ISS BENCHMARK POLICY UPDATES

Executive Summary
2023 Global Proxy Voting Guidelines Updates and Process of ISS Benchmark Policy Development

Effective for Meetings on or after February 1, 2023
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TABLE OF CONTENTS

Summary of ISS' Policy Development Process

Each year, ISS conducts a robust, inclusive, and transparent global policy review process to update the ISS Benchmark Proxy Voting Guidelines ("benchmark guidelines" or "policies") for the upcoming year.

The policy update process begins with an internal review of emerging issues, relevant regulatory changes, and notable trends seen across global, regional, and individual markets. Based on information gathered throughout the year (particularly feedback from investors and companies during and after proxy seasons), ISS internal policy working groups examine various governance and other voting topics across global markets. As part of this process, the working groups also examine relevant academic research, other empirical studies, and commentary by market participants. To gain further insights from a broad range of market participants, we then conduct policy surveys, convene multiple roundtable discussions, and post draft policy change proposals for an open review and comment period. After considering this broad input and completing the extensive review process, the final policy updates are approved by the ISS Global Policy Board and announced for the following year. For most markets, updated policies are announced in Q4 of each year and apply to meetings held on and after February 1 of the following year. Different timetables apply to a small number of markets that have off-cycle main proxy seasons.

This annual review and update process also informs updates to ISS' various specialty (or thematic) policies. ISS solutions include specialty policies for socially responsible investors, faith-based investors, Taft-Hartley (labor) funds and their external asset managers, and public employee pension funds, and for investors with a particular focus on climate change. The content of the research and the vote recommendations issued under these thematic policies may differ from those under the ISS benchmark voting policies.

ISS also helps clients to develop and implement their own voting policies based on their organizations' specific mandates and requirements. As part of the annual review process, ISS custom research teams work with many institutional investor clients that use ISS research to help implement their own customized approaches to proxy voting. ISS helps clients apply more than 400 specific custom policies that reflect clients' unique corporate governance philosophies and investment strategies.

Key Attributes of the ISS Policy Development Process

Industry-Leading Transparency: ISS promotes openness and transparency in the development of its proxy voting policies. A description of the policy development and application process, and copies of all final ISS policies and FAQ (Frequently Asked Questions) documents, are posted on the issgovernance.com website under the Policy Gateway section.

Robust Engagement with Market Constituents: Listening to diverse viewpoints is critical to effective policy review, development, and application processes. ISS' analysts regularly interact with institutional investors, company directors and other issuer representatives, shareholder proposal proponents, and other parties to gain deeper insight into critical issues. This ongoing dialogue enriches ISS' policy development and analysis, and informs the research and recommendations provided to clients. The policy review process also includes a global policy survey and a public comment period on proposed policy changes that are open to all interested market constituents.

Global Expertise: ISS' policy development process is rooted in global expertise. ISS' network of global expertise and locations provides access to regional and local market experts across the Americas, Europe/Middle East/Africa (EMEA), and Asia-Pacific regions.

2022 Outreach

Policy Survey

ISS launched its 2022 Global Benchmark Policy Survey on August 3 and closed it on August 31, 2022. For the U.S., questions covered potential benchmark policy de-minimis exemptions for multi-class capital structures, handling of problematic governance structures, share issuance mandates at cross-market companies under ISS' U.S. policy coverage, and views on proposals calling for third-party racial equity and civil rights audits. With regard to the U.K. and Ireland, survey questions covered audit-related matters and assessment of executive pay increases, while questions applicable to Continental Europe covered multi-class share structures and unequal voting rights, as well as virtual-only meetings. For emerging markets, the survey focused on share repurchases in Sub-Saharan African markets. This year's survey also included a number of more global questions on climate-related board accountability, climate transition plans and management "say on climate" resolutions, climate risk as a critical audit matter, and financed emissions for companies in the financial sector.

We received 417 responses to the survey: 205 responses from investors and investor-affiliated organizations ("investor respondents" hereafter), 212 from companies and corporate-affiliated organizations ("non-investor respondents" hereafter).

Over half of the investor respondents to the survey had a global focus. Investor respondents were roughly evenly split among three asset size categories: over $100 billion, between $10 billion and $100 billion, and under $10 billion.

The 2022 Global Benchmark Policy Survey results report is available here.

Policy Roundtables and Other Feedback

In the U.S., five virtual roundtable discussions were held with various market constituents as follows:

- Board and Shareholder Rights: Two roundtable discussions were held, one in September and one in October, with a total of 16 institutional investors. In the September 2022 roundtable, the topics covered included problematic capital structures, problematic governance provisions, exculpation of executive officers, share issuance mandates, super-voting preferred shares, and board gender diversity. The virtual policy roundtable held in October 2022, institutional investors discussed shared issuance mandates at cross-market companies, shareholder proposals seeking to incorporate E&S metrics into incentive pay programs, clients' expectations regarding climate action and their assessment of governance climate risks, as well as the evolution of ISS policies on board diversity.
- Compensation: Two roundtable discussions included 14 institutional investors in the aggregate were held in month of September 2022. The discussions primarily focused on E&S metrics in incentive pay programs, payout leverages and pay outcomes, and board commitments and responsiveness. In addition, these roundtables also discussed the new disclosure mandated by the recently finalized SEC rule regarding pay versus performance to assess how investors anticipate using the additional information to be disclosed in 2023.
- Environmental and Social: One roundtable discussion was held in September 2022 with nine institutional investors covering climate change risk and board accountability, reproductive rights, racial equity and civil rights audits, political spending congruency, and human rights.

In Canada, there were two virtual roundtables. The first one in September 2022, with 11 participants, discussing climate board accountability, management say-on-climate, climate as critical/key audit matter, financed emissions and supply chain (scope 3 emissions). The second roundtable, held in October, had a total of 20 participants, representing 11 institutional investors, discussing compensation topics such as pay quantum and large equity awards, non-employee director deferred share unit (DSU) plans, as well as gender diversity.

In Europe, three separate roundtable discussions, one virtual (UK and Continental Europe) and two in-person ones (France), were held with institutional investors as follows:

- One virtual roundtable discussion was held for the UK and Continental Europe, in October, with approximately 20 investors. The topics covered were related to remuneration, such as windfall gains, living wage/cost of living crisis, inflation, board accountability for poor governance provisions, such as unequal voting rights, virtual-only meetings and climate board accountability, in addition to audit reform and diversity.
- In France, two in-person roundtables were held in September, with a total of 10 investors, discussing topics related to climate board accountability, unequal voting rights, share issuances, remuneration, board accountability, and audit-related matters.

In Japan, one-on-one meetings were held with 14 institutional investors during the month of August to discuss board independence requirement in response to the Tokyo Stock Exchange listing section reorganization, climate policy, shareholder proposals and disclosure practices.

In other Asian markets, feedback was received on ISS policy and policy application for various Asian markets through one-on-one meetings held with five institutional investors between April and November 2022. Topics discussed included: market regulation on overboarding for South Korea; the classification of government representative directors in Malaysia; performance-linked bonuses paid to directors in Thailand; board independence and share issuances in Singapore; board and board of commissioners' independence in Indonesia, and executive compensation and equity plans in India.

In addition, ISS analysts participated in numerous one-on-one and other discussions throughout the year with institutional investors and/or issuers and other stakeholders, including in the U.S., Canada, Latin America, UK, Continental Europe, Japan, Asia, and Australia.

Public Comment Period on Proposed Policy Changes

On Nov. 4, 2022, ISS opened its public comment period and invited institutional investors, corporate issuers, and any other interested constituents to provide views and feedback on the main proposed policy changes for 2023. The comment period, which ran through Nov. 16, 2022, sought feedback on 17 proposed updates to ISS' benchmark policy guidelines.

ISS received 71 responses to the comment-period proposals. Of these, 40 were from companies in Germanic markets. The rest were primarily from institutional investors or institutional investor groups and non-profit organizations. A summary of the comments is included in Appendix A. Comments from respondents, except those who requested confidentiality of their submissions, will be posted on ISS' website under the Policy Gateway section.

After review and consideration of all comments received, the details of some proposed policies were modified. No proposed policies were withdrawn.

Upcoming Milestones

- *Early-Mid December:* Publication of all updated ISS benchmark policies (proxy voting guidelines) for 2023 on ISS website.
- *By end January 2023:* Publication of updated Frequently Asked Questions (FAQ) documents on ISS website.
- *February 1*: The updated 2023 ISS benchmark policies (proxy voting guidelines) will take effect for meetings occurring on or after this date.
- *Summer 2023*: Policy guidelines for off-cycle markets (i.e., markets where the main proxy seasons occur in the autumn or winter seasons of the Northern Hemisphere, for example Israel, South Africa, Australia, and New Zealand) may be updated.

Summary of Final Policy Updates

ISS' Benchmark proxy voting guidelines consider market-specific regulations and governance best practices (such as those found in listing rules, local codes of best practice, etc.), investors' need for transparency in corporate reporting, and direct input from institutional investor clients and other market constituents in addressing topics such as board structure and diversity, director accountability, corporate governance standards, executive compensation, shareholder rights, corporate transactions, and social/environmental issues. The updates contained in this executive summary reflect changes to proxy voting policies within ISS' three global research regions – the Americas, Europe/Middle East/Africa (EMEA), and Asia-Pacific.

The 2023 (and in some cases 2024) policy updates in this summary are grouped by region. Separate regional update documents addressing Americas, EMEA, and Asia-Pacific policy changes in further detail will be released at the same time as this summary. These documents are also available through the ISS Policy Gateway.

In addition to the more significant policy updates, a number of minor changes and policy clarifications including the expiration of transition periods are summarized below in Appendix B. The full text of all updates can be found in the regional update documents.

The changes will be effective for meetings that occur on or after Feb. 1, 2023, except for those, as noted, that are being announced now with a one-year transition period and will become effective in 2024.

Policy Updates: Comment Period and/or Policy Survey Related

Global

Climate Board Accountability – Global

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

Americas

U.S. – Gender Diversity

In 2021, the U.S. board gender diversity policy was extended to all U.S. companies covered under U.S. policy after a one-year grace period. The policy will go into effect 2023, so transition language will be removed. The board gender diversity policy for Foreign Private Issuers (FPIs) previously applicable only to Russell 3000 and S&P 1500 FPIs will also be expanded to all FPIs from 2023.

U.S. – Exculpation of Officers

The Delaware General Corporation Law was amended in August 2022 to permit corporations to limit or eliminate the personal liability of officers for claims of breach of the fiduciary duty of care. ISS is adopting a policy to recommend case-by-case on proposals providing for exculpation provisions in a company's charter.

U.S. – Unequal Voting Rights

The previous grandfathering of older companies with unequal voting rights will be removed in 2023. As part of this update, a *de minimis* exception has been defined as no more than 5 percent of total voting power.

U.S. – Problematic Governance Structures

For the U.S. policy on companies that go public with other problematic governance structures (including classified boards and supermajority vote requirements), a "reasonable sunset period" to fully eliminate the provision is being defined as no more than 7 years from the date of going public.

U.S. – Share Issuance Mandates

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

U.S. – Political Expenditures Alignment Transparency Shareholder Proposals

A new specific policy is being introduced for shareholder proposals requesting company transparency on the congruency of its political contributions and lobbying with its public commitments and policies, including climate lobbying congruency to its climate goals. The new policy will provide more transparency to the market about how such shareholder proposals are assessed and codify the case-by-case approach used in the 2022 proxy season.

Canada – Racial/Ethnic Board Diversity

After a one-year grace period, in 2024 Canadian S&P/TSX Composite Index constituents will be expected under the updated policy to have at least one racially/ethnically diverse director. This reflects broadened Canadian disclosure requirements in this area and increasing investor expectations of board diversity.

Brazil & Latin America – Board Independence

Under both the Brazil and the Americas Regional policies, ISS is removing the legacy carve-out related to the board chair (either as a slate or as individual elections) when there is a lack of sufficient board independence. Under the existing policy, support would be recommended for the election of the chair despite any lack of sufficient board independence, due to the relevance of the leadership position. Given higher expectations on the accountability of the board chair and a desire to harmonize this policy more closely with those of ISS' global policies, this exception is being removed.

Brazil – Compensation

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

European, Middle East, and Africa Updates

UK and Ireland – Salary Increases

Due to a concern that the wording of the existing ISS UK and Ireland policy on remuneration may have been misunderstood as encouraging companies to increase directors' base salaries proportionally in line with increases made to the wider company workforce, the language is being modified to clarify that keeping directors' annual salary increases low and ideally lower proportionally than general increases across the broader workforce is considered to be good market practice.

Continental Europe – Hybrid and Virtual Shareholder Meetings

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

Continental Europe – Unequal Voting Rights

For Continental European policy a new policy on unequal voting rights structures is being introduced. At widely-held companies, after a one-year grace period and starting with meetings in Feb. 2024, ISS will generally recommend voting against directors individually or against the discharge of (non-executive) directors for maintaining a corporate structure with unequal voting rights. A *de minimis* exception will be applied where distortion between voting and economic power does not exceed 10 percent.

Sub-Saharan Africa – Slate Elections

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

Sub-Saharan Africa – Share Issuance Mandates

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

Middle East and Africa – Share Incentive Schemes

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

Off-Cycle Policy Updates in 2022

South Africa

Two updates were made to the South Africa policy guidelines and published in September 2022. Firstly, ISS introduced a gender diversity policy recommending a minimum requirement of one woman on the board. The updated policy will take effect on or after October 1, 2023, therefore, granting companies a one-year grace period to consider this policy guideline. In the event of lack of gender diversity, ISS policy will initially target the nominating committee chair or, if not on ballot, the board chair or other appropriate director. The policy will consider potential mitigating factors such as (i) the presence of a gender diversity director at the preceding AGM, a (ii) clear commitment to address the lack of gender diversity, (ii) other relevant factors, as applicable. Secondly, the policy related to the election of audit committee members was updated to address concerns regarding auditor's tenure, in light of governance concerns and evolving regulatory requirements in the market. Specifically, the updated policy will recommend against the re-election of the audit committee chair or, if not identified, the most tenured audit committee member, when (i) the company's auditor tenure extends beyond 10 years and there is no public commitment to rotate the audit firm within a year or (ii) when a former auditor has been reappointed before the conclusion of the five-year cool-off period.

New Zealand

Updates to the New Zealand policy were also published in September 2022, effective for meetings on or after October 1, 2022. The changes were largely to better align the New Zealand policies to the Australia policy document, to maintain the consistency and harmonization of the policy application between the two markets. The updates included adjustments to existing policies such as share capital issuances, classification of directors and voting on director nominees, and remuneration. In addition, under the environmental and social issues, the New Zealand market introduced a new board diversity policy, stating that ISS will examine diversity, including gender, skills, ethnicity, and age as part of board refreshment and succession planning, to provide clients with sufficient information to better inform their engagement efforts and voting decisions.

Appendices

Appendix A – Summary of Comments

Climate — Board Accountability

We received a number of thoughtful comments on this topic. Most investor comments agreed with the direction of change proposed, and especially in extending the policy globally in 2023 to the full universe of companies covered, although some felt that the proposed changes did not go far enough in terms either of the universe or the policy expectations. Some commenters specifically stated they thought that we should include Scope 3 GHG emissions expectations in cases when emissions associated with products and/or supply chain were material to the company. Several commenters emphasized the need for company targets to be aligned with a trajectory of warming no higher than 1.5 degrees Celsius and that ISS should assess a company's disclosure and alignment to targets of its capital expenditure. Several stated that they considered the Climate Action 100+ focus group universe of companies was a good place to start, although some also urged us to curate our own priority list in the future. Some urged us to include in the universe large financial institutions, companies in energy-intensive sectors, and, eventually, all companies for which GHG emissions would likely be material.

One investor commenter expressed a preference for ESG metrics in long-term incentive programs. One investor group asked us to consider recommending against directors in cases where a company has received multiple climate-related shareholder proposals but has not made a clear and effective response.

A few investors questioned the value to shareholders of GHG emissions reductions targets and commented that they did not support imposing requirements such as GHG emissions reductions targets that were not required under local regulation.

One Canadian company urged us not to hold Canadian companies to a disclosure standard related to TCFD, but only to one related to Canadian regulations. It also requested that we give any newly added Climate Action 100+ Focus Group companies a grace year before making any negative recommendations.

Regarding "Say on Climate" votes on management climate transition plans, a few commenters expressed disappointment that we did not provide clearer priorities, such as disclosure, Scope 3 targets, and lack of relevant capital expenditure information.

[Note: ISS is planning to release more information about policy application relating to the new climate-related policies in an update of the Frequently Asked Questions document, expected before the new policies go into effect.]

Climate — as Critical Audit Matter

A few commenters expressed disappointment that we did not announce a voting policy for 2023 related to the incorporation of climate considerations in the audit report. One commenter recommended at least providing data in the ISS research reports for high-emitting companies regarding whether or not climate change was mentioned in the audit report as a material risk.

Board Gender Diversity

Most commenters were supportive of the proposed approach on gender and ethnic/racial board diversity. Some argued for greater international harmonization for the board gender diversity policy.

[*Note: We have removed the reference to non-binary directors in the policy language and will make decisions on a case-by-case basis if the theoretical situation envisaged arises.]*

One commenter stated a view that ISS should not grant an exception for a board with no gender diversity which makes a firm commitment to return to a gender-diverse status within a year.

One commenter stated that sexual orientation should be strictly self-identified. [*Note: ISS is not planning to make any comment or policy consideration related to the sexual orientation of directors.]*

One commenter asked how ISS would determine racial or ethnic diversity in Canada and urged us not to define diversity using visual cues.

[*Note: In the Frequently Asked Questions document, we state*:

> *Where available, racial and ethnic characteristics are identified and sourced directly from corporate filings, as well as direct feedback in response to ISS' outreach to U.S. companies. Where definitive information is not disclosed, ISS classifies directors – largely along standards put forth by the U.S. Office of Management and Budget's Directive 15 – by carefully assessing race and ethnicity through a variety of publicly available information sources. These include company investor relations websites, LinkedIn profiles, press releases, leading news sites, as well as through identifying affiliations between individuals and relevant associations and organizations focused on race and/or ethnicity, such as the Latino Corporate Directors Association*.]

U.S.— Exculpation of Officers

Of the three investors that commented on this proposed change, two did not support the change and one did. The two that did not support it believed that exculpation provisions could reduce stockholders' ability to take action against officers who failed to act with the required level of care.

U.S.— Unequal Voting Rights & Other Problematic Governance Structures

Investor commenters tended to support ISS recommending against directors in cases where the company had unequal voting rights, in order to support the principle of one-share-one-vote equity structures, and recognized that it would often be for the purpose primarily of sending a signal to the board. Regarding the proposed *de minimis* exception, most responded that they considered 5 percent was reasonable. Some commenters preferred no *de minimis* exception. One commenter suggested overriding the exception in cases where super-voting shares included additional rights, such as veto powers.

In response to our question about targeting of any negative vote recommendations, some commenters preferred ISS continuing to recommend against the full board. Some preferred starting with the full nominating or governance committee and escalating to include the board chair, then to the full board.

Regarding companies that go public with an unequal voting structure and/or other problematic provision such as a classified board, most felt that a seven-year sunset was reasonable. Some preferred to see no exceptions for sunsets. One organization did not support the "problematic governance structures" policy because they considered the language granting exceptions to companies that went public with such provision before a certain date created a fundamental problem that created perverse incentives and would punish early-stage companies for taking measures to protect themselves that were reasonable at that early stage.

U.S. – Share Issuance Mandates

Few commenters mentioned this change but the ones that did generally thought that the proposed new policy was reasonable.

U.S. Political Expenditure and Lobbying Congruency

Most comments supported the proposed change, although some stated that they would prefer ISS's general stance to be "generally vote for." One commenter stated that "regular evaluation of the alignment of political expenditures is an increasingly important requirement of strong corporate governance and oversight practices."

One commenter did not want to see ISS support these proposals. That commenter raised the concern that these proposals were being used to generate negative publicity about political contributions and lobbying expenditures without a legitimate connection to shareholder value.

UK – Salary Increases

Regarding the change in language in the UK remuneration section asserting that "Annual increases in salary are expected to be low and ideally lower proportionally than general increases across the broader workforce," comments ranged widely. On one side, a commenter said that the change could be accepted as long as ISS did not intend to use this data point as a quantitative test that would drive recommendations. On the other side, a commenter said that he/she would have preferred that ISS go further because the change as-is would do nothing to address widening income inequality.

Continental Europe - Unequal Voting Rights

We received comments from several companies in Nordic countries that opposed this policy change or asked ISS to exempt Nordic countries. They explained that, in many cases when the company's share structure has unequal vote shares, the main shareholder is an independent commercial foundation. They make the case that this structure is widely accepted in Nordic countries and is seen as aligned with shareholder interests. They also assert that research shows no evidence of a causal link between deviations from the proportionality principle and the company's economic performance or governance.

Continental Europe - virtual-only meetings

ISS received comments from approximately 40 German companies that were concerned that ISS was not planning to change its policy with regards to virtual-only meetings. They asserted that shareholder rights have been adequately protected by a recently passed German law allowing companies to adopt provisions in their articles (with shareholder approval) that authorize them to hold virtual-only meetings with certain safeguards. Specifically, they stated that the new law ensures that shareholders can interact with management and that they can easily access the meeting. Many also pointed out that virtual meetings will likely be more sustainable than in-person meetings.

[*Note: ISS is making a change to its Continental European policy regarding hybrid and virtual-only meetings. After taking comments into consideration, ISS will adopt a policy to vote case-by-case on proposals that would permit the* *holding of virtual-only meetings, taking a number of factors into account, including considering protection of shareholder rights. See summary above and full details of the policy wording and rationale as provided in the 2023 EMEA Policy Updates regional summary].*

Other Topics:

Tax Disclosure – Although we did not ask specifically about the subject of corporate tax disclosure, two comments brought this topic up, saying that it was becoming an issue of higher priority to investors. These commenters stated that current company disclosures are insufficient, and that tax shifting can lead to insufficient funding for safety net programs. They pointed out that the Global Reporting Initiative (GRI) had developed a voluntary tax reporting standard that companies could use to more comprehensively report on tax risks and opportunities.

ISS Policy harmonization globally – One commenter recommended that ISS strive to achieve harmonization of its policies globally, to lift the average and allow for easier comparisons globally.

U.S. Racial Equity Audits – One non-profit organization urged us to generally support requests for racial equity or civil rights audits.

Shareholder proponents – One commenter recommended that ISS always disclose the filer of shareholder proposals and any background information readily available to the public on the proponent and mission statement. [*Note: The SEC does not require companies to identify the proponent in the proxy statement. Currently, ISS names the proponent when the company announces it in the Proxy Statement or when the proponent's identity is known through a press release or public filing.]*

For the other topics, to the extent that they were mentioned, commenters were supportive.

All comments received during the open comment period have been reviewed and considered. Unless the commenters asked us to keep them private, the comments that we received will be posted on our website for full transparency. Many were helpful and will help inform future ISS policy development for 2023 and beyond, particularly in the area of climate-related topics as that subject continues to evolve.

Appendix B – Full List of Other Policy Updates

The following table summarizes for transparency the updates to ISS policy guidelines for 2023 not previewed under the Comment Period or otherwise in this Executive Summary document. Full details of all policy updates are provided in the three regional policy update documents referred to above.

Regional Guideline Document (Market)	Topic	Policy Change
Global		
Environmental and Social "Global Approach"	Environmental and Social Shareholder Proposal Analysis	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 the relevant controversies considered are those related to the issue raised by the proposal.
Americas		
U.S.	Poison Pills	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.
U.S.	Unilateral Actions	The Unilateral Bylaw/Charter Amendment policy is being updated to explicitly include unilateral fee shifting as a provision that will be considered an ongoing failure.
U.S.	Compensation Plans – Problematic Pay Practices	This update 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.
U.S.	Compensation Plans – Value Adjusted Burn Rate	The one-year transition period to the new "Value-Adjusted Burn Rate" (VABR) methodology has passed.
U.S.	Quorum Requirements	Changing from generally recommending against proposals to reduce quorum requirements to a case-by-case approach, due to the recently observed increase in the inability of companies to achieve quorum.
U.S.	Racial/Ethnic Board Diversity	Refining analysis criteria.
U.S.	ESG Metrics in Comp Proposals	Clarifying that ISS policy generally considers that the company's compensation committee is in the best position to determine the metrics in the compensation program, while at the same time affirming that improved disclosure may benefit shareholders.
Canada	Board Gender Diversity	Language changes to reflect the fact that Canadian regulations require disclosure of how the board has considered the level of representation of women on the board in identifying and nominating candidates and that requirement has made widely-held TSX-listed companies lacking a policy commitment to be outliers.
Canada	Overboarded Directors	Removes transitional language to make clear that the overboarded director policy will be the same for Venture exchanged listed issuers and for TSX exchange listed issuers. This policy change was announced in 2021.

Canada	Director Compensation TSX & Venture	The update is to align this policy with shareholder expectations for the Canadian market, specifically, to remove the restriction regarding 10 percent overall dilution across all equity plans.
Brazil	Combined Chair-CEO Policy	This update standardizes and harmonizes the policy application across all listing segments of the Brazilian market.
EMEA		
UK and Ireland	Board Diversity	The update incorporates the April 2022 update to the UK FCA Listing Rules in respect of board diversity requirements.
UK and Ireland	Audit Committee Meeting Frequency	For FTSE 350 companies, ISS will note where four or fewer audit committee meetings have been held during the reporting period.
UK and Ireland	Authorisation of Equity	Update to reflect the Financial Reporting Council's Pre-Emption Group's updated Statement of Principles.
Continental Europe	Definition of Key Committees	Clarification of which committees are considered key.
Continental Europe (Cyprus and Malta)	Overboarded Directors	Policy is being updated to include Cyprus and Malta.
Continental Europe	Composition of Committees	This change harmonizes the approach to board elections/committee elections in markets that legally require employee representatives on their boards, regardless of the legal threshold required in different countries.
Continental Europe (Italy)	Voto di Lista	The change updates the name of the relevant stock exchange following the acquisition of Borsa Italiana SpA by Euronext NV.
Continental Europe	SPAC Sponsors	We are also noting that a nominee who is a SPAC sponsor may be classified as a Non-Independent Non-Executive (NED), depending how SPAC sponsors may benefit from the transaction.
Continental Europe	Cooling off period for former executives	This change harmonizes the approach to cooling-off for all Continental European markets, as well as clarifies the methodology regarding how the cooling-off period is considered.
Continental Europe	Compensation Guidelines	The guidelines have been rearranged and updated to adapt to and reflect the European legal framework on remuneration-related proposals. Two sets of guidelines are established: one on remuneration policy and one on remuneration reports, mirroring the UK/Ireland benchmark voting policy.
Middle East and North Africa	Shariah Supervisory Board Elections	The one-year transitional period has passed; the policy will now be in effect.
Russia & Kazakhstan	Non-Contested Director Elections	This policy change codifies the established practice toward majority voting rather than cumulative voting and incorporates the existing policy framework from the EMEA Regional Policy to Kazakhstan.
Asia- Pacific		
Philippines	Overboarded Directors	Removes transitional language.
Malaysia	Gender Diversity	Aligns ISS policy with Malaysian regulatory requirement.
China	Employee Stock Purchase Plans	Specifies the definition of "market price."

Hong Kong & Singapore	Director Independence Classification	The update in the policy language will provide clarification when determining the independence classification of directors who have provided (or a relative provided) professional services to the company or its affiliates by specifying that the provision of services during the most recently concluded financial year under review will be the basis of director classification.
Hong Kong & Singapore	Equity Compensation Plan Sources of Shares	The update in the policy language will provide clarification when applying the dilution limit for equity incentive plans of the company. The update specifies that the limit will apply whether the source of shares under the plan is newly issued or existing issued shares of the company.
Hong Kong	General Issuance Mandates	This update clarifies that the share issuance limit of 10 percent and the discount limit of 10 percent should apply for issue of new shares for both cash and non-cash consideration.
India	Removal of Separation of Roles	The requirement to separate the roles of Chair and CEO has now been omitted by the SEBI (Indian regulator) and this is now reflected in the policy.
India	Director Profiles	Adds the following potential reasons for not recommending support for the election of directors: insufficient information about the nominees' qualifications and evidence that the nominee lacks the appropriate qualifications or experience.
India	Amend Articles of Association	The change elaborates further on ISS guidelines surrounding the issues surrounding amending Articles of Association.
Japan	Gender Diversity	Removes transitional language.
Taiwan	Related Party Transactions	The revised policy adopts a case-by-case approach when recommending a vote on Related-Party Transactions, similar to the approaches used for peer markets such as China and Hong Kong.

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