AMERICAS

Proxy Voting Guidelines
Benchmark Policy Changes for 2023: U.S., Canada, Brazil, and Americas Regional

Effective for Meetings on or after February 1, 2023

Published November 30, 2022

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United States

Board of Directors – Voting on Director Nominees in Uncontested Elections

Board Composition – Gender Diversity

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

Rationale for Change:

ISS' voting guidelines on board diversity were updated at the start of 2022, expanding the universe of issuers covered by ISS' gender diversity policy. Companies outside of the Russell 3000 and S&P 1500 received notification during the 2022 proxy season that this policy would be implemented beginning in February 2023. This policy update removes the transition provision included in last year's policy guidelines.

Board Accountability – Poison Pills

<table>
<tr><th>Current ISS Policy:</th><th>New ISS Policy:</th></tr>
<tr><td>

Poison Pills: Vote against or withhold from all nominees (except new nominees[1], who should be considered case-by-case) if:

- The company has a poison pill that was not approved by shareholders[6]. However, vote case-by-case on nominees if the board adopts an initial pill with a term of one year or less, depending on the disclosed rationale for the adoption, and other factors as relevant (such as a commitment to put any renewal to a shareholder vote);
- The board makes a material adverse modification to an existing pill, including, but not limited to, extension, renewal, or lowering the trigger, without shareholder approval; or
- The pill, whether short-term[7] or long-term, has a deadhand or slowhand feature.

</td><td>

Poison Pills: Generally vote against or withhold from all nominees (except new nominees[1], who should be considered case-by-case) if:

- The company has a poison pill with a deadhand or slowhand feature[7];
- The board makes a material adverse modification to an existing pill, including, but not limited to, extension, renewal, or lowering the trigger, without shareholder approval; or
- The company has a long-term poison pill (with a term of over one year) that was not approved by the public shareholders[6].

Vote case-by-case on nominees if the board adopts an initial short-term pill[7] (with a term of one year or less) without shareholder approval, taking into consideration:

- The disclosed rationale for the adoption;
- The trigger;
- The company's market capitalization (including absolute level and sudden changes);
- A commitment to put any renewal to a shareholder vote; and
- Other factors as relevant.

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Footnotes:

[1] A "new nominee" is a director who is being presented for election by shareholders for the first time. Recommendations on new nominees who have served for less than one year are made on a case-by-case basis depending on the timing of their appointment and the problematic governance issue in question.

[6] Public shareholders only, approval prior to a company's becoming public is insufficient.

[7] If the short-term pill with a deadhand or slowhand feature is enacted but expires before the next shareholder vote, ISS will generally still recommend withhold/against nominees at the next shareholder meeting following its adoption.

</td><td>

Footnotes:

[1] A "new nominee" is a director who is being presented for election by shareholders for the first time. Recommendations on new nominees who have served for less than one year are made on a case-by-case basis depending on the timing of their appointment and the problematic governance issue in question.

[6] Approval prior to, or in connection, with a company's becoming publicly-traded, or in connection with a de-SPAC transaction, is insufficient.

[7] If a short-term pill with a deadhand or slowhand feature is enacted but expires before the next shareholder vote, ISS will generally still recommend withhold/against nominees at the next shareholder meeting following its adoption.

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Rationale for Change:

When ISS considers poison pills put up for a shareholder vote, an important consideration is the ownership level at which the pill is triggered. This update clarifies that the trigger threshold is also a consideration in evaluating the appropriateness of the board's actions in adopting a short-term pill that is not put to a vote. During the initial phase of the COVID-19 pandemic in 2020, with the severe market turbulence, many companies adopted short-term poison pills. Many of these featured very low triggers -- 10 percent or even 5 percent – implying that the objective of a poison pill has morphed over time from defense against a hostile takeover, to defense against an activist campaign that may or may not contemplate a change in control. Shareholders have a clear interest in preventing an opportunistic takeover at a price that does not reflect the company's long-term fair value, due to factors such as short-term market disruptions. However, this must be balanced against the potential for an inordinately low trigger to entrench an underperforming board and management team by insulating them shareholders who may be seeking operational or strategic changes that could enhance value, or governance changes that could benefit all shareholders.

When looking at the trigger for the pill, ISS does not differentiate between the level for a 13D vs a 13G filer but focuses on the lower trigger. This is based on client feedback.

Board Accountability – Unequal Voting Rights

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

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

Rationale for Change:

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

2022 Policy Survey

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

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

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

Board Accountability – Problematic Governance Structures - Newly Public Companies

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

Rationale for Change:

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

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

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

2022 Policy Survey

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

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

Investor and non-investor responses to this question:

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

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

Board Accountability – Unilateral Bylaw/Charter Amendments and Problematic Capital Structures

Current ISS Policy:	New ISS Policy:
Generally vote against or withhold from directors individually, committee members, or the entire board (except new nominees[1], who should be considered case-by-case) if the board amends the company's bylaws or charter without shareholder approval in a manner that materially diminishes shareholders' rights or that could adversely impact shareholders, considering the following factors: ▪ The board's rationale for adopting the bylaw/charter amendment without shareholder ratification; ▪ Disclosure by the company of any significant engagement with shareholders regarding the amendment; ▪ The level of impairment of shareholders' rights caused by the board's unilateral amendment to the bylaws/charter; ▪ The board's track record with regard to unilateral board action on bylaw/charter amendments or other entrenchment provisions; ▪ The company's ownership structure; ▪ The company's existing governance provisions; ▪ The timing of the board's amendment to the bylaws/charter in connection with a significant business development; and ▪ Other factors, as deemed appropriate, that may be relevant to determine the impact of the amendment on shareholders. Unless the adverse amendment is reversed or submitted to a binding shareholder vote, in subsequent years vote case-by-case on director nominees. Generally vote against (except new nominees[1], who should be considered case-by-case) if the directors: ▪ Classified the board; ▪ Adopted supermajority vote requirements to amend the bylaws or charter; or ▪ Eliminated shareholders' ability to amend bylaws.	Generally vote against or withhold from directors individually, committee members, or the entire board (except new nominees[1], who should be considered case-by-case) if the board amends the company's bylaws or charter without shareholder approval in a manner that materially diminishes shareholders' rights or that could adversely impact shareholders, considering the following factors: ▪ The board's rationale for adopting the bylaw/charter amendment without shareholder ratification; ▪ Disclosure by the company of any significant engagement with shareholders regarding the amendment; ▪ The level of impairment of shareholders' rights caused by the board's unilateral amendment to the bylaws/charter; ▪ The board's track record with regard to unilateral board action on bylaw/charter amendments or other entrenchment provisions; ▪ The company's ownership structure; ▪ The company's existing governance provisions; ▪ The timing of the board's amendment to the bylaws/charter in connection with a significant business development; and ▪ Other factors, as deemed appropriate, that may be relevant to determine the impact of the amendment on shareholders. Unless the adverse amendment is reversed or submitted to a binding shareholder vote, in subsequent years vote case-by-case on director nominees. Generally vote against directors (except new nominees[1], who should be considered case-by-case) if the board: ▪ Classified the board; ▪ Adopted supermajority vote requirements to amend the bylaws or charter; ▪ Eliminated shareholders' ability to amend bylaws; ▪ Adopted a fee-shifting provision; or ▪ Adopted another provision deemed egregious.

Footnotes:	Footnotes:
[1] A "new nominee" is a director who is being presented for election by shareholders for the first time. Recommendations on new nominees who have served for less than one year are made on a case-by-case basis depending on the timing of their appointment and the problematic governance issue in question.	[1] A "new nominee" is a director who is being presented for election by shareholders for the first time. Recommendations on new nominees who have served for less than one year are made on a case-by-case basis depending on the timing of their appointment and the problematic governance issue in question.

Rationale for Change:

Fee-shifting is a provision in the governing documents that requires that a shareholder who sues a company unsuccessfully pay all litigation expenses of the defendant corporation and its directors and officers. In the Shareholder Rights & Defenses section of the ISS U.S. Proxy Voting Guidelines, the Shareholder Litigation Rights policy states that the unilateral adoption of a fee shifting provision will generally be considered an ongoing failure under the Unilateral Bylaw/Charter Amendment policy; therefore, the latter policy is being updated to explicitly include fee shifting for completeness and clarity. If other egregious unilateral adoptions are identified, they too may result in ongoing recommendations against director nominees.

Board Accountability – Climate Accountability

Current ISS Policy:	New ISS Policy:

For companies that are significant greenhouse gas (GHG) emitters, through their operations or value chain[10], 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 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.
 	
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:
 	
▪ Detailed disclosure of climate-related risks, such as according to the framework established by the Task Force on Climate-related Financial Disclosures (TCFD), including:
    ▪ Board governance measures;
    ▪ Corporate strategy;
    ▪ Risk management analyses; and
    ▪ Metrics and targets.
▪ Appropriate GHG emissions reduction targets.
 	
For **2022**, “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.
	For companies that are significant greenhouse gas (GHG) emitters, through their operations or value chain[10], 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 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.
	
	Minimum steps to understand and mitigate those risks are considered to be the following. Both minimum criteria will be required to be in alignment with the policy:
	
	▪ Detailed disclosure of climate-related risks, such as according to the framework established by the Task Force on Climate-related Financial Disclosures (TCFD), including:
	    ▪ Board governance measures;
	    ▪ Corporate strategy;
	    ▪ Risk management analyses; and
	    ▪ Metrics and targets.
	▪ Appropriate GHG emissions reduction targets.
	
	At this time, “appropriate GHG emissions reductions targets” will be medium-term GHG reduction targets or Net Zero-by-2050 GHG reduction targets for a company's operations (Scope 1) and electricity use (Scope 2). Targets should cover the vast majority of the company’s direct emissions.

Footnotes: [10] For 2022, companies defined as “significant GHG emitters” will be those on the current Climate Action 100+ Focus Group list.	[10] Companies defined as “significant GHG emitters” will be those on the current Climate Action 100+ Focus Group list.

Rationale for Change:

For 2023, the universe of high emitting companies will continue to be identified as those in the Climate Action 100+ Focus Group. ISS is extending globally the policy on climate board accountability first announced last year and introduced in selected markets for 2022, and is updating the factors considered under the policy as follows: In cases where a company in the universe is not considered to be adequately disclosing climate risk disclosure information, such as according to the Task Force on Climate-related Financial Disclosures (TCFD), and does not have either medium-term GHG emission reductions targets or Net Zero-by-2050 GHG reduction targets for at least a

company's operations (Scope 1) and electricity use (Scope 2), ISS policy will generally be to recommend voting against what it considers to be the appropriate director(s) and/or other voting items available. Emission reduction targets should also cover the vast majority (95%) of the company's operational (Scope 1 & 2) emissions. For 2023, ISS will apply the same analysis framework for all Climate Action 100+ Focus Group companies globally but with differentiated implementation of any negative vote recommendations depending on relevant market and company factors (for example, voting item availability). Additional data and information will be included in the company information section of the ISS research reports for all Climate Action 100+ Focus Group companies in order to support this extended policy application.

Board-Related Proposals

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

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

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

Rationale for Change:

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

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

The laws of certain other states, including Nevada, allow companies to limit the liability of directors and officers even for violations of the duty of loyalty. It is questionable how shareholders might benefit from exculpation in cases where directors or officers place their own interests above those of the company and its shareholders, and provisions to extend exculpation to violations of the duty of loyalty will generally not be supported even where permitted under state law.

Compensation

Problematic Pay Practices

<table>
<tr><th>Current ISS Policy:</th><th>New ISS Policy:</th></tr>
<tr><td>The focus is on executive compensation practices that contravene the global pay principles, including:

▪ Problematic practices related to non-performance-based compensation elements;
▪ Incentives that may motivate excessive risk-taking or present a windfall risk; and
▪ Pay decisions that circumvent pay-for-performance, such as options backdating or waiving performance requirements.

Problematic Pay Practices related to Non-Performance-Based Compensation Elements

Pay elements that are not directly based on performance are generally evaluated case-by-case considering the context of a company's overall pay program and demonstrated pay-for-performance philosophy. Please refer to ISS' U.S. Compensation Policies FAQ document for detail on specific pay practices that have been identified as potentially problematic and may lead to negative recommendations if they are deemed to be inappropriate or unjustified relative to executive pay best practices. The list below highlights the problematic practices that carry significant weight in this overall consideration and may result in adverse vote recommendations:

▪ Repricing or replacing of underwater stock options/SARs without prior shareholder approval (including cash buyouts and voluntary surrender of underwater options);
▪ Extraordinary perquisites or tax gross-ups;
▪ New or materially amended agreements that provide for:
    ▪ Excessive termination or CIC severance payments (generally exceeding 3 times base salary and average/target/most recent bonus);</td><td>Problematic pay elements are generally evaluated case-by-case considering the context of a company's overall pay program and demonstrated pay-for-performance philosophy. The focus is on executive compensation practices that contravene the global pay principles, including:

▪ Problematic practices related to non-performance-based compensation elements;
▪ Incentives that may motivate excessive risk-taking or present a windfall risk; and
▪ Pay decisions that circumvent pay-for-performance, such as options backdating or waiving performance requirements.

The list of examples below highlights certain problematic practices that carry significant weight in this overall consideration and may result in adverse vote recommendations:

▪ Repricing or replacing of underwater stock options/SARs without prior shareholder approval (including cash buyouts and voluntary surrender of underwater options);
▪ Extraordinary perquisites or tax gross-ups;
▪ New or materially amended agreements that provide for:
    ▪ Excessive termination or CIC severance payments (generally exceeding 3 times base salary and average/target/most recent bonus);
    ▪ CIC severance payments without involuntary job loss or substantial diminution of duties ("single" or "modified single" triggers) or in connection with a problematic Good Reason definition;
    ▪ CIC excise tax gross-up entitlements (including "modified" gross-ups);
    ▪ Multi-year guaranteed awards that are not at risk due to rigorous performance conditions;
▪ Liberal CIC definition combined with any single-trigger CIC benefits;</td></tr>
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- CIC severance payments without involuntary job loss or substantial diminution of duties ("single" or "modified single" triggers) or in connection with a problematic Good Reason definition;
- CIC excise tax gross-up entitlements (including "modified" gross-ups);
- Multi-year guaranteed awards that are not at risk due to rigorous performance conditions;

- Liberal CIC definition combined with any single-trigger CIC benefits;
- Insufficient executive compensation disclosure by externally-managed issuers (EMIs) such that a reasonable assessment of pay programs and practices applicable to the EMI's executives is not possible;
- Any other provision or practice deemed to be egregious and present a significant risk to investors.

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<td>

- Insufficient executive compensation disclosure by externally-managed issuers (EMIs) such that a reasonable assessment of pay programs and practices applicable to the EMI's executives is not possible;
- Severance payments made when the termination is not clearly disclosed as involuntary (for example, a termination without cause or resignation for good reason);
- Any other provision or practice deemed to be egregious and present a significant risk to investors.

The above examples are not an exhaustive list. Please refer to ISS' U.S. Compensation Policies FAQ document for additional detail on specific pay practices that have been identified as problematic and may lead to negative vote recommendations.

</td>
</tr>
</table>

Rationale for Change:

This update is not a policy application change, but rather codifies ISS' current approach to evaluating severance payments received by an executive when the termination is not clearly disclosed as involuntary, as described in ISS' U.S. Compensation Policies FAQ document. The language of the policy is also updated to (i) conform with the current approach to evaluating problematic pay practices, which is not confined to "non-performance-based pay elements," and (ii) clarify that the examples of problematic pay practices identified in the policy language are not an exhaustive list of practices that may result in adverse vote recommendations.

Equity-Based and other Incentive Plans – Value-Adjusted Burn Rate

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

Rationale for Change:

The transition to the new "Value-Adjusted Burn Rate" (VABR) methodology was previously included in the U.S. Policy Updates for 2022, at which time it was announced that following a one-year transition period the new VABR methodology would become effective in 2023. As the transition period has elapsed, the VABR methodology will become effective for meetings on and after Feb. 1, 2023.

The VABR methodology more accurately measures the value of recently granted equity awards using a methodology that more precisely measures the value of option grants. In addition, the VABR is based on calculations that are more readily understood and accepted by the market: the actual stock price for full-value awards, and the Black-Scholes value for stock options. More details can be found in the FAQs on the Policy Gateway.

Capitalization

Share Issuance Mandates at U.S. Domestic Issuers Incorporated Outside the U.S.

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

Rationale for Change:

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

NYSE and Nasdaq listing rules both require shareholder approval of issuances above 20 percent of currently-issued share capital in a private placement or in connection with an acquisition, but these rules do not cover public offerings for cash. This creates the potential for significant dilution through issuances of new shares, and the 20 percent

limit in this policy is intended to safeguard against excessive dilution, while still allowing a reasonable degree of flexibility for capital raising. Because pre-revenue companies are typically dependent on periodic equity financing to continue operations prior to commercialization of a product, a higher issuance limit is considered appropriate for such companies. However, the onus will be on the company to demonstrate that the higher limit is appropriate.

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

Routine/Miscellaneous

Amend Quorum Requirements

Current ISS Policy:	New ISS Policy:
General Recommendation: Vote against proposals to reduce quorum requirements for shareholder meetings below a majority of the shares outstanding unless there are compelling reasons to support the proposal.	**General Recommendation:** Vote case-by-case on proposals to reduce quorum requirements for shareholder meetings below a majority of the shares outstanding, taking into consideration: ▪ The new quorum threshold requested; ▪ The rationale presented for the reduction; ▪ The market capitalization of the company (size, inclusion in indices); ▪ The company's ownership structure; ▪ Previous voter turnout or attempts to achieve quorum; ▪ Any provisions or commitments to restore quorum to a majority of shares outstanding, should voter turnout improve sufficiently; and ▪ Other factors as appropriate. In general, a quorum threshold kept as close to a majority of shares outstanding as is achievable is preferred. Vote case-by-case on directors who unilaterally lower the quorum requirements below a majority of the shares outstanding, taking into consideration the factors listed above.

Rationale for Change:

U.S. companies are required under state incorporation laws to hold annual shareholder meetings. In order to have a valid meeting, the required quorum (generally a majority of shares outstanding) of shareholders must be represented. While achieving quorum has generally not been an issue for companies included in popular indices (e.g. the Russell 3000 or the S&P 1500) due to institutional investor ownership, companies with large retail ownership face more difficulties. One way to achieve quorum is to include on the ballot items that are considered "routine". For U.S. proxy voting, “routine” has a very specific meaning: it applies to the ballot items that brokers can vote on behalf of their clients if they have received no voting instructions from these clients within 10 days of the AGM. This discretionary voting is usually called the “broker vote” and is often important in ensuring the company achieves the necessary quorum for a valid shareholder meeting. Over time, the scope of routine items has shrunk; it once included the election of company directors, approval of equity plans, and bylaw or charter amendments. Ratification of auditors is one of the few remaining "routine" ballot items.

Over the last two years, ISS has observed a growing number of smaller companies that have had to adjourn their meetings, often repeatedly, due to the lack of a quorum. Eventually, many of them have unilaterally reduced the quorum requirements to less than 50% and were then able to hold the meeting. While mutual funds meetings have

always had difficulty in achieving quorum due to the lack of voting by retail investors, this inability to achieve quorum is a relatively new phenomenon for companies. There are likely many contributing factors leading to decreased share voting, but a notable change in the 2020-2021 time period was the decision by certain large brokerage firms to no longer provide discretionary or proportionate broker voting.

ISS encourages companies to put quorum reduction resolutions to a shareholder vote, and to maintain a quorum requirement as close to a majority of shares outstanding as is achievable under the new circumstances. (For NYSE and NASDAQ companies, the minimum allowable under listing requirements is a 1/3 of issued shares.) The unilateral reduction of quorum requirements to less than half of outstanding shares is still generally considered to be a materially adverse action, but adverse vote recommendations on directors will still be considered on a case-by-case basis, taking into consideration the factors considered and the immediate circumstances of the meeting/adjournments in progress.

Social and Environmental Issues

Diversity – Racial Equity and/or Civil Rights Audit Guidelines

Current ISS Policy:	New ISS Policy:
General Recommendation: Vote case-by-case on proposals asking a company to conduct an independent racial equity and/or civil rights audit, taking into account: ▪ The company's established process or framework for addressing racial inequity and discrimination internally; ▪ Whether the company has issued a public statement related to its racial justice efforts in recent years, or has committed to internal policy review; ▪ Whether the company has engaged with impacted communities, stakeholders, and civil rights experts, ▪ The company's track record in recent years of racial justice measures and outreach externally; ▪ Whether the company has been the subject of recent controversy, litigation, or regulatory actions related to racial inequity or discrimination; and ▪ Whether the company's actions are aligned with market norms on civil rights, and racial or ethnic diversity.	**General Recommendation:** Vote case-by-case on proposals asking a company to conduct an independent racial equity and/or civil rights audit, taking into account: ▪ The company's established process or framework for addressing racial inequity and discrimination internally; ▪ Whether the company adequately discloses workforce diversity and inclusion metrics and goals; ▪ Whether the company has issued a public statement related to its racial justice efforts in recent years, or has committed to internal policy review; ▪ Whether the company has engaged with impacted communities, stakeholders, and civil rights experts; ▪ The company's track record in recent years of racial justice measures and outreach externally; and ▪ Whether the company has been the subject of recent controversy, litigation, or regulatory actions related to racial inequity or discrimination.

Rationale for Change:

Investor support for racial equity audit and/or civil rights audit proposals has grown this year, with a 46 percent average support across 21 proposals on ballot. Proponents have argued that most companies would benefit from a third-party review of their diversity, equity, and inclusion (DEI) programs, and that a relevant external audit or review may reveal valuable information unknown to management. Given the growing level of investor support across all sectors for these types of proposals and the potential positive long-term impact to some companies, ISS is updating its policy criteria for the case-by-case analysis of such proposals to reflect the range of factors that will be taken into account. A focus on the company's disclosure of workforce diversity and inclusion metrics and goals allows for quantitative assessments of progress. Additionally, explicit alignment with market norms has been removed as it has not in practice been an analysis driver for this type of proposal.

General Corporate Issues – ESG Compensation-Related Proposals

Current ISS Policy:	New ISS Policy:
General Recommendation: Vote case-by-case on proposals to link, or report on linking, executive compensation to sustainability (environmental and social) criteria, considering: ▪ The scope and prescriptive nature of the proposal; ▪ Whether the company has significant and/or persistent controversies or regulatory violations regarding social and/or environmental issues; ▪ Whether the company has management systems and oversight mechanisms in place regarding its social and environmental performance; ▪ The degree to which industry peers have incorporated similar non-financial performance criteria in their executive compensation practices; and ▪ The company's current level of disclosure regarding its environmental and social performance.	**General Recommendation:** Vote case-by-case on proposals seeking a report or additional disclosure on the company's approach, policies, and practices on incorporating environmental and social criteria into its executive compensation strategy, considering: ▪ The scope and prescriptive nature of the proposal; ▪ The company's current level of disclosure regarding its environmental and social performance and governance; ▪ The degree to which the board or compensation committee already discloses information on whether it has considered related E&S criteria; and ▪ Whether the company has significant controversies or regulatory violations regarding social or environmental issues.

Rationale for Change:

Currently, the ISS policy on environmental, social, and governance (ESG) compensation-related proposals is to generally recommend voting against shareholder proposals seeking to set absolute levels on compensation or otherwise dictate the amount or form of compensation (such as types of compensation elements or metrics) to be used in incentive pay programs. This update clarifies that the policy considers the company's board or compensation committee is generally in the best position to determine the performance metrics, whether they are financial or ESG specific, while affirming that improved disclosure about the committee's rationale and considerations of pay metrics (including those for ESG topics) may benefit shareholders.

Political Activity – Political Expenditures and Lobbying Congruency

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

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

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

Rationale for Change:

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

U.S., Canada, Brazil, and Americas Regional

Shareholder Proposals – Social and Environmental Issues – Global Approach

Current ISS Policy:	New ISS Policy:
Issues covered under the policy include a wide range of topics, including consumer and product safety, environment and energy, labor standards and human rights, workplace and board diversity, and corporate political issues. While a variety of factors goes into each analysis, the overall principle guiding all vote recommendations focuses on how the proposal may enhance or protect shareholder value in either the short or long term. **General Recommendation:** Generally vote case-by-case, examining primarily whether implementation of the proposal is likely to enhance or protect shareholder value. The following factors will be considered: ▪ If the issues presented in the proposal are more appropriately or effectively dealt with through legislation or government regulation; ▪ If the company has already responded in an appropriate and sufficient manner to the issue(s) raised in the proposal; ▪ Whether the proposal's request is unduly burdensome (scope or timeframe) or overly prescriptive; ▪ The company's approach compared with any industry standard practices for addressing the issue(s) raised by the proposal; ▪ Whether there are significant controversies, fines, penalties, or litigation associated with the company's environmental or social practices; ▪ If the proposal requests increased disclosure or greater transparency, whether reasonable and sufficient information is currently available to shareholders from the company or from other publicly available sources; and ▪ If the proposal requests increased disclosure or greater transparency, whether implementation would reveal proprietary or confidential information that could place the company at a competitive disadvantage.	ISS applies a common approach globally to evaluating social and environmental proposals which cover a wide range of topics, including consumer and product safety, environment and energy, labor standards and human rights, workplace and board diversity, and corporate political issues. While a variety of factors goes into each analysis, the overall principle guiding all vote recommendations focuses on how the proposal may enhance or protect shareholder value in either the short or long term. **General Recommendation:** Generally vote case-by-case, examining primarily whether implementation of the proposal is likely to enhance or protect shareholder value. The following factors will be considered: ▪ If the issues presented in the proposal are being appropriately or effectively dealt with through legislation or government regulation; ▪ If the company has already responded in an appropriate and sufficient manner to the issue(s) raised in the proposal; ▪ Whether the proposal's request is unduly burdensome (scope or timeframe) or overly prescriptive; ▪ The company's approach compared with any industry standard practices for addressing the issue(s) raised by the proposal; ▪ Whether there are significant controversies, fines, penalties, or litigation associated with the company's practices related to the issue(s) raised in the proposal; ▪ If the proposal requests increased disclosure or greater transparency, whether reasonable and sufficient information is currently available to shareholders from the company or from other publicly available sources; and ▪ If the proposal requests increased disclosure or greater transparency, whether implementation would reveal proprietary or confidential information that could place the company at a competitive disadvantage.

Rationale for Change:

The changes codify our current approach. The change to the first criterion takes into account whether or not regulation or legislation is likely to occur. The change to the "controversies" criterion makes clear that we are interested particularly in controversies related to the issue raised by the proposal.

Canada

Board of Directors

Board Gender Diversity (TSX Guidelines)

<table>
<tr><th>Current ISS Policy:</th><th>New ISS Policy:</th></tr>
<tr><td>

General Recommendation: For S&P/TSX Composite Index companies, generally vote withhold for the Chair of the Nominating Committee or Chair of the committee designated with the responsibility of a nominating committee, or Chair of the board of directors if no nominating committee has been identified or no chair of such committee has been identified, where:

- Women comprise less than 30% of the board of directors; and
- The company has not provided a formal, publicly-disclosed written commitment to achieve at least 30% women on the board at or prior to the next AGM.

For TSX companies which are **not** also S&P/TSX Composite Index constituents, generally vote withhold for the Chair of the Nominating Committee or Chair of the committee designated with the responsibility of a nominating committee, or Chair of the board of directors if no nominating committee has been identified or no chair of such committee has been identified, where:

- The company has not disclosed a formal written gender diversity policy[6] and
- There are zero women on the board.

Evaluate on a case-by-case basis whether withhold recommendations are warranted for additional directors at companies that fail to meet the above policy that would apply to their respective constituent group over two years or more.

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General Recommendation: For S&P/TSX Composite Index companies, generally vote withhold for the Chair of the Nominating Committee or Chair of the committee designated with the responsibility of a nominating committee, or Chair of the board of directors if no nominating committee has been identified or no chair of such committee has been identified, where women comprise less than 30% of the board of directors.

S&P/TSX Composite Exemptions:

Assuming a publicly disclosed written commitment to achieve 30% representation of women on the board at or prior to the subsequent AGM, an exception will be made for companies which:

- Joined the S&P/TSX Composite Index and have not previously been subject to a 30% representation of women on the board requirement as an S&P/TSX Composite Index constituent in the past; or
- Have fallen below 30% representation of women on the board due to an extraordinary circumstance after achieving such level of representation at the preceding AGM.

For TSX companies which are **not** also S&P/TSX Composite Index constituents, generally vote withhold for the Chair of the Nominating Committee or Chair of the committee designated with the responsibility of a nominating committee, or Chair of the board of directors if no nominating committee has been identified or no chair of such committee has been identified, where there are zero women on the board of directors.

Non-S&P/TSX Composite Exemptions:

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</table>

The gender diversity policy should include a clear commitment to increase board gender diversity. Boilerplate or contradictory language may result in withhold recommendations for directors. The gender diversity policy should include measurable goals and/or targets denoting a firm commitment to increasing board gender diversity at or prior to the next AGM. **Non-S&P/TSX Composite Exemptions:** This policy will not apply to: ▪ Newly-publicly-listed companies within the current or prior fiscal year; ▪ Companies that have transitioned from the TSXV within the current or prior fiscal year; or ▪ Companies with four or fewer directors.	This policy will not apply to: ▪ Newly publicly-listed companies within the current or prior fiscal year; ▪ Companies that have transitioned from the TSXV within the current or prior fiscal year; or ▪ Companies with four or fewer directors. Assuming a publicly disclosed written commitment to add at least one woman to the board at or prior to the subsequent AGM, an exception will be made for companies which temporarily have no women on the board due to an extraordinary circumstance after having at least one woman on the board at the preceding AGM. Evaluate on a case-by-case basis whether withhold recommendations are warranted for additional directors at companies that fail to meet the above policy that would apply to their respective constituent group over two years or more.
Footnotes: [6] Per NI 58-101 and Form 58-101F1, the issuer should disclose whether it has adopted a written policy relating to the identification and nomination of women directors. The policy, if adopted, should provide a short summary of its objectives and key provisions; describe the measures taken to ensure that the policy has been effectively implemented; disclose annual and cumulative progress by the issuer in achieving the objectives of the policy, and whether and, if so, how the board or its nominating committee measures the effectiveness of the policy.	

Rationale for Change:

Board gender diversity has remained a high-profile corporate governance issue in the Canadian market. Effective Dec. 31, 2014, as per National Instrument 58-101 Disclosure of Corporate Governance Practices, TSX-listed issuers are required to provide proxy disclosures regarding whether, and if so how, the board or nominating committee considers the level of representation of women on the board in identifying and nominating candidates for election or re-election to the board. Also required is disclosure of policies or targets, if any, regarding the representation of women on the board. The disclosure requirement has been a catalyst for the addition of women on the boards of many widely-held TSX-listed reporting issuers. Widely-held TSX-listed company boards lacking a policy commitment and having zero female directors have been deemed to be outliers lagging market expectations in this regard.

Further to this objective, in September 2017, the Canadian 30% Club Investor Group committed to exercising ownership rights to encourage increased representation of women on S&P/TSX Composite Index company boards to a minimum 30% threshold. As the sentiment supporting representation of women on boards has steadily grown in Canada, it has become clear that a higher standard of representation by women is expected, with S&P/TSX Composite Index constituents playing a vital role in this process as market leaders.

Canada S&P/TSX Composite – Board Racial and/or Ethnic Diversity (TSX Guidelines)

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

Rationale for Change:

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

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

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

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

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

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

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

Voting on Director Nominees in Uncontested Elections – Overboarded Directors (Venture Guidelines)

Current ISS Policy:	New ISS Policy:
General Recommendation: **For meetings on or after February 1, 2023**, generally vote withhold for individual director nominees who: ▪ Are non-CEO directors and serve on more than five public company boards; or ▪ 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[3]. **Transitioning directors:** 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). ISS 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, ISS 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.	**General Recommendation:** Generally vote withhold for individual director nominees who: ▪ Are non-CEO directors and serve on more than five public company boards; or ▪ 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[3]. **Transitioning directors:** 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). ISS 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, ISS 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.
Footnotes: [3] Although a CEO’s subsidiary boards will be counted as separate boards, ISS will not recommend a withhold vote for the CEO of a parent company board or any of the controlled (>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.	**Footnotes:** [3] Although a CEO’s subsidiary boards will be counted as separate boards, ISS will not recommend a withhold vote for the CEO of a parent company board or any of the controlled (>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.

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 ISS global policy approach. The policy will be fully implemented effective February 1, 2023.

Climate Accountability (TSX Guidelines)

<table>
<tr><th>Current ISS Policy:</th><th>New ISS Policy:</th></tr>
<tr><td>[None]</td><td>For companies that are significant greenhouse gas (GHG) emitters, through their operations or value chain[1], 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 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.

Minimum steps to understand and mitigate those risks are considered to be the following. Both minimum criteria will be required to be in alignment with the policy:

▪ Detailed disclosure of climate-related risks, such as according to the framework established by the Task Force on Climate-related Financial Disclosures (TCFD), including:
  ▪ Board governance measures;
  ▪ Corporate strategy;
  ▪ Risk management analyses; and
  ▪ Metrics and targets.
▪ Appropriate GHG emissions reduction targets.

At this time, “appropriate GHG emissions reductions targets” will be medium-term GHG reduction targets or Net Zero-by-2050 GHG reduction targets for a company's operations (Scope 1) and electricity use (Scope 2). Targets should cover the vast majority of the company’s direct emissions.</td></tr>
<tr><td>Footnotes:</td><td>[1] Companies defined as “significant GHG emitters” will be those on the current Climate Action 100+ Focus Group list.</td></tr>
</table>

Rationale for Change:

See the rationale under the "Board Accountability – Climate Accountability under the U.S. Policy updates section.

Compensation

Director Compensation – Non-Employee Director Deferred Share Unit Plans – TSX Guidelines

<table>
<tr><th>Current ISS Policy:</th><th>New ISS Policy:</th></tr>
<tr><td>
General Recommendation: Vote for a NED deferred compensation plan if:

DSUs may ONLY be granted in lieu of cash fees on a value for value basis (no discretionary or other grants are permitted), and
Potential dilution together with all other equity-based compensation is 10 percent of the outstanding common shares or less.

General Recommendation: Vote for NED deferred compensation plans that permit discretionary grants (not ONLY in lieu of cash fees) if:

Potential dilution together with all other equity-based compensation is 10 percent of the outstanding common shares or less; or if the plan includes a company matching or top-up provision, the SVT cost of the plan does not exceed the company's allowable cap;
NED participation is acceptably limited (please refer to Overriding Negative Factors/NED Participation above);
The plan amendment provisions require shareholder approval for any amendment to:

Increase the number of shares reserved for issuance under the plan;
Change the eligible participants that may permit the introduction or reintroduction of non-employee directors on a discretionary basis or amendments that increase limits previously imposed on NED participation;
Amend the plan amendment provisions.

Other elements of director compensation evaluated in conjunction with DSU plan proposals include:

Director stock ownership guidelines of a minimum of three times annual cash retainer;

</td><td>
General Recommendation: Vote for a NED deferred compensation plan if DSUs may ONLY be granted in lieu of cash fees on a value for value basis (no discretionary or other grants are permitted).

General Recommendation: Vote for NED deferred compensation plans that permit discretionary grants (not ONLY in lieu of cash fees) if:

Potential dilution together with all other equity-based compensation is 10 percent of the outstanding common shares or less; or if the plan includes a company matching or top-up provision, the SVT cost of the plan does not exceed the company's allowable cap;
NED participation is acceptably limited (please refer to Overriding Negative Factors/NED Participation above);
The plan amendment provisions require shareholder approval for any amendment to:

Increase the number of shares reserved for issuance under the plan;
Change the eligible participants that may permit the introduction or reintroduction of non-employee directors on a discretionary basis or amendments that increase limits previously imposed on NED participation;
Amend the plan amendment provisions.

In addition, ISS will consider other elements to assess whether a DSU plan is deemed to be overall beneficial to shareholders' interests when determining vote recommendations. Other elements of director compensation evaluated in conjunction with DSU plan proposals may include but are not limited to:

Director stock ownership guidelines of a minimum of three times annual cash retainer;
Vesting schedule or mandatory deferral period which requires that shares in payment of deferred units may not be paid out until the end of board service;

</td></tr>
</table>

▪ Vesting schedule or mandatory deferral period which requires that shares in payment of deferred units may not be paid out until the end of board service; ▪ The mix of remuneration between cash and equity; and ▪ Other forms of equity-based compensation, i.e. stock options, restricted stock.	▪ The mix of remuneration between cash and equity; and ▪ Other forms of equity-based compensation, i.e. stock options, restricted stock.

Rationale for Change:

This policy update is to align this policy with shareholder expectations for the Canadian market. Unlike other equity compensation plans commonly seen at Canadian companies (e.g., stock option plans or restricted share unit plans), this type of plan issues shares only to non-employee directors and only in lieu of director fees which would otherwise be payable in cash. This type of DSU plan may assist in aligning the interests of non-employee directors with those of shareholders by developing an equity stake commensurate with directors' established fee structure. In addition, these plans typically reserve a small number of shares less than 10 percent of the total outstanding shares.

Non-Employee Director Deferred Share Unit Plans – Venture Guidelines

<table>
<tr><th>Current ISS Policy:</th><th>New ISS Policy:</th></tr>
<tr><td>

General Recommendation: Vote for a NED deferred compensation plan if:

- DSUs may ONLY be granted in lieu of cash fees on a value for value basis (no discretionary or other grants are permitted), and
- Potential dilution together with all other equity-based compensation is 10 percent of the outstanding common shares or less.

General Recommendation: Vote for NED deferred compensation plans that permit discretionary grants or a company match or top-up provision (not ONLY in lieu of cash fees) if:

- Potential dilution together with all other equity-based compensation is 10 percent of the outstanding common shares or less;
- The average annual burn rate is no more than 5 percent per year (generally averaged over most recent three-year period and rounded to the nearest whole number for policy application purposes)

In the case of Director DSU plans, other elements of director compensation to evaluate in conjunction with DSU plan proposals include:

- The mix of remuneration between cash and equity;
- Other forms of equity-based compensation, i.e. stock options, restricted stock; and
- Vesting schedule or mandatory deferral period.

</td><td>

General Recommendation: Vote for a NED deferred compensation plan if DSUs may ONLY be granted in lieu of cash fees on a value for value basis (no discretionary or other grants are permitted).

General Recommendation: Vote for NED deferred compensation plans that permit discretionary grants or a company match or top-up provision (not ONLY in lieu of cash fees) if:

- Potential dilution together with all other equity-based compensation is 10 percent of the outstanding common shares or less;
- The average annual burn rate is no more than 5 percent per year (generally averaged over most recent three-year period and rounded to the nearest whole number for policy application purposes).

In addition, ISS will consider other elements to assess whether a DSU plan is deemed to be overall beneficial to shareholders' interests when determining vote recommendations. Other elements of director compensation evaluated in conjunction with DSU plan proposals may include but are not limited to:

- The mix of remuneration between cash and equity;
- Other forms of equity-based compensation, i.e. stock options, restricted stock; and
- Vesting schedule or mandatory deferral period.

</td></tr>
</table>

Rationale for Change:

This policy update is to align this policy with shareholder expectations for the Canadian market. Unlike other equity compensation plans commonly seen at Canadian companies (e.g., stock option plans or restricted share unit plans), this type of plan issues shares only to non-employee directors and only in lieu of director fees which would otherwise be payable in cash. This type of DSU plan may assist in aligning the interests of non-employee directors with those of shareholders by developing an equity stake commensurate with directors' established fee structure. In addition, these plans typically reserve a small number of shares less than 10 percent of the total outstanding shares.

Brazil & Americas Regional

Board of Directors

Bundled and Unbundled Elections – Climate Accountability

Current ISS Policy:	New ISS Policy:

[None]	For companies that are significant greenhouse gas (GHG) emitters, through their operations or value chain[1], generally vote against the incumbent chair of the board, if presented under a separate/individual election, or the entire board in the event of a bundled board election 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.
	
	In the event there is no director election on ballot, in a respective year, consider, on a case-by-case basis, voting against the company's financial statements and/or the discharge of directors, as applicable.
	
	Minimum steps to understand and mitigate those risks are considered to be the following. Both minimum criteria will be required to be in alignment with the policy:
	
	▪ Detailed disclosure of climate-related risks, such as those according to the framework established by the Task Force on Climate-related Financial Disclosures (TCFD), including:
	    ▪ Board governance measures;
	    ▪ Corporate strategy;
	    ▪ Risk management analyses; and
	    ▪ Metrics and targets.
	▪ Appropriate GHG emissions reduction targets.
	
	At this time, “appropriate GHG emissions reductions targets” will be medium-term GHG emission reduction targets or Net Zero-by-2050 GHG reduction targets for a company’s operations (Scope 1) and electricity use (Scope 2). Targets should cover the vast majority of the company’s direct emissions.

Footnotes:	[1] Companies defined as “significant GHG emitters” will be those on the current Climate Action 100+ Focus Group list.

Rationale for Change:

See the rationale under the "Board Accountability – Climate Accountability under the U.S. Policy updates section.

Brazil

Board of Directors

Bundled and Unbundled Elections – Chair Accountability

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

Rationale for Change:

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

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

Bundled and Unbundled Elections – Combined Chair/CEO

Current ISS Policy:	New ISS Policy:
General Recommendation: Vote against the bundled election of directors of companies listed under the differentiated corporate governance segments of the Sao Paulo Stock Exchange (B3)--Novo Mercado, Nivel 2, and Nivel 1-- if the company maintains or proposes a combined chair/CEO structure, after three (3) years from the date the company's shares began trading on the respective differentiated corporate governance segment. Vote against the election of the company's chair, if the nominee is also the company's CEO, when it is presented as a separate election at companies listed under the differentiated corporate governance segments of the Sao Paulo Stock Exchange (B3), Novo Mercado, Nivel 2, and Nivel 1-- after three (3) years from the date the company's shares began trading on the respective differentiated corporate governance segment.	**General Recommendation:** Vote against the bundled election of directors if the company maintains or proposes a combined chair/CEO structure. Vote against the election of the company's chair, if the nominee is also the company's CEO, when it is presented as a separate election. When the company discloses detailed information stating that the chair/CEO would only serve in the combined role on an interim basis, vote case-by-case considering circumstances including, but not limited to the following specific market regulatory exemptions: ▪ The company is within its first three years of trading on the differentiated corporate governance segments of the Sao Paulo Stock Exchange (B3), Novo Mercado, Nivel 2, and Nivel 1; and ▪ The chair/CEO was appointed on a temporary basis to fill a vacancy.

Rationale for Change:

The combination of a company's CEO and board chair roles raises concerns regarding potential conflicts of interest, given that the board is responsible for monitoring the company's management, including the CEO and setting executive compensation, amongst other duties. The G20/OECD Principles of Corporate Governance, the ICGN Global Governance Principles, and Brazil's corporate governance code recommend a separation between the roles of CEO and board chair, citing the risks of concentrating power and decision-making in a single individual.

This update represents an expansion of the existing policy framework, which already recommends against elections with combined chair/CEOs structure. As such, the update will standardize and harmonize the policy application across all listing segments of the Brazilian market. The existing policy applied only to Brazilian companies listed on the *Novo Mercado*, *Nivel 2*, and *Nivel 1* differentiated listing segments, which already represent approximately 90 percent of the Brazilian issuers covered by ISS.

Based on ISS data, as of June 2022, only five Brazilian issuers, or approximately 2 percent of the country's issuers covered by ISS maintain a combined chair/CEO structure. The *Novo Mercado* listing segment, Brazil's highest differentiated corporate governance listing segment only allows a chair/CEO structure on an interim basis of up to one year when a company must fill a vacancy. On the other hand, *Nivel 2* and *Nivel 1* listing segment regulations only allow such structure on a temporary basis within the first three years of the company's listing on the respective segment or, similar to the Novo Mercado, when there is a need to fill such vacancy on a temporary basis.

Lastly, the policy harmonizes the Brazil policy with a number of global ISS benchmark policies that also recommend against the election of combined chair/CEOs under certain scenarios, including but not limited to the following markets: India, Singapore, Australia, Continental Europe, UK and Ireland, and Israel.

Compensation

Management Compensation

<table>
<tr><th>Current ISS Policy:</th><th>New ISS Policy:</th></tr>
<tr><td>

General Recommendation: Generally vote for management compensation proposals that are presented in a timely manner and include all disclosure elements required by the Brazilian Securities Regulator (CVM).

Vote against management compensation proposals when:

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

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

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

</td><td>

General Recommendation: Generally vote for management compensation proposals that are presented in a timely manner and include all disclosure elements required by the Brazilian Securities Regulator (CVM).

Vote against management compensation proposals when:

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

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

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

</td></tr>
</table>

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

Rationale for Change:

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

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

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

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

Americas Regional

Board of Directors

Unbundled Elections – Chair Accountability

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

Rationale for Change:

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

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

Foreign Private Issuers Listed on U.S. Exchanges – Board Gender Diversity

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

Rationale for Change:

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

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

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