board.
Australia	Remuneration	STI deferral considerations are discussed, and dilution limits are adjusted from 5% to 10%, and clarifications are made in various remuneration policies.
Australia	E&S shareholder proposals	Significant controversies and fines will be considered in the factors under the case-by-case policy.
APAC Regional	Board Attendance	Recommend against director nominees (except the CEO/president, executive chairman, or founder) if no disclosure of board attendance is provided in the fiscal year under review.
APAC Regional, China, Taiwan	Dividend Distribution	Change the language "below 30 percent" to "low". Removing the 30 percent criteria will simplify the policy and help align policy with practice. There will be no impact on the ISS voting recommendations because dividend payments are generally supported.
APAC Regional (Philippines)	Director Tenure	Change adds the Philippines to the list of countries where directors with a tenure exceeding nine years will be considered non-independent, unless the company provides sufficient and clear justification that the director is independent despite his or her long tenure.
APAC Regional (Philippines)	Director Independence	The policy change will strike "the higher of three independent directors" from the Philippines independence policy to align ISS voting guidelines with the 2020 Revised Corporation Code of the Philippines.
China	Share Issuance Requests	The China Securities Regulatory Commission (CSRC) released the revised Measures for the Administration of the Issuance of Securities by Listed Companies and Detailed Rules for Private Placement by Listed Companies on Feb. 14, 2020. The policy updates serve to align the relevant regulation/background section in ISS policy with the latest regulations. The changes are not expected to impact ISS voting recommendations.

Hong Kong, Singapore	Director Attendance	Add "conflict of interest in the resolution to be discussed" as acceptable reason for director absence.
Hong Kong, Singapore	Director Retirement	The change will give companies three months to comply with board independence policy in the event of any immediate retirement, abrupt resignation, or death of an independent non-executive director that effects the company's board independence level.
India	Auditor Appointment	The change adds language saying that appointing an audit firm without an available track record may be a reason to recommend against the (re) appointment of auditors and authorization to fix their remuneration.
India	Director Tenure	The change is to add language specifying that tenure of more than 10 years would cause a director to be classified as non-independent. Companies Act 2013 (Act) restricts independent director tenure to a maximum of 10 years. However, while this is a mandatory clause, the Act counts tenure from 1 April 2014. As a result, there are many independent directors who continue to be a part of the board despite having a prolonged tenure.
South Korea	Gender Diversity	The Ministry of Justice announced an amendment to the Financial Investment Services and Capital Markets Act, which requires all companies with asset sizes greater than KRW 2 trillion ("Large Companies") to have at least one female director on the board (Article 165-20). The implementation will be effective as of August 5, 2020. The update brings ISS policy in line with the regulatory change.
South Korea	Contested Elections	The Korea Proxy Voting Guidelines do not currently have a section on proxy contests in the Election of Directors section; however, proxy contests do occur quite often in this market. Therefore, the case-by-case policy is being added and the corresponding section regarding proxy contests in Shareholder Proposals is being deleted.
Taiwan	Equity-Based Compensation	The wording changes are to reduce redundancy and ambiguity. The change is to strike "one or two . . . are" and insert "any . . . is" in the equity-based compensation proposal section. The current policy is to only recommend votes for equity-based compensation proposals when all three of the listed criteria are met.

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