



# EUROPE, MIDDLE EAST, AND AFRICA (EMEA)



## PROXY VOTING GUIDELINES UPDATES FOR 2022

Benchmark Policy Changes for U.K. & Ireland, Continental Europe, Russia & Kazakhstan, Middle East, and Africa

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## TABLE OF CONTENTS

All Markets.....	4
Social and Environmental Issues — Climate Change.....	4
Say on Climate (SoC) Management Proposals .....	4
Say on Climate (SoC) Shareholder Proposals .....	5
United Kingdom & Ireland.....	6
Director Elections .....	6
Climate Accountability .....	6
Board Diversity.....	7
Remuneration.....	11
Non-Financial ESG Performance Conditions .....	11
Investment Companies.....	13
Authorise Issue of Equity without Pre-emptive Rights .....	13
Continental Europe.....	15
Board of Directors .....	15
Non-Contested Director Elections .....	15
Board Independence.....	16
Election of a Former CEO as Chair of the Board .....	17
Overboarded Directors .....	18
Voto di Lista (Italy) .....	20
Board Gender Diversity.....	21
Climate Accountability.....	22
Board Structure.....	23
Capital Structure.....	24
Share Issuance Requests — General Issuances .....	24
Increases in Authorized Capital .....	25
Share Repurchase Plans .....	26

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Compensation .....	27
Executive Compensation-Related Proposals .....	27
Equity-based Compensation Guidelines .....	31
Russia and Kazakhstan.....	34
Board of Directors .....	34
Director Elections — Non-cumulative voting.....	34
Climate Accountability .....	37
Middle East and North Africa .....	39
Operational Items.....	39
Amendments to Articles of Association (Bylaws), Board Policies, and Board Committees' Charters .....	39
Board of Directors .....	40
Director Elections — Audit Committee Independence.....	40
Shariah Supervisory Board Elections .....	41
Compensation .....	42
Remuneration Policy.....	42
Sub-Saharan Africa .....	43
Board of Directors .....	43
Director Elections — Audit Committee Independence.....	43

## All Markets

### Social and Environmental Issues — Climate Change

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

Current ISS Policy, incorporating changes:	New ISS Policy:
<p><b>General Recommendation:</b> Vote case-by-case on management proposals that request shareholders to approve the company’s climate transition action plan<sup>1</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>General Recommendation:</b> Vote case-by-case on management proposals that request shareholders to approve the company’s climate transition action plan<sup>1</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>1</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:

ISS 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 ISS Policy, incorporating changes:	New ISS Policy:
<p><b>General 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>General 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.

## United Kingdom & Ireland

### Director Elections

#### Climate Accountability

Current ISS Policy, incorporating changes:	New ISS Policy:
<p><b>General Recommendation:</b> For companies that are significant greenhouse gas (GHG) emitters, through their operations or value chain<sup>2</sup>, generally vote against the board chair in cases where ISS 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. Targets for Scope 3 emissions will not be required for 2022 but the targets should cover at least a significant portion of the company’s direct emissions. Expectations about what constitutes “minimum steps to mitigate risks related to climate change” will increase over time.</p>	<p><b>General Recommendation:</b> For companies that are significant greenhouse gas (GHG) emitters, through their operations or value chain<sup>2</sup>, generally vote against the board chair in cases where ISS 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. Targets for Scope 3 emissions will not be required for 2022 but the targets should cover at least a significant portion of the company’s direct emissions. Expectations about what constitutes “minimum steps to mitigate risks related to climate change” will increase over time.</p>

<sup>2</sup> For 2022, companies defined as “significant GHG emitters” will be those on the current Climate Action 100+ Focus Group list.

### 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 ISS 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 our 2021 Climate Policy survey, high percentages of investor respondents supported establishing minimum criteria for companies considered to be strongly contributing to climate change. Therefore, ISS is for 2022 focusing on the 167 companies currently identified as the Climate Action 100+ Focus Group list, and it will recommend against incumbent director – in the UK market, usually the board chair – 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.

### Board Diversity

Current ISS Policy, incorporating changes:	New ISS Policy:
<p><del>Gender Diversity</del> <b>Board Diversity</b></p> <p>The 2018 UK Corporate Governance Code notes that both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.</p> <p><b>Gender Diversity</b></p> <p>ISS will generally recommend against the chair of the nomination committee (or other directors on a case-by-case basis) in the following cases:</p> <ul style="list-style-type: none"> <li>The company is a constituent of the FTSE 350 (excluding investment companies) and the board does not comprise at least 33 percent</li> </ul>	<p><b>Board Diversity</b></p> <p>The 2018 UK Corporate Governance Code notes that both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.</p> <p><b>Gender Diversity</b></p> <p>ISS will generally recommend against the chair of the nomination committee (or other directors on a case-by-case basis) in the following cases:</p> <ul style="list-style-type: none"> <li>The company is a constituent of the FTSE 350 (excluding investment companies) and the board does not comprise at least 33 percent</li> </ul>

<p>representation of women, in line with the recommendation of the Hampton-Alexander Review.</p> <ul style="list-style-type: none"> <li>▪ The company (excluding investment companies) is a constituent of any of the following, and there is not at least one woman on the board: <ul style="list-style-type: none"> <li>▪ FTSE SmallCap;</li> <li>▪ ISEQ 20;</li> <li>▪ Listed on the AIM with a market capitalisation of over GBP 500 million.</li> </ul> </li> </ul> <p>Mitigating factors include:</p> <ul style="list-style-type: none"> <li>▪ Compliance with the relevant board diversity standard at the preceding AGM and a firm commitment, publicly available, to comply with the relevant standard within a year. <del>In 2021 only, for FTSE 350 constituents, a public commitment to bring the composition of the board in line with the recommendations of the Hampton-Alexander Review by the following AGM will not result in a negative recommendation, regardless of the previous composition of the board.</del></li> <li>▪ Other relevant factors as applicable.</li> </ul> <p><b>Ethnic Diversity</b></p> <p>ISS will generally recommend against the chair of the nomination committee (or other directors on a case-by-case basis) if the company is a constituent of the FTSE 100 index (excluding investment companies) and has not appointed at least one individual from an ethnic minority background to the board.</p> <p>Furthermore, there is an expectation for constituents of the following indices (excluding investment companies) to appoint at least one individual from an ethnic minority background to the board by <b>2024</b>:</p> <ul style="list-style-type: none"> <li>▪ FTSE 250 index;</li> <li>▪ FTSE SmallCap;</li> <li>▪ ISEQ 20;</li> <li>▪ Listed on the AIM with a market capitalisation of over GBP 500 million.</li> </ul>	<p>representation of women, in line with the recommendation of the Hampton-Alexander Review.</p> <ul style="list-style-type: none"> <li>▪ The company (excluding investment companies) is a constituent of any of the following, and there is not at least one woman on the board: <ul style="list-style-type: none"> <li>▪ FTSE SmallCap;</li> <li>▪ ISEQ 20;</li> <li>▪ Listed on the AIM with a market capitalisation of over GBP 500 million.</li> </ul> </li> </ul> <p>Mitigating factors include:</p> <ul style="list-style-type: none"> <li>▪ Compliance with the relevant board diversity standard at the preceding AGM and a firm commitment, publicly available, to comply with the relevant standard within a year.</li> <li>▪ Other relevant factors as applicable.</li> </ul> <p><b>Ethnic Diversity</b></p> <p>ISS will generally recommend against the chair of the nomination committee (or other directors on a case-by-case basis) if the company is a constituent of the FTSE 100 index (excluding investment companies) and has not appointed at least one individual from an ethnic minority background to the board.</p> <p>Furthermore, there is an expectation for constituents of the following indices (excluding investment companies) to appoint at least one individual from an ethnic minority background to the board by <b>2024</b>:</p> <ul style="list-style-type: none"> <li>▪ FTSE 250 index;</li> <li>▪ FTSE SmallCap;</li> <li>▪ ISEQ 20;</li> <li>▪ Listed on the AIM with a market capitalisation of over GBP 500 million.</li> </ul>
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The abovementioned companies are expected to publicly disclose a roadmap to compliance with best market practice standards of having at least one director from an ethnic minority background by 2024.

The abovementioned companies are expected to publicly disclose a roadmap to compliance with best market practice standards of having at least one director from an ethnic minority background by 2024.

### Rationale for Change:

New ISS voting guidelines were introduced at the start of 2021 requiring that both board appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender and ethnic backgrounds. This policy reflected the expectations of the 2018 UK Corporate Governance Code<sup>3</sup>.

#### **Gender Diversity**

Ahead of the 2021 AGM season, ISS updated its voting guidelines to incorporate a provision that would expect companies listed on the London Stock Exchange to be in line with leading market practice standards<sup>4</sup> to have at least 33% female representation on the board (in the case of FTSE 350 constituents), and to have at least one female director on the board for smaller companies. At this time, we propose to continue to exclude investment companies from the policy.

#### **Ethnic Diversity**

There is also clear shareholder demand for UK companies to incorporate and improve ethnic diversity on boards, as well as within the wider workforce. A number of regulatory bodies, such as the Financial Conduct Authority, as well as certain studies mandated by the UK Government, such as the Parker Review<sup>5</sup>, are driving the initiative of promoting greater ethnic diversity on boards. The conclusion of the Parker Review, which published its final recommendations in 2017, recommended companies that are constituents of the FTSE 100 to have at least one director of an ethnically diverse background by 2021, and constituents of the FTSE 250 to have an ethnically diverse director by 2024.

Having introduced the gender diversity policy into the UK benchmark policy in 2020, the logical development is the introduction of an ethnic diversity policy. The benchmark policy update is based on the recommendations of the Parker Review, such that ISS will expect FTSE 100 companies to already have at least one ethnically diverse director on the board (expected by the Parker Review by the end of 2021). If this is not the case, then ISS may recommend a vote against any director who is considered accountable for board composition. Given the fact that the Parker Review recommendations are already in place for FTSE 100 companies and that the impact would be limited, we do not propose to implement a grace period. For FTSE 250 companies, ISS policy will look for at least one ethnically diverse director on the board by 2024.

<sup>3</sup> <https://www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.pdf>

<sup>4</sup> <https://diversityq.com/aic-brings-diversity-to-investment-company-boards-1510455/>

<sup>5</sup> [https://assets.ey.com/content/dam/ey-sites/ey-com/en\\_uk/news/2020/02/ey-parker-review-2017-report-final.pdf](https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/news/2020/02/ey-parker-review-2017-report-final.pdf)

The policy changes will also apply an approach based on the Parker Review recommendations when considering UK companies that are not constituents of the FTSE 100 or FTSE 250 (including the following indices: FTSE SmallCap, ISEQ 20, and large FTSE AIM companies, categorized as those with a market capitalisation of over GBP 500 million). While the Parker Review was silent on any expectations of these companies, ISS will expect companies in these indices, in addition to FTSE 250 constituents, to have at least one director of an ethnically diverse background on the board by 2024.

Under the requirements of the UK Corporate Governance Code (and for the FTSE SmallCap, the FCA's Disclosure Guidance and Transparency Rule 7.2.8A6), companies have to describe their "diversity policy" or explain why they don't have one. Given these disclosure requirements, between now and 2024, ISS will closely observe diversity policies that companies outside the FTSE 100 will adopt, with focus maintained on the potential of incorporating ethnic diversity on the board. In certain situations, ISS may recommend only qualified support for the nomination committee chair, if there is no disclosure on any plans to incorporate ethnically diverse directors into the board by 2024.

ISS recognizes that the UK has a generally more diverse demographic profile than Ireland. According to the most recent published national statistics, in England and Wales<sup>7</sup>, 86% of the population identified as white British, Asian (India, Pakistan, Bangladesh, other) comprised 7.5% of the population, Black groups comprised 3.3% of the population, mixed/multiple ethnic groups comprised 2.2%, and other ethnic groups comprised 1% of the population. In the Republic of Ireland<sup>8</sup>, on the other hand, 82.2% of the population is represented as white Irish, other White comprised 9.5% (total White: 91.7%), non-Chinese Asian comprised 1.7%, and others including mixed background made up only 1.5% of the total population. It is also further acknowledged that there is no clear requirement which mandates that Irish companies maintain diverse boards, unlike the case for the UK. It is however recognized that of the 20 largest Irish companies (ISEQ 20), a majority are already constituents of the London Stock Exchange, with three listed within the FTSE 100 index. This shows that Irish companies, particularly larger ones, do have exposure to standards that are expected of FTSE index constituents, and would be cognizant of the need of incorporating ethnic diversity on their boards. This is bolstered by the fact that three of the top six ISEQ 20 companies in terms of market capitalisation have already identified a director of an ethnically diverse background. Based on the above, there is considered to be a sufficient case for Irish companies to also be expected to incorporate ethnic diversity on their boards by 2024, in line with smaller FTSE AllShare Constituents.

<sup>6</sup> <https://www.handbook.fca.org.uk/handbook/DTR/7/2.html>

<sup>7</sup> <https://www.ethnicity-facts-figures.service.gov.uk/uk-population-by-ethnicity/national-and-regional-populations/population-of-england-and-wales/latest>

<sup>8</sup> <https://www.cso.ie/en/releasesandpublications/ep/p-cp8iter/p8iter/p8e/>

## Remuneration

### Non-Financial ESG Performance Conditions

Current ISS Policy, incorporating changes:	New ISS Policy:
<p><b>Discussion</b></p> <p>Remuneration should motivate executives to achieve the company's strategic objectives, while ensuring that executive rewards reflect returns to long-term shareholders. Pay should be aligned to the long-term strategy, and companies are encouraged to use the statement by the chair of the remuneration committee to outline how their chosen remuneration approach aligns with the company's strategic goals and key performance indicators (KPIs). The remuneration committee should also closely examine the behaviour that the design of a remuneration package will promote.</p> <p>A good performance target is aligned with company strategy, future direction, performance, and shareholder value creation, without promoting or rewarding disproportionate risk-taking. Targets should be challenging but realistic and should closely reflect a company's ongoing business expectations. Where non-financial objectives are used as part of the performance conditions, ISS expects the majority of the payout to be triggered by the financial performance conditions. <b>Environment, Social and Governance (ESG) performance conditions may be used but targets should be material to the business and quantifiable.</b> There should also be a clear link between the objectives chosen and the company's strategy."</p>	<p><b>Discussion</b></p> <p>Remuneration should motivate executives to achieve the company's strategic objectives, while ensuring that executive rewards reflect returns to long-term shareholders. Pay should be aligned to the long-term strategy, and companies are encouraged to use the statement by the chair of the remuneration committee to outline how their chosen remuneration approach aligns with the company's strategic goals and key performance indicators (KPIs). The remuneration committee should also closely examine the behaviour that the design of a remuneration package will promote.</p> <p>A good performance target is aligned with company strategy, future direction, performance, and shareholder value creation, without promoting or rewarding disproportionate risk-taking. Targets should be challenging but realistic and should closely reflect a company's ongoing business expectations. Where non-financial objectives are used as part of the performance conditions, ISS expects the majority of the payout to be triggered by the financial performance conditions. Environment, Social and Governance (ESG) performance conditions may be used but targets should be material to the business and quantifiable. There should also be a clear link between the objectives chosen and the company's strategy."</p>

### Rationale for Change:

Non-financial ESG metrics are becoming increasingly popular in variable remuneration schemes. Based on the results of the global survey and client roundtables in Europe, it appears that investors' expectations are to assess their relevance and stringency in a similar way to financial criteria.

Furthermore, the IA Principles of Remuneration (which the ISS UK and Ireland benchmark policy refers to) already acknowledge the use of ESG metrics when determining variable remuneration, stating: "Remuneration committees should consider including strategic or non-financial performance criteria in variable

remuneration, for example relating to environmental, social and governance (ESG) objectives, or to particular operational or strategic objectives. ESG measures should be material to the business and quantifiable. In each case, the link to strategy and method of performance measurement should be clearly explained."

In regard to Annual Bonuses, the IA Principles of Remuneration also provide the following: "The impact of material Environmental, Social and Governance risks on the long-term value of companies is becoming increasingly apparent. As a result, a greater number of companies are incorporating the management of material ESG risks and opportunities into their long-term strategy. In these cases, it is appropriate that Remuneration Committees consider the management of these material ESG risks as performance conditions in the company's variable remuneration. As with any other performance condition, it is imperative they are clearly linked to the implementation of the company's strategy."

Similarly, under Long-Term Incentives, the IA Principles of Remuneration provide:

"Performance Conditions

Performance measures and vesting conditions should be fully explained and clearly linked to the achievement of appropriately challenging financial and strategic performance which will enhance shareholder value.

Whilst other considerations may apply in exceptional circumstances, for example, restructuring, shareholders will expect that remuneration policies and structures will normally be consistent with the following criteria:

- Financial measures linked to value creation. Performance criteria should be linked to the Company's long-term strategy, this includes when environmental, social and governance performance targets are chosen."

The amendment to the ISS Benchmark policy document for UK and Ireland is not designed to replicate the level of detail introduced by the IA Principles of Remuneration, but instead to confirm that ESG metrics can be included as performance measures utilised by a company's variable remuneration schemes, if the measures are clearly linked to the company's long-term strategy, material to the business and are quantifiable.

## Investment Companies

### Authorise Issue of Equity without Pre-emptive Rights

Current ISS Policy, incorporating changes:	New ISS Policy:
<p><b>General Recommendation:</b> Generally vote for a resolution to authorise the issuance of equity if there is a firm commitment from the board that shares would only be issued at a price at or above net asset value<sup>9</sup>. Otherwise, generally vote for a resolution to authorise the issuance of equity, unless:</p> <ul style="list-style-type: none"> <li>▪ The general issuance authority exceeds one-third (33 percent) of the issued share capital. Assuming it is no more than one-third, a further one-third of the issued share capital may also be applied to a fully pre-emptive rights issue taking the acceptable aggregate authority to two-thirds (66 percent); or</li> <li>▪ The routine authority to disapply pre-emption rights exceeds 5 percent of the issued share capital in any one year.</li> </ul> <p><del>Share issuance proposals which involve the issue of C shares will be considered using the above guidance.</del></p>	<p><b>General Recommendation:</b> Generally vote for a resolution to authorise the issuance of equity if there is a firm commitment from the board that shares would only be issued at a price at or above net asset value<sup>9</sup>. Otherwise, generally vote for a resolution to authorise the issuance of equity, unless:</p> <ul style="list-style-type: none"> <li>▪ The general issuance authority exceeds one-third (33 percent) of the issued share capital. Assuming it is no more than one-third, a further one-third of the issued share capital may also be applied to a fully pre-emptive rights issue taking the acceptable aggregate authority to two-thirds (66 percent); or</li> <li>▪ The routine authority to disapply pre-emption rights exceeds 5 percent of the issued share capital in any one year.</li> </ul>

### Rationale for Change:

This policy change is intended to refine our approach when assessing resolutions that seek authority to issue equity, particularly for investment companies. A review of the current policy highlighted that the statement on C share issuances in the ISS policy is not compatible with the amendments to the policy in relation to the lifting of the equity limit for shares issued without pre-emption rights made last year. C shares are typically issued at a price of GBP 1.00 and converted into ordinary shares once a predetermined level of investment is achieved on a predetermined date. These are an uncommon class of shares that are issued and are unique to investment companies. When requesting authority to issue such shares, there is typically no commitment for share issuance to take place above or below NAV.

<sup>9</sup> LR 15.4.11 prohibits closed-ended investment funds with a premium listing from issuing shares below NAV without shareholder approval. For the avoidance of doubt, ISS will require an explicit confirmation from the company that shares would only be issued at or above the prevailing NAV per share.

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Under the normal adoption of a C shares structure, new money raised from the issue of C shares is kept as a separate pool from the pre-existing funds of the investment company for a specified period until the bulk of the money raised is invested. At which point the new C shares are converted into new ordinary shares at a rate reflecting the combined net asset value of the enlarged investment company.

The line which concerned C shares in the policy language was unchanged from the previous year, which coincided with time when limits applicable for disapplication of pre-emption rights with regards to investment companies was removed (so long as shares were issued at a premium to NAV). The latter would entail that an investment company may seek authority to issue as many shares as desired, as long as there was a commitment to issue such shares at or above NAV. This does not apply to C share issuances as explained above. As such, the line concerning C shares is therefore no longer compatible with this amendment, and thus should be removed.

## Continental Europe

### Board of Directors

#### Non-Contested Director Elections

Current ISS Policy, incorporating changes:	New ISS Policy:
<p><b>General Recommendation:</b> Vote for management nominees in the election of directors, unless:</p> <p>[...]</p> <p>Note also that this policy is complemented by three additional policies: "Compensation-Related Voting Sanctions" and "Voting on Directors for Egregious Actions," which both address a comparatively rare set of additional circumstances, and "<del>Corporate Assembly and Committee of Representatives Elections</del>, <del>Committee of Representatives and Corporate Assembly Elections (Denmark and Norway)</del>", which states how ISS applies its director election policy in Norway and Denmark in cases where the board is not directly elected by shareholders.</p>	<p><b>General Recommendation:</b> Vote for management nominees in the election of directors, unless:</p> <p>[...]</p> <p>Note also that this policy is complemented by three additional policies: "Compensation-Related Voting Sanctions" and "Voting on Directors for Egregious Actions," which both address a comparatively rare set of additional circumstances, and "Committee of Representatives and Corporate Assembly Elections (Denmark and Norway)", which states how ISS applies its director election policy in Norway and Denmark in cases where the board is not directly elected by shareholders.</p>

#### Rationale for Change:

This change corrects an outdated reference.

## Board Independence

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>Independence will be determined according to ISS' European Classification of Directors. If a nominee cannot be categorized, ISS will consider that person non-independent and include that nominee in the calculation.</p> <p><i>Voting policies</i></p> <p><b><u>Widely-held companies</u></b></p> <p><u>Board Independence</u></p> <p>A. Non-controlled companies</p> <p>Generally vote against the election or reelection of any non-independent directors (excluding the CEO) if:</p> <ol style="list-style-type: none"> <li>1. Fewer than 50 percent of the board members elected by shareholders – excluding, where relevant, employee shareholder representatives – would be independent; or</li> <li>2. Fewer than one-third of all board members would be independent.</li> </ol> <p><del>Greece and</del> Portugal <del>are</del><sup>is</sup> excluded from Provision (1.) in the above-mentioned voting policy.</p> <p>.....</p>	<p>Independence will be determined according to ISS' European Classification of Directors. If a nominee cannot be categorized, ISS will consider that person non-independent and include that nominee in the calculation.</p> <p><i>Voting policies</i></p> <p><b><u>Widely-held companies</u></b></p> <p><u>Board Independence</u></p> <p>A. Non-controlled companies</p> <p>Generally vote against the election or reelection of any non-independent directors (excluding the CEO) if:</p> <ol style="list-style-type: none"> <li>1. Fewer than 50 percent of the board members elected by shareholders – excluding, where relevant, employee shareholder representatives – would be independent; or</li> <li>2. Fewer than one-third of all board members would be independent.</li> </ol> <p>Portugal is excluded from Provision (1.) in the above-mentioned voting policy.</p> <p>.....</p>

### Rationale for Change:

This change aligns the Continental European policy with recently updated best practice recommendations in Greece. The Greek Corporate law, as amended in July 2020, requires that I-NEDs represent at least one third of board members, and should not be less than two.

In June 2021, the Hellenic Corporate Governance Council ("HCGC") released the new Hellenic Corporate Governance Code (the "Code") that entered into force on July 17, 2021. This Code is addressed to Greek companies with securities listed on a regulated market operating in Greece. Among others, the Code recommends that



independent non-executive members shall not be less than half of the total number of board members. According to the Code, the 'comply-or-explain' principle does not apply to the Code recommendations.

### Election of a Former CEO as Chair of the Board

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>Generally vote against the (re)election <del>or reelection</del> of a former CEO <del>as chairman</del> to the supervisory board or board of directors in <del>Austria</del>, Germany, <del>Austria</del>, and the Netherlands. <del>In markets such as Germany, where the general meeting only elects the nominees and, subsequently, the new board's chairman, ISS will generally recommend a vote against the election or reelection of a former CEO, unless the company has publicly confirmed prior to the general meeting that if the former CEO is to will not proceed to become be chairman</del> of the relevant board. To this end, companies are expected to confirm prior to the general meeting that the former CEO will not be (re)appointed as chair of the relevant board.</p> <p>Given the importance of board leadership, ISS may consider that the chair of the board should be an independent non-executive director according to the ISS' Classification of Directors.</p> <p><del>Considerations should be given to any of the following exceptional circumstances on a case-by-case basis if:</del></p> <ul style="list-style-type: none"> <li><del>▪ There are compelling reasons that justify the election or reelection of a former CEO as chairman</del> <b>chairperson;</b></li> <li><del>▪ The former CEO is proposed to become the board's chairman</del> <b>chairperson only on an interim or temporary basis;</b></li> <li><del>▪ The former CEO is proposed to be elected as the board's chairman</del> <b>chairperson for the first time after a reasonable cooling-off period; or</b></li> <li><del>▪ The board chairman</del> <b>chairperson will not receive a level of compensation comparable to the company's executives nor assume executive functions in markets where this is applicable.</b></li> </ul>	<p>Generally vote against the (re)election of a former CEO to the supervisory board or board of directors in Austria, Germany, and the Netherlands if the former CEO is to be chair of the relevant board. To this end, companies are expected to confirm prior to the general meeting that the former CEO will not be (re)appointed as chair of the relevant board.</p> <p>Given the importance of board leadership, ISS may consider that the chair of the board should be an independent non-executive director according to the ISS' Classification of Directors.</p>

## Rationale for Change:

The language of the current policy is being changed to reflect actual practice and application of the policy. Potentially confusing language as well as spelled out exceptional circumstances have been removed to clarify the policy.

## Overboarded Directors

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>In <b>Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, the Netherlands, Norway, Poland, Spain, Sweden, and Switzerland</b>, ISS will generally recommend a vote against a candidate when <b>they/s/he</b> hold an excessive number of board appointments, as defined by the following guidelines:</p> <ul style="list-style-type: none"> <li>Any person who holds more than five mandates at listed companies will be classified as overboarded. For the purposes of calculating this limit, a non-executive directorship counts as one mandate, a non-executive chair<del>manship</del> <b>position</b> counts as two mandates, and a position as executive director (or a comparable role) is counted as three mandates.</li> <li>Also, any person who holds the position of executive director (or a comparable role) at one company and <b>serves as</b> a non-executive chair<del>man</del> at a different company will be classified as overboarded.</li> </ul> <p><u>CEOs and Board Chair<del>s</del><b>men</b></u></p> <p>An adverse vote recommendation will not be applied to a director within a company where <b>he/she they</b> <b>serves</b> as CEO; instead, any adverse vote recommendations will be applied to <b>his/her their</b> additional seats on other company boards. For chairs<del>men</del>, negative recommendations would first be applied towards non-executive, <b>non-chair</b> positions held, but the chair<del>manship</del> position itself would be targeted where they are being elected as chair<del>man</del> for the first time or, when in aggregate their chair positions are three or more in number, or if the chair<del>man</del> holds an outside executive position. ISS will take into account board positions held in global publicly listed companies outside the</p>	<p>In <b>Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, the Netherlands, Norway, Poland, Spain, Sweden, and Switzerland</b>, ISS will generally recommend a vote against a candidate when they hold an excessive number of board appointments, as defined by the following guidelines:</p> <ul style="list-style-type: none"> <li>Any person who holds more than five mandates at listed companies will be classified as overboarded. For the purposes of calculating this limit, a non-executive directorship counts as one mandate, a non-executive chair position counts as two mandates, and a position as executive director (or a comparable role) is counted as three mandates.</li> <li>Also, any person who holds the position of executive director (or a comparable role) at one company and serves as a non-executive chair at a different company will be classified as overboarded.</li> </ul> <p><u>CEOs and Board Chairs</u></p> <p>An adverse vote recommendation will not be applied to a director within a company where they serve as CEO; instead, any adverse vote recommendations will be applied to his/her additional seats on other company boards. For chairs, negative recommendations would first be applied towards non-executive, non-chair positions held, but the chair position itself would be targeted where they are being elected as chair for the first time or, when in aggregate their chair positions are three or more in number, or if the chair holds an outside executive position. ISS will take into account board positions held in global publicly listed companies outside the same group, defined as a group of companies in which a</p>

<p>same group, defined as a group of companies in which a common <del>parent</del> <del>company</del> <del>shareholder</del> controls at least 50 percent + 1 share of equity capital, alone or in concert.</p> <p>For directors standing for (re)election at French companies, ISS will take into account board appointments as censors in French publicly-listed companies.</p> <p>Executive directors or those in comparable roles within investment holding companies will generally be treated similar to non-executive directors when applying this policy.</p>	<p>common shareholder controls at least 50 percent + 1 share of equity capital, alone or in concert.</p> <p>For directors standing for (re)election at French companies, ISS will take into account board appointments as censors in French publicly-listed companies.</p> <p>Executive directors or those in comparable roles within investment holding companies will generally be treated similar to non-executive directors when applying this policy.</p>
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**Rationale for Change:**

The addition of Greece to the overboarding policy reflects the recent update to Greek corporate governance standards regarding the number of directorships that a director can hold.

Greek Law 4706/2020 that includes corporate governance-related provisions, which became effective in July 2021, requires listed companies to develop a directors' suitability policy. The Hellenic Capital Market Commission has subsequently issued guidelines about suitability policies, including the following *"All the members of the BoD shall be available for the performance of their duties as required based on the description of their office, the role and the duties thereof. In order to define the adequacy of availability, the membership and the duties delegated to the member of the BoD, the number of memberships in other BoD and the resulting offices he holds at the same time as well as any other professional or personal commitment or condition shall be taken into consideration"*.

In 2021, Greek issuers submitted their suitability policies to shareholder vote. Some of these policies included limitations on the number of directorships that can be held by a board director.

In June 2021, the Hellenic Corporate Governance Council ("HCGC") released the new Hellenic Corporate Governance Code (the "Code") that entered into force on July 17, 2021. This Code is addressed to Greek companies with securities listed on a regulated market operating in Greece. Among other special practices that are subject to the 'comply-or-explain' principle, the Code sets out that the non-executive members of the board of directors do not participate in boards of directors of more than five listed companies, and in the case of the chair more than three.

The policy update also expands the definition of "group of companies" to encompass all cases of group of companies, not only groups where the majority shareholder is a company. The change reflects ISS' current approach of considering companies belonging to the same group based on the stake of the majority shareholder, irrespective of its form (company, individual, financial vehicle, etc.), and updates language referring to board chairs, previously referred to in this policy as chairmen.

## Voto di Lista (Italy)

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>In <b>Italy</b>, director elections generally take place through the <i>voto di lista</i> mechanism (similar to slate elections). Since the Italian implementation of the European Shareholder Rights Directive (effective since Nov. 1, 2010), <b>Italian</b> issuers <b>whose shares are listed on the Italian regulated market <i>Mercato Telematico Azionario</i></b> must publish the various lists 21 days in advance of the meeting.</p> <p>[...]</p> <p>Those companies that are excluded from the provisions of the European Shareholder Rights Directive <b>generally</b> publish lists of nominees <del>10</del> <b>seven</b> days before the meeting. In the case where nominees are not published in sufficient time, ISS will recommend a vote against the director elections before the lists of director nominees are disclosed. Once the various lists of nominees are disclosed, ISS will issue an alert to its clients and, if appropriate, change its vote recommendation to support one particular list.</p>	<p>In <b>Italy</b>, director elections generally take place through the <i>voto di lista</i> mechanism (similar to slate elections). Since the Italian implementation of the European Shareholder Rights Directive (effective since Nov. 1, 2010), Italian issuers whose shares are listed on the Italian regulated market <i>Mercato Telematico Azionario</i> must publish the various lists 21 days in advance of the meeting.</p> <p>[...]</p> <p>Those companies that are excluded from the provisions of the European Shareholder Rights Directive generally publish lists of nominees seven days before the meeting. In the case where nominees are not published in sufficient time, ISS will recommend a vote against the director elections before the lists of director nominees are disclosed. Once the various lists of nominees are disclosed, ISS will issue an alert to its clients and, if appropriate, change its vote recommendation to support one particular list.</p>

### Rationale for Change:

These changes correct inaccuracies and clarify some legal aspects related to the Italian voto di lista.

## Board Gender Diversity

Current ISS Policy, incorporating changes:	New ISS Policy:
<p><b>General Recommendation:</b> In terms of gender diversity, [supervisory] boards should adhere to domestic legal requirements or local best market practices or, in the absence thereof, be in line with European established practice.</p> <p>Generally vote against the chair of the nomination committee (or other directors on a case-by-case basis) if:</p> <ul style="list-style-type: none"> <li>▪ The underrepresented gender accounts for less than 30 percent (or any higher domestic threshold) of <del>board</del> <b>shareholder-elected</b> directors of a widely held company<sup>10</sup> – <b>excluding, where relevant, employee shareholder representatives<sup>11</sup></b>.</li> <li>▪ Both genders are not represented on the board of a non-widely-held company.</li> </ul> <p>Mitigating factors may include:</p> <ul style="list-style-type: none"> <li>▪ Compliance with the relevant standard at the preceding annual meeting and a firm commitment, publicly available, to comply with the relevant standard within a year; or</li> <li>▪ Other relevant factors as applicable.</li> </ul>	<p><b>General Recommendation:</b> In terms of gender diversity, [supervisory] boards should adhere to domestic legal requirements or local best market practices or, in the absence thereof, be in line with European established practice.</p> <p>Generally vote against the chair of the nomination committee (or other directors on a case-by-case basis) if:</p> <ul style="list-style-type: none"> <li>▪ The underrepresented gender accounts for less than 30 percent (or any higher domestic threshold) of shareholder-elected directors of a widely held company – excluding, where relevant, employee shareholder representatives<sup>11</sup>.</li> <li>▪ Both genders are not represented on the board of a non-widely-held company.</li> </ul> <p>Mitigating factors may include:</p> <ul style="list-style-type: none"> <li>▪ Compliance with the relevant standard at the preceding annual meeting and a firm commitment, publicly available, to comply with the relevant standard within a year; or</li> <li>▪ Other relevant factors as applicable.</li> </ul>

### Rationale for Change:

The policy update (i) removes the transition provision and (ii) specifies that gender representation primarily applies to directors that are elected by shareholders.

~~<sup>10</sup> A one-year transitional period will apply in 2021. During this transitional period, vote recommendations will not be impacted by the policy applicable to widely held companies. The latter will come into effect on Feb. 1, 2022.~~

<sup>11</sup> In France, when employees exceed a given shareholding threshold in the company, they must be represented by employee shareholder representative(s) on the [supervisory] board.

In markets like Austria, Denmark, Finland, France, Germany, Norway, or Sweden, the [supervisory] board may include employee representatives or other directors that are not elected by shareholders. The [supervisory] board does not have any influence on the selection process of these director nominees. Consequently, the gender diversity policy primarily applies to shareholder-elected directors that are proposed by the [supervisory] board.

In France, although employee shareholder representatives are elected by shareholders, the [supervisory] board is not involved in the selection process of the employee shareholder representative nominees. Consequently, and consistently with ISS' European policy on board independence, these directors will be excluded from the scope of this policy.

### Climate Accountability

Current ISS Policy, incorporating changes:	New ISS Policy:
<p><b>General Recommendation:</b> For companies that are significant greenhouse gas (GHG) emitters, through their operations or value chain<sup>12</sup>, generally vote against the responsible incumbent director(s), or any other appropriate item(s) in cases where ISS 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. Targets for Scope 3 emissions will not be required for 2022 but the targets should cover at least a significant portion of the</p>	<p><b>General Recommendation:</b> For companies that are significant greenhouse gas (GHG) emitters, through their operations or value chain<sup>12</sup>, generally vote against the responsible incumbent director(s), or any other appropriate item(s) in cases where ISS 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. Targets for Scope 3 emissions will not be required for 2022 but the targets should cover at least a significant portion of the</p>

<sup>12</sup> For 2022, companies defined as “significant GHG emitters” will be those on the current Climate Action 100+ Focus Group list.

company's direct emissions. Expectations about what constitutes "minimum steps to mitigate risks related to climate change" will increase over time.	company's direct emissions. Expectations about what constitutes "minimum steps to mitigate risks related to climate change" will increase over time.
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**Rationale for Change:**

See Rationale for [Climate Accountability](#) under the UK & Ireland section. For Continental Europe, the vote recommendation is "against the responsible incumbent director(s), or any other appropriate item(s)", rather than against the board chair.

**Board Structure**

Current ISS Policy, incorporating changes:	New ISS Policy:
<p><b>General Recommendation:</b> Vote for routine proposals to fix board size.</p> <p>Vote against the introduction of <del>classified boards and/or</del> mandatory retirement ages for directors.</p> <p>Vote against proposals to alter board structure or size in the context of a fight for control of the company or the board.</p>	<p><b>General Recommendation:</b> Vote for routine proposals to fix board size.</p> <p>Vote against the introduction of mandatory retirement ages for directors.</p> <p>Vote against proposals to alter board structure or size in the context of a fight for control of the company or the board.</p>

**Rationale for Change:**

Classified boards (that is, having different classes of directors) do not currently exist in Europe. This recommendation also creates a confusion for issuers and clients about its use for staggered board.

Staggered boards cannot be considered as an anti-takeover mechanism by limiting the possibility to remove/replace directors in a short period of time. In most European countries, directors can be removed at any time during a shareholder meeting even if they are not up for reelection.

In countries with no annual reelection of directors, staggered boards can sometimes contribute to a decrease in the length of mandate and ensure that some directors are up for reelection at every AGM. Those issues linked to the duration of mandates are already covered under the section "Directors Term": "directors should be accountable to shareholders on a more regular basis".

## Capital Structure

### Share Issuance Requests — General Issuances

Current ISS Policy, incorporating changes:	New ISS Policy:
<p><b>General Recommendation:</b> Vote for issuance authorities with pre-emptive rights to a maximum of 50 percent over currently issued capital and as long as the share issuance authorities' periods are clearly disclosed (or implied by the application of a legal maximum duration) and in line with market-specific practices and/or recommended guidelines (e.g., issuance periods limited to 18 months for the <b>Netherlands</b>).</p> <p>Vote for issuance authorities without pre-emptive rights to a maximum of 10 percent (or a lower limit if local market best practice recommendations provide) of currently issued capital as long as the share issuance authorities' periods are clearly disclosed (or implied by the application of a legal maximum duration) and in line with market-specific practices and/or recommended guidelines (e.g., issuance periods limited to 18 months for the <b>Netherlands</b>).</p> <p>These thresholds are mutually exclusive.</p> <p>When calculating the defined limits, all authorized and conditional capital authorizations are considered, including existing authorizations that will remain valid beyond the concerned shareholders' meeting.</p>	<p><b>General Recommendation:</b> Vote for issuance authorities with pre-emptive rights to a maximum of 50 percent over currently issued capital and as long as the share issuance authorities' periods are clearly disclosed (or implied by the application of a legal maximum duration) and in line with market-specific practices and/or recommended guidelines (e.g., issuance periods limited to 18 months for the <b>Netherlands</b>).</p> <p>Vote for issuance authorities without pre-emptive rights to a maximum of 10 percent (or a lower limit if local market best practice recommendations provide) of currently issued capital as long as the share issuance authorities' periods are clearly disclosed (or implied by the application of a legal maximum duration) and in line with market-specific practices and/or recommended guidelines (e.g., issuance periods limited to 18 months for the <b>Netherlands</b>).</p> <p>These thresholds are mutually exclusive.</p> <p>When calculating the defined limits, all authorized and conditional capital authorizations are considered, including existing authorizations that will remain valid beyond the concerned shareholders' meeting.</p>

#### Rationale for Change:

The added provision clarifies the scope and application of the policy on generic share issuance request authorizations.

In practice, share issuances that may lead to a capital increase of up to 60 percent are generally supported: 50 percent with preemptive rights plus 10 percent without preemptive rights.

Also, all authorizations are considered: both the existing authorizations that remain effective after the concerned general meeting and the authorizations proposed at the general meeting under analysis.



## Increases in Authorized Capital

Current ISS Policy, incorporating changes:	New ISS Policy:
<p><del>General Recommendation: Vote for non-specific proposals to increase authorized capital up to 100 percent over the current authorization unless the increase would leave the company with less than 30 percent of its new authorization outstanding.</del></p> <p><del>Vote for specific proposals to increase authorized capital to any amount, unless:</del></p> <ul style="list-style-type: none"> <li><del>▪ The specific purpose of the increase (such as a share-based acquisition or merger) does not meet ISS guidelines for the purpose being proposed; or</del></li> <li><del>▪ The increase would leave the company with less than 30 percent of its new authorization outstanding after adjusting for all proposed issuances.</del></li> </ul> <p><del>Vote against proposals to adopt unlimited capital authorizations.</del></p> <p>Vote for proposals to increase authorized capital on a case-by-case basis if such proposals do not include the authorization to issue shares from the (pre-) approved limit.</p> <p>In case the proposals to increase authorized capital include the authorization to issue shares according to the (pre-)approved limit without obtaining separate shareholder approval, the general issuance policy applies.</p>	<p><b>General Recommendation:</b> Vote for proposals to increase authorized capital on a case-by-case basis if such proposals do not include the authorization to issue shares from the (pre-)approved limit.</p> <p>In case the proposals to increase authorized capital include the authorization to issue shares according to the (pre-)approved limit without obtaining separate shareholder approval, the general issuance policy applies.</p>

### Rationale for Change:

The change aligns ISS' European guidelines with current practice. In the different European markets, two different authorized-capital related proposals can be identified: (i) the proposals to increase authorized capital that would result in the possibility to issue shares, and (ii) the proposals that would not result in a possibility to issue shares (in markets where the board cannot issue new shares from the authorized share capital without first obtaining a separate authorization to do so from shareholders). The first authorizations may dilute existing shareholders' investment (dilutive measures) while the second authorizations would have no impact on the value of shareholders' investment (non-dilutive measures).

ISS treats proposal to increase authorized capital that would result in the possibility to issue shares (and thus potentially dilute shareholders) as an authorization to issue shares, with the according thresholds as foreseen in the current policy (i.e., up to 50 percent with preemptive rights and up to 10 percent without preemptive rights). In context of the concerning policy, an increase in the authorized capital does not result in an authorization to issue shares and thus has no dilutive effect on

shareholders but would only change a theoretical pool of capital (proposals seen in Netherlands, Norway, and Luxembourg). The current policy limits proposals to increase the authorized capital (up to 100 percent over the current authorization unless the increase would leave the company with less than 30 percent of its new authorization outstanding), whereas limitations would not protect shareholders' interests. To remove any ambiguity and confusion, a distinction is made between dilutive and non-dilutive measures, the limitation is removed, and the case-by-case approach depends on the local legal framework of authorized capital taking into account shareholders' interest.

### Share Repurchase Plans

Current ISS Policy, incorporating changes:	New ISS Policy:
<p><b>General Recommendation:</b> ISS will generally recommend for market repurchase authorities (share repurchase programs) if the terms comply with the following criteria:</p> <ul style="list-style-type: none"> <li>▪ A repurchase limit of up to 10 percent of <del>outstanding</del> issued share capital;</li> <li>▪ A holding limit of up to 10 percent of a company's issued share capital in treasury ("on the shelf"); and</li> <li>▪ Duration of no more than 5 years, or such lower threshold as may be set by applicable law, regulation, or code of governance best practice.</li> </ul>	<p><b>General Recommendation:</b> ISS will generally recommend for market repurchase authorities (share repurchase programs) if the terms comply with the following criteria:</p> <ul style="list-style-type: none"> <li>▪ A repurchase limit of up to 10 percent of issued share capital;</li> <li>▪ A holding limit of up to 10 percent of a company's issued share capital in treasury ("on the shelf"); and</li> <li>▪ Duration of no more than 5 years, or such lower threshold as may be set by applicable law, regulation, or code of governance best practice.</li> </ul>

### Rationale for Change:

This change corrects phrasing that could cause confusion. The repurchase limit is based on the issued share capital, including treasury shares.

## Compensation

### Executive Compensation-Related Proposals

Current ISS Policy, incorporating changes:	New ISS Policy:
<p><b>General Recommendation:</b> ISS will evaluate management proposals seeking ratification of a company's executive compensation-related items on a case-by-case basis, and where relevant, will take into account the European Pay for Performance Model outcomes within a qualitative review of a company's remuneration practices. ISS will generally recommend a vote against a company's compensation-related proposal if such proposal fails to comply with one or a combination of several of the global principles and their corresponding rules:</p> <ol style="list-style-type: none"> <li>1. Provide shareholders with clear and comprehensive compensation disclosures:               <ol style="list-style-type: none"> <li>1.1. Information on compensation-related proposals shall be made available to shareholders in a timely manner;</li> <li>1.2. The level of disclosure of the proposed compensation policy and remuneration report shall be sufficient for shareholders to make an informed decision and shall be in line with what local market best practice standards dictate;                   <ol style="list-style-type: none"> <li>1.2.1. Remuneration report disclosure is expected to include amongst others: amounts paid to executives, alignment between company performance and payout to executives, disclosure of variable incentive targets and according levels of achievement and performance awards made, after the relevant performance period (ex-post), and disclosure and explanation of use of any discretionary authority or derogation clause by the board or remuneration committee to adjust pay outcomes.</li> <li>1.2.2. Companies are expected to provide meaningful information regarding the average remuneration of employees of the company, in a manner which permits comparison with directors' remuneration.</li> </ol> </li> <li>1.3. Companies shall adequately disclose all elements of the compensation, including:                   <ol style="list-style-type: none"> <li>1.3.1. Any short- or long-term compensation component must include a</li> </ol> </li> </ol> </li> </ol>	<p><b>General Recommendation:</b> ISS will evaluate management proposals seeking ratification of a company's executive compensation-related items on a case-by-case basis, and where relevant, will take into account the European Pay for Performance Model outcomes within a qualitative review of a company's remuneration practices. ISS will generally recommend a vote against a company's compensation-related proposal if such proposal fails to comply with one or a combination of several of the global principles and their corresponding rules:</p> <ol style="list-style-type: none"> <li>1. Provide shareholders with clear and comprehensive compensation disclosures:               <ol style="list-style-type: none"> <li>1.1. Information on compensation-related proposals shall be made available to shareholders in a timely manner;</li> <li>1.2. The level of disclosure of the proposed compensation policy and remuneration report shall be sufficient for shareholders to make an informed decision and shall be in line with what local market best practice standards dictate;                   <ol style="list-style-type: none"> <li>1.2.1. Remuneration report disclosure is expected to include amongst others: amounts paid to executives, alignment between company performance and payout to executives, disclosure of variable incentive targets and according levels of achievement and performance awards made, after the relevant performance period (ex-post), and disclosure and explanation of use of any discretionary authority or derogation clause by the board or remuneration committee to adjust pay outcomes.</li> <li>1.2.2. Companies are expected to provide meaningful information regarding the average remuneration of employees of the company, in a manner which permits comparison with directors' remuneration.</li> </ol> </li> <li>1.3. Companies shall adequately disclose all elements of the compensation, including:                   <ol style="list-style-type: none"> <li>1.3.1. Any short- or long-term compensation component must include a</li> </ol> </li> </ol> </li> </ol>

<p>maximum award limit.</p> <p>1.3.2. Long-term incentive plans must provide sufficient disclosure of (i) the exercise price/strike price (options); (ii) discount on grant; (iii) grant date/period; (iv) exercise/vesting period; and, if applicable, (v) performance criteria.</p> <p>1.3.3. Discretionary payments, if applicable.</p> <p>1.3.4. <b>The derogation policy, if applicable, which shall clearly define and limit any elements (e.g., base salary, STI, LTI, etc.) and extent (e.g., caps, weightings, etc.) to which derogations may apply.</b></p> <p>2. Maintain appropriate pay structure with emphasis on long-term shareholder value:</p> <p>2.1. The structure of the company's short-term incentive plan shall be appropriate.</p> <p>2.1.1. The compensation policy must notably avoid guaranteed or discretionary compensation.</p> <p>2.2. The structure of the company's long-term incentives shall be appropriate, including, but not limited to, dilution, vesting period, and, if applicable, performance conditions.</p> <p>2.2.1. Equity-based plans or awards that are linked to long-term company performance will be evaluated using ISS' general policy for equity-based plans; and</p> <p>2.2.2. For awards granted to executives, ISS will generally require a clear link between shareholder value and awards, and stringent performance-based elements.</p> <p>2.3. The balance between short- and long-term variable compensation shall be appropriate</p> <p>2.3.1. The company's executive compensation policy must notably avoid disproportionate focus on short-term variable element(s)</p> <p>3. Avoid arrangements that risk "pay for failure":</p> <p>3.1. The board shall demonstrate good stewardship of investor's interests regarding executive compensation practices (principle being supported by Pay for Performance Evaluation).</p> <p>3.1.1. There shall be a clear link between the company's performance and variable <del>awards</del> incentives. <b>Financial and non-financial conditions, including ESG criteria, are relevant as long as they reward an effective performance in line with the purpose, strategy, and objectives adopted by the company.</b></p>	<p>maximum award limit.</p> <p>1.3.2. Long-term incentive plans must provide sufficient disclosure of (i) the exercise price/strike price (options); (ii) discount on grant; (iii) grant date/period; (iv) exercise/vesting period; and, if applicable, (v) performance criteria.</p> <p>1.3.3. Discretionary payments, if applicable.</p> <p>1.3.4. The derogation policy, if applicable, which shall clearly define and limit any elements (e.g., base salary, STI, LTI, etc.) and extent (e.g., caps, weightings, etc.) to which derogations may apply.</p> <p>2. Maintain appropriate pay structure with emphasis on long-term shareholder value:</p> <p>2.1. The structure of the company's short-term incentive plan shall be appropriate.</p> <p>2.1.1. The compensation policy must notably avoid guaranteed or discretionary compensation.</p> <p>2.2. The structure of the company's long-term incentives shall be appropriate, including, but not limited to, dilution, vesting period, and, if applicable, performance conditions.</p> <p>2.2.1. Equity-based plans or awards that are linked to long-term company performance will be evaluated using ISS' general policy for equity-based plans; and</p> <p>2.2.2. For awards granted to executives, ISS will generally require a clear link between shareholder value and awards, and stringent performance-based elements.</p> <p>2.3. The balance between short- and long-term variable compensation shall be appropriate</p> <p>2.3.1. The company's executive compensation policy must notably avoid disproportionate focus on short-term variable element(s)</p> <p>3. Avoid arrangements that risk "pay for failure":</p> <p>3.1. The board shall demonstrate good stewardship of investor's interests regarding executive compensation practices (principle being supported by Pay for Performance Evaluation).</p> <p>3.1.1. There shall be a clear link between the company's performance and variable incentives. Financial and non-financial conditions, including ESG criteria, are relevant as long as they reward an effective performance in line with the purpose, strategy, and objectives adopted by the company.</p>
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<p>3.1.2. There shall not be significant discrepancies between the company's performance, <b>financial and non-financial</b>, and real executive payouts.</p> <p>3.1.3. The level of pay for the CEO and members of executive management should not be excessive relative to peers, company performance, and market practices.</p> <p>3.1.4. Significant pay increases shall be explained by a detailed and compelling disclosure.</p> <p>3.2. Termination payments<sup>13</sup> must not be in excess of (i) 24 months' pay or of (ii) any more restrictive provision pursuant to local legal requirements and/or market best practices.</p> <p>3.3. Arrangements with a company executive regarding pensions and post-mandate exercise of equity-based awards must not result in an adverse impact on shareholders' interests or be misaligned with good market practices.</p> <p>4. Maintain an independent and effective compensation committee:</p> <p>4.1. No executives may serve on the compensation committee.</p> <p>4.2. In certain markets the compensation committee shall be composed of a majority of independent members, as per ISS policies on director election and board or committee composition.</p> <p>4.3. Compensation committees should use the discretion afforded them by shareholders to ensure that rewards properly reflect business performance.<sup>14</sup></p>	<p>3.1.2. There shall not be significant discrepancies between the company's performance, financial and non-financial, and real executive payouts.</p> <p>3.1.3. The level of pay for the CEO and members of executive management should not be excessive relative to peers, company performance, and market practices.</p> <p>3.1.4. Significant pay increases shall be explained by a detailed and compelling disclosure.</p> <p>3.2. Termination payments<sup>13</sup> must not be in excess of (i) 24 months' pay or of (ii) any more restrictive provision pursuant to local legal requirements and/or market best practices.</p> <p>3.3. Arrangements with a company executive regarding pensions and post-mandate exercise of equity-based awards must not result in an adverse impact on shareholders' interests or be misaligned with good market practices.</p> <p>4. Maintain an independent and effective compensation committee:</p> <p>4.1. No executives may serve on the compensation committee.</p> <p>4.2. In certain markets the compensation committee shall be composed of a majority of independent members, as per ISS policies on director election and board or committee composition.</p> <p>4.3. Compensation committees should use the discretion afforded them by shareholders to ensure that rewards properly reflect business performance.<sup>14</sup></p>
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<sup>13</sup> 'Termination payments' means any payment linked to early termination of contracts for executive or managing directors, including payments related to the duration of a notice period or a non-competition clause included in the contract.

<sup>14</sup> In cases where a remuneration committee uses its discretion to determine payments, it should provide a clear explanation of its reasons, which are expected to be clearly justified by the financial results and the underlying performance of the company.

The remuneration committee should disclose how it has taken into account any relevant environmental, social, and governance (ESG) matters when determining remuneration outcomes. Such factors may include (but are not limited to): workplace fatalities and injuries, significant environmental incidents, large or serial fines or sanctions from regulatory bodies and/or significant adverse legal judgments or settlements.

It is relatively rare that a remuneration committee chooses to amend the targets used for either the annual bonus or the LTIP following the start of the performance period, but where this has occurred, it is good practice for the company to demonstrate how the revised targets are in practice no less challenging than the targets which were originally set.

### Rationale for Change:

**Pay equity ratios (Item 1.2.2):** This a requirement provided by the EU SRD II:

*“Where applicable, the remuneration report shall contain the following information regarding each individual director’s remuneration:*

*.....*

*(b) the annual change of remuneration, of the performance of the company, and of average remuneration on a full-time equivalent basis of employees of the company other than directors over at least the five most recent financial years, presented together in a manner which permits comparison;”*

The purpose is to make sure that:

- the disclosure is understandable for investors, and
- the methodology provides an accurate view of the evolution of the executives' remuneration compared to the employees' remuneration.

**Derogation policy (Item 1.3.4):** As authorized by the Shareholder Rights Directive II (SRD II), most EU member states allow companies to temporarily derogate (that is, apply an exemption or relaxation) from their existing remuneration policy under exceptional circumstances, provided that the policy includes the procedural conditions under which a derogation can be applied and specifies the elements of the policy which may be derogated. According to SRD II, derogations should only be permissible in exceptional circumstances, that is in situations in which the derogation from the remuneration policy is necessary to serve the long-term interests and sustainability of the company as a whole or to ensure its viability. However, many EU companies have included very general derogation clauses in their remuneration policies that are broadly aligned with SRD II but are not clear on the elements or extent under which derogation may be applied, allowing those companies a broad power to derogate from most of the policy features.

This change also reflects the results of the 2021 ISS policy survey where investors’ responses favored derogation policies that clearly define and limit the elements and extent to which derogations may apply and provide adequate information on the use of derogations. In the survey, over 60 percent of investor respondents replied that company remuneration policies should define and limit the elements and extent to which derogations may apply.

**Non-Financial ESG Performance Conditions (Items 3.1.1, 3.1.2):** Non-financial ESG metrics are more and more usual in remuneration schemes. Based on the results of the ISS policy survey and feedback from policy roundtables in Europe this year, it appears that investors’ expectations are to assess their relevance and stringency in a similar way to financial criteria. In the 2021 ISS Benchmark Policy Survey, when asked whether non-financial ESG-related metrics should be incorporated into executive compensation, over 50 percent of investor respondents replied that they should but only if the metrics are specific, measurable, and transparently communicated.

## Equity-based Compensation Guidelines

Current ISS Policy, incorporating changes:	New ISS Policy:
<p><b>General Recommendation:</b> <del>ISS will</del> Generally recommend a vote for equity-based compensation proposals <del>or the like for employees</del> if the plan(s) is(are) in line with long-term shareholder interests and align the award with shareholder value. This assessment includes, but is not limited to, the following factors:</p> <ul style="list-style-type: none"> <li>▪ The volume of awards (to be) transferred to participants under all outstanding plans must not be excessive: <del>the potential volume of awards fully diluted issued share capital from equity-based compensation plans</del> must not exceed <del>the following ISS guidelines:</del></li> <li>▪ <del>The shares reserved for all share plans may not exceed</del> 5 percent of a company's issued share capital. <del>, except</del> This number can be up to 10 percent in the case of for high-growth companies or particularly well-designed plans, <del>in which case we allow dilution of between 5 and 10 percent; in this case, we will need to have performance conditions attached to the plans which should be acceptable under ISS criteria</del> (e.g., with challenging performance criteria, extended vesting/performance period, etc.);</li> <li>▪ The plan(s) must be sufficiently long-term in nature/structure: the <del>minimum</del> vesting <del>period of awards</del> (i) must <del>be occur</del> no less than three years from <del>date of the grant date</del>, and (ii) if applicable, should be conditioned on meeting performance targets that are measured over a period of at least three consecutive years;</li> <li>▪ If applicable, performance criteria must be fully disclosed, measurable, quantifiable, and long-term oriented.</li> <li>▪ The awards must be granted at market price. Discounts, if any, must be mitigated by performance criteria or other features that justify such discount.</li> <li>▪ <del>If applicable, performance standards must be fully disclosed, quantified, and long-term, with relative performance measures preferred.</del></li> </ul> <p><b>Market-specific provisions for France:</b></p>	<p><b>General Recommendation:</b> Generally vote for equity-based compensation proposals or the like if the plan(s) is(are) in line with long-term shareholder interests and align the award with shareholder value. This assessment includes, but is not limited to, the following factors:</p> <ul style="list-style-type: none"> <li>▪ The volume of awards (to be) transferred to participants under all outstanding plans must not be excessive: awards must not exceed 5 percent of a company's issued share capital. This number may be up to 10 percent for high-growth companies or particularly well-designed plans (e.g., with challenging performance criteria, extended vesting/performance period, etc.);</li> <li>▪ The plan(s) must be sufficiently long-term in nature/structure: the vesting of awards (i) must occur no less than three years from the grant date, and (ii) if applicable, should be conditioned on meeting performance targets that are measured over a period of at least three consecutive years;</li> <li>▪ If applicable, performance conditions must be fully disclosed, measurable, quantifiable, and long-term oriented;</li> <li>▪ The awards must be granted at market price. Discounts, if any, must be mitigated by performance criteria or other features that justify such discount.</li> </ul>

<ul style="list-style-type: none"> <li><del>• The potential volume from equity-based compensation plans must not exceed 10 percent of fully diluted issued share capital.</del></li> <li><del>▪ In addition, for companies that refer to the AFEP-MEDEF Code, all awards (including stock options and warrants) to executives shall be conditional upon challenging performance criteria or premium pricing. For companies referring to the Middlednext Code (or not referring to any code) at least part of the awards to executives shall be conditional upon performance criteria or premium pricing. In both cases, free shares shall remain subject to performance criteria for all beneficiaries.</del></li> </ul> <p><del>Finally, for large and mid-cap companies, the company's average three-year unadjusted burn rate (or, if lower, the maximum volume per year implied by the proposal made at the general meeting) must not exceed the mean plus one standard deviation of its sector. If necessary, these sector-specific caps are adjusted so that they do not change by more than one percentage point from year to year.</del></p> <p><del>French Burn Rate Table for 2021 ....</del></p>	
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**Rationale for Change:**

The updated policy modifies several features of ISS' voting guidelines on equity-based compensation plans for Continental Europe in order to reflect investor sentiment and development of local best practice. ISS has traditionally used this policy to analyze all types of long-incentive plans, including those under which awards are settled in cash. The reference to "equity-based compensation plans or the like" therefore clarifies ISS' practice.

The changes also align ISS policy with local best practice standards on performance criteria and their measurement, including a cliff three-year performance period, and removes the preference for relative performance measures. These include:

Austria: "The variable remuneration components shall be linked, above all, to sustainable, long-term and multi-year performance criteria [...]."

France: "[long-term compensation] plans [...] must provide for demanding performance conditions to be fulfilled over a period of several consecutive years."

Italy: "The remuneration policy for executive directors and the top management defines: [...] performance objectives, to which is linked the payment of the variable components, that are predetermined, measurable and predominantly linked to the long-term horizon."



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The Netherlands: "the variable remuneration component is linked to measurable performance criteria determined in advance, which are predominantly long-term in character."

Spain: "variable remuneration items should [...] be subject to predetermined and measurable performance criteria" and "promote the long-term sustainability of the company."

Sweden: "Variable remuneration is to be linked to predetermined and measurable performance criteria aimed at promoting the company's long-term value creation."

Lastly, the French market specifics are removed, as the burn rate has nearly never been used to oppose an equity-based compensation plan but as a flag to alert shareholders. This provides consistency across Continental European markets.

## Russia and Kazakhstan

### Board of Directors

#### Director Elections — Non-cumulative voting

Current ISS Policy, incorporating changes:	New ISS Policy:
<p><b>Mechanics of the Cumulative Voting System in Russia and Kazakhstan</b></p> <p>Under a cumulative voting system, each share represents a number of votes equal to the size of the board that will be elected [i.e. if the board is composed of 10 directors, each company share will represent 10 votes]. These votes may be apportioned equally among the candidates or, if a shareholder wishes to exclude some nominees, among the desired candidates that remain.</p> <p>It is important to recognize that in the context of director elections by cumulative voting, shareholders do not vote against any nominee, but rather support some of the nominees. This is an important distinction, as in some cases, shareholders may choose to support not all but rather a limited number of nominees.</p> <p>If a company has a status of an International Company<sup>15</sup> re-domiciliated to Russia and chooses to follow the regulation of a country from which it has re-domiciliated, director elections might follow rules different from cumulative voting.</p> <p><b>General Recommendation:</b> Where the number of candidates is equal to the number of board seats, vote for all independent director nominees (per ISS' classification of directors). Where the number of candidates exceeds the number of board seats, vote for all or a limited number of the independent director nominees (per ISS' classification of directors) considering factors including, but not limited to, the following:</p>	<p><b>Mechanics of the Cumulative Voting System in Russia and Kazakhstan</b></p> <p>Under a cumulative voting system, each share represents a number of votes equal to the size of the board that will be elected [i.e. if the board is composed of 10 directors, each company share will represent 10 votes]. These votes may be apportioned equally among the candidates or, if a shareholder wishes to exclude some nominees, among the desired candidates that remain.</p> <p>It is important to recognize that in the context of director elections by cumulative voting, shareholders do not vote against any nominee, but rather support some of the nominees. This is an important distinction, as in some cases, shareholders may choose to support not all but rather a limited number of nominees.</p> <p>If a company has a status of an International Company<sup>15</sup> re-domiciliated to Russia and chooses to follow the regulation of a country from which it has re-domiciliated, director elections might follow rules different from cumulative voting.</p> <p><b>General Recommendation:</b> Where the number of candidates is equal to the number of board seats, vote for all independent director nominees (per ISS' classification of directors). Where the number of candidates exceeds the number of board seats, vote for all or a limited number of the independent director nominees (per ISS' classification of directors) considering factors including, but not limited to, the following:</p>

<sup>15</sup> As defined by the Federal Law N290-FZ "On International Companies and International Funds".

<ul style="list-style-type: none"> <li>▪ Past composition of the board, including proportion of the independent directors vis-a-vis the size of the board;</li> <li>▪ Nominee(s) qualification, knowledge, and experience;</li> <li>▪ Attendance record of the director nominees;</li> <li>▪ Company's free float.</li> </ul> <p>Where none of the director nominees can be classified as independent (per ISS' Classification of Directors), ISS will consider factors including, but not limited to, the following when deciding whether to recommend in favour of a candidate's (re)election:</p> <ul style="list-style-type: none"> <li>▪ A director nominee, while not classified as independent per ISS' classification of directors, has been classified as independent per company's director classification criteria and/or any other directors classification criteria widely used in the market;</li> <li>▪ A director nominee possesses adequate qualification, knowledge and experience;</li> <li>▪ There are no specific concerns about the individual, such as criminal wrongdoing or breach of fiduciary responsibilities.</li> </ul> <p>ISS may consider not supporting the election of an individual director in case:</p> <ul style="list-style-type: none"> <li>▪ Adequate disclosure has not been provided in a timely manner;</li> <li>▪ A director nominee has been involved in questionable transactions with conflicts of interest;</li> <li>▪ A director nominee has breached fiduciary duties or engaged in willful misconduct or gross negligence in his/her capacity as a director that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company; ▪ There are any records of abuses against minority shareholder interests;</li> <li>▪ Material failures of governance, stewardship, risk oversight, or fiduciary responsibilities at the company.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Past composition of the board, including proportion of the independent directors vis-a-vis the size of the board;</li> <li>▪ Nominee(s) qualification, knowledge, and experience;</li> <li>▪ Attendance record of the director nominees;</li> <li>▪ Company's free float.</li> </ul> <p>Where none of the director nominees can be classified as independent (per ISS' Classification of Directors), ISS will consider factors including, but not limited to, the following when deciding whether to recommend in favour of a candidate's (re)election:</p> <ul style="list-style-type: none"> <li>▪ A director nominee, while not classified as independent per ISS' classification of directors, has been classified as independent per company's director classification criteria and/or any other directors classification criteria widely used in the market;</li> <li>▪ A director nominee possesses adequate qualification, knowledge and experience;</li> <li>▪ There are no specific concerns about the individual, such as criminal wrongdoing or breach of fiduciary responsibilities.</li> </ul> <p>ISS may consider not supporting the election of an individual director in case:</p> <ul style="list-style-type: none"> <li>▪ Adequate disclosure has not been provided in a timely manner;</li> <li>▪ A director nominee has been involved in questionable transactions with conflicts of interest;</li> <li>▪ A director nominee has breached fiduciary duties or engaged in willful misconduct or gross negligence in his/her capacity as a director that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company; ▪ There are any records of abuses against minority shareholder interests;</li> <li>▪ Material failures of governance, stewardship, risk oversight, or fiduciary responsibilities at the company.</li> </ul>
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<p>At companies on the main index, ISS may recommend against all nominees, if none of the proposed candidates can be classified as independent non-executive directors (per ISS' Classification of Directors).</p> <p>Vote on a case-by-case basis for contested elections of directors, e.g. the election of shareholder nominees or the dismissal of incumbent directors, determining which directors may be best suited to add value for shareholders.</p> <p>For the companies that have a status of an International Company<sup>15</sup> re-domiciliated to Russia and choose to follow the regulation of a country from which they have re-domiciliated, vote in accordance with the ISS Policy Guidelines applicable to the company prior to its re-domiciliation.</p>	<p>At companies on the main index, ISS may recommend against all nominees, if none of the proposed candidates can be classified as independent non-executive directors (per ISS' Classification of Directors).</p> <p>Vote on a case-by-case basis for contested elections of directors, e.g. the election of shareholder nominees or the dismissal of incumbent directors, determining which directors may be best suited to add value for shareholders.</p> <p>For the companies that have a status of an International Company<sup>15</sup> re-domiciliated to Russia and choose to follow the regulation of a country from which they have re-domiciliated, vote in accordance with the ISS Policy Guidelines applicable to the company prior to its re-domiciliation.</p>
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### Rationale for Change:

In 2018 the Russian Government approved the new legislation on the companies that re-domiciliate to special economic jurisdictions in Kaliningrad Oblast and Primorsky Krai of Russian Federation from the foreign jurisdictions. The Federal Law N290-FZ "On International Companies and International Funds" creates a framework for such companies under the special status of an International Company. According to the Federal Law N290-FZ "On International Companies and International Funds", the International Companies may choose to follow the regulation of a country from which they have re-domiciliated to Russia. Therefore, the Russian Federal Law on Joint-Stock Companies and other Laws that typically govern the rights and the obligations of the shareholders the charter of such companies may apply only in the parts where the charter of an International Company allows them. As such, the director elections in the International Companies can be held without following the requirements of the cumulative voting, which is mandatory for the Public Joint-Stock Companies in Russia.

The current ISS policy for Russia assumes the mandatory application of the cumulative vote regime for the director elections in all companies incorporated in Russia and does not contain provisions for other types of elections. The changes in the regulation and recent re-domiciliation of several companies to Russia following the provisions of the Federal Law N290-FZ "On International Companies and International Funds" indicates that a reappraisal of the policy is now warranted.

The policy update aims to broaden the scope of the ISS Policies that can be applied to the director's elections in Russia to account for the variety of regulations that may be applicable to the International Companies as per the applicable Law.

## Climate Accountability

Current ISS Policy, incorporating changes:	New ISS Policy:
<p><b>General Recommendation:</b> For companies that are significant greenhouse gas (GHG) emitters, through their operations or value chain<sup>16</sup>, generally vote against the board chair in cases where ISS 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>In cases when the Chair of the Board is an independent director, generally vote against appropriate director(s), considering, among other things, independence, tenure and/or composition of board committees.</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. Targets for Scope 3 emissions will not be required for 2022 but the targets should cover at least a significant portion of the company’s direct emissions. Expectations about what constitutes “minimum steps to mitigate risks related to climate change” will increase over time.</p>	<p><b>General Recommendation:</b> For companies that are significant greenhouse gas (GHG) emitters, through their operations or value chain<sup>16</sup>, generally vote against the board chair in cases where ISS 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>In cases when the Chair of the Board is an independent director, generally vote against appropriate director(s), considering, among other things, independence, tenure and/or composition of board committees.</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. Targets for Scope 3 emissions will not be required for 2022 but the targets should cover at least a significant portion of the company’s direct emissions. Expectations about what constitutes “minimum steps to mitigate risks related to climate change” will increase over time.</p>

<sup>16</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:**

See Rationale for [Climate Accountability](#) under the UK & Ireland section. The policy for Russia and Kazakhstan takes into account the relatively low levels of boards' independence in these markets, enabling appropriate targeting without necessarily impacting minority shareholder representation on the board.

## Middle East and North Africa

### Operational Items

#### Amendments to Articles of Association (Bylaws), Board Policies, and Board Committees' Charters

Current ISS Policy, incorporating changes:	New ISS Policy:
<p><b>General Recommendation:</b> Vote for proposals seeking the approval of amendments to the articles of association (bylaws), <b>board policies or board committees' charters</b> unless:</p> <ul style="list-style-type: none"> <li>▪ The current version of the bylaws, <b>board policies or board committees' charters</b> and <b>their</b> proposed amendments are not publicly available in a timely manner;</li> <li>▪ On balance, the proposed amendments are not in shareholders' interest.</li> </ul> <p>This policy applies to both bundled and unbundled proposals <del>to amend bylaws</del>.</p>	<p><b>General Recommendation:</b> Vote for proposals seeking the approval of amendments to the articles of association (bylaws), board policies or board committees' charters unless:</p> <ul style="list-style-type: none"> <li>▪ The current version of the bylaws, board policies or board committees' charters and their proposed amendments are not publicly available in a timely manner;</li> <li>▪ On balance, the proposed amendments are not in shareholders' interest.</li> </ul> <p>This policy applies to both bundled and unbundled proposals.</p>

#### Rationale for Change:

The approval and/or amendment of the board policies and board committees' charters are seen on the agendas of middle eastern companies, mostly in Saudi Arabia i.e. competitive business standards and board membership policies as well as audit, nomination and remuneration and corporate governance committees' charters. Usually, companies adopt or amend charters in order to adapt them to the company's needs by reflecting certain committee-related changes (for example regarding their composition, remuneration, scope, tasks, etc.) and/or to comply with local market regulations as well as their recent amendments. In Saudi Arabia, amendments to board policies mainly involve changes to the board membership criteria and to the rules directors abide by if they are involved in competitive business activities.

Similar to the current voting guidelines on proposals regarding bylaw amendments, support will not be warranted to the approval of board policies and charter amendments in case the current version of the policy/charter is not available by the time of analysis or if the proposed changes are not in shareholders' interest. Currently, the Middle East and North Africa voting guidelines do not provide a framework for the analysis and vote recommendation on board policies and charter approval and/or amendment proposals. The additional language (i.e. incorporating policies/charters' amendments within the current voting guidelines on the amendments to bylaws) clarifies our current practice followed in the analysis of such proposals, allows for more transparency on the current policy approach and provides a defined framework on voting for amendments to board policies and board committees' charters.

## Board of Directors

### Director Elections — Audit Committee Independence

Current ISS Policy, incorporating changes:	New ISS Policy:
<p><b>General Recommendation:</b> Vote against proposals seeking the election of non-independent members of the audit committee if:</p> <ul style="list-style-type: none"> <li>▪ Fewer than one-third of all audit committee members*, excluding, where relevant, employee shareholder representatives, would be independent; or</li> <li>▪ A non-independent member is being presented for election or reelection as the audit committee chair.</li> </ul> <p>This policy applies to bundled and unbundled items.</p> <p>Vote against the (re)election of executives who serve on the company's audit committee. ISS may also recommend against if the disclosure is insufficient to determine whether an executive serves or will serve on the audit committee. If a company does not have an audit committee, ISS may consider that the entire board fulfills the role of the committee, and recommend against any executives, including the CEO, on the ballot.</p> <p><i>*For Saudi Arabian companies, ISS will include external (non-board members) nominees in the assessment of the audit committee's level of independence, applying ISS' Middle East and North Africa Classification of Directors.</i></p>	<p><b>General Recommendation:</b> Vote against proposals seeking the election of non-independent members of the audit committee if:</p> <ul style="list-style-type: none"> <li>▪ Fewer than one-third of all audit committee members*, excluding, where relevant, employee shareholder representatives, would be independent; or</li> <li>▪ A non-independent member is being presented for election or reelection as the audit committee chair.</li> </ul> <p>This policy applies to bundled and unbundled items.</p> <p>Vote against the (re)election of executives who serve on the company's audit committee. ISS may also recommend against if the disclosure is insufficient to determine whether an executive serves or will serve on the audit committee. If a company does not have an audit committee, ISS may consider that the entire board fulfills the role of the committee, and recommend against any executives, including the CEO, on the ballot.</p> <p><i>*For Saudi Arabian companies, ISS will include external (non-board members) nominees in the assessment of the audit committee's level of independence, applying ISS' Middle East and North Africa Classification of Directors.</i></p>

#### Rationale for Change:

Appointing external members (non-directors) within the audit committee has been a common market practice for Saudi-listed companies for several years. Companies usually include a voting item on their annual meeting agenda to elect members of the audit committee (bundled election) for a three-year term in addition to the approval of the committee charter and the remuneration of its members. Generally, companies appoint external members with the goal of ensuring a high level of independence within the committee. In some cases the number of external members can exceed the number of board members in the committee. However, a large number of companies do not disclose the independence classification of such external members, which does not permit a proper assessment of the level of committee's independence.



The current policy on audit committee elections considers board member nominees only, not such external nominees. Including the external nominees will allow a more accurate assessment of the independence levels of the audit committee. If the independence of the nominee cannot be determined, ISS will consider that person to be non-independent.

## Shariah Supervisory Board Elections

Current ISS Policy, incorporating changes:	New ISS Policy:
<p><b>General Recommendation:</b> For meetings on or after <b>Feb. 1, 2023</b>, generally vote for the election of members of the Shariah Supervisory Board unless:</p> <ul style="list-style-type: none"> <li>▪ The names of the proposed nominees or the current composition of the supervisory board are not publicly disclosed in a timely manner; or</li> <li>▪ There are specific concerns about the supervisory board members or nominees.</li> </ul> <p>A one-year transitional period will apply in 2022 to allow companies to adapt to the new policy. During this transitional period, vote recommendations will not be impacted, and the policy will come into effect on Feb. 1, 2023.</p>	<p><b>General Recommendation:</b> For meetings on or after <b>Feb. 1, 2023</b>, generally vote for the election of members of the Shariah Supervisory Board unless:</p> <ul style="list-style-type: none"> <li>▪ The names of the proposed nominees or the current composition of the supervisory board are not publicly disclosed in a timely manner; or</li> <li>▪ There are specific concerns about the Shariah Supervisory Board members or nominees.</li> </ul> <p>A one-year transitional period will apply in 2022 to allow companies to adapt to the new policy. During this transitional period, vote recommendations will not be impacted, and the policy will come into effect on Feb. 1, 2023.</p>

### Rationale for Change:

In Middle Eastern markets, Shariah-compliant companies are required to include on their ballots a binding vote on the election of the members of the Shariah Supervisory Board, sometimes bundled with approval of the members' annual remuneration. This body is generally composed of a minimum of three members called Ulama (Shariah scholars), and its main role is to oversee the compliance of the company's operations and transactions with the rules and principles of Shariah law. The policy change is to analyze election proposals of this supervisory body based on the disclosure of the names of the proposed nominees or, if unavailable, the disclosure of the current composition instead of the current neutral approach taking into consideration companies' current practice not to disclose the names of the proposed nominees for the Shariah Supervisory Board elections and their remuneration ahead of the general meeting. It will also allow ISS to provide a more in-depth analysis of the Shariah Supervisory Board appointed by public companies as such structure is considered as part of the companies' governance practices. A grace period of one year will apply to give time to inform companies of this new policy and give them the opportunity to adapt ahead of the 2023 implementation.

## Compensation

### Remuneration Policy

Current ISS Policy, incorporating changes:	New ISS Policy:
<p><b>General Recommendation:</b> Vote on compensation related-proposals including both non-executive and executive directors on a case-by-case basis taking into account the following factors:</p> <ul style="list-style-type: none"> <li>▪ Information on compensation-related proposals shall be made publicly available in a timely manner; and</li> <li>▪ The level of disclosure of the proposed compensation policy shall be sufficient for shareholders to make an informed decision and shall be in line with what local best market practice standards dictate.</li> </ul> <p>When assessing a company's remuneration policy, ISS generally recommends a vote against if the disclosure around the policy and/or the application of the policy does not allow shareholders to make an informed decision. In the event of satisfactory disclosure, ISS recommends a vote for the approval of the remuneration policy on a case-by-case approach paying particular attention as to whether the proposed policy and/ or amendments are aligned with shareholders' interest.</p>	<p><b>General Recommendation:</b> Vote on compensation related-proposals including both non-executive and executive directors on a case-by-case basis taking into account the following factors:</p> <ul style="list-style-type: none"> <li>▪ Information on compensation-related proposals shall be made publicly available in a timely manner; and</li> <li>▪ The level of disclosure of the proposed compensation policy shall be sufficient for shareholders to make an informed decision and shall be in line with what local best market practice standards dictate.</li> </ul> <p>When assessing a company's remuneration policy, ISS generally recommends a vote against if the disclosure around the policy and/or the application of the policy does not allow shareholders to make an informed decision. In the event of satisfactory disclosure, ISS recommends a vote for the approval of the remuneration policy on a case-by-case approach paying particular attention as to whether the proposed policy and/ or amendments are aligned with shareholders' interest.</p>

### Rationale for Change:

This new policy clarifies the current policy application for proposals concerning remuneration policy in the Middle East and North Africa (MENA) region. Submitting the remuneration policy for shareholders vote has been an emerging practice within the MENA region, more specifically in the region's largest markets such as Saudi Arabia and United Arab Emirates. According to local regulations in both markets, companies are required to disclose a comprehensive statement of the remuneration framework as well as details on compensation fees received by board members, directly or indirectly, without any omission or misleading information. Many companies present the remuneration policy to the shareholders' vote at their general meeting in order to approve amendments to the current policy or to put in place a new framework for directors' remuneration practices. Similar to the current voting guidelines on compensation related proposals in Sub-Saharan African markets, support is not currently warranted in case the company has not provided sufficient disclosure on the remuneration policy or the amendments to be introduced to the current version in a way allowing shareholders to make informed decisions. Currently, MENA policy guidelines do not provide a framework for the analysis and vote recommendation on proposals regarding remuneration policy. The inclusion of the proposed language provides the current policy approach with more clarity as well as a defined framework of the current guidelines followed in proposals seeking approval and/or amendment of the remuneration policy.

## Sub-Saharan Africa Board of Directors

### Director Elections — Audit Committee Independence

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>Vote against proposals seeking the election of non-independent members of the audit committee if:</p> <ul style="list-style-type: none"> <li>▪ Fewer than one-third of all audit committee members, excluding, where relevant, employee shareholder representatives, would be independent; or</li> <li>▪ A non-independent member is being presented for election or reelection as the audit committee chair.</li> </ul> <p>This policy applies to bundled and unbundled items.</p> <p>Vote against the (re)election of executives who serve on the company's audit committee. ISS may also recommend against if the disclosure is insufficient to determine whether an executive serves or will serve on the audit committee. If a company does not have an audit committee, ISS may consider that the entire board fulfills the role of the committee, and recommend against any executives, including the CEO, on the ballot.</p> <p>For Nigerian companies, vote for the election of shareholders' representatives as members of the statutory audit committee unless the names of the proposed candidates are not publicly disclosed in a timely manner or there are specific concerns about the candidates.</p>	<p>Vote against proposals seeking the election of non-independent members of the audit committee if:</p> <ul style="list-style-type: none"> <li>▪ Fewer than one-third of all audit committee members, excluding, where relevant, employee shareholder representatives, would be independent; or</li> <li>▪ A non-independent member is being presented for election or reelection as the audit committee chair.</li> </ul> <p>This policy applies to bundled and unbundled items.</p> <p>Vote against the (re)election of executives who serve on the company's audit committee. ISS may also recommend against if the disclosure is insufficient to determine whether an executive serves or will serve on the audit committee. If a company does not have an audit committee, ISS may consider that the entire board fulfills the role of the committee, and recommend against any executives, including the CEO, on the ballot.</p> <p>For Nigerian companies, vote for the election of shareholders' representatives as members of the statutory audit committee unless the names of the proposed candidates are not publicly disclosed in a timely manner or there are specific concerns about the candidates.</p>

### Rationale for Change:

This change reflects ISS' current policy application for the Nigerian market. In line with the Companies and Allied Matters Act of 2020, each public company should establish an audit committee (statutory audit committee) consisting of five members: three shareholder representatives and two non-executive directors. ISS will recommend for such proposals when the names of the proposed nominees are disclosed. The policy requiring one third of the audit committee to be independent is not applied, as this committee is not considered as a board committee. Only the shareholders' representatives are up for election under such proposals at the AGM, using only a show of hands method (requesting a poll is not allowed by law for this proposal).

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