Proposed ISS Benchmark Policy Changes for 2023

Request for Comments

Comment Period: November 4, 2022, through November 16, 2022

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Introduction

Institutional Shareholder Services announces the opening of our benchmark voting policy comment period on proposed changes. The comment period will be open from November 4, through 5:00 p.m. ET on November 16, 2022. We invite views from all interested parties on 17 proposed voting policy changes for 2023 and beyond, across a number of different ISS regional and market policies.

To ensure ISS benchmark voting policy changes take into consideration a broad range of perspectives, including the views of institutional investors globally and those of the broader corporate governance community, ISS gathers input each year from institutional investors, companies, and other market constituents through a variety of channels and media. Following the recent release of the results of our 2022 Global Benchmark Policy Survey, we now make available for public comment a number of proposed changes to ISS' benchmark voting policies for 2023.

Comments received will be considered as we finalize the changes. We expect to announce the final benchmark policy changes in or around the first week of December 2022. The revised policies will be applied for shareholder meetings taking place on or after Feb 1, 2023, except where otherwise noted for later implementation.

To submit comments, please send via email to policy@issgovernance.com. Please indicate your name and organization in your submission.

All comments received may be published on our website, unless otherwise requested in the body of the email submission.

Key Proposed Policy Changes- Summary

Climate Board Accountability – Global
For 2023, for the universe of high emitting companies – proposed to be continued to be identified as those in the Climate Action 100+ Focus Group – ISS proposes to extend globally the policy on climate board accountability first announced last year and introduced in selected markets for 2022, and to update the factors considered under the policy as follows. In cases where a company in the universe is not considered to be adequately disclosing climate risk disclosure information, such as according to the Task Force on Climate-related Financial Disclosures (TCFD), and does not have either medium-term GHG emission reductions targets or Net Zero-by-2050 GHG reduction targets for at least a company's operations (Scope 1) and electricity use (Scope 2), ISS will generally recommend voting against what it considers to be the appropriate director(s) and/or other voting items available. Emission reduction targets should also cover the vast majority (95%) of the company's operational (Scope 1 & 2) emissions. For 2023, ISS plans to use the same analysis framework for all Climate Action 100+ Focus Group companies globally but with differentiated implementation of any negative vote recommendations depending on relevant market and company factors (for example, voting item availability). Additional data and information will be included in the company information section of the ISS research reports for all Climate Action 100+ Focus Group companies in order to support this extended policy application.

Board Diversity – Canada, U.S., and U.S. Foreign Private Issuers
Board diversity remains an important issue for many investors, and policy changes are proposed to reflect this. After a one-year grace period, in 2024 Canadian S&P/TSX Composite Index constituents will be expected under the proposed updated policy to have at least one racially/ethnically diverse director. Under the U.S. policy for 2023, transition language previously announced will be removed, and the existing policy expecting at least one woman on the board for Russell 3000 and S&P1500 companies will

apply to all U.S. companies from 2023. The board gender diversity policy for Foreign Private Issuers (FPIs) previously applicable only to Russell 3000 and S&P 1500 FPIs will also be expanded to all FPIs from 2023.

Board Independence – Latin America

For the Latin America region, for both the Brazil and the Americas Regional policies, ISS is removing the legacy carve-out related to the board chair when there is a lack of sufficient board independence. Under the current policy, support was given to the election of the chair despite the lack of sufficient board independence due to the relevance of the leadership position. Given higher expectations on the accountability of the board chair and a desire to harmonize this policy more closely with those of ISS' global policies, we are proposing to remove this exception and recommend for or against the board chair as we would for any other board member.

Board Accountability – U.S., Continental Europe, and Sub-Saharan Africa

For the U.S. policy on companies with unequal voting rights capital structure, the one-year transition period delaying adverse vote recommendations will end. In 2023, ISS proposes to start recommending against directors at all companies with unequal voting right structures, not just at newly-public companies, but also at the companies that were previously grandfathered. As part of this update, the *de minimis* exemption has been defined as 5 percent of total voting power. ISS is also specifically seeking comments on proposed changes to the implementation of its voting recommendations on directors under this policy.

In our Continental European policy, we propose introducing a similar policy on unequal voting rights structures at widely-held companies. After a one-year transition period, starting with meetings in Feb. 2024, adverse vote recommendations would commence against directors individually or against the discharge of (non-executive) directors.

For the U.S. policy on companies that go public with other problematic governance structures (including classified boards and supermajority vote requirements), ISS is proposing a definition of the "reasonable sunset period" to be no more than 7 years from the date of going public for full implementation. ISS is also seeking feedback on proposed changes to the implementation of its voting recommendations under this policy.

For Sub-Saharan Africa, ISS is proposing to recommend against bundled slate board elections, as a separate ballot item for each director is an established market practice in the region as well as a good governance practice.

Board-Related Proposals – U.S.

Given that the Delaware General Corporation Law was amended in August 2022 to permit corporations to limit or eliminate the personal liability of officers for claims of breach of the fiduciary duty of care, ISS is proposing to generally recommend for proposals providing for exculpation provisions in a company's charter. The exculpation of officers is limited to the following officers: president, chief executive officer, chief operating officer, chief financial officer, chief legal officer, controller, treasurer or chief accounting officer, "named executive officers" identified in the corporation's SEC filings, and individuals who have agreed to be identified as officers of the corporation. As with director exculpation, officer exculpation would not include breach of the duty of loyalty, acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of the law, or any transaction in which the officer derived an improper personal benefit.

Compensation – UK and Ireland, Brazil, Middle East, North Africa, and Sub-Saharan Africa

There is a concern that part of the current wording of the ISS UK and Ireland policy on remuneration may be misunderstood as encouraging companies to increase directors' base salaries proportionally in line with increases made to the wider company workforce. Adopting such a pattern would lead to a widening of the gap between total opportunity available to executives compared to that of the average employee. The proposed change modifies the policy language to clarify that keeping directors' annual salary increases low and ideally lower proportionally than general increases across the broader workforce is considered to be good market practice.

In Brazil, ISS identified a small group of companies that reported a non-executive director as their highest-paid administrator, i.e., the highest non-executive remuneration paid by the company was larger than the highest executive compensation reported for the most recent fiscal year. Under this updated policy, to be in effect as of Feb. 1, 2024, ISS will generally recommend against the annual binding say-on-pay proposal of companies that report such a problematic pay practice, in the absence of a compelling rationale.

We are proposing to provide a framework for analysis on proposals regarding share incentive schemes for the Middle East and North Africa and Sub-Saharan Africa policies. Similarly to the approach taken in South Africa and Continental Europe, ISS will consider whether the scheme terms are deemed in line with best practices, including the criteria listed in the updated language of the policy.

Capitalization – U.S. and Sub-Saharan Africa
For U.S. domestic issuers incorporated outside the U.S. and listed solely on a U.S. exchange, we are proposing to introduce a policy to generally vote for resolutions to authorize the issuance of common shares up to 20 percent of currently issued common share capital, where not tied to a specific transaction or financing proposal. The creation of a specific policy for U.S.-listed companies is intended to better reflect the expectations and concerns of investors in the U.S. market. The policy will apply to companies with a sole listing in the U.S., but which are required by the laws of the country of incorporation to seek approval for all share issuances. Dual-listed companies that are required to comply with listing rules in the country of incorporation will continue to be evaluated under the policy for that market.

ISS is proposing to update the policy on share repurchase plans in Sub-Saharan Africa (SSA). The updated policy amends the duration of a repurchase authorization from five years to 18 months in line with SSA market practices, and laws and regulations. Moreover, disclosure by SSA companies on the percentage of their share capital held as treasury shares is neither a current market practice, nor stipulated by most SSA laws and regulations, thereby the policy clarifies that a holding limit of 10 percent of the share capital held in treasury shares applies where information is disclosed.

Social & Environmental Shareholder Proposals – U.S.
In the U.S., ISS is proposing to introduce a new specific policy on shareholder proposals requesting company transparency on the congruency of its political contributions and lobbying with its public commitments and policies, including climate lobbying to its climate goals. These types of proposals have been growing in number in recent years and current ISS policy related to transparency of political contributions and lobbying expenditures do not cover political spending and lobbying congruency directly. The proposed new policy will provide more transparency to the market about how such shareholder proposals are assessed, and codify previous practices used in the 2022 proxy season.

ISS welcomes comments for all proposed policy changes on the following questions. Some proposed policy changes also have topic-specific additional questions noted below, which we also welcome feedback on.

- **Question:** Do you support the proposed policy change?
- **Question:** Do you have any concerns with the proposed policy change?
- **Question:** If the proposed change contemplates ISS adverse vote recommendations, are they implemented appropriately?
- **Question:** If the proposed change contemplates ISS adverse vote recommendations, are the appropriate mitigating factors being considered?
- **Question:** If the proposed change includes a transition period for the implementation of a policy, is it adequate, too short, or too long?
- **Question:** If the proposed change applies to a particular set of companies, is the proposed coverage universe appropriate?
- **Question:** Are there any other factors that ISS should consider when contemplating the proposed policy change?

Policies for Comment

1. All Markets – Climate Board Accountability for High Emitting Companies

In 2022 ISS added new data to the benchmark research reports for high emitting companies globally (using the Climate Action 100+ Focus Group as a proxy for high emitting companies), and instituted a new policy in several large markets (U.S., Continental Europe, UK & Ireland, and Russia and Kazakhstan) to recommend against the appropriate director or other relevant voting item in cases where a company in the Climate Action 100+ Focus Group was not considered to be adequately disclosing climate risks and did not have quantitative GHG emission reduction targets covering at least a significant portion of the company's direct emissions.

For 2023, for the universe of high emitting companies, proposed to be continued to be identified as those in the Climate Action 100+ Focus Group, ISS proposes to extend globally the policy on climate board accountability first announced last year and introduced in selective markets for 2022, and to update the factors considered under the policy as follows. In cases where a company in the universe is not considered to be adequately disclosing climate risk disclosure information, such as according to the Task Force on Climate-related Financial Disclosures (TCFD), and does not have either medium-term GHG emission reductions targets or Net Zero-by-2050 GHG reduction targets for at least a company's operations (Scope 1) and electricity use (Scope 2), ISS will generally recommend voting against what it considers to be the appropriate director(s) and/or other voting items available. Emission reduction targets should also cover the vast majority (95%) of the company's operational (Scope 1 & 2) emissions. For 2023, ISS plans to use the same analysis framework for all Climate Action 100+ Focus Group companies globally but with differentiated implementation of any negative vote recommendations depending on relevant market and company factors (for example, voting item availability). Additional data and information will be included in the company information section of the ISS research reports for all Climate Action 100+ Focus Group companies in order to support this extended policy application.

Specific questions for this proposed change (in addition to the general questions for all proposed changes as set out in the introduction):

Question: If ISS were to develop its own target group of high emitting companies for this policy in the future, what criteria do you consider would be important? In this perspective, would you prioritize certain sectors and, if so, which ones?

Board of Directors

Election of Directors – Board Diversity

2. Canada S&P/TSX Composite – Board Racial and/or Ethnic Diversity

Current ISS Policy:	New ISS Policy:
[None]	**General Recommendation:** For meetings on or after **Feb. 1, 2024**, for companies in the S&P/TSX Composite Index, generally vote against or withhold from the Chair of the Nominating Committee or Chair of the committee designated with the responsibility of a nominating committee, or the Chair of the board of directors if no nominating committee has been identified or no chair of such committee has been identified, where the board has no apparent racially or ethnically diverse members[1]. 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 public commitment to appoint at least one racial and/or ethnic diverse member at or prior to the next AGM. Evaluate on a case-by-case basis whether against/withhold recommendations are warranted for additional directors at companies that fail to meet the policy over two years or more.
Footnotes:	[1] Aggregate diversity statistics provided by the board will only be considered if specific to racial and/or ethnic diversity. Racial and/or Ethnic Diversity is defined as: Aboriginal peoples (means persons who are Indigenous, Inuit or Métis) and members of visible minorities (means persons, other than Aboriginal peoples, who are non-Caucasian in race or non-white in colour). Employment Equity Act (S.C. 1995, c. 44) https://laws-lois.justice.gc.ca/eng/acts/E-5.401/section-3.html

Rationale for Change:

In recent years many institutional investors have been vocal about their calls for public company boards to become more diverse. In 2020, Canada broadened disclosure requirements on board diversity for publicly traded corporations beyond gender, mandating businesses to report on each of the four employment equity groups (i.e., women, visible minorities, Indigenous peoples, and persons with disabilities) through new requirements introduced to the Canada Business Corporations Act in Bill C-25. These measures aim to foster diversity at the highest levels of corporate leadership in Canada, improve shareholder democracy, and drive shareholder value through better transparency.

Distributing corporations established under the CBCA are required to disclose to their shareholders (through their proxy circulars) and to Corporations Canada information regarding the diversity of their boards and senior management. The disclosure must include the representation of various designated groups on the board and among senior management. These designated groups include women, Indigenous peoples (First Nations, Inuit, and Métis), persons with disabilities and members of visible minorities. In addition, the CBCA requires distributing corporations to disclose whether they have a diversity and inclusion policy, and if not, to provide an explanation why not. This "comply or explain" approach is not prescriptive but is intended to foster a dialogue between distributing corporations and their shareholders, increase corporate transparency and support the push for increased diversity on boards and in senior management.

Based on the proxy circulars filed in 2020, the Government of Canada identified 669 distributing corporations which were required to disclose diversity information. Of these distributing corporations, the proxy circulars of 469 companies were reviewed and 85.9 percent contained information on diversity, and also concluded that there continues to be ongoing challenges in getting a complete picture of diversity because the CBCA and related regulations do not specify how distributing corporations should disclose this information. To better support corporations, in early 2021, Canadian guidelines were published to help and encourage distributing corporations to disclose their diversity information annually in a more consistent manner, and the consistency in disclosure will ensure that diversity information can be collected and analyzed in a consistent way and enable a sound year-over-year analysis that will foster steady progress toward more diverse corporate leadership. As a result of the diversity disclosure requirements and industry awareness-raising activities, distributing corporations were more aware of their filing requirements in 2021 than they were in 2020. In 2021, an average of 13 percent of the required diversity information disclosed by distributing corporations was incomplete, missing or not provided in a standardized way.

During the 2021 Canadian roundtable discussions, the majority of our investor clients participating shared the view that boards should aim to reflect the company's customer base and the broader societies in which they operate by including directors drawn from racial and ethnic minority groups, and also widely supported the expectation for disclosure from companies on racial/ethnic diversity at the board level, and held the belief that all companies should disclose this information to the fullest extent possible. In addition to the information referenced above, the implementation of this policy will allow the Canadian S&P/TSX Composite Index policy to align more closely to the U.S. Russell 3000 and/or S&P 1500 indices racial/ethnic diversity policies and achieve parity towards the consistent application of our investor clients' views on racial/ethnic diversity for boards of directors across U.S. and Canada.

https://www.ic.gc.ca/eic/site/cd-dgc.nsf/eng/cs08317.html

https://www.bennettjones.com/Blogs-Section/Government-of-Canada-Publishes-First-Report-on-Diversity-Disclosure

https://www.ic.gc.ca/eic/site/cd-dgc.nsf/eng/cs09445.html

3. United States – Board Gender Diversity

Current ISS Policy:	New ISS Policy:
For companies in the Russell 3000 or S&P 1500 indices, generally vote against or withhold from the chair of the nominating committee (or other directors on a case-by-case basis) at companies where there are no women on the company's board. An exception will be made if there was a woman on the board at the preceding annual meeting and the board makes a firm commitment to return to a gender-diverse status within a year. This policy will also apply for companies not in the Russell 3000 and S&P1500 indices, effective for meetings on or after **Feb. 1, 2023**.	Generally vote against or withhold from the chair of the nominating committee (or other directors on a case-by-case basis) at companies where there are no women on the company's board. An exception will be made if there was at least one woman on the board at the preceding annual meeting and the board makes a firm commitment to return to a gender-diverse status within a year. A one-year grace period will be applied at companies where there are no women on the board but there is at least one director who is disclosed as identifying as non-binary.

Rationale for Change:

ISS' voting guidelines on board diversity were updated at the start of 2022, expanding the universe of issuers covered by ISS' gender diversity policy. Companies outside of the Russell 3000 and S&P 1500 received notification during the 2022 proxy season that this policy would be implemented beginning in February 2023. This policy update removes the transition provision included in last year's policy guidelines. The final sentence provides for a one-year grace period at companies where there are no women on the board but non-binary directors may be disclosed, anticipating what are expected to be rare cases where a non-binary director may represent the only gender diversity on a board.

4. U.S. Exchange-Listed Foreign Private Issuers – Board Gender Diversity

Current ISS Policy:	New ISS Policy:
For companies in the Russell 3000 or S&P 1500 indices, generally vote against (or withhold) from the chair of the nominating committee (or other directors on a case-by-case basis) at companies where there are no women on the board. An exception will be made if there was a woman on the board at the preceding annual meeting and if the board makes a firm commitment to return to a gender-diverse status within a year.	Generally vote against or withhold from the chair of the nominating committee (or other directors on a case-by-case basis) at companies where there are no women on the company's board. An exception will be made if there was at least one woman on the board at the preceding annual meeting and the board makes a firm commitment to return to a gender-diverse status within a year. A one-year grace period will be applied at companies where there are no women on the board but there is at least one director who is disclosed as identifying as non-binary.

Rationale for Change:

ISS' Foreign Private Issuers (FPI) voting guideline on board gender diversity was introduced in 2022, covering Russell 3000 and S&P1500 companies. This proposed policy update expands the FPI gender diversity policy to cover such companies outside of the Russell 3000 and S&P1500 (non-R3k) and puts the policy in line with the market norms and investor expectations. The final sentence provides for a one-year grace period at companies where there are no women on the board but non-binary directors may be disclosed, anticipating what are expected to be rare cases where a non-binary director may represent the only gender diversity on a board.

This policy does not apply to all companies that file as FPIs with the SEC, only those covered under the ISS FPI policy.

Election of Directors — Board Independence

5. Brazil – Chair Accountability

Current ISS Policy:	New ISS Policy:
General Recommendation: In an unbundled election, for boards that meet the minimum independence level recommended by ISS, as detailed below, support all director nominees if: ▪ there are no concerns regarding the candidate(s) and/or the company. However, if the proposed board falls below the minimum independence level recommended under ISS policy: ▪ Support the independent nominees presented individually under the majority election; and ▪ Vote against the non-independent candidates in the majority election. In making the above vote recommendations, ISS generally will not recommend against the election of the chair, due to the relevance of the board leadership position in the absence of other governance concerns.	**General Recommendation:** In an unbundled election, for boards that meet the minimum independence level recommended by ISS, as detailed below, support all director nominees if: ▪ There are no concerns regarding the candidate(s) and/or the company. However, if the proposed board falls below the minimum independence level recommended under ISS policy: ▪ Support the independent nominees presented individually under the majority election; and ▪ Vote against the non-independent candidates in the majority election.

Rationale for Change:

This proposed policy update removes the legacy approach of a carve-out related to chair of the board in the event of the election of a director of directors (either as a slate or as individual elections) when there is a lack of sufficient board independence under ISS policy guidelines.

Under the current policy, support is given to the election of the chair despite the lack of sufficient board independence due to the relevance of the leadership position. However, since the introduction of the gender diversity policy in the Brazil Voting Guidelines, ISS considers the chair of the board accountable for the lack of gender diversity. As such, there was a disconnect between the accountability of the chair in the event of lack of gender diversity and the carve out in the event of lack of overall board independence. This policy update removes the legacy chair carve-out in the event of low overall board independence, consistent with the evolution of the policy framework and the expectation of institutional investors of greater accountability of the chair of the board not only related to gender diversity, but also independence. This policy update also strengthens the harmonization of ISS global policies, as markets such Australia, Canada, Continental Europe, India, Singapore, the UK, and the U.S. already apply policies holding the chair accountable for the lack of overall board independence.

6. Americas Regional Latin America – Chair Accountability

Current ISS Policy:	New ISS Policy:
Unbundled Elections **General Recommendation:** In an unbundled election, support for all director nominees is recommended, unless: ▪ The company has not provided adequate disclosure of the proposed nominees; or ▪ The minimum independence level recommended under ISS policy is not met. However, if the proposed board falls below the minimum independence level recommended under ISS policy guidelines, ▪ Vote for the independent nominees presented individually; and ▪ Vote against the non-independent candidates. In making the above vote recommendations, ISS generally will not recommend against the election of the board chair, due to the relevance of the board leadership position in the absence of other governance concerns.	**Unbundled Elections** **General Recommendation:** In an unbundled election, support for all director nominees is recommended, unless: ▪ The company has not provided adequate disclosure of the proposed nominees; or ▪ The minimum independence level recommended under ISS policy is not met. However, if the proposed board falls below the minimum independence level recommended under ISS policy guidelines, ▪ Vote for the independent nominees presented individually; and ▪ Vote against the non-independent candidates.

Rationale for Change:

This proposed policy update removes the legacy approach of a carve-out related to chair of the board in the event of the election of a director of directors (either as a slate or as individual elections) when there is a lack of sufficient board independence, as recommended under ISS policy guidelines.

Under the current policy, support is generally recommended for the election of the chair even in cases where there is a lack of sufficient board independence due to the relevance of the leadership position. However, since the introduction of the gender diversity policy in the Latin American Voting Guidelines, ISS considers the chair of the board accountable for the lack of gender diversity. As such, there was a disconnect between the accountability of the chair in the event of lack of gender diversity and the carve out in the event of lack of overall board independence. This proposed policy update removes the legacy chair carve-out in the event of low overall board independence, consistent with the evolution of the policy framework and the expectation of institutional investors of greater accountability of the chair of the board not only related to gender diversity, but also independence. This policy update will also strengthen the harmonization of ISS global policies, as many markets, such as Australia, Canada, Continental Europe, India, Singapore, the UK, and the U.S., already apply policies where the chair is not necessarily exempted from adverse recommendations due to the lack of overall board independence.

Election of Directors — Board Accountability

7. United States – Unequal Voting Rights

Current ISS Policy:	New ISS Policy:
Problematic Capital Structure - Newly Public Companies: For **2022**, for newly public companies[8], generally vote against or withhold from the entire board (except new nominees[1], who should be considered case-by-case) if, prior to or in connection with the company's public offering, the company or its board implemented a multi-class capital structure in which the classes have unequal voting rights without subjecting the multi-class capital structure to a reasonable time-based sunset. In assessing the reasonableness of a time-based sunset provision, consideration will be given to the company's lifespan, its post-IPO ownership structure and the board's disclosed rationale for the sunset period selected. No sunset period of more than seven years from the date of the IPO will be considered to be reasonable. Continue to vote against or withhold from incumbent directors in subsequent years, unless the problematic capital structure is is reversed, removed, or subject to a newly added reasonable sunset. **Common Stock Capital Structure with Unequal Voting Rights**: Starting **Feb 1, 2023,** generally vote withhold or against directors individually, committee members, or the entire board (except new nominees[1], who should be considered case-by-case), if the company employs a common stock structure with unequal voting rights[9]. Exceptions to this policy will generally be limited to: ▪ Newly-public companies[8] with a sunset provision of no more than seven years from the date of going public; ▪ Limited Partnerships and the Operating Partnership (OP) unit structure of REITs; ▪ Situations where the unequal voting rights are considered *de minimis*; or ▪ The company provides sufficient protections for minority shareholders, such as allowing minority shareholders a regular binding vote on whether the capital structure should be maintained.	Generally vote withhold or against directors individually, committee members, or the entire board (except new nominees[1], who should be considered case-by-case), if the company employs a common stock structure with unequal voting rights[9]. Exceptions to this policy will generally be limited to: ▪ Newly-public companies[8] with a sunset provision of no more than seven years from the date of going public; ▪ Limited Partnerships and the Operating Partnership (OP) unit structure of REITs; ▪ Situations where the super-voting shares represent less than 5% of total voting power and therefore considered to be *de minimis*; or ▪ The company provides sufficient protections for minority shareholders, such as allowing minority shareholders a regular binding vote on whether the capital structure should be maintained.

Footnotes:	
[8] Newly-public companies generally include companies that emerge from bankruptcy, SPAC transactions, spin-offs, direct listings, and those who complete a traditional initial public offering. [1] A "new nominee" is a director who is being presented for election by shareholders for the first time. Recommendations on new nominees who have served for less than one year are made on a case-by-case basis depending on the timing of their appointment and the problematic governance issue in question. [9] This generally includes classes of common stock that have additional votes per share than other shares; classes of shares that are not entitled to vote on all the same ballot items or nominees; or stock with time-phased voting rights ("loyalty shares").	[8] Newly-public companies generally include companies that emerge from bankruptcy, SPAC transactions, spin-offs, direct listings, and those who complete a traditional initial public offering. [1] A "new nominee" is a director who is being presented for election by shareholders for the first time. Recommendations on new nominees who have served for less than one year are made on a case-by-case basis depending on the timing of their appointment and the problematic governance issue in question. [9] This generally includes classes of common stock that have additional votes per share than other shares; classes of shares that are not entitled to vote on all the same ballot items or nominees; or stock with time-phased voting rights ("loyalty shares").

Rationale for Change:

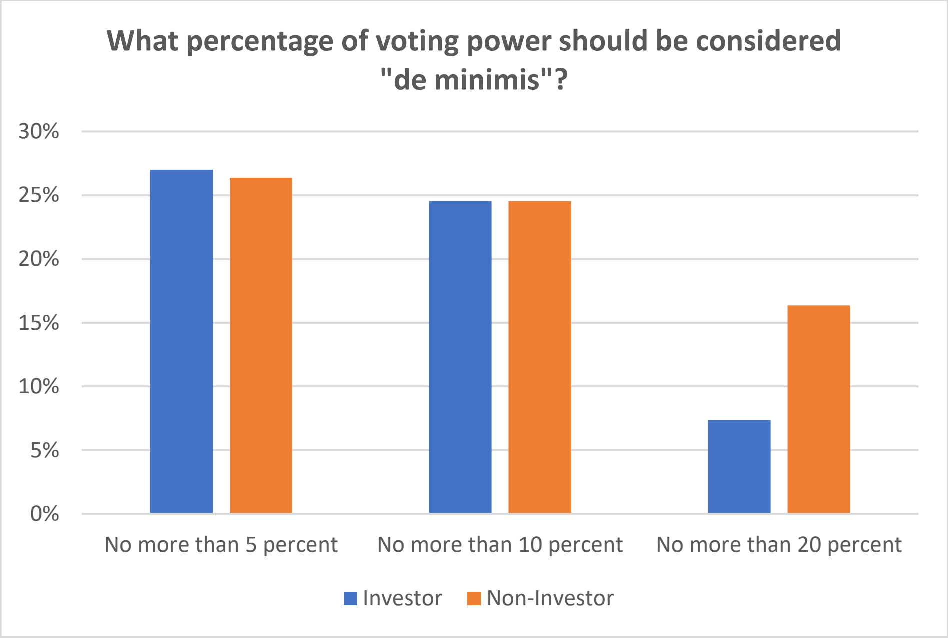
The proposed policy language reflects the expiration of the one-year grace period for companies that had been grandfathered under the prior policy on unequal voting rights. All companies identified as maintaining a capital structure with unequal voting rights will now be subject to adverse director vote recommendations under benchmark policy. The proposed policy also defines the level of voting power for super-voting shares that would be considered *de minimis* and therefore an exception to the policy.

2022 Policy Survey

The 2022 benchmark policy survey included a question regarding a *de minimis* exception to the unequal voting rights policy:

Potential Exceptions to Adverse Recommendations Under ISS Policy on Multi-Class Capital Structures: Already announced in 2021, and beginning in 2023, ISS plans to start recommending votes against certain directors at U.S. companies that maintain a multi-class capital structure with unequal voting rights, including companies that were previously "grandfathered" (exempted from adverse vote recommendations) based on the date they went public. ISS plans to apply a "*de minimis*" exception in cases where the capital structure is not deemed to meaningfully disenfranchise public shareholders: for example, where most of the super-voting shares have already been converted into regular common shares. What percentage of total voting power, held by the owners of the super-voting shares, would you consider to be "*de minimis*"?

Of the provided distinct quantifiable thresholds, a 5% *de minimis* was the strongest supported by both investors and non-investors.



Specific questions for this proposed change (in addition to the general questions for all proposed changes as set out in the introduction):

Question: ISS is considering altering the targeted adverse director vote recommendations under this policy. Currently, a newly public company with an unequal vote rights structure and without a reasonable sunset provision, generally results in adverse vote recommendations for the full board. Going forward, ISS is considering reducing the targeted adverse director recommendations to members of the governance committee and, where applicable, any director holding supervoting shares which gives them controlling ownership. Is this change in targeted director vote recommendations appropriate?

8. Continental Europe – Unequal Voting Rights

<table>
<tr><th>Current ISS Policy:</th><th>New ISS Policy:</th></tr>
<tr><td>[None]</td><td>XV. Accountability for Capital Structure with Unequal Voting Rights:

For meetings held on or after Feb 1, 2024, at widely-held companies, generally vote against directors or against the discharge of (non-executive) directors, if the company employs a stock structure with unequal voting rights[1]. Vote recommendation will generally be directed against the nominees primarily responsible for, or benefiting from, the unequal vote structure.

Exceptions to this policy will generally be limited to:

▪ Newly-public companies[2] with a sunset provision of no more than seven years from the date of going public;
▪ Situations where the unequal voting rights are considered de minimis[3]; or
▪ The company provides sufficient protections for minority shareholders, for example such as allowing minority shareholders a regular binding vote on whether the capital structure should be maintained or a concrete commitment to abolish the structure by the next AGM.</td></tr>
<tr><td>Footnotes:</td><td>[1] This generally includes classes of common stock that have additional votes per share than other shares; classes of shares that are not entitled to vote on all the same ballot items or nominees; or stock with time-phased voting rights (“loyalty shares” or “double-voting” shares).
[2] Newly-public companies generally include companies that emerge from bankruptcy, SPAC transactions, spin-offs, direct listings, and those who complete a traditional initial public offering.
[3] Distortion between voting and economic power does not exceed 10 percent, where this is calculated relative to the entire share capital for multiple share classes and on individual shareholder or concert level in case of loyalty share structures.</td></tr>
</table>

Rationale for Change:

Since 2015, ISS policy for the U.S. has been to recommend votes against directors of newly public companies that have certain poor governance provisions, such as multiple classes of stock with unequal voting rights. Starting in 2023, ISS will recommend against directors at U.S. companies with unequal voting rights, irrespective of when they first became public companies.

From the ISS Global Voting Principles, under the core tenet of Board Accountability, is the principle that "… shareholders' voting rights should be proportional to their economic interest in the company; each share should have one vote." This also aligns with the ICGN's Global Governance Principles (Principle 9).

Given a number of developments in Europe (particularly the introduction of new loyalty share structures in various European markets, alongside some existing long-standing loyalty share structures e.g., in Belgium, Italy, France, Netherlands, Spain), ISS proposes to revisit its approach to board accountability in the context of unequal voting rights in Continental Europe and introduce a specific policy in this area and aim to align its global stance against unequal voting rights as a poor governance feature.

We recognize that on the European continent, which consists of many different markets, many companies take different governance approaches and a variety of governance structures have historically been used. Whether through golden share structures, multiple share classes, or the increasing numbers of "loyalty" preferential voting structures, Europe has a large variety of structures that may be considered to treat shareholders unequally. However, some of these structures have been designed with positive governance intentions and may not be universally considered to treat shareholders unequally (e.g., loyalty voting structures are in theory open to all shareholders but due to practical reservations minority shareholders rarely apply to register). In addition, there are questions of whether the board is accountable for the continued existence of such structures in all instances, for example given that holders of special share classes must often approve the abolition of an existing structure.

Nevertheless, equal treatment of shareholders is a key tenet of good governance. It is therefore proposed that ISS Continental European policy will generally hold boards accountable for the existence of arrangements that allow for unequal voting rights through recommendations against specific directors or against the discharge of (non-executive) directors.

Given the expected significant impact of this new policy, a one-year grace period is proposed with the policy applying from Feb. 1, 2024.

9. United States – Problematic Governance Structures - Newly Public Companies

Current ISS Policy:	New ISS Policy:
Problematic Governance Structure - Newly Public Companies: For newly public companies[8], generally vote against or withhold from directors individually, committee members, or the entire board (except new nominees[1], who should be considered case-by-case) if, prior to or in connection with the company's public offering, the company or its board adopted the following bylaw or charter provisions that are considered to be materially adverse to shareholder rights: ▪ Supermajority vote requirements to amend the bylaws or charter; ▪ A classified board structure; or ▪ Other egregious provisions. A reasonable sunset provision will be considered a mitigating factor. Unless the adverse provision is reversed or removed, vote case-by-case on director nominees in subsequent years.	**Problematic Governance Structure:** For companies that hold or held their first annual meeting[8] of public shareholders after Feb. 1, 2015, generally vote against or withhold from directors individually, committee members, or the entire board (except new nominees[1], who should be considered case-by-case) if, prior to or in connection with the company's public offering, the company or its board adopted the following bylaw or charter provisions that are considered to be materially adverse to shareholder rights: ▪ Supermajority vote requirements to amend the bylaws or charter; ▪ A classified board structure; or ▪ Other egregious provisions. A provision which specifies that the problematic structure(s) will be sunset within seven years will be considered a mitigating factor. Unless the adverse provision is reversed or removed, vote case-by-case on director nominees in subsequent years.
Footnotes: [8] Newly-public companies generally include companies that emerge from bankruptcy, SPAC transactions, spin-offs, direct listings, and those who complete a traditional initial public offering. [1] A "new nominee" is a director who is being presented for election by shareholders for the first time. Recommendations on new nominees who have served for less than one year are made on a case-by-case basis depending on the timing of their appointment and the problematic governance issue in question.	[8] Includes companies that emerge from bankruptcy, SPAC transactions, spin-offs, direct listings, and those who complete a traditional initial public offering. [1] A "new nominee" is a director who is being presented for election by shareholders for the first time. Recommendations on new nominees who have served for less than one year are made on a case-by-case basis depending on the timing of their appointment and the problematic governance issue in question.

Rationale for Change:

Since 2017, ISS U.S. benchmark policy regarding problematic governance structures has stated that the inclusion of a reasonable sunset provision would be considered as a potential mitigating factor. This policy has not, however, distinctly defined the parameters of a sunset provision which would be viewed as reasonable. Although the volume of companies that utilize a sunset provision on governance structures from the time of their IPO has been low, establishing a time period for which a sunset provision will be seen as reasonable will eliminate ambiguity in the current policy.

The proposed seven-year time period to complete the sunset of problematic governance structures aligns with current ISS benchmark policy regarding problematic capital structures, which views a seven-year time-based sunset to a dual-class capital structure to be reasonable.

The proposed policy language is also updated to explicitly reflect that a "newly public company" is meant to be those that hold or held their first annual shareholder meeting after Feb. 1, 2015. This information regarding timing is currently included in policy FAQs but is brought forward here in order to provide better definition and reduce confusion on applicability.

2022 Policy Survey

The 2022 benchmark policy survey included a question regarding what would be viewed as an acceptable time-period to sunset these structures:

While recognizing that the sunset of a classified board may take multiple years, what is the most appropriate time period from the date of their IPO for companies to begin sunsetting problematic governance structures?

Investor and non-investor responses to this question:

	Investors	Non-Investors
3 years	35%	19%
7 years	11%	26%
Between 3 and 7 years	43%	37%
Other	11%	18%
Total number of respondents	157	109

A plurality of both investor and non-investor respondents believed a sunset provision should *begin* between 3 and 7 years from the date of the company's IPO, and that a sunset provision should *begin* at 3 years from the date of the company's IPO being next favored by investors. Given these initiation periods, the proposed policy defining seven years to be reasonable provides sufficient time for a sunset provision to complete.

Specific questions for this proposed change (in addition to the general questions for all proposed changes as set out in the introduction):

Question: ISS is proposing altering the targeted adverse director vote recommendations under this policy. Currently, a newly public company with problematic governance provisions generally results in adverse vote recommendations for all incumbent directors (for both poor provisions) or, where applicable, the full governance committee (for one provision). Going forward, ISS is proposing reducing the corresponding adverse director recommendations to only the full governance committee or the governance committee chair. Is this change in director vote recommendations appropriate?

10. Sub-Saharan Africa – Bundled Board Elections

Current ISS Policy:	New ISS Policy:
General Recommendation: Vote for management nominees in the election of directors, unless: ▪ Adequate disclosure has not been provided in a timely manner; ▪ There are clear concerns over questionable finances or restatements; ▪ There have been questionable transactions with conflicts of interest; ▪ There are any records of abuses against minority shareholder interests; ▪ The board fails to meet minimum corporate governance standards; ▪ There are specific concerns about the individual, such as criminal wrongdoing or breach of fiduciary responsibilities; or ▪ Repeated absences at board and committee meetings (less than 75 percent attendance) have not been explained (in countries where this information is disclosed). Vote against the election of directors at all companies if the name of the nominee is not disclosed in a timely manner prior to the meeting.	**General Recommendation:** Vote for management nominees in the election of directors, unless: ▪ For meetings on or after **Feb. 1, 2024**, the (re)elections are bundled; ▪ Adequate disclosure has not been provided in a timely manner; ▪ There are clear concerns over questionable finances or restatements; ▪ There have been questionable transactions with conflicts of interest; ▪ There are any records of abuses against minority shareholder interests; ▪ The board fails to meet minimum corporate governance standards; ▪ There are specific concerns about the individual, such as criminal wrongdoing or breach of fiduciary responsibilities; or ▪ Repeated absences at board and committee meetings (less than 75 percent attendance) have not been explained (in countries where this information is disclosed). Vote against the election of directors at all companies if the name of the nominee is not disclosed in a timely manner prior to the meeting.

Rationale for Change:

In Sub-Saharan African (SSA) markets, some companies propose, under a binding vote, the election of a single slate of directors, although this is not a common market practice. Bundling together significant proposals, such as board elections, that could be presented as separate voting items is not considered good practice, as it leaves shareholders only an all-or-nothing choice, skewing power disproportionally toward the board and away from shareholders. As board elections are one of the most important voting decisions that shareholders make, directors should be elected individually, as each director should be held accountable on an individual basis.

Under the new proposed policy, support will generally not be recommended for bundled elections proposals. The application of this new proposed policy will provide alignment with the current voting policies of South Africa and Continental Europe. A grace period of one year ahead of the application of this change will inform companies of this new policy and give them the opportunity to adapt ahead of the 2024 proxy season should they so wish.

Board-Related Proposals

11. United States – Director and Officer Indemnification, Liability Protection, and Exculpation

Current ISS Policy:	New ISS Policy:
General Recommendation: Vote case-by-case on proposals on director and officer indemnification and liability protection. Vote against proposals that would: ▪ Eliminate entirely directors' and officers' liability for monetary damages for violating the duty of care. ▪ Expand coverage beyond just legal expenses to liability for acts that are more serious violations of fiduciary obligation than mere carelessness. ▪ Expand the scope of indemnification to provide for mandatory indemnification of company officials in connection with acts that previously the company was permitted to provide indemnification for, at the discretion of the company's board (*i.e.*, "permissive indemnification"), but that previously the company was not required to indemnify. Vote for only those proposals providing such expanded coverage in cases when a director's or officer's legal defense was unsuccessful if both of the following apply: ▪ If the director was found to have acted in good faith and in a manner that s/he reasonably believed was in the best interests of the company; and ▪ If only the director's legal expenses would be covered.	**General Recommendation:** Vote case-by-case on proposals on director and officer indemnification, liability protection, and exculpation[1]. Vote against proposals that would: ▪ Eliminate entirely directors' and officers' liability for monetary damages for violating the duty of care. ▪ Expand coverage beyond just legal expenses to liability for acts that are more serious violations of fiduciary obligation than mere carelessness. ▪ Expand the scope of indemnification to provide for mandatory indemnification of company officials in connection with acts that previously the company was permitted to provide indemnification for, at the discretion of the company's board (*i.e.*, "permissive indemnification"), but that previously the company was not required to indemnify. Generally vote for proposals providing for exculpation provisions in a company's charter to the extent permitted under applicable state law. Vote for those proposals providing such expanded coverage in cases when a director's or officer's legal defense was unsuccessful if both of the following apply: ▪ If the individual was found to have acted in good faith and in a manner that s/he reasonably believed was in the best interests of the company; and ▪ If only the individual's legal expenses would be covered.

Footnotes:	[1] **Indemnification**: the condition of being secured against loss or damage. **Limited liability**: a person's financial liability is limited to a fixed sum, or personal financial assets are not at risk if the individual loses a lawsuit that results in financial award/damages to the plaintiff. **Exculpation**: to eliminate or limit the personal liability of a director or officer to the corporation or its shareholders for monetary damages for breach of fiduciary duty as a director or officer.

Rationale for Change:

The Delaware General Corporation Law ("DGCL") was amended in August 2022 to permit corporations to limit or eliminate the personal liability of officers for claims of breach of the fiduciary duty of care (Section 102(b)(7)). While the DGCL previously allowed corporations to exculpate directors from breach of fiduciary duty of care claims, the recent amendments expand that exculpation authority to corporate officers, in both cases only if the corporation's certificate of incorporation includes an exculpation provision. Advocates of this amendment believe that it will offer protection for officers, who are held to the same fiduciary duties as directors under the DGCL, as well as eliminate confusion in applying exculpation provisions to individuals serving as both a director and officer.

The exculpation of officers is limited to the following officers: president, chief executive officer, chief operating officer, chief financial officer, chief legal officer, controller, treasurer or chief accounting officer, "named executive officers" identified in the corporation's SEC filings, and individuals who have agreed to be identified as officers of the corporation. As with director exculpation, officer exculpation would not include breach of the duty of loyalty, acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, or any transaction in which the officer derived an improper personal benefit. In addition, the protection does not include actions that occurred prior to the relevant DGCL provisions. However, unlike the directors' exculpation, officers may not be exculpated from liability for claims brought by or in the right of the corporation, such as derivative claims.

Compensation

12. United Kingdom and Ireland — Remuneration Report

Current ISS Policy:		New ISS Policy:	
Report component	**Good market practice**	**Report component**	**Good market practice**
Base salaries, benefits and pensions	Remuneration committees are required to justify salary levels and increases in basic salary with reference to their remuneration policy. Annual increases in salary are expected to be low and in line with general increases across the broader workforce. Post-freeze 'catch-up' salary increases or benchmarking-related increases are not generally supported. Exceptions may be made for promotions, increases in responsibilities and new recruits to the board. Changes in pay levels should take into account the pay and conditions across the company. The Investment Association Principles advise that where remuneration committees seek to increase base pay, salary increases should not be approved purely on the basis of benchmarking against peer companies. ……	Base salaries, benefits and pensions	Remuneration committees are required to justify salary levels and increases in basic salary with reference to their remuneration policy. Annual increases in salary are expected to be low and ideally lower proportionally than general increases across the broader workforce. Post-freeze 'catch-up' salary increases or benchmarking-related increases are not generally supported. Exceptions may be made for promotions, increases in responsibilities and new recruits to the board. Changes in pay levels should take into account the pay and conditions across the company. The Investment Association Principles advise that where remuneration committees seek to increase base pay, salary increases should not be approved purely on the basis of benchmarking against peer companies. ……

Rationale for Change:

There is a concern that part of the current wording of the ISS UK and Ireland policy on remuneration may be misunderstood as encouraging companies to increase directors' base salaries proportionally in line with increases made to the wider company workforce. Adopting such a pattern would lead to a widening of the gap between total opportunity available to executives compared to that of the average employee. The proposed change modifies the policy language to clarify that keeping directors' annual salary increases low and ideally lower proportionally than general increases across the broader workforce is considered to be good market practice.

The Investment Association Principles of Remuneration provide the following guidance in this area:

> It is essential that companies adequately justify to investors the level of remuneration paid to executives. Investors continue to examine how any increases to basic salary or variable pay opportunity are justified and expect Remuneration Committees to show restraint in relation to overall quantum.
>
> Any potential increases to the level of salary should be considered in tandem with the effect this will have on overall quantum. For the majority of remuneration structures, increasing the salary will have a 'multiplier effect' on the overall level of remuneration. Small percentage increases to salary may lead to substantial increases in overall remuneration.

13. Brazil – Management Compensation

<table>
<tr><th>Current ISS Policy:</th><th>New ISS Policy:</th></tr>
<tr>
<td>General Recommendation: Generally vote for management compensation proposals that are presented in a timely manner and include all disclosure elements required by the Brazilian Securities Regulator (CVM).

Vote against management compensation proposals when:

▪ The company fails to present a detailed remuneration proposal, or the proposal lacks clarity;
▪ The company does not disclose the total remuneration of its highest-paid executive; or
▪ The figure provided by the company for the total compensation of its highest-paid administrator is not inclusive of all elements of the executive's pay.

Vote case-by-case on global remuneration cap (or company's total remuneration estimate, as applicable) proposals that represent a significant increase of the amount approved at the previous AGM (year-over-year increase). When further scrutinizing year-over-year significant remuneration increases, jointly consider some or all of the following factors, as relevant:

▪ Whether there is a clearly stated and compelling rationale for the proposed increase;
▪ Whether the remuneration increase is aligned with the company's long-term performance and/or operational performance targets disclosed by the company;
▪ Whether the company has had positive TSR for the most recent one- and/or three-year periods;
▪ Whether the relation between fixed and variable executive pay adequately aligns compensation with the company's future performance.

Vote on a case-by-case basis when the company proposes to amend previously-approved compensation caps, paying particular attention as to whether the company has presented a compelling rationale for the request.</td>
<td>General Recommendation: Generally vote for management compensation proposals that are presented in a timely manner and include all disclosure elements required by the Brazilian Securities Regulator (CVM).

Vote against management compensation proposals when:

▪ The company fails to present a detailed remuneration proposal, or the proposal lacks clarity;
▪ The figure provided by the company for the total compensation of its highest-paid executive is not inclusive of all elements of the executive's pay;
▪ There are governance concerns regarding the company's compensation practices; or
▪ For meetings on or after Feb. 1, 2024, when the figure reported by the company as the highest compensation paid to a non-executive director is larger than the highest executive remuneration disclosed for the most recent fiscal year, in the absence of a compelling rationale.

Vote case-by-case on global remuneration cap (or company's total remuneration estimate, as applicable) proposals that represent a significant increase of the amount approved at the previous AGM (year-over-year increase). When further scrutinizing year-over-year significant remuneration increases, jointly consider some or all of the following factors, as relevant:

▪ Whether there is a clearly stated and compelling rationale for the proposed increase;
▪ Whether the remuneration increase is aligned with the company's long-term performance and/or operational performance targets disclosed by the company;
▪ Whether the company has had positive TSR for the most recent one- and/or three-year periods;
▪ Whether the relation between fixed and variable executive pay adequately aligns compensation with the company's future performance.

Amend Global Remuneration Cap</td>
</tr>
</table>

	General Recommendation: Vote on a case-by-case basis when the company proposes to amend previously-approved global compensation caps, paying particular attention as to whether the company has presented a compelling rationale for the request.

Rationale for Change:

In Brazil, shareholders are asked to vote on an annual binding resolution to approve the global remuneration cap for the company's administrators (statutory executives, board members and, when applicable, fiscal council members). While in Brazil compensation disclosure is not individualized, meaning, companies do not specifically disclose the remuneration of the CEO and/or the chair of the board, regulatory requirements mandate the disclosure of the company's highest-paid non-executive director, which is generally assumed to be the chair of the board, as well as the highest-paid executive, which is generally assumed to be the CEO of the company. In addition, while shareholders are asked to approve the global compensation cap for the current fiscal year, the board of directors carries the discretion to allocate the approved remuneration amongst the different administrators' bodies – board, executives, and/or fiscal council members.

Based on the information filed by companies with the Brazilian Securities Regulator, ISS identified a small group of issuers, specifically 18 out of the 232 companies analyzed by ISS in the 2022 proxy season, that reported a non-executive director as their highest-paid administrator; i.e., the highest non-executive remuneration paid by the company was larger than the highest executive compensation reported for the most recent fiscal year. Under this proposed updated policy, to go into effect as of Feb. 1, 2024, after a one-year grace period, ISS will generally recommend against the annual binding say-on-pay proposal of companies that report such a problematic pay practice, in the absence of a compelling rationale.

This problematic pay practice is most frequently found in controlled companies that have founders and/or controlling shareholders serving as non-independent board chair. This board structure also raises concerns regarding potential conflict of interests in the allocation of the approved global compensation cap, potentially deepening the misalignment between non-executives and executive compensation and the interest of unaffiliated shareholders.

In addition, the proposed policy change clarifies the current ISS practice of recommending against the annual say-on-pay proposals in cases where there are governance concerns regarding the companies' compensation practices.

14. Middle East and North Africa, Sub-Saharan Africa – Share Incentive Schemes

<table>
<tr><th>Current ISS Policy:</th><th>New ISS Policy:</th></tr>
<tr><td>General Recommendation: Vote compensation plans on a case-by-case basis.</td><td>General Recommendation: Generally vote against a share incentive scheme (or an amendment to a current scheme) if the level of disclosure is below what is required for shareholders to make an informed decision on the scheme.

In the event of sufficient disclosure, generally vote for a share incentive scheme (or an amendment to a current scheme) if the scheme is in line with long-term shareholder interests. This assessment includes, but is not limited to, the following factors:
Existence of performance conditions and relevant disclosure such as performance period;
Vesting period is sufficiently long-term;
The potential maximum dilution under all share incentive schemes must not exceed 10 percent of the issued share capital;
The scheme has caps on individual participation;
Whether NEDs participate in the scheme;
The scheme does not allow for option repricing or issue of options at a discount or backdating of options;
The scheme does not provide for payment of dividends on unvested shares or options.</td></tr>
</table>

Rationale for Change:

This new proposed policy clarifies the current policy application for proposals concerning share incentive schemes or amendments to current schemes in the Middle East and North Africa (MENA) and Sub-Saharan Africa (SSA) regions. Submitting incentive schemes for shareholders' vote has been seen, although not very frequently, in the MENA and SSA markets, more specifically in Egypt, Ghana, Kuwait, Morocco, Namibia, Nigeria, Saudi Arabia, United Arab Emirates and Zimbabwe.

Similar to the current voting guidelines on share incentive schemes in South Africa and Continental Europe, when assessing a proposed scheme, or an amendment to a current one, ISS considers whether the scheme terms are deemed in line with best practices or not, including the terms mentioned in the updated language of the policy.

Most companies in the MENA and SSA markets have provided insufficient or no disclosure on the terms and conditions of the share incentive schemes, such as the vesting period and the performance conditions; therefore, support has not been warranted for the vast majority of schemes proposed for shareholders’ vote. Prior to this proposed policy change, the MENA and SSA policy guidelines did not provide a framework for the analysis and vote recommendations on proposals regarding incentive schemes. The inclusion of the new language codifies our current analysis of such proposals, allows for more transparency on the current policy approach and provides a defined voting framework on proposals seeking the approval and/or amendments to share incentive schemes. Consequently, no impact on ISS vote recommendations is expected.

Capitalization

15. United States – Share Issuance Mandates at U.S. Domestic Issuers Incorporated Outside the U.S.

Current ISS Policy:	New ISS Policy:
[none]	**General Recommendation:** For U.S. domestic issuers incorporated outside the U.S. and listed solely on a U.S. exchange, generally vote for resolutions to authorize the issuance of common shares up to 20 percent of currently issued common share capital, where not tied to a specific transaction or financing proposal. For pre-revenue or other early-stage companies that are heavily reliant on periodic equity financing, generally vote for resolutions to authorize the issuance of common shares up to 50 percent of currently issued common share capital. The burden of proof will be on the company to establish that it has a need for the higher limit. Renewal of such mandates should be sought at each year's annual meeting. Vote case-by-case on share issuances for a specific transaction or financing proposal.

Rationale for Change:

Companies incorporated in certain markets are required by the laws of the country of incorporation to seek shareholder approval for all share issuances. Commonly, this takes the form of an annual "mandate" to cover all share issuances over the period until the next annual meeting, though some countries allow such mandates to cover as long as a five-year period. ISS U.S. Benchmark policy does not currently include a policy for such issuance mandates, because U.S.-incorporated companies are generally permitted to issue shares up to the level of authorized share capital specified in the charter without a shareholder vote, except where such a vote is required by Nasdaq or NYSE listing rules. As a result, ISS currently evaluates share issuance mandate proposals under the policy of the market of incorporation. However, such policies generally follow local listing rules and best practice recommendations, which presume a local market listing, but the U.S. domestic issuers covered by this policy update are listed solely in the U.S. For markets such as the UK, Continental Europe, and certain Asia-Pacific markets, where pre-emptive rights are commonly offered with respect to new share issuances, ISS policies include narrow limits on share issuances without pre-emptive rights. However, pre-emptive rights are nearly non-existent in the U.S., and companies with a primary or sole listing in the U.S. believe that being forced to offer pre-emptive rights, to an investor base largely unfamiliar with the concept, will delay the process of fundraising and put the company at a disadvantage relative to U.S.-incorporated peers that do not offer such rights.

NYSE and Nasdaq listing rules both require shareholder approval of issuances above 20 percent of currently-issued share capital in a private placement or in connection with an acquisition, but these rules do not cover public offerings for cash. This creates the potential for significant dilution through issuances of new shares, and the 20 percent limit in the U.S. policy is intended to safeguard against excessive dilution, while still allowing a reasonable degree of flexibility for capital raising. Because pre-revenue companies are typically dependent on periodic equity financing to continue operations prior to commercialization of a product, a higher issuance limit is considered appropriate for such companies. However, the onus will be on the company to demonstrate that the higher limit is appropriate.

The introduction of the proposed specific policy for U.S. domestic issuers incorporated outside the U.S. and listed solely on a U.S. exchange is intended to better reflect the expectations and concerns of investors in the U.S. market. The policy will apply to companies with a sole listing in the U.S., but which are required by the laws of the country of incorporation to seek approval for all share issuances. Dual-listed companies will continue to be evaluated under the policy of their market of incorporation.

16. Sub-Saharan Africa – Share Repurchase Plans

<table>
<tr><th>Current ISS Policy:</th><th>New ISS Policy:</th></tr>
<tr><td>
General Recommendation: Generally vote for market repurchase authorities (share repurchase programs) if the terms comply with the following criteria:

▪ A repurchase limit of up to 10 percent of outstanding issued share capital;
▪ A holding limit of up to 10 percent of a company's issued share capital in treasury (“on the shelf”); and
▪ A duration of no more than five years, or such lower threshold as may be set by applicable law, regulation, or code of governance best practice.

Authorities to repurchase shares in excess of the 10 percent repurchase limit will be assessed on a case-by-case basis. ISS may support such share repurchase authorities under special circumstances, which are required to be publicly disclosed by the company, provided that, on balance, the proposal is in shareholders' interests. In such cases, the authority must comply with the following criteria:

▪ A holding limit of up to 10 percent of a company's issued share capital in treasury (“on the shelf”); and
▪ A duration of no more than 18 months.

In markets where it is normal practice not to provide a repurchase limit, evaluate the proposal based on the company's historical practice. However, companies should disclose such limits and, in the future, a vote against may be warranted at companies that fail to do so. In such cases, the authority must comply with the following criteria:

▪ A holding limit of up to 10 percent of a company's issued share capital in treasury (“on the shelf”); and
▪ A duration of no more than 18 months.

In addition, vote against any proposal where:

▪ The repurchase can be used for takeover defenses;
▪ There is clear evidence of abuse;
</td><td>
General Recommendation: Generally vote for market repurchase authorities (share repurchase programs) if the terms comply with the following criteria:

▪ A repurchase limit of up to 10 percent of outstanding issued share capital;
▪ A holding limit of up to 10 percent of a company’s issued share capital in treasury (“on the shelf”) (where information is disclosed); and
▪ A duration of no more than 18 months.

Authorities to repurchase shares in excess of the 10 percent repurchase limit will be assessed on a case-by-case basis. Such share repurchase authorities under special circumstances, which are required to be publicly disclosed by the company, may be supported provided that, on balance, the proposal is in shareholders' interests. In such cases, the authority must comply with the following criteria:

▪ A holding limit of up to 10 percent of a company's issued share capital in treasury (“on the shelf”); and
▪ A duration of no more than 18 months.

In addition, vote against any proposal where:

▪ The repurchase can be used for takeover defenses;
▪ There is clear evidence of abuse;
▪ There is no safeguard against selective buybacks; and/or
▪ Pricing provisions and safeguards are deemed to be unreasonable in light of market practice.
</td></tr>
</table>

▪ There is no safeguard against selective buybacks; and/or ▪ Pricing provisions and safeguards are deemed to be unreasonable in light of market practice.	

Rationale for Change:

In Sub-Saharan African (SSA) markets such as Botswana, Ghana, Kenya, Namibia, Nigeria and Zimbabwe, companies regularly submit general authorizations for market share repurchase plans for shareholders' approval on annual general meetings. Currently, ISS Sub-Saharan African (SSA) policy guidelines support the approval of market repurchase authorities if they comply with a repurchase limit of up to 10 percent of the outstanding issued share capital which is an established SSA market practice. If an authorization that exceeds a 10 percent limit is proposed yet remains in line with the local laws and regulations such as in Botswana, Ghana, Nigeria, and Zimbabwe, it is assessed on a case-by-case basis.

The proposed updated policy amends the duration of a repurchase authorization from five years to 18 months since the five-year duration does not apply to SSA markets: SSA market practices do not exceed a duration of 18 months and SSA laws and regulations stipulate a duration until the next AGM or of 18 months (except for Nigeria where it extends to two years, yet this market is unlikely to be impacted by this change given that Nigerian companies rarely propose share repurchase plans). Moreover, disclosure by SSA companies on the percentage of their share capital held as treasury shares is neither a current market practice, nor stipulated by most SSA laws and regulations, thereby the policy clarifies that a holding limit of 10 percent of the share capital held in treasury shares applies where information is disclosed.

The proposed policy will provide for a more consistent and codified assessment of SSA share repurchase plans.

Social and Environmental Shareholder Proposals

17. United States – Political Expenditures and Lobbying Congruency

<table>
<tr><th>Current ISS Policy:</th><th>New ISS Policy:</th></tr>
<tr><td>[none]</td><td>General Recommendation: Generally vote case-by-case on proposals requesting greater disclosure of a company’s alignment of political contributions, lobbying, and electioneering spending with a company’s publicly stated values and policies, considering:

▪ The company’s policies, management, board oversight, governance processes, and level of disclosure related to direct political contributions, lobbying activities, and payments to trade associations, political action committees, or other groups that may be used for political purposes;
▪ The company’s disclosure regarding: the reasons for its support of candidates for public offices; the reasons for support of and participation in trade associations or other groups that may make political contributions; and other political activities;
▪ Any incongruencies identified between a company’s direct and indirect political expenditures and its publicly stated values and priorities.
▪ Recent significant controversies related to the company’s direct and indirect lobbying, political contributions, or political activities.

Generally vote case-by-case on proposals requesting comparison of a company’s political spending to objectives that can mitigate material risks for the company, such as limiting global warming.</td></tr>
</table>

Rationale for Change:

The numbers of shareholder proposals requesting company transparency on the congruency of its political contributions to its public commitments and/or of its climate lobbying to its climate goals have been growing in recent years. Current ISS U.S benchmark policy related to political contributions and political ties does not cover political spending and lobbying congruency directly. The proposed new policy will provide more transparency to the market about how assessments of these shareholder proposals are made, and codifies previous practices used in the 2022 proxy season.

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