



# INTERNATIONAL

## CLIMATE PROXY VOTING GUIDELINES UPDATES

### 2023 Policy Recommendations

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## TABLE OF CONTENTS

<b>Operational Items</b> .....	<b>3</b>
Virtual Meetings (UK/Ireland, Japan, Australia, and Europe) .....	3
<b>Board of Directors</b> .....	<b>5</b>
Director Elections .....	5
Diversity .....	6
Climate Risk Mitigation and Net Zero .....	7
Canadian Guidelines .....	10
Overboarding - TSX and Venture-Listed .....	10
European Guidelines .....	11
Overboarded Directors .....	11
Composition of Committees .....	12
Unequal Voting Rights .....	13
Voto di Lista (Italy) .....	15
Classification of Directors .....	16
<b>Capital Structure</b> .....	<b>20</b>
Share Issuance Requests .....	20
General Issuances: UK and Ireland .....	20
<b>Compensation</b> .....	<b>23</b>
European Guidelines .....	23
Executive Compensation-Related Proposals .....	23
<b>Other Items</b> .....	<b>25</b>
Related-Party Transactions .....	25

## Operational Items

### Virtual Meetings (UK/Ireland, Japan, Australia, and Europe)

Current Climate Policy:	New Climate Policy:
<p><b>Climate Policy Recommendation:</b> Generally vote for proposals allowing for the convening of hybrid* shareholder meetings if it is clear that it is not the intention to hold virtual-only AGMs.</p> <p>Generally vote against proposals allowing for the convening of virtual-only* shareholder meetings.</p>	<p><b>Climate Policy Recommendation:</b> Generally vote for proposals allowing for the convening of hybrid<sup>1</sup> shareholder meetings.</p> <p>Vote case-by-case on proposals concerning virtual-only meetings<sup>2</sup>, considering:</p> <ul style="list-style-type: none"> <li>▪ Whether the company has committed to ensuring shareholders will have the same rights participating electronically as they would have for an in-person meeting;</li> <li>▪ Rationale of the circumstances under which virtual-only meetings would be held;</li> <li>▪ In-person or hybrid meetings are not precluded;</li> <li>▪ Whether an authorization is restricted in time or allows for the possibility of virtual-only meetings indefinitely; and</li> <li>▪ Local laws and regulations concerning the convening of virtual meetings.</li> </ul>
<p><b>Footnotes:</b></p> <p>* The phrase “virtual-only shareholder meeting” refers to a meeting of shareholders that is held exclusively through the use of online technology without a corresponding in-person meeting. The term “hybrid shareholder meeting” refers to an in-person, or physical, meeting in which shareholders are permitted to participate online.</p>	<p><sup>1</sup> The phrase “hybrid shareholder meeting” refers to an in-person meeting in which shareholders are also permitted to participate online.</p> <p><sup>2</sup> The phrase “virtual-only shareholder meeting” refers to a meeting of shareholders that is held exclusively through the use of online technology without a corresponding in-person meeting.</p>

#### Rationale for Change:

Against the background of several markets within Continental Europe approving legislation that allows for virtual-only general meetings, the ISS policy survey asked whether companies holding virtual-only meetings going forward would be considered a problematic diminution of shareholder rights. Based on the results of the survey, as well as feedback from investors at ISS policy roundtables in Europe, investors' responses indicated that there remain concerns about the use of virtual-only meetings, and that there is far from universal agreement that virtual-only meetings will be unproblematic for shareholder rights. In the survey, 37% of investor respondents answered Yes, they would consider it a problematic diminution of shareholder rights for a company to hold virtual-only meetings going forward. 46% answered No, as long as the company put in place shareholder rights safeguards. Therefore, the policy for proposals that would allow companies to hold virtual-only shareholder meetings will be to recommend on a case-by-case basis, taking into consideration the company rationale provided, as well as any disclosed safeguards, such as a commitment that virtual meetings will not preclude in-person or hybrid meetings, ensuring that shareholders would have the same participation rights as they have at an in-person meeting, and any possible time restriction for the authorization. For example, it will be viewed positively if companies allow shareholders to have a regular vote on such authorizations compared with an indefinite authorization, as this would enable shareholders to reevaluate a company's use of virtual meetings and to raise any concerns with the company's prior meeting practices.

Nevertheless, hybrid meetings remain the preferred model at this time, as they combine the protection of shareholder rights with the benefits of the option of virtual participation.

## Board of Directors

### Director Elections

Current Climate Policy:	New Climate Policy:
<p><b>Climate Policy Recommendation:</b> Generally vote for management nominees in the election of directors, unless:</p> <ul style="list-style-type: none"> <li>▪ The company does not adequately address climate change-related risks and climate-related performance could be improved;</li> <li>▪ The company continually fails to address climate-related risks and opportunities, and to improve climate-related performance;</li> <li>▪ Adequate disclosure has not been provided in a timely manner;</li> <li>▪ There are clear concerns over questionable finances or restatements;</li> <li>▪ There have been questionable transactions with conflicts of interest;</li> <li>▪ There are any records of abuses against minority shareholder interests;</li> <li>▪ The board fails to meet minimum corporate governance standards;</li> <li>▪ There are specific concerns about the individual, such as criminal wrongdoing or breach of fiduciary responsibilities; or</li> <li>▪ Absences at board and key committee meetings have not been explained (in countries where this information is disclosed).</li> </ul>	<p><b>Climate Policy Recommendation:</b> Generally vote for management nominees in the election of directors, unless:</p> <ul style="list-style-type: none"> <li>▪ The company does not adequately address climate change-related risks and climate-related performance could be improved;</li> <li>▪ The company continually fails to address climate-related risks and opportunities, and to improve climate-related performance;</li> <li>▪ Adequate disclosure has not been provided in a timely manner;</li> <li>▪ There are clear concerns over questionable finances or restatements;</li> <li>▪ There have been questionable transactions with conflicts of interest;</li> <li>▪ There are any records of abuses against minority shareholder interests;</li> <li>▪ The board fails to meet minimum corporate governance standards;</li> <li>▪ There are specific concerns about the individual, such as criminal wrongdoing or breach of fiduciary responsibilities; or</li> <li>▪ Repeated absences at board and key committee<sup>3</sup> meetings have not been explained (in countries where this information is disclosed).</li> </ul>
<p><b>Footnotes:</b></p>	<p><sup>3</sup> Key committees are usually the ones performing the functions of audit, remuneration and nomination (plus risk for financial institutions).</p>

#### Rationale for Change:

The policy change is to clarify which committees are considered key.

## Diversity

Current Climate Policy:	New Climate Policy:
<p>Climate Advisory Services will evaluate gender diversity on boards in international markets when reviewing director elections, to the extent that disclosures and market practices permit.</p> <p><b>Climate Policy Recommendation:</b> Generally vote against or withhold from the chair of the nominating committee if the board lacks at least one director of an underrepresented gender identity<sup>4</sup>.</p> <ul style="list-style-type: none"> <li>▪ For <b>Japan</b>, if the company has an audit-committee-board structure or a traditional two-tier board structure as opposed to three committees, vote against incumbent representative directors if the board lacks at least one director of an underrepresented gender identity.</li> <li>▪ For <b>Canada</b> and <b>Australia</b>, vote against or withhold from the chair of the nominating committee if the board is not comprised of at least 30 percent underrepresented gender identities.</li> <li>▪ For the <b>UK</b>, generally vote against or withhold from the incumbent chair of the nominating committee if: <ul style="list-style-type: none"> <li>▪ the board is not comprised of at least 33 percent underrepresented gender identities; or</li> <li>▪ the board lacks at least one racially diverse director.</li> </ul> </li> <li>▪ For <b>2023</b>, for <b>Continental European</b> markets, generally vote against or withhold from the incumbent chair of the nominating committee if the board is not comprised of at least 40 percent underrepresented gender identities.</li> <li>▪ Vote against or withhold from other director nominees on a case-by-case basis.</li> </ul>	<p>Climate Advisory Services will evaluate gender diversity on boards in international markets when reviewing director elections, to the extent that disclosures and market practices permit.</p> <p><b>Climate Policy Recommendation:</b> Generally vote against or withhold from the chair of the nominating committee if the board lacks at least one director of an underrepresented gender identity<sup>4</sup>.</p> <ul style="list-style-type: none"> <li>▪ For <b>Japan</b>, if the company has an audit-committee-board structure or a traditional two-tier board structure as opposed to three committees, vote against incumbent representative directors if the board lacks at least one director of an underrepresented gender identity.</li> <li>▪ For <b>Canada</b> and <b>Australia</b>, vote against or withhold from the chair of the nominating committee if the board is not comprised of at least 30 percent underrepresented gender identities.</li> <li>▪ For the <b>UK</b>, generally vote against or withhold from the incumbent chair of the nominating committee if: <ul style="list-style-type: none"> <li>▪ the board is not comprised of at least 33 percent underrepresented gender identities; or</li> <li>▪ the board lacks at least one racially diverse director.</li> </ul> </li> <li>▪ For <b>Continental European</b> markets, generally vote against or withhold from the incumbent chair of the nominating committee if the board is not comprised of at least 40 percent underrepresented gender identities.</li> <li>▪ For meetings on or after Feb. 1, 2024, for <b>Canadian companies</b>, generally vote against or withhold from the Chair of the Nominating Committee if the board has no apparent racially or ethnically diverse members.</li> <li>▪ Vote against or withhold from other director nominees on a case-by-case basis.</li> </ul>
<p><b>Footnotes:</b></p> <p><sup>4</sup> Underrepresented gender identities include directors who identify as women or non-binary</p>	<p><sup>4</sup> Underrepresented gender identities include directors who identify as women or non-binary</p>

### Rationale for Change:

At the start of 2022, Climate Advisory Services' guidelines on board diversity were updated, increasing the levels of gender diversity expected in Continental Europe. The changes are consistent with the increasing focus on board diversity at the global level and bring Climate Policy in line with progressing client expectations and market norms. This policy update removes the transition provision included in last year's policy guidelines.

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

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

### Climate Risk Mitigation and Net Zero

Current Climate Policy:	New Climate Policy:
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<p><b>Climate Policy Recommendations:</b> For companies that are significant GHG emitters, through their operations or value chain<sup>5</sup>, generally vote against or withhold from the incumbent chair of the responsible committee (or other directors on a case-by-case basis) in cases where Climate Advisory Services determines that the company is not taking the minimum steps needed to understand, assess, and mitigate risks related to climate change to the company and the larger economy.</p> <p>For 2022, 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 2022, "appropriate GHG emissions reductions targets" will be any well-defined GHG reduction targets. Expectations about what constitutes "minimum steps to mitigate risks related to climate change" will increase over time</p>	<p><b>Climate Policy Recommendations:</b> For companies that are significant GHG emitters<sup>5</sup>, through their operations or value chain, generally vote against or withhold from the incumbent chair of the responsible committee (or other directors on a case-by-case basis) in cases where Climate Advisory Services determines that the company is not taking the minimum steps needed to be aligned with a Net Zero by 2050 trajectory.</p> <p>For <b>2023</b>, minimum steps needed to be considered to be aligned with a Net Zero by 2050 trajectory are (all minimum criteria will be required to be in alignment with policy):</p> <ul style="list-style-type: none"> <li>▪ The company has 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>▪ The company has declared a target of Net Zero by 2050 or sooner and the target includes scope 1, 2, and relevant scope 3 emissions.</li> <li>▪ The company has set a medium-term target for reducing its GHG emissions.</li> <li>▪ The company has a decarbonization strategy in place, with a defined set of quantitative and qualitative actions to reach the Net Zero Targets.</li> </ul> <p>Expectations about what constitutes "minimum steps needed to be aligned with a Net Zero by 2050 trajectory" will increase over time.</p>
<p><b>Footnotes:</b></p> <p><sup>5</sup> For 2022, companies defined as "significant GHG emitters" will be those on the current Climate Action 100+ Focus Group list.</p>	<p><b>Footnotes:</b></p> <p><sup>5</sup> For 2023, companies defined as "significant GHG emitters" will be those on the current Climate Action 100+ Focus Group list.</p>

### Rationale for Change:

Proxy voting is a key shareholder right and responsibility, and, in the context of climate change, is a tool that investors can use to help actively manage and mitigate exposure to climate-related risks in their portfolio companies. Based on client engagement (i.e., surveys, roundtables) after the 2021 Proxy Voting season, a high proportion of Climate Advisory Services' policy clients have indicated support for additional indicators and assessment for significantly GHG emitting companies. In addition, Climate Advisory Services' policy clients have expressed strong expectations for companies to set targets and disclose commitments aligned with a Net Zero by 2050 trajectory (Net Zero



defined as consistent with a pathway to limit the temperature increase to 1.5 degrees Celsius above pre-industrial levels). As such, the Climate Policy is being updated to include specific minimum requirements on overall disclosure and Net Zero by 2050 commitments for significantly GHG emitting companies. This minimum standards approach will be applied in addition to the overall assessment of a company's climate-related performance and disclosures currently present in Climate Policy.

This policy will take effect during the 2023 calendar year, based on implementation and data availability considerations. Once this policy is implemented, minimum expectations for significantly emitting companies will be:

- The company has detailed disclosure of climate-related risks, such as according to the framework established by the Task Force on Climate-related Financial Disclosures (TCFD).
- The company has declared a target of Net Zero by 2050 or sooner and the target includes scope 1, 2, and relevant scope 3 emissions.
- The company has set a medium-term target for reducing its GHG emissions.
- The company has a decarbonization strategy in place, with a defined set of quantitative and qualitative actions to reach the Net Zero Targets.

The Climate Policy will target the chair or incumbent members of the committee identified as responsible for failure to meet these minimum expectations and/or overall failure to adequately address climate-related risks, realize climate-related opportunities, and improve climate-related performance. In cases where the company has not identified a committee responsible for climate change strategy or members of this committee are not up for election, Climate Advisory Services will recommend voting against other nominees on a case-by-case basis.

## Canadian Guidelines

### Overboarding - TSX and Venture-Listed

Current Climate Policy:	New Climate Policy:
<p><b>Climate Policy Recommendation:</b> For venture issuers, this policy will apply for meetings on or after February 1, 2023, generally vote withhold for individual director nominees who:</p> <ul style="list-style-type: none"> <li>▪ Are non-CEO directors and serve on more than five public company boards; or</li> <li>▪ Are CEOs of public companies who serve on the boards of more than two public companies besides their own – withhold only at their outside boards<sup>6</sup>.</li> </ul> <p><b>Transitioning directors:</b> It is preferable for a director to step down from a board at the annual meeting to ensure orderly transitions, which may result in a director being temporarily overboarded (e.g. joining a new board in March but stepping off another board in June). Climate Advisory Services will generally not count a board for policy application purposes when it is publicly-disclosed that the director will be stepping off that board at its next annual meeting. This disclosure must be included within the company's proxy circular to be taken into consideration. Conversely, Climate Advisory Services will include the new boards that the director is joining even if the shareholder meeting with his or her election has not yet taken place.</p>	<p><b>Climate Policy Recommendation:</b> Generally vote withhold for individual director nominees who:</p> <ul style="list-style-type: none"> <li>▪ Are non-CEO directors and serve on more than five public company boards; or</li> <li>▪ Are CEOs of public companies who serve on the boards of more than two public companies besides their own – withhold only at their outside boards<sup>6</sup>.</li> </ul> <p><b>Transitioning directors:</b> It is preferable for a director to step down from a board at the annual meeting to ensure orderly transitions, which may result in a director being temporarily overboarded (e.g. joining a new board in March but stepping off another board in June). Climate Advisory Services will generally not count a board for policy application purposes when it is publicly-disclosed that the director will be stepping off that board at its next annual meeting. This disclosure must be included within the company's proxy circular to be taken into consideration. Conversely, Climate Advisory Services will include the new boards that the director is joining even if the shareholder meeting with his or her election has not yet taken place.</p>
<p><b>Footnotes:</b></p> <p><sup>6</sup> Although a CEO's subsidiary boards will be counted as separate boards, Climate Advisory Services will not recommend a withhold vote for the CEO of a parent company board or any of the controlled (&gt;50 percent ownership) subsidiaries of that parent, but may do so at subsidiaries that are less than 50 percent controlled and boards outside the parent/subsidiary relationship.</p>	<p><b>Footnotes:</b></p> <p><sup>6</sup> Although a CEO's subsidiary boards will be counted as separate boards, Climate Advisory Services will not recommend a withhold vote for the CEO of a parent company board or any of the controlled (&gt;50 percent ownership) subsidiaries of that parent, but may do so at subsidiaries that are less than 50 percent controlled and boards outside the parent/subsidiary relationship.</p>

#### Rationale for Change:

The overboarded director policy for Venture issuers has been introduced since February 1, 2022, to be aligned with the existing policy for TSX-listed issuers. This policy reflects the prevailing client expectations based on the feedback received at the 2021 ISS Canadian Policy Discussion Roundtable and is also aligned with Climate Policy approach. The policy will be fully implemented effective February 1, 2023.

## European Guidelines

### Overboarded Directors

Current Climate Policy:	New Climate Policy:
<p><b>Climate Policy Recommendation:</b> In <b>Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, the Netherlands, Norway, Poland, Spain, Sweden, and Switzerland</b>, Climate Advisory Services 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><b>Climate Policy Recommendation:</b> In <b>Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, Malta, the Netherlands, Norway, Poland, Spain, Sweden, and Switzerland</b>, Climate Advisory Services 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>For Cyprus and Malta, this policy is effective as of <b>Feb. 1, 2024</b>.</p>

#### Rationale for Change:

The change is to include Cyprus and Malta in the current policy on overboarded directors, reflecting best practice in Cyprus and Malta and further harmonizing the overboarding policy across Continental Europe.

According to the Corporate Governance Code of the Cyprus Stock Exchange, *"Every Director should dedicate the required time and attention in carrying out his duties and should limit the number of his other professional obligations (especially positions in Board of Directors of other companies) to such extent so as to allow him to carry out his duties in due performance"*.

In Malta, the Code of Principles of Good Corporate Governance of MFS states that *"Each Director should apply to his duties the necessary time and attention, and should undertake to limit the number of any Directorships held in other companies to such an extent that the proper performance of his duties is assured"*.

## Composition of Committees

Current Climate Policy:	New Climate Policy:
<p><b>For widely-held companies</b>, generally vote against the (re)election of any non-independent members of the audit committee if:</p> <ul style="list-style-type: none"> <li>▪ Fewer than 50 percent of the audit committee members, who are elected by shareholders in such capacity or another – excluding, where relevant, employee shareholder representatives – would be independent; or</li> <li>▪ Fewer than one-third of all audit committee members would be independent.</li> </ul> <p>For companies whose boards are legally required to have 50 percent of directors not elected by shareholders, the second criterion is not applicable.</p> <p>Generally vote against the election or reelection of the non-independent member of the audit committee designated as chair of that committee.</p> <p>For widely-held companies, generally vote against the (re)election of any non-independent members of the remuneration committee if:</p> <ul style="list-style-type: none"> <li>▪ Fewer than 50 percent of the remuneration committee members, who are elected by shareholders in such capacity or another - excluding, where relevant, employee shareholder representatives - would be independent; or</li> <li>▪ Fewer than one-third of all remuneration committee members would be independent.</li> </ul> <p>For companies whose boards are legally required to have 50 percent of directors not elected by shareholders, the second criterion is not applicable.</p>	<p><b>For widely-held companies</b>, generally vote against the (re)election of any non-independent members of the audit committee if fewer than 50 percent of the audit committee members, who are elected by shareholders in such capacity or another – excluding, where relevant, employee shareholder representatives – would be independent.</p> <p>Generally vote against the election or reelection of the non-independent member of the audit committee designated as chair of that committee.</p> <p>For widely-held companies, generally vote against the (re)election of any non-independent members of the remuneration committee if fewer than 50 percent of the remuneration committee members, who are elected by shareholders in such capacity or another - excluding, where relevant, employee shareholder representatives - would be independent.</p>

### Rationale for Change:

This change harmonizes the approach to board elections/committee elections in markets that legally require employee representatives on their boards, regardless of the legal thresholds required in different countries.

## Unequal Voting Rights

Current Climate Policy:	New Climate Policy:
<p>[None]</p>	<p><b>Climate Policy Recommendation:</b> For meetings held on or after <b>Feb. 1, 2024</b>, at widely-held companies, generally vote against directors or against the discharge of (non-executive) directors, if the company employs a stock structure with unequal voting rights.<sup>8</sup> Vote recommendations will generally be directed against the nominees primarily responsible for, or benefiting from, the unequal vote structure.</p> <p>Exceptions to this policy will generally be limited to:</p> <ul style="list-style-type: none"> <li>▪ Newly-public companies<sup>9</sup> with a sunset provision of no more than seven years from the date of going public;</li> <li>▪ Situations where the unequal voting rights are considered de minimis<sup>10</sup>; or</li> <li>▪ The company provides sufficient protections for minority shareholders, for example such as allowing minority shareholders a regular binding vote on whether the capital structure should be maintained or a commitment to abolish the structure by the next AGM.</li> </ul>
<p><b>Footnotes:</b></p>	<p><sup>8</sup> This generally includes classes of common stock that have additional votes per share than other shares; classes of shares that are not entitled to vote on all the same ballot items or nominees; or stock with time-phased voting rights (“loyalty shares” or “double-voting” shares).</p> <p><sup>9</sup> Newly-public companies generally include companies that emerge from bankruptcy, SPAC transactions, spin-offs, direct listings, and those who complete a traditional initial public offering.</p> <p><sup>10</sup> Distortion between voting and economic power does not exceed 10 percent, where this is calculated relative to the entire share capital for multiple share classes and on individual shareholder or concert level in case of loyalty share structures.</p>

### Rationale for Change:

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

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

Given a number of developments in Europe (particularly the introduction of new loyalty share structures in various European markets, alongside some existing long-standing loyalty share structures e.g., in Belgium, Italy, France, Netherlands, Spain), Climate Advisory Services is revisiting its approach to board accountability in the context of unequal voting rights in Continental Europe and introducing a specific policy in this area and aim to harmonize policies on unequal voting rights, generally recognizing them as a poor governance feature, with some exceptions as noted in the policy.

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

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

Given the expected significant impact of this new policy, a one-year grace period will apply, with the policy starting for meetings on or after Feb. 1, 2024.

## Voto di Lista (Italy)

Current Climate Policy:	New Climate 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), 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>Since shareholders only have the option to support one such list, where lists are published in sufficient time, Climate Advisory Services will recommend a vote on a case-by-case basis, determining which list of nominees it considers is best suited to add value for shareholders.</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, Climate Advisory Services will recommend a vote against the director elections before the lists of director nominees are disclosed. Once the various lists of nominees are disclosed, Climate Advisory Services 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 Euronext Milan must publish the various lists 21 days in advance of the meeting.</p> <p>Since shareholders only have the option to support one such list, where lists are published in sufficient time, Climate Advisory Services will recommend a vote on a case-by-case basis, determining which list of nominees it considers is best suited to add value for shareholders.</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, Climate Advisory Services will recommend a vote against the director elections before the lists of director nominees are disclosed. Once the various lists of nominees are disclosed, Climate Advisory Services will issue an alert to its clients and, if appropriate, change its vote recommendation to support one particular list.</p>

### Rationale for Change:

The change updates the name of the relevant stock exchange following the acquisition of Borsa Italiana SpA by Euronext NV.

## Classification of Directors

Current Climate Policy:	New Climate Policy:
<p><b>Executive Director</b></p> <ul style="list-style-type: none"> <li>▪ Employee or executive of the company or a wholly-owned subsidiary of the company;</li> <li>▪ Any director who is classified as a non-executive, but receives salary, fees, bonus, and/or other benefits that are in line with the highest-paid executives of the company.</li> </ul> <p><b>Non-Independent Non-Executive Director (NED)</b></p> <ul style="list-style-type: none"> <li>▪ Any director who is attested by the board to be a non-independent NED;</li> <li>▪ Any director specifically designated as a representative of a shareholder of the company;</li> <li>▪ Any director who is also an employee or executive of a significant<sup>1</sup> shareholder of the company;</li> <li>▪ Any director who is also an employee or executive of a subsidiary, associate, joint venture, or company that is affiliated with a significant<sup>1</sup> shareholder of the company;</li> <li>▪ Any director who is nominated by a dissenting significant shareholder, unless there is a clear lack of material<sup>2</sup> connection with the dissident, either currently or historically;</li> <li>▪ Beneficial owner (direct or indirect) of at least 10 percent of the company's stock, either in economic terms or in voting rights (this may be aggregated if voting power is distributed among more than one member of a defined group, e.g., family members who beneficially own less than 10 percent individually, but collectively own more than 10 percent), unless market best practice dictates a lower ownership and/or disclosure threshold (and in other special market-specific circumstances);</li> <li>▪ Government representative;</li> <li>▪ Currently provides or has provided (or a relative<sup>3</sup> provides) professional services<sup>4</sup> to the company, to an affiliate of the company, or to an individual officer of the company or of one of its affiliates in the latest fiscal year in excess of USD 10,000 per year;</li> <li>▪ Represents customer, supplier, creditor, banker, or other entity with which the company maintains transactional/commercial relationship (unless company discloses information to apply a materiality test<sup>5</sup>);</li> </ul>	<p><b>Executive Director</b></p> <ul style="list-style-type: none"> <li>▪ Employee or executive of the company or a wholly-owned subsidiary of the company;</li> <li>▪ Any director who is classified as a non-executive, but receives salary, fees, bonus, and/or other benefits that are in line with the highest-paid executives of the company.</li> </ul> <p><b>Non-Independent Non-Executive Director (NED)</b></p> <ul style="list-style-type: none"> <li>▪ Any director who is attested by the board to be a non-independent NED;</li> <li>▪ Any director specifically designated as a representative of a shareholder of the company;</li> <li>▪ Any director who is also an employee or executive of a significant<sup>1</sup> shareholder of the company;</li> <li>▪ Any director who is also an employee or executive of a subsidiary, associate, joint venture, or company that is affiliated with a significant<sup>1</sup> shareholder of the company;</li> <li>▪ Any director who is nominated by a dissenting significant shareholder, unless there is a clear lack of material<sup>2</sup> connection with the dissident, either currently or historically;</li> <li>▪ Beneficial owner (direct or indirect) of at least 10 percent of the company's stock, either in economic terms or in voting rights (this may be aggregated if voting power is distributed among more than one member of a defined group, e.g., family members who beneficially own less than 10 percent individually, but collectively own more than 10 percent), unless market best practice dictates a lower ownership and/or disclosure threshold (and in other special market-specific circumstances);</li> <li>▪ Government representative;</li> <li>▪ Currently provides or has provided (or a relative<sup>3</sup> provides) during the most recently concluded financial year under review professional services<sup>4</sup> to the company, to an affiliate of the company, or to an individual officer of the company or of one of its affiliates in excess of USD 10,000 per year;</li> <li>▪ Represents customer, supplier, creditor, banker, or other entity with which the company maintains transactional/commercial relationship (unless company discloses information to apply a materiality test<sup>5</sup>);</li> </ul>



- Any director who has a conflicting relationship with the company, including but not limited to cross-directorships with executive directors or the chairman of the company;
- Relative<sup>3</sup> of a current employee or executive of the company or its affiliates;
- Relative<sup>3</sup> of a former employee or executive of the company or its affiliates;
- A new appointee elected other than by a formal process through the General Meeting (such as a contractual appointment by a substantial shareholder);
- Founder/co-founder/member of founding family but not currently an employee or executive;
- Former employee or executive (five-year cooling off period);
- Years of service is generally not a determining factor unless it is recommended best practice in a market and/or in extreme circumstances, in which case it may be considered.<sup>6</sup>
- Any additional relationship or principle considered to compromise independence under local corporate governance best practice guidance.<sup>7</sup>

**Independent NED**

- No material<sup>2</sup> connection, either directly or indirectly, to the company (other than a board seat) or the dissenting significant shareholder.

**Employee Representative**

- Represents employees or employee shareholders of the company (classified as “employee representative” but considered a non-independent NED).

- Any director who has a conflicting relationship with the company, including but not limited to cross-directorships with executive directors or the chairman of the company;
- Relative<sup>3</sup> of a current employee or executive of the company or its affiliates;
- Relative<sup>3</sup> of a former employee or executive of the company or its affiliates;
- A new appointee elected other than by a formal process through the General Meeting (such as a contractual appointment by a substantial shareholder);
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**Footnotes:**

<sup>1</sup> At least 10 percent of the company's stock, unless market best practice dictates a lower ownership and/or disclosure threshold.

<sup>2</sup> For purposes of Climate Advisory Services' director independence classification, "material" will be defined as a standard of relationship financial, personal, or otherwise that a reasonable person might conclude could potentially influence one's objectivity in the boardroom in a manner that would have a meaningful impact on an individual's ability to satisfy requisite fiduciary standards on behalf of shareholders.

<sup>3</sup> "Relative" follows the definition of "immediate family members" which covers spouses, parents, children, stepparents, step-children, siblings, in-laws, and any person (other than a tenant or employee) sharing the household of any director, nominee for director, executive officer, or significant shareholder of the company.

<sup>4</sup> Professional services can be characterized as advisory in nature and generally include the following: investment banking/financial advisory services; commercial banking (beyond deposit services); investment services; insurance services; accounting/audit services; consulting services; marketing services; and legal services. The case of participation in a banking syndicate by a non-lead bank should be considered a transaction (and hence subject to the associated materiality test) rather than a professional relationship.

<sup>5</sup> A business relationship may be material if the transaction value (of all outstanding transactions) entered into between the company and the company or organization with which the director is associated is equivalent to either 1 percent of the company's turnover or 1 percent of the turnover of the company or organization with which the director is associated. OR, A business relationship may be material if the transaction value (of all outstanding financing operations) entered into between the company and the company or organization with which the director is associated is more than 10 percent of the company's shareholder equity or the transaction value, (of all outstanding financing operations), compared to the company's total assets, is more than 5 percent.

<sup>6</sup> For example, in continental Europe and Latin America, directors with a tenure exceeding 12 years will be considered non-independent. In the United Kingdom, Ireland, Hong Kong and Singapore, directors with a tenure exceeding nine years will be considered non-independent, unless the company provides sufficient and clear justification that the director is independent despite his long tenure. For purposes of independence classification of directors incorporated in the Middle East and Africa region, this criterion will be taken into account in accordance with market best practice and disclosure standards and availability.

<sup>7</sup> For MEA markets, directors' past services as statutory auditor/partner of the statutory audit firm will be taken into account, with cooling-off periods in accordance with local market best practice.

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<sup>1</sup> At least 10 percent of the company's stock, unless market best practice dictates a lower ownership and/or disclosure threshold.

<sup>2</sup> For purposes of Climate Advisory Services' director independence classification, "material" will be defined as a standard of relationship financial, personal, or otherwise that a reasonable person might conclude could potentially influence one's objectivity in the boardroom in a manner that would have a meaningful impact on an individual's ability to satisfy requisite fiduciary standards on behalf of shareholders.

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<sup>7</sup> For MEA markets, directors' past services as statutory auditor/partner of the statutory audit firm will be taken into account, with cooling-off periods in accordance with local market best practice.

**Rationale for Change:**

Boards should be sufficiently independent to ensure that they are able and motivated to effectively supervise management's performance and remuneration, for the benefit of all shareholders. Any relationship that can potentially compromise director independence should be scrutinized. The update in the policy language is to provide clarification on how Climate Policy determines the classification of directors who have provided (or a relative provided) professional services to the company or its affiliates by specifying that the provision of services during the most recently concluded financial year under review will be the basis of director classification.

# Capital Structure

## Share Issuance Requests

### General Issuances: UK and Ireland

Current Climate Policy:	New Climate Policy:
<p><b>Climate Policy Recommendation:</b> For <b>UK</b> and <b>Irish</b> companies, 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 10 percent of the issued share capital, provided that any amount above 5 percent is to be used for the purposes of an acquisition or a specified capital investment.</li> </ul>	<p><b>Climate Policy Recommendation:</b> For <b>UK</b> and <b>Irish</b> companies, 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 20 percent of the issued share capital, provided that any amount above 10 percent is to be used for the purposes of an acquisition or a specified capital investment. For the general disapplication authority and specific disapplication authority, a further disapplication of up to 2 percent may be used for each authority for the purposes of a follow-on offer.</li> </ul>

#### Rationale for Change:

In July 2022, a review of the UK's secondary capital raising regime ([the Secondary Capital Raising Review](#) (the "SCRR")) was published, setting out a number of recommendations to reform and update the UK's secondary capital raising regime. The SCRR was launched as a result of the recommendations contained in Lord Hill's [UK Listing Review](#), published in March 2021. The objectives of the SCRR are to make the UK's regulatory regime more flexible, more efficient, and cheaper, while increasing participation by retail investors in secondary capital raisings.

On 4<sup>th</sup> November 2022, the Financial Reporting Council (FRC) [issued a statement](#) on behalf of the Pre-Emption Group (PEG), that the PEG would be implementing in full the recommendations of SCRR. The statement includes an updated version of the PEG's [Statement of Principles](#) and [template resolutions](#).

The SCRR was also [supported by the FCA](#), in a statement released on the publication of the SCRR. In particular, it noted the following:

*We also welcome the recommendation accepted by the Pre-Emption Group (PEG) to enhance its governance and provide new guidance on when shareholders are likely to accept companies raising further capital without observing full pre-emption rights. In making these forthcoming changes, PEG – which is an industry body comprised of listed companies, investors and intermediaries – has carefully considered how to balance enabling access to capital for companies with adequate investor protections.*

Acknowledging that the existing Climate Advisory Services International Voting Guidelines have previously incorporated the PEG's 2015 Statement of Principles – which is widely recognized as representing best market practice – it is recommended that the Climate Advisory Services guidelines are updated to reflect the PEG's updated Statement of Principles.

The primary change introduced in the PEG's 2022 Statement of Principles is the expansion of the existing disapplication authorities from the existing 5% + 5% authority (a general authority to issue up to 5% of issued share capital, with a further 5% authority for the purposes of financing an acquisition of a specified capital investment) to a 10% + 10% authority. It should be noted that the PEG temporarily relaxed its guidelines during the pandemic in 2020 to enable issues of up to 20% of shares, which was reported to have been well-received by the market, giving issuers increased flexibility.

In addition to the 10% + 10% guidelines, a further 2% of issued share capital may be issued for each the general disapplication authority and specific disapplication authority for the purposes of a follow-on offer. This is designed to give due consideration to the interests of retail shareholders and encourage their involvement in the offer as fully as possible. Any follow-on offer is limited to no more than 20% of the size of the placing, with a monetary cap of GBP 30,000 per investor

## General Issuances: Hong Kong

Current Climate Policy:	New Climate Policy:
<p><b>Climate Policy Recommendation:</b> For <b>Hong Kong</b> companies, generally vote for the general share issuance mandate for companies that:</p> <ul style="list-style-type: none"> <li>▪ Limit the issuance request to 10 percent or less of the relevant class of issued share capital;</li> <li>▪ Limit the discount to 10 percent of the market price of shares (rather than the maximum 20 percent permitted by the Listing Rules); and</li> <li>▪ Have no history of renewing the general issuance mandate several times within a period of one year which may result in the share issuance limit exceeding 10 percent of the relevant class of issued share capital within the 12-month period.</li> </ul>	<p><b>Climate Policy Recommendation:</b> For <b>Hong Kong</b> companies, generally vote for the general share issuance mandate for companies that:</p> <ul style="list-style-type: none"> <li>▪ Limit the request to 10 percent or less of the relevant class of issued share capital for issuance for cash and non-cash consideration;</li> <li>▪ Limit the discount to 10 percent of the market price of shares (rather than the maximum 20 percent permitted by the Listing Rules) for issuance for cash and non-cash consideration; and</li> <li>▪ Have no history of renewing the general issuance mandate several times within a period of one year which may result in the share issuance limit exceeding 10 percent of the relevant class of issued share capital for issuance for cash and non-cash consideration within the 12-month period.</li> </ul>

### Rationale for Change:

Most Hong Kong companies ask shareholders to grant the board of directors a "general mandate to issue shares" without preemptive rights, at least once every year. Under the Hong Kong Listing Rules, companies are allowed to issue shares up to 20 percent of the number of issued shares as of the date of the resolution granting the general mandate and at a discount to market prices of up to 20 percent (or more under special circumstances). In addition, the regulation provides that the number of shares repurchased by the company since the granting of the general mandate (up to a maximum number of 10 percent of the number of issued shares as of the date of the approval of the repurchase mandate which is also normally proposed concurrent with the share issuance mandate), can also be added to the aforementioned 20 percent general share issuance mandate, provided that the existing shareholders have by a separate ordinary resolution authorized the directors to add such repurchased shares to the 20 percent general share issuance mandate. This "share reissuance mandate" would extend the number of shares that may be issued without preemptive rights to up to 30 percent.

While most companies propose a general mandate to issue shares: (i) with an issuance limit of up to 20 percent or up to 30 percent if a share reissuance mandate is also proposed; and (ii) at a discount limit that is normally not disclosed, some companies provide a lower sublimit and a discount limit in the case of issue of new shares solely for cash consideration. This update clarifies that the share issuance limit of 10 percent and the discount limit of 10 percent applies for issue of new shares for both cash and non-cash consideration.

# Compensation

## European Guidelines

### Executive Compensation - Related Proposals

Current Climate Policy:	New Climate Policy:
<p><b>Preamble</b></p> <p>The assessment of compensation follows the Climate Policy Global Principles on Executive and Director Compensation which are detailed below. These principles take into account global corporate governance best practice.</p> <p>The Global Principles on Compensation underlie market-specific policies in all markets:</p> <ul style="list-style-type: none"> <li>▪ Provide shareholders with clear, comprehensive compensation disclosures;</li> <li>▪ Maintain appropriate pay-for-performance alignment with emphasis on long-term shareholder value;</li> <li>▪ Avoid arrangements that risk “pay for failure;”</li> <li>▪ Maintain an independent and effective compensation committee;</li> <li>▪ Avoid inappropriate pay to non-executive directors.</li> </ul> <p>In line with European Commission Recommendation 2004/913/EC, Climate Advisory Services believes that seeking annual shareholder approval for a company's compensation policy is a positive corporate governance provision.</p>	<p><b>Preamble</b></p> <p>The assessment of compensation follows the Climate Policy Global Principles on Executive and Director Compensation which are detailed below. These principles take into account global corporate governance best practice.</p> <p>The Global Principles on Compensation underlie market-specific policies in all markets:</p> <ul style="list-style-type: none"> <li>▪ Provide shareholders with clear, comprehensive compensation disclosures;</li> <li>▪ Maintain appropriate pay-for-performance alignment with emphasis on long-term shareholder value;</li> <li>▪ Avoid arrangements that risk “pay for failure;”</li> <li>▪ Maintain an independent and effective compensation committee;</li> <li>▪ Avoid inappropriate pay to non-executive directors.</li> </ul> <p>Pursuant to the European Directive 2017/828 (a.k.a. the Shareholder Rights Directive II or SRDII), companies which have their registered office in a Member State and the shares of which are admitted to trading on a regulated market situated or operating within a Member State must (i) submit their director remuneration policy to shareholder (binding or advisory) vote at every material change and in any case at least every four years, and (ii) submit a director remuneration report to discussion or shareholder vote on an annual basis.</p>

#### Rationale for Change:

Climate Advisory Services' voting guidelines adapt to and reflect the European legal framework on remuneration-related proposals. With the implementation of the Shareholder Rights Directive II across all EU member states, EU companies must submit their (director) remuneration policy and, in many jurisdictions, their remuneration

report to shareholder vote. Accordingly, two sets of guidelines are established: one on remuneration policy and one on the remuneration report, mirroring the UK/Ireland voting policy.

The guidelines have therefore been rearranged and updated without being substantially amended.



## Other Items

### Related-Party Transactions

Current Climate Policy:	New Climate Policy:
<p><b>Climate Policy Recommendation:</b> Vote related-party transactions on a case-by-case basis considering factors including, but not limited to, the following:</p> <ul style="list-style-type: none"> <li>▪ The parties on either side of the transaction;</li> <li>▪ The nature of the asset to be transferred/service to be provided;</li> <li>▪ The pricing of the transaction (and any associated professional valuation);</li> <li>▪ The views of independent directors (where provided);</li> <li>▪ The views of an independent financial adviser (where appointed);</li> <li>▪ Whether any entities party to the transaction (including advisers) is conflicted; and</li> <li>▪ The stated rationale for the transaction, including discussions of timing.</li> <li>▪ If there is a transaction that is deemed problematic and that was not put to a shareholder vote, Climate Advisory Services may recommend against the election of the director(s) involved in the related-party transaction or against the full board.</li> </ul>	<p><b>Climate Policy Recommendation:</b> Vote related-party transactions on a case-by-case basis considering factors including, but not limited to, the following:</p> <ul style="list-style-type: none"> <li>▪ The parties on either side of the transaction;</li> <li>▪ The nature of the asset to be transferred/service to be provided;</li> <li>▪ The pricing of the transaction (and any associated professional valuation);</li> <li>▪ The views of independent directors (where provided);</li> <li>▪ The views of an independent financial adviser (where appointed);</li> <li>▪ Whether any entities party to the transaction (including advisers) is conflicted; and</li> <li>▪ The stated rationale for the transaction, including discussions of timing.</li> <li>▪ If there is a transaction that is deemed problematic and that was not put to a shareholder vote, Climate Advisory Services may recommend against the election of the director(s) involved in the related-party transaction or against the full board.</li> </ul> <p>Commonly seen related-party transactions include (but are not limited to):</p> <ul style="list-style-type: none"> <li>▪ Transactions involving the sale or purchase of property and/or assets;</li> <li>▪ Transactions involving the lease of property and/or assets;</li> <li>▪ Transactions involving the provision or receipt of services or leases; and</li> <li>▪ Transactions involving the acquisition or transfer of intangible items (e.g., research and development, trademarks, license agreements).</li> </ul>

#### Rationale for Change:

The revised policy includes additional information when recommending a vote on RPTs.

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