Kingsdale Governance Advisory Update

November 6, 2023

ISS Publishes Results of 2023 Policy Survey

On October 31, Institutional Shareholder Services ("ISS") unveiled the results of its annual global benchmark policy survey that the proxy advisor conducted this summer with market participants to inform its voting policy development.

ISS said it expects to release key draft policy updates this month and open a public comment period on key proposed changes for its voting policies. The policy updates will be announced in late November or early December and will become effective for shareholder meetings taking place on or after February 1, 2024.

It is pertinent for public companies to closely monitor the evolution of proxy advisors' proxy voting policies as their voting recommendations both inform and guide the voting practices of many institutional shareholders.

The survey results are both global and country specific. Kingsdale has focused our analysis on findings that are either global or relevant to our corporate clients in North America. The respondents were a mix of investors, companies and corporate-affiliated organizations. Our summary highlights the views of investors, who are the main users of ISS' proxy voting policies.

Results of ISS' 2023 Global Benchmark Policy Survey

Below are Kingsdale's key takeaways from the results of ISS' 2023 Global Benchmark Policy Survey[1].

U.S. Compensation – Non-Generally Accepted Accounting Principles (GAAP) Incentive Pay Program Metrics

- 60% of investor respondents said that companies should always disclose a line-item reconciliation of non-GAAP adjustments to incentive pay metrics in the proxy statement, while 35% stated that disclosure is only needed when the adjustments significantly impact payouts and/or where non-GAAP results significantly differ from GAAP payouts. Only 1% of investor respondents say that such disclosure should not be routinely expected.

Currently, many U.S. companies do not disclose a line-item reconciliation of non-GAAP to GAAP for incentive program metrics in the proxy statement, but there is growing demand by investors to disclose line-item reconciliation in order to make an informed assessment of executives' incentive pay.

[1] Note: There were 455 respondents, of which 239 were investors. The majority of investors are asset managers, with 62% of investor respondents managing US$10 billion or more. Some investors did not respond to all questions.

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Director Independence Classification: Professional Services

- 51% of investor respondents found it appropriate to treat a director as non-independent due to a family member's employment by a firm and close to 40% said that a director or his or her family member's employment by a professional firm does not raise concerns as long as the director or family member is not involved in the provision of services to the company and does not supervise employees who are involved.
- Only 25% found that the policy was appropriate, but that the threshold for the "*de minimis*" (currently $10,000 per year in the U.S.) amount should be increased.

Cross Market Companies/FPI Policy

Companies listed on U.S. markets that qualify as Foreign Private Issuers (FPIs) are permitted to follow the governance and disclosure rules of their "home market," which is defined as the country of incorporation rather than the operational headquarters. ISS' benchmark policy governance standards that apply to the secondary or dual primary market are sometimes, though not always, more stringent than those that apply under the FPI Policy.

- 49% of investor respondents supported companies adding a dual primary listing on a non-US exchange should be analyzed under the benchmark policy applicable to the new dual listing market's country of coverage instead of ISS' FPI Policy. 28% did not support it and 23% of investors who responded "It depends" strongly supported analyzing companies with dual listings under the most stringent policy.

Global Environmental & Social Topics

ISS requested feedback on the consistency of its current policy guidelines worldwide and the extent to which market-specific considerations should be incorporated into policy applications for various environmental and social (E&S) topics. This included a potential policy adjustment for each of ISS's "climate disclosure pillar" assessments, as well as the overall assessment. The survey posed questions regarding the global uniformity of principles and policy applications, materiality assessments, and climate transition strategies/plans, including "Say on Climate" votes.

Over 50% of investor respondents were in favour of ISS benchmark policy aiming for global consistency on principles and policy applications for climate, biodiversity, and human rights, and over 30% would prefer global consistency on principles and market specificity on policy application.

- 44% of investor respondents supported that materiality assessments should include the company's expected impact on the environment and society, as external factors can be expected to impact the company's financial performance in the medium- to long-term.
- 95% of investor respondents took the view that it is appropriate for investors to expect companies to provide disclosures and actions on their oversight of risks.
- 54% of investor respondents considered boards of companies classified as high emitters of greenhouse gases (GHGs) to be materially failing in their risk oversight responsibilities if there was not adequate

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disclosure for each ISS climate disclosure pillar – specifically "Governance," "Strategy," "Risk Management," and "Metrics and Targets".

Say On Climate Votes (Climate Transition Strategies/Plans)

- 75% of investor respondents deemed the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and the Science-Based Targets initiative guidelines (SBTi guidelines) as relevant when evaluating a company's climate transition plan. The CA100+Benchmark and the CDP (formerly the Carbon Disclosure Project) also garnered strong support, with 62% and 60%, respectively.
- 22% of investor respondents supported a stricter approach to climate transition plans for companies that operate in high-impact sectors (e.g., energy, utilities, transportation, cement, aluminum, steel, chemicals).
- When assessing climate transition plans, three-quarters of investor respondents indicated that they would perceive the absence of information or limited quantified information on actions to reduce GHG emissions as very negative. The criteria that received the lowest relevance from investor respondents was whether the company had committed to resubmit its climate transition strategy or provide progress on its strategy for a future shareholder vote.
- 61% of investor respondents responded that the 1.5-degree scenario was the acceptable level for target-setting purposes for a company's GHG emission reduction target-setting purposes.
- Regarding GHG emission reduction targets within a company's climate strategy, over 80% of investor respondents anticipated a climate transition plan should incorporate mid-term Scope 1 & 2 targets and over three-quarters expected to see mid-term intensity or absolute Scope 3 targets. Nearly 90% expected to see long-term, absolute Scope 3 targets (where relevant) and 40% expected to see short-term Scope 3 targets.
- 65% of investor respondents would consider whether the targets have received science-based validation when evaluating the quality of targets in company's climate transition plan.
- Regarding capital expenditures-related ("CapEx"-related) factors when assessing a company's climate transition plan, 80% of investor respondents strongly preferred it when the company had explicitly indicated that it had phased out or was planning to phase out capital expenditures on new unabated carbon-intensive assets. Additionally, 79% stated that they applied the same or similar criteria for evaluating management say-on-climate plans and related shareholder proposals.
- 56% of investor respondents rated easing GHG emissions reduction targets after the approval of the company's climate transition strategy as the most negatively perceived factor when assessing climate transition progress reports.
- In light of the recent increased politicization of ESG risk disclosure, 85% of investor respondents responded that they would not be tolerant of a company's reduction in transparency. Some respondents did acknowledge that they might show some flexibility if disclosing sensitive information could potentially result in financial harm for the company.

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ISS E&S Shareholder Proposal Analysis

- 62% of investor respondents rated the summary of the request and proponent and board statements as "most helpful" of an ISS E&S shareholder proposal. Other parts ranked in the order of "helpfulness" were Summary of related company disclosures, actions and partnerships; Peer comparisons; Related controversies and media attention; Background information and Summary of additional filings from proponent and/or company.

If you have any questions about this update, please feel free to contact Kingsdale's experts listed below to discuss directly.

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