



**UNITED STATES**

**CLIMATE PROXY VOTING  
GUIDELINES UPDATES**



2022 Policy Recommendations

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## Board of Directors

### Accountability

#### Unequal Voting Rights

Current Climate Policy, incorporating changes:	New Climate Policy:
<p><b>Problematic Capital Structure - Newly Public Companies:</b> For 2022, <del>f</del>For newly public companies<sup>1</sup>, generally vote against or withhold from the entire board (except new nominees<sup>2</sup>, 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.</p> <p>Continue to vote against or withhold from incumbent directors in subsequent years, unless the problematic capital structure is reversed, <del>or removed</del>, or subject to a newly added reasonable sunset.</p> <p><b>Common Stock Capital Structure with Unequal Voting Rights:</b> Starting Feb 1, 2023, generally vote withhold or against directors individually, committee members, or the entire board (except new nominees<sup>2</sup>, who should be considered</p>	<p><b>Problematic Capital Structure - Newly Public Companies:</b> For 2022, for newly public companies<sup>1</sup>, generally vote against or withhold from the entire board (except new nominees<sup>2</sup>, 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.</p> <p>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.</p> <p><b>Common Stock Capital Structure with Unequal Voting Rights:</b> Starting Feb 1, 2023, generally vote withhold or against directors individually, committee members, or the entire board (except new nominees<sup>2</sup>, who should be considered case-by-case), if the company employs a common stock structure with unequal voting rights<sup>3</sup>.</p>

<sup>1</sup> 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.

<sup>2</sup> 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.

<p>case-by-case), if the company employs a common stock structure with unequal voting rights<sup>3</sup>.</p> <p>Exceptions to this policy will generally be limited to:</p> <ul style="list-style-type: none"> <li>▪ Newly-public companies<sup>1</sup> with a sunset provision of no more than seven years from the date of going public;</li> <li>▪ Limited Partnerships and the Operating Partnership (OP) unit structure of REITs;</li> <li>▪ Situations where the unequal voting rights are considered <i>de minimis</i>; or</li> <li>▪ 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.</li> </ul>	<p>Exceptions to this policy will generally be limited to:</p> <ul style="list-style-type: none"> <li>▪ Newly-public companies<sup>1</sup> with a sunset provision of no more than seven years from the date of going public;</li> <li>▪ Limited Partnerships and the Operating Partnership (OP) unit structure of REITs;</li> <li>▪ Situations where the unequal voting rights are considered <i>de minimis</i>; or</li> <li>▪ 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.</li> </ul>
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**Rationale for Change:**

From the [ISS Global Voting Principles](#), under the core tenet of Board Accountability, is the principal that “...shareholders’ voting rights should be proportional to their economic interest in the company; each share should have one vote.”

As an extension of Sustainability Advisory Services' policy regarding companies' unilateral adoption of adverse governance provisions, starting in 2015, Sustainability Advisory Services' U.S. policy has been to recommend against directors of newly - public companies (whose first annual shareholder meeting was in 2015 or thereafter) with governance provisions considered the most adverse: a classified board; supermajority vote requirements to amend the governing documents; and multi-class capital structure in which the classes had unequal voting rights. It was recognized that some such restrictions may have protective benefits for newly-public companies in their initial years, so the presence of a reasonable time-based sunset to the adverse governance structure or provisions was considered a basis to avoid adverse director vote recommendations. In ISS' policy survey conducted in 2019, a majority of investors supported as reasonable a sunset of not more than [seven years](#). The continued presence of a dual-class capital structure or other poor governance provisions, without a reasonable sunset, results in ongoing against or with old recommendations on directors in subsequent years. However, many companies continue to go public with such adverse governance provisions. Each additional year subsequent to the initial policy implementation creates a discernable schism between recently-public companies that are impacted by the policy and long-standing grandfathered public companies that are not. Accordingly, a [question](#) was included in ISS' 2021 Global Benchmark Policy Survey to gauge sentiment toward this issue and whether applying the policy to all companies, regardless of the date they went public, was warranted:

*In your opinion, for the companies with poor governance structures that were previously grandfathered, should ISS revisit these problematic provisions and consider issuing adverse voting recommendations in the future where they still exist? (i.e., at companies that still maintain these poor governance provisions?)*

<sup>3</sup> 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”).

Investor and non-investor responses to this question:

	Investors	Non-Investors
Yes	94%	57%
No	6%	43%
Total number of respondents	142	137

A follow up question was asked:

*If you answered Yes above, which of the following features do you think ISS should revisit and consider no longer grandfathered when considering director vote recommendations (check all that apply)"*

Investor and non-investor responses to this question:

	Investors' Rank*	Non-Investors' Rank *
A multiple class capital structure with unequal voting rights	1 (92%)	1 (77%)
Supermajority vote requirements to amend governing documents	2 (86%)	2 (59%)
A classified board structure	3 (80%)	3 (55%)
Other	4 (9%)	4 (8%)
Total number of respondents	133	74

\*Rankings are based on number of responses for each answer choice

#### *Evolving Regulatory and Index Views on Multi-Class Structures*

In July 2017, S&P Dow Jones Indices [updated](#) its listing rules to state that it would no longer add companies with multi-class capital structures to the S&P Composite 1500. Previous efforts by the SEC<sup>4</sup> to rein in such structures were defeated in the courts. However, in September 2021 a [draft bill](#) in the House of Representatives was released publicly which would, among other things to amend the Securities Exchange Act of 1934 to improve the governance of multi-class stock companies. Distinctly, the draft bill would empower the SEC to adopt rules under which U.S. stock exchanges would enact listing standards that would prohibit listing a company that has two

<sup>4</sup> See footnote 8, Rick A. Fleming, "[Dual-Class Shares: A Recipe for Disaster](#)". Oct 12, 2019

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or more classes of stock with unequal voting rights, unless the company has in place sunset provisions of no longer than seven years that give shareholders one vote for each of their shares after the sunset expires.

**Changes to the policy:**

Due to the strong support expressed through the survey results and roundtable discussions, Sustainability Advisory Services is commencing with the removal of the grandfathering of companies with poor governance, focusing first on unequal voting rights, which is considered the problematic governance provision most adverse to shareholders' rights. After a one-year grace period, starting in 2023, Sustainability Advisory Services will recommend against directors at all companies with unequal voting rights, irrespective of when they first became public companies. While most of the more recent companies' unequal voting rights are due to a multi-class common share structure where one or more classes have more votes per share than other classes, at some of the older companies, some classes of common stock afford shareholders differential rights on which nominees they can elect, or which ballot items they are allowed to vote on. A small number of U.S. companies also have unequal voting rights in the form of time-phased voting which allow shares held for a certain number of years to have more votes per share than shares held for a shorter period.

Note that this policy update means that, starting in 2023, Sustainability Advisory Services will likely be recommending against directors at many large or iconic U.S. companies that have unequal voting rights structures, such as: Alphabet Inc., Meta Platforms, Inc. (formerly Facebook, Inc.), Ford Motor Company, Berkshire Hathaway Inc., and The New York Times Company.

**Climate Accountability**

Current Climate Policy, incorporating changes:	New Climate Policy:
<p><b>Climate Policy Recommendation:</b> For companies that are significant greenhouse gas (GHG) emitters, through their operations or value chain<sup>5</sup>, generally vote against or withhold from the incumbent chair of the responsible committee (or other directors on a case-by-case basis) in cases where Sustainability Advisory Services determines that the company is not taking the minimum steps needed to understand, assess, and mitigate risks related to climate change to the company and the larger economy.</p> <p>For <b>2022</b>, minimum steps to understand and mitigate those risks are considered to be the following. Both minimum criteria will be required to be in compliance:</p> <ul style="list-style-type: none"> <li>▪ Detailed disclosure of climate-related risks, such as according to the framework established by the Task Force on Climate-related Financial Disclosures (TCFD), including: <ul style="list-style-type: none"> <li>▪ Board governance measures;</li> <li>▪ Corporate strategy;</li> <li>▪ Risk management analyses; and</li> <li>▪ Metrics and targets.</li> </ul> </li> <li>▪ Appropriate GHG emissions reduction targets.</li> </ul> <p>For <b>2022</b>, “appropriate GHG emissions reductions targets” will be any well-defined GHG reduction targets. Expectations about what constitutes “minimum steps to mitigate risks related to climate change” will increase over time.</p>	<p><b>Climate Policy Recommendation:</b> For companies that are significant greenhouse gas (GHG) emitters, through their operations or value chain<sup>5</sup>, generally vote against or withhold from the incumbent chair of the responsible committee (or other directors on a case-by-case basis) in cases where Sustainability Advisory Services determines that the company is not taking the minimum steps needed to understand, assess, and mitigate risks related to climate change to the company and the larger economy.</p> <p>For <b>2022</b>, minimum steps to understand and mitigate those risks are considered to be the following. Both minimum criteria will be required to be in compliance:</p> <ul style="list-style-type: none"> <li>▪ Detailed disclosure of climate-related risks, such as according to the framework established by the Task Force on Climate-related Financial Disclosures (TCFD), including: <ul style="list-style-type: none"> <li>▪ Board governance measures;</li> <li>▪ Corporate strategy;</li> <li>▪ Risk management analyses; and</li> <li>▪ Metrics and targets.</li> </ul> </li> <li>▪ Appropriate GHG emissions reduction targets.</li> </ul> <p>For <b>2022</b>, “appropriate GHG emissions reductions targets” will be any well-defined GHG reduction targets. Expectations about what constitutes “minimum steps to mitigate risks related to climate change” will increase over time.</p>

<sup>5</sup> For 2022, companies defined as “significant GHG emitters” will be those on the current Climate Action 100+ Focus Group list.

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**Rationale for Change:**

Climate change and climate-related risks are now among the most critical topics for many investors, and this area has developed significantly in the last year. Many investors around the world are seeking to better integrate climate risk considerations in their investment, engagement, and voting processes. Scientific experts have stated that there is an imperative to limit cumulative CO<sub>2</sub> emissions, aiming to reach net zero CO<sub>2</sub> emissions by mid-century, along with strong reductions in other greenhouse gas emissions in order to limit human-induced global warming. The Climate Policy updates for 2022 introduce a board accountability policy for the assessment of and focus on the world's highest greenhouse gas (GHG) emitting companies.

In response to ISS' 2021 Climate Policy survey, high percentages of investor respondents supported establishing minimum criteria for companies considered to be strongly contributing to climate change. Therefore, Sustainability Advisory Services is for 2022 focusing on the 167 companies currently identified as the Climate Action 100+ Focus Group list, and it will recommend against incumbent directors – usually the appropriate committee chair in the first year – in cases where the company is not disclosing such as according to the Task Force on Climate-related Financial Disclosures (TCFD) and does not have quantitative GHG emission reduction targets covering at least a significant portion of the company's direct emissions.

For 2022, additional data points will be provided in the company information section for all Climate Action 100+ Focus Group companies in order to support this policy.



## Composition

### Diversity

Current Sustainability Advisory Services Policy, incorporating changes:	New Sustainability Advisory Services Policy:
<p><b>Gender Diversity:</b></p> <p><b>Climate Policy Recommendation:</b> Generally vote against or withhold from <del>incumbent nominees who:</del> the chair of the nominating committee, or other nominees on a case-by-case basis, if the board lacks at least one director of an underrepresented gender identity<sup>6</sup>.</p> <ul style="list-style-type: none"> <li><del>▪ Serve as the chair of the nominating committee if there is not at least one woman on the board. If the chair of the nominating committee is not identified, generally vote against or withhold from incumbent members of the nominating committee.</del></li> <li><del>▪ Serve as the board chair, or other directors on a case-by-case basis, if there is not at least one woman on the board and the board lacks a formal nominating committee.</del></li> </ul> <p><b>Racial and/or Ethnic Diversity:</b></p> <p><b>Climate Policy Recommendation:</b> <del>For publicly listed companies, highlight boards with no apparent racial and/or ethnic diversity<sup>7</sup>.</del></p> <p><del>For publicly traded companies listed on US exchanges, effective for meetings on or after Feb. 1, 2022, g</del>Generally vote against or withhold from the chair of the nominating committee (or other directors on a case-by-case basis) where the board has no apparent racially or ethnically diverse members<sup>7</sup>.</p>	<p><b>Gender Diversity</b></p> <p><b>Climate Policy Recommendation:</b> Generally vote against or withhold from the chair of the nominating committee, or other nominees on a case-by-case basis, if the board lacks at least one director of an underrepresented gender identity<sup>6</sup>.</p> <p><b>Racial and/or Ethnic Diversity</b></p> <p><b>Climate Policy Recommendation:</b> Generally vote against or withhold from the chair of the nominating committee (or other directors on a case-by-case basis) where the board has no apparent racially or ethnically diverse members<sup>7</sup>.</p>

<sup>6</sup> Underrepresented gender identities include directors who identify as women or as non-binary.

<sup>7</sup> Aggregate diversity statistics provided by the board will only be considered if specific to racial and/or ethnic diversity.

**Rationale for Change:**

This policy update not only removes the transitory provision that has become obsolete, but also simplifies the policy language for clarity.

## Capital/Restructuring

### Common Stock Authorization

Current Climate Policy, incorporating changes:	New Climate Policy:
<p><b><u>General Authorization Requests</u></b></p> <p><del>Climate Policy Recommendation: Vote for proposals to increase the number of authorized common shares where the primary purpose of the increase is to issue shares in connection with a transaction on the same ballot that warrants support.</del></p> <p><del>Vote against proposals at companies with more than one class of common stock to increase the number of authorized shares of the class of common stock that has superior voting rights.</del></p> <p><del>Vote against proposals to increase the number of authorized common shares if a vote for a reverse stock split on the same ballot is warranted despite the fact that the authorized shares would not be reduced proportionally.</del></p> <p>Vote case-by-case on <del>all other</del> proposals to increase the number of <b>authorized</b> shares of common stock <del>authorized for issuance. Take into account company-specific factors that include, at a minimum, the following:</del></p> <ul style="list-style-type: none"> <li><del>▪ Past Board Performance:</del> <ul style="list-style-type: none"> <li><del>▪ The company's use of authorized shares during the last three years;</del></li> </ul> </li> <li><del>▪ The Current Request:</del> <ul style="list-style-type: none"> <li><del>▪ Disclosure in the proxy statement of the specific purposes of the proposed increase;</del></li> </ul> </li> </ul>	<p><b><u>General Authorization Requests</u></b></p> <p><b>Climate Policy Recommendation:</b> Vote case-by-case on proposals to increase the number of authorized shares of common stock that are to be used for general corporate purposes:</p> <ul style="list-style-type: none"> <li>▪ If share usage (outstanding plus reserved) is less than 50% of the current authorized shares, vote for an increase of up to <b>50%</b> of current authorized shares.</li> <li>▪ If share usage is 50% to 100% of the current authorized, vote for an increase of up to <b>100%</b> of current authorized shares.</li> <li>▪ If share usage is greater than current authorized shares, vote for an increase of up to the current share usage.</li> <li>▪ In the case of a stock split, the allowable increase is calculated (per above) based on the post-split adjusted authorization.</li> </ul> <p>Generally vote against proposed increases, even if within the above ratios, if the proposal or the company's prior or ongoing use of authorized shares is problematic, including, but not limited to:</p> <ul style="list-style-type: none"> <li>▪ The proposal seeks to increase the number of authorized shares of the class of common stock that has superior voting rights to other share classes;</li> <li>▪ On the same ballot is a proposal for a reverse split for which support is warranted despite the fact that it would result in an excessive increase in the share authorization;</li> </ul>

<ul style="list-style-type: none"> <li><del>▪ Disclosure in the proxy statement of specific and severe risks to shareholders of not approving the request; and</del></li> <li><del>▪ The dilutive impact of the request as determined relative to an allowable increase calculated by ISS (typically 100 percent of existing authorized shares) that reflects the company's need for shares and total shareholder returns.</del></li> </ul> <p><del>Sustainability Advisory Policy will apply the relevant allowable increase below to requests to increase common stock</del> that are <b>to be used</b> for general corporate purposes <del>(or to the general corporate purposes portion of a request that also includes a specific need):</del></p> <ul style="list-style-type: none"> <li><del>• Most companies: 100 percent of existing authorized shares.</del></li> <li><del>• Companies with less than 50 percent of existing authorized shares either outstanding or reserved for issuance: 50 percent of existing authorized shares.</del></li> </ul> <ul style="list-style-type: none"> <li>▪ If share usage (outstanding plus reserved) is less than 50% of the current authorized shares, vote for an increase of up to <b>50%</b> of current authorized shares.</li> <li>▪ If share usage is 50% to 100% of the current authorized, vote for an increase of up to <b>100%</b> of current authorized shares.</li> <li>▪ If share usage is greater than current authorized shares, vote for an increase of up to the current share usage.</li> <li>▪ In the case of a stock split, the allowable increase is calculated (per above) based on the post-split adjusted authorization.</li> </ul> <ul style="list-style-type: none"> <li><del>• Companies with one- and three-year total shareholder returns (TSRs) in the bottom 10 percent of the U.S. market as of the end of the calendar quarter that is closest to their most recent fiscal year end: 50 percent of existing authorized shares.</del></li> <li><del>• Companies at which both conditions (B and C) above are both present: 25 percent of existing authorized shares.</del></li> </ul>	<ul style="list-style-type: none"> <li>▪ The company has a non-shareholder approved poison pill (including an NOL pill); or</li> <li>▪ The company has previous sizeable placements (within the past 3 years) of stock with insiders at prices substantially below market value, or with problematic voting rights, without shareholder approval.</li> </ul> <p>However, generally vote for proposed increases beyond the above ratios or problematic situations when there is disclosure of specific and severe risks to shareholders of not approving the request, such as:</p> <ul style="list-style-type: none"> <li>▪ In, or subsequent to, the company's most recent 10-K filing, the company discloses that there is substantial doubt about its ability to continue as a going concern;</li> <li>▪ The company states that there is a risk of imminent bankruptcy or imminent liquidation if shareholders do not approve the increase in authorized capital; or</li> <li>▪ A government body has in the past year required the company to increase its capital ratios.</li> </ul> <p>For companies incorporated in states that allow increases in authorized capital without shareholder approval, generally vote withhold or against all nominees if a unilateral capital authorization increase does not conform to the above policies.</p> <p><b><u>Specific Authorization Requests</u></b></p> <p><b>Climate Policy Recommendation:</b> Generally vote for proposals to increase the number of authorized common shares where the primary purpose of the increase is to issue shares in connection with transaction(s) (such as acquisitions, SPAC transactions, private placements, or similar transactions) on the same ballot, or disclosed in the proxy statement, that warrant support. For such transactions, the allowable increase will be the greater of:</p> <ul style="list-style-type: none"> <li>▪ twice the amount needed to support the transactions on the ballot, and</li> <li>▪ the allowable increase as calculated for general issuances above.</li> </ul>
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<p>Generally vote against proposed increases, even if within the above ratios, if the proposal or the company's prior or ongoing use of authorized shares is problematic, including, but not limited to:</p> <ul style="list-style-type: none"><li>▪ The proposal seeks to increase the number of authorized shares of the class of common stock that has superior voting rights to other share classes;</li><li>▪ On the same ballot is a proposal for a reverse split for which support is warranted despite the fact that it would result in an excessive increase in the share authorization;</li><li>▪ The company has a non-shareholder approved poison pill (including an NOL pill); or</li><li>▪ The company has previous sizeable placements (within the past 3 years) of stock with insiders at prices substantially below market value, or with problematic voting rights, without shareholder approval.</li></ul> <p>However, generally vote for proposed increases beyond the above ratios or problematic situations when there is disclosure of specific and severe risks to shareholders of not approving the request, such as:</p> <ul style="list-style-type: none"><li>▪ In, or subsequent to, the company's most recent 10-K filing, the company discloses that there is substantial doubt about its ability to continue as a going concern;</li><li>▪ The company states that there is a risk of imminent bankruptcy or imminent liquidation if shareholders do not approve the increase in authorized capital; or</li><li>▪ A government body has in the past year required the company to increase its capital ratios.</li></ul> <p>For companies incorporated in states that allow increases in authorized capital without shareholder approval, generally vote withhold or against all nominees if a unilateral capital authorization increase does not conform to the above policies.</p> <p><u>Specific Authorization Requests</u></p>	
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<p><b>Climate Policy Recommendation:</b> Generally vote for proposals to increase the number of authorized common shares where the primary purpose of the increase is to issue shares in connection with transaction(s) (such as <del>if there is an</del> acquisitions, SPAC transactions, private placements, or similar transactions) on the same ballot <del>(not including equity incentive plans)</del>, or disclosed in the proxy statement, that warrant support. <del>that Sustainability Advisory Services is recommending FOR,</del> For such transactions, the allowable increase will be the greater of</p> <ul style="list-style-type: none"> <li>▪ <del>(i)</del> twice the amount needed to support the transactions on the ballot, and</li> <li>▪ <del>(ii)</del> the allowable increase as calculated for general issuances above.</li> </ul>	
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**Rationale for Change:**

There are two primary changes to the policy:

**Removal of the limitation for companies in the bottom 10% of TSRs:** The lower a company's share price, the more shares it will need to issue to raise a given amount of money. Moreover, companies whose TSR performance puts them in the bottom 10 percent of the market are often companies which have suffered serious financial or operational setbacks, which may necessitate a pivot to a new strategy or business model, which in turn may require financing. Such companies often have few options for raising funds other than issuing common stock, or convertible bonds or warrants linked to common stock. So while shareholders may justifiably be concerned about high levels of dilution from low-priced share issuances, in practice supporting an authorized capital increase to enable such issuances may be the least-bad option for shareholders. Therefore, Sustainability Advisory Services will apply the same dilution limits to underperforming companies as are applied to other companies.

**Use of capital in the past three years:** Under the current policy, Sustainability Advisory Services looked only at the use of capital for the last three years, such as the adoption of a non-shareholder approved poison pill in that time period. However, that disregarded companies that had outstanding longer term non-shareholder approved pills (such as 5- or 10-year pills). The policy update clarifies that companies that adopt long term pills and do not put them to a shareholder vote will be considered poor stewards of capital. This change aligns the capital authorization policy with the recommendations on directors for non-shareholder approved poison pills.

The policy has also been rearranged to better differentiate between general and specific use authorizations of capital, and to clarify the hierarchy of factors considered: when problematic practices override the generally acceptable ratios, and that severe risks to the company's continuation may override other concerns. Information currently included in [FAQs](#) has been brought into the policy directly to clarify.

## Preferred Stock Authorization

Current Climate Policy, incorporating changes:	New Climate Policy:
<p data-bbox="155 344 512 370"><u>General Authorization Requests</u></p> <p data-bbox="155 409 1020 532"><b>Climate Policy Recommendation:</b> <del>Vote for proposals to increase the number of authorized preferred shares where the primary purpose of the increase is to issue shares in connection with a transaction on the same ballot that warrants support.</del></p> <p data-bbox="155 574 1033 669"><del>Vote against proposals at companies with more than one class or series of preferred stock to increase the number of authorized shares of the class or series of preferred stock that has superior voting rights.</del></p> <p data-bbox="155 711 1033 834">Vote case-by-case on <del>all other</del> proposals to increase the number of <b>authorized shares of preferred stock authorized for issuance that are to be used for general corporate purposes</b> <del>Take into account company-specific factors that include, at a minimum, the following:</del></p> <ul style="list-style-type: none"> <li data-bbox="155 876 478 902">▪ <del>Past Board Performance:</del> <ul style="list-style-type: none"> <li data-bbox="205 928 1020 987">▪ <del>The company's use of authorized preferred shares during the last three years;</del></li> </ul> </li> <li data-bbox="155 1058 436 1084">▪ <b>The Current Request:</b> <ul style="list-style-type: none"> <li data-bbox="205 1110 957 1169">▪ <b>Disclosure in the proxy statement of the specific purposes for the proposed increase;</b></li> <li data-bbox="205 1175 940 1234">▪ <b>Disclosure in the proxy statement of specific and severe risks to shareholders of not approving the request;</b></li> <li data-bbox="205 1240 1033 1299">▪ <b>In cases where the company has existing authorized preferred stock, the dilutive impact of the request as determined by an allowable increase</b></li> </ul> </li> </ul>	<p data-bbox="1066 344 1419 370"><u>General Authorization Requests</u></p> <p data-bbox="1066 409 1944 503"><b>Climate Policy Recommendation:</b> Vote case-by-case on proposals to increase the number of authorized shares of preferred stock that are to be used for general corporate purposes:</p> <ul style="list-style-type: none"> <li data-bbox="1066 545 1915 639">▪ If share usage (outstanding plus reserved) is less than 50% of the current authorized shares, vote for an increase of up to <b>50%</b> of current authorized shares.</li> <li data-bbox="1066 646 1936 704">▪ If share usage is 50% to 100% of the current authorized, vote for an increase of up to <b>100%</b> of current authorized shares.</li> <li data-bbox="1066 711 1936 769">▪ If share usage is greater than current authorized shares, vote for an increase of up to the current share usage.</li> <li data-bbox="1066 776 1915 834">▪ In the case of a stock split, the allowable increase is calculated (per above) based on the post-split adjusted authorization.</li> <li data-bbox="1066 841 1936 899">▪ If no preferred shares are currently issued and outstanding, vote against the request, unless the company discloses a specific use for the shares.</li> </ul> <p data-bbox="1066 938 1936 1032">Generally vote against proposed increases, even if within the above ratios, if the proposal or the company's prior or ongoing use of authorized shares is problematic, including, but not limited to:</p> <ul style="list-style-type: none"> <li data-bbox="1066 1075 1936 1133">▪ If the shares requested are blank check preferred shares that can be used for antitakeover purposes;<sup>8</sup></li> <li data-bbox="1066 1140 1936 1230">▪ The company seeks to increase a class of non-convertible preferred shares entitled to more than one vote per share on matters that do not solely affect the rights of preferred stockholders "supervoting shares");</li> <li data-bbox="1066 1237 1936 1295">▪ The company seeks to increase a class of convertible preferred shares entitled to a number of votes greater than the number of common shares</li> </ul>

<sup>8</sup> To be acceptable, appropriate disclosure would be needed that the shares are “declawed”: i.e., representation by the board that it will not, without prior stockholder approval, issue or use the preferred stock for any defensive or anti-takeover purpose or for the purpose of implementing any stockholder rights plan.

<p><del>calculated (typically 100 percent of existing authorized shares) that reflects the company's need for shares and total shareholder returns; and</del></p> <p><del>Whether the shares requested are blank check preferred shares that can be used for antitakeover purposes.</del></p> <ul style="list-style-type: none"> <li>▪ If share usage (outstanding plus reserved) is less than 50% of the current authorized shares, vote for an increase of up to <b>50%</b> of current authorized shares.</li> <li>▪ If share usage is 50% to 100% of the current authorized, vote for an increase of up to <b>100%</b> of current authorized shares.</li> <li>▪ If share usage is greater than current authorized shares, vote for an increase of up to the current share usage.</li> <li>▪ In the case of a stock split, the allowable increase is calculated (per above) based on the post-split adjusted authorization.</li> <li>▪ If no preferred shares are currently issued and outstanding, vote against the request, unless the company discloses a specific use for the shares.</li> </ul> <p>Generally vote against proposed increases, even if within the above ratios, if the proposal or the company's prior or ongoing use of authorized shares is problematic, including, but not limited to:</p> <ul style="list-style-type: none"> <li>▪ If the shares requested are blank check preferred shares that can be used for antitakeover purposes;<sup>8</sup></li> <li>▪ The company seeks to increase a class of non-convertible preferred shares entitled to more than one vote per share on matters that do not solely affect the rights of preferred stockholders "supervoting shares");</li> <li>▪ The company seeks to increase a class of convertible preferred shares entitled to a number of votes greater than the number of common shares into which they're convertible ("supervoting shares") on matters that do not solely affect the rights of preferred stockholders;</li> <li>▪ The stated intent of the increase in the general authorization is to allow the company to increase an existing designated class of supervoting preferred shares;</li> <li>▪ On the same ballot is a proposal for a reverse split for which support is warranted despite the fact that it would result in an excessive increase in the share authorization;</li> </ul>	<p>into which they're convertible ("supervoting shares") on matters that do not solely affect the rights of preferred stockholders;</p> <ul style="list-style-type: none"> <li>▪ The stated intent of the increase in the general authorization is to allow the company to increase an existing designated class of supervoting preferred shares;</li> <li>▪ On the same ballot is a proposal for a reverse split for which support is warranted despite the fact that it would result in an excessive increase in the share authorization;</li> <li>▪ The company has a non-shareholder approved poison pill (including an NOL pill); or</li> <li>▪ The company has previous sizeable placements (within the past 3 years) of stock with insiders at prices substantially below market value, or with problematic voting rights, without shareholder approval.</li> </ul> <p>However, generally vote for proposed increases beyond the above ratios or problematic situations when there is disclosure of specific and severe risks to shareholders of not approving the request, such as:</p> <ul style="list-style-type: none"> <li>▪ In, or subsequent to, the company's most recent 10-K filing, the company discloses that there is substantial doubt about its ability to continue as a going concern;</li> <li>▪ The company states that there is a risk of imminent bankruptcy or imminent liquidation if shareholders do not approve the increase in authorized capital; or</li> <li>▪ A government body has in the past year required the company to increase its capital ratios.</li> </ul> <p>For companies incorporated in states that allow increases in authorized capital without shareholder approval, generally vote withhold or against all nominees if a unilateral capital authorization increase does not conform to the above policies.</p> <p><b><u>Specific Authorization Requests</u></b></p> <p><b>Climate Policy Recommendation:</b> Generally vote for proposals to increase the number of authorized preferred shares where the primary purpose of the increase is to issue shares in connection with transaction(s) (such as acquisitions,</p>
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<ul style="list-style-type: none"> <li>▪ The company has a non-shareholder approved poison pill (including an NOL pill); or</li> <li>▪ The company has previous sizeable placements (within the past 3 years) of stock with insiders at prices substantially below market value, or with problematic voting rights, without shareholder approval.</li> </ul> <p>However, generally vote for proposed increases beyond the above ratios or problematic situations when there is disclosure of specific and severe risks to shareholders of not approving the request, such as:</p> <ul style="list-style-type: none"> <li>▪ In, or subsequent to, the company's most recent 10-K filing, the company discloses that there is substantial doubt about its ability to continue as a going concern;</li> <li>▪ The company states that there is a risk of imminent bankruptcy or imminent liquidation if shareholders do not approve the increase in authorized capital; or</li> <li>▪ A government body has in the past year required the company to increase its capital ratios.</li> </ul> <p>For companies incorporated in states that allow increases in authorized capital without shareholder approval, generally vote withhold or against all nominees if a unilateral capital authorization increase does not conform to the above policies.</p> <p><b><u>Specific Authorization Requests</u></b></p> <p><b>Climate Policy Recommendation:</b> Generally vote for proposals to increase the number of authorized preferred shares where the primary purpose of the increase is to issue shares in connection with transaction(s) (such as acquisitions, SPAC transactions, private placements, or similar transactions) on the same ballot, or disclosed in the proxy statement, that warrant support. For such transactions, the allowable increase will be the greater of:</p> <ul style="list-style-type: none"> <li>▪ twice the amount needed to support the transactions on the ballot, and</li> <li>▪ the allowable increase as calculated for general issuances above.</li> </ul>	<p>SPAC transactions, private placements, or similar transactions) on the same ballot, or disclosed in the proxy statement, that warrant support. For such transactions, the allowable increase will be the greater of:</p> <ul style="list-style-type: none"> <li>▪ twice the amount needed to support the transactions on the ballot, and</li> <li>▪ the allowable increase as calculated for general issuances above.</li> </ul>
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**Rationale for Change:**

In line with the revisions to the [Common Stock Authorizations](#) policy, the revised policy for Preferred Stock Authorizations reflects the removal of the limitation for companies in the bottom 10% of TSRs, and the change in the policy to look for whether there is an outstanding non-shareholder-approved poison pill, as opposed to one that has been adopted in the past 3 years. Preferred stock also has numerous variations with regards to voting rights and convertibility into common stock, so the policy update includes information on when such features are considered problematic.

## Compensation

### Equity-Based and Other Incentive Plans – Three Year Burn Rate

Current Climate Policy, incorporating changes:	New Climate Policy:
<p>For meetings held prior to February 1, 2023, <del>burn</del> burn-rate benchmarks (utilized in Equity Plan Scorecard evaluations) are calculated as the greater of: (1) the mean (<math>\mu</math>) plus one standard deviation (<math>\sigma</math>) of the company's GICS group segmented by S&amp;P 500, Russell 3000 index (less the S&amp;P500), and non-Russell 3000 index; and (2) two percent of weighted common shares outstanding. In addition, year-over-year burn-rate benchmark changes will be limited to a maximum of two (2) percentage points plus or minus the prior year's burn-rate benchmark. See the U.S. Equity Compensation Plans FAQ for the benchmarks.</p>	<p>For meetings held prior to February 1, 2023, burn-rate benchmarks (utilized in Equity Plan Scorecard evaluations) are calculated as the greater of: (1) the mean (<math>\mu</math>) plus one standard deviation (<math>\sigma</math>) of the company's GICS group segmented by S&amp;P 500, Russell 3000 index (less the S&amp;P500), and non-Russell 3000 index; and (2) two percent of weighted common shares outstanding. In addition, year-over-year burn-rate benchmark changes will be limited to a maximum of two (2) percentage points plus or minus the prior year's burn-rate benchmark. See the U.S. Equity Compensation Plans FAQ for the benchmarks.</p>
<p>For meetings held prior to February 1, 2023, a company's adjusted burn rate is calculated as follows:</p>	<p>For meetings held prior to February 1, 2023, a company's adjusted burn rate is calculated as follows:</p>
<p>Burn Rate = (# of appreciation awards granted + # of full value awards granted * Volatility Multiplier) / Weighted average common shares outstanding</p>	<p>Burn Rate = (# of appreciation awards granted + # of full value awards granted * Volatility Multiplier) / Weighted average common shares outstanding</p>
<p>The Volatility Multiplier is used to provide more equivalent valuation between stock options and full value shares, based on the company's historical stock price volatility.</p>	<p>The Volatility Multiplier is used to provide more equivalent valuation between stock options and full value shares, based on the company's historical stock price volatility.</p>
<p>Effective for meetings held on or after February 1, 2023, a "Value-Adjusted Burn Rate" will instead be used for stock plan evaluations. Value-Adjusted Burn Rate benchmarks will be calculated as the greater of: (1) an industry-specific threshold based on three-year burn rates within the company's GICS group segmented by</p>	<p>Effective for meetings held on or after February 1, 2023, a "Value-Adjusted Burn Rate" will instead be used for stock plan evaluations. Value-Adjusted Burn Rate benchmarks will be calculated as the greater of: (1) an industry-specific threshold based on three-year burn rates within the company's GICS group segmented by</p>

<p>S&amp;P 500, Russell 3000 index (less the S&amp;P 500) and non-Russell 3000 index; and (2) a de minimis threshold established separately for each of the S&amp;P 500, the Russell 3000 index less the S&amp;P 500, and the non-Russell 3000 index. Year-over-year burn-rate benchmark changes will be limited to a predetermined range above or below the prior year's burn-rate benchmark.</p> <p>The Value-Adjusted Burn Rate will be calculated as follows:</p> <p>Value-Adjusted Burn Rate = ((# of options * option's dollar value using a Black-Scholes model) + (# of full-value awards * stock price)) / (Weighted average common shares * stock price).</p>	<p>S&amp;P 500, Russell 3000 index (less the S&amp;P 500) and non-Russell 3000 index; and (2) a de minimis threshold established separately for each of the S&amp;P 500, the Russell 3000 index less the S&amp;P 500, and the non-Russell 3000 index. Year-over-year burn-rate benchmark changes will be limited to a predetermined range above or below the prior year's burn-rate benchmark.</p> <p>The Value-Adjusted Burn Rate will be calculated as follows:</p> <p>Value-Adjusted Burn Rate = ((# of options * option's dollar value using a Black-Scholes model) + (# of full-value awards * stock price)) / (Weighted average common shares * stock price).</p>
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**Rationale for Change:**

The current volatility-based adjusted burn rate calculation is beneficial as an approximation of the rate at which a company is granting new shares through equity-based compensation, using historic volatility to account for the difference in value between a stock option and a full-value share (i.e. restricted stock). However, the new "Value-Adjusted Burn Rate" calculation will more accurately measure the value of recently granted equity awards using a methodology that more precisely measures the value of option grants. In addition, the Value-Adjusted Burn Rate is based on calculations that are more readily understood and accepted by the market: the actual stock price for full-value awards, and the Black-Scholes value for stock options. In contrast, the full-value multiplier used in the current burn rate calculation is determined based on a company's three-year stock price volatility, which is influenced by stock price changes even in periods when no stock options were granted. Further, the multiplier approach groups companies into broad categories, and is not sensitive to differences within each of the six volatility-based multiplier "buckets," which can result in a less precise calculation.

When the multiplier-based adjusted burn rate was adopted many years ago, resource limitations prevented Sustainability Advisory Services from performing the more extensive calculations that are required for the value-adjusted burn rate, especially in consideration of the volume of equity plan proposals that are analyzed during the U.S. proxy season. Thanks in part to improvements in ISS' data collection and technical resources, it is now feasible to adopt the more accurate and more resource-intensive value-based burn rate calculation. More details regarding the new Value-Adjusted Burn Rate calculations will be provided in [ISS' Policy Gateway](#).

## Social and Environmental Issues

### Climate Change

#### Say on Climate (SoC) Management Proposals

Current Climate Policy, incorporating changes:	New Climate Policy:
<p><b>Climate Policy Recommendation:</b> Vote case-by-case on management proposals that request shareholders to approve the company’s climate transition action plan<sup>9</sup>, taking into account the completeness and rigor of the plan. Information that will be considered where available includes the following:</p> <ul style="list-style-type: none"> <li>▪ The extent to which the company’s climate related disclosures are in line with TCFD recommendations and meet other market standards;</li> <li>▪ Disclosure of its operational and supply chain GHG emissions (Scopes 1, 2, and 3);</li> <li>▪ The completeness and rigor of company’s short-, medium-, and long-term targets for reducing operational and supply chain GHG emissions in line with Paris Agreement goals (Scopes 1, 2, and 3 if relevant);</li> <li>▪ Whether the company has sought and received third-party approval that its targets are science-based;</li> <li>▪ Whether the company has made a commitment to be “net zero” for operational and supply chain emissions (Scopes 1, 2, and 3) by 2050;</li> <li>▪ Whether the company discloses a commitment to report on the implementation of its plan in subsequent years;</li> <li>▪ Whether the company’s climate data has received third-party assurance;</li> <li>▪ Disclosure of how the company’s lobbying activities and its capital expenditures align with company strategy;</li> <li>▪ Whether there are specific industry decarbonization challenges; and</li> <li>▪ The company’s related commitment, disclosure, and performance compared to its industry peers.</li> </ul>	<p><b>Climate Policy Recommendation:</b> Vote case-by-case on management proposals that request shareholders to approve the company’s climate transition action plan<sup>9</sup>, taking into account the completeness and rigor of the plan. Information that will be considered where available includes the following:</p> <ul style="list-style-type: none"> <li>▪ The extent to which the company’s climate related disclosures are in line with TCFD recommendations and meet other market standards;</li> <li>▪ Disclosure of its operational and supply chain GHG emissions (Scopes 1, 2, and 3);</li> <li>▪ The completeness and rigor of company’s short-, medium-, and long-term targets for reducing operational and supply chain GHG emissions (Scopes 1, 2, and 3 if relevant);</li> <li>▪ Whether the company has sought and approved third-party approval that its targets are science-based;</li> <li>▪ Whether the company has made a commitment to be “net zero” for operational and supply chain emissions (Scopes 1, 2, and 3) by 2050;</li> <li>▪ Whether the company discloses a commitment to report on the implementation of its plan in subsequent years;</li> <li>▪ Whether the company’s climate data has received third-party assurance;</li> <li>▪ Disclosure of how the company’s lobbying activities and its capital expenditures align with company strategy;</li> <li>▪ Whether there are specific industry decarbonization challenges; and</li> <li>▪ The company’s related commitment, disclosure, and performance compared to its industry peers.</li> </ul>

<sup>9</sup> Variations of this request also include climate transition related ambitions, or commitment to reporting on the implementation of a climate plan.

**Rationale for Change:**

Sustainability Advisory Services is codifying the framework developed over the last year for analyzing management-offered climate transition plans, incorporating feedback received during this year’s policy development process including that from the Climate Survey. The policy lists the main criteria that will be considered when analyzing these plans (it is a non-exhaustive list).

In 2021, there were over two dozen management Say on Climate proposals on ballot across the globe. The proposals were seen in Canada, France, South Africa, Spain, Switzerland, the UK, the U.S., and Australia.

The proposals varied as they sometimes requested an approval of a company’s climate transition plan or sometimes its climate reporting. While all were advisory votes, some were one-off votes, and others were announced to be the first of a regularly-occurring vote.

**Say on Climate (SoC) Shareholder Proposals**

Current Climate Policy, incorporating changes:	New Climate Policy:
<p><b>Climate Policy Recommendation:</b> Vote case-by-case on shareholder proposals that request the company to disclose a report providing its GHG emissions levels and reduction targets and/or its upcoming/approved climate transition action plan and provide shareholders the opportunity to express approval or disapproval of its GHG emissions reduction plan, taking into account information such as the following:</p> <ul style="list-style-type: none"> <li>▪ The completeness and rigor of the company’s climate-related disclosure;</li> <li>▪ The company’s actual GHG emissions performance;</li> <li>▪ Whether the company has been the subject of recent, significant violations, fines, litigation, or controversy related to its GHG emissions; and</li> <li>▪ Whether the proposal’s request is unduly burdensome (scope or timeframe) or overly prescriptive.</li> </ul>	<p><b>Climate Policy Recommendation:</b> Vote case-by-case on shareholder proposals that request the company to disclose a report providing its GHG emissions levels and reduction targets and/or its upcoming/approved climate transition action plan and provide shareholders the opportunity to express approval or disapproval of its GHG emissions reduction plan, taking into account information such as the following:</p> <ul style="list-style-type: none"> <li>▪ The completeness and rigor of the company’s climate-related disclosure;</li> <li>▪ The company’s actual GHG emissions performance;</li> <li>▪ Whether the company has been the subject of recent, significant violations, fines, litigation, or controversy related to its GHG emissions; and</li> <li>▪ Whether the proposal’s request is unduly burdensome (scope or timeframe) or overly prescriptive.</li> </ul>

**Rationale for Change:**

“Say on Climate” shareholder proposals, which emerged late in 2020 and increased in 2021, generally ask companies to publish a climate action plan and to put it to a regular shareholder vote. The update in the policy adding the new provisions establishes a case-by-case approach toward these proposals and provides a transparent framework of analysis that will allow for consistency of assessment across markets.

## Diversity

### Board Diversity

Current Climate Policy, incorporating changes:	New Climate Policy:
<p><b>Climate Policy Recommendation:</b> Generally vote for requests for reports on a company's efforts to diversify the board, unless:</p> <ul style="list-style-type: none"> <li>▪ The gender and racial minority representation of the company's board is reasonably inclusive in relation to companies of similar size and business; and</li> <li>▪ The board already reports on its nominating procedures and gender and racial minority initiatives on the board and within the company.</li> </ul> <p><del>Vote case-by-case on proposals asking a company to increase the gender and racial minority representation on its board, taking into account:</del></p> <ul style="list-style-type: none"> <li><del>▪ The degree of existing gender and racial minority diversity on the company's board and among its executive officers;</del></li> <li><del>▪ The level of gender and racial minority representation that exists at the company's industry peers;</del></li> <li><del>▪ The company's established process for addressing gender and racial minority board representation;</del></li> <li><del>▪ Whether the proposal includes an overly prescriptive request to amend nominating committee charter language;</del></li> <li><del>▪ The independence of the company's nominating committee;</del></li> <li><del>▪ Whether the company uses an outside search firm to identify potential director nominees; and</del></li> <li><del>▪ Whether the company has had recent controversies, fines, or litigation regarding equal employment practices.</del></li> </ul> <p><b>Climate Policy Recommendation:</b> Generally vote for shareholder proposals that ask the company to take reasonable steps to increase the levels of underrepresented gender identities and racial minorities to the board.</p>	<p><b>Climate Policy Recommendation:</b> Generally vote for requests for reports on a company's efforts to diversify the board, unless:</p> <ul style="list-style-type: none"> <li>▪ The gender and racial minority representation of the company's board is reasonably inclusive in relation to companies of similar size and business; and</li> <li>▪ The board already reports on its nominating procedures and gender and racial minority initiatives on the board and within the company.</li> </ul> <p><b>Climate Policy Recommendation:</b> Generally vote for shareholder proposals that ask the company to take reasonable steps to increase the levels of underrepresented gender identities and racial minorities on the board.</p>

**Rationale for Change:**

In the summer of 2020, social unrest brought racial and ethnic injustices and inequalities to the forefront of many investors' minds and boards' deliberations. Citing reasons of equality and good corporate governance, many investors expressed an interest in seeing ethnic or racial diversity on boards.

In ISS' 2020 Global Policy Survey, almost 60 percent of investors indicated 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 when asked about the importance of ethnic or racial diversity on corporate boards. Furthermore, when asked about actions considered appropriate to increase the racial and ethnic make-up of the board, 86 percent of investor respondents and 92 percent of non-investor respondents indicated that it would be appropriate to engage with the company to encourage increased racial and ethnically diverse directors. Support of shareholder proposals on topics of workplace diversity disclosure and targets, and "Rooney rule" type shareholder proposals were the second and third most popular answer for both investors and non-investors.

**Racial Equity and/or Civil Rights Audits**

Current Climate Policy, incorporating changes:	New Climate Policy:
<p><b>Climate Policy Recommendation:</b> Generally vote for proposals requesting that a company conduct an independent racial equity and/or civil rights audit, considering company disclosures, policies, actions and engagements.</p>	<p><b>Climate Policy Recommendation:</b> Generally vote for proposals requesting that a company conduct an independent racial equity and/or civil rights audit, considering company disclosures, policies, actions and engagements.</p>

**Rationale for Change:**

In 2021, shareholders introduced proposals requesting that companies conduct an independent racial equity and/or civil rights audit. The proposals were introduced amidst growing pressure for increased diversity, equity, and inclusion efforts throughout companies' operations. Proponents generally sought an analysis of companies' adverse impacts on nonwhite stakeholders and communities of color in order to understand how companies contribute to, and could help mitigate, the results of institutionalized and systemic racism. Over the 2021 proxy season, Sustainability Advisory Services generally supported these proposals.

Additionally, Specialty clients expressed unanimous support for these proposals in 2021 roundtable discussions. This policy codifies Sustainability Advisory Services' general approach.

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