Kingsdale Governance Advisory Update

October 11, 2024

ISS Publishes Results of 2024 Policy Survey

On October 10, 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 in the coming weeks 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, 2025.

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

The survey results are national, regional, and global. 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' 2024 Global Benchmark Policy Survey

Below are Kingsdale's key takeaways from the results of ISS' 2024 Global Benchmark Policy Survey[1] .

U.S. Poison Pills

- 52.25% of investor respondents said that a board's adoption of a short-term poison pill (also known as "shareholder rights plans") to defend against an activist campaign is generally not acceptable, while 22.47% found it acceptable.
- 39.31% of investor respondents took the view that it is inappropriate for a board to set the trigger threshold of a short-term poison pill below 15%.
- 59.12% of the investor respondents considered the inclusion of a "qualifying offer clause" important, while 52.05% of the non-investor respondents considered this feature "sometimes important", depending on the trigger threshold and other terms of the pill.

[1] There were 325 respondents, of which 199 were investors. The majority of investors are asset managers, with 75.37% of investor respondents managing US $1 billion or more. Some investors did not respond to all questions.

U.S. Executive Compensation

- 43.10% of investor respondents supported the continuation of ISS's current policy regarding pay-for-performance which considers a predominance of time-based equity awards to be a negative factor, irrespective of whether such awards have extended vesting periods (i.e. longer than four years), while 31.03% of investor respondents favored a revision of the current approach whereby time-based equity awards with extended vesting periods would be considered a positive mitigating factor, similar to performance-based awards.

- 66.04% of investor respondents who favoured a revision of the current approach supported the vesting period over at least five years, while 24.53% supported it over at least seven years.

- 67.74% of investor respondents supported a post-vesting holding period requirement for ISS to view time-based awards as a positive mitigating factor in the context of a pay-for-performance misalignment.

- 51.98% of investor respondents viewed the largely discretionary annual incentive programs, such as those adopted by some large financial sector companies as problematic, even if the program structure is consistent with industry and/or peer practice.

- 69.09% of investor respondents stated that ISS should not consider a different approach towards award structure or quantum of distribution representing profits from managed funds, particularly in niche industries such as alternative asset managers, and should continue to analyze as it would for regular incentive pay, while 21.21% supported a different approach.

Global Environmental & Social Questions

ISS sought general views on global environmental and social topics, regarding the disclosure of Scope 3 greenhouse gas (GHG) emissions reduction targets, climate-related shareholder proposals and metrics, and existing disclosure practices on workforce diversity.

- 47.67% of investor respondents supported the disclosure of companies' Scope 3 GHG emission reduction targets. 21.76% supported the disclosure of reduction targets for companies for which Scope 3 emissions are significant in their carbon footprint, while 2.07% only supported the disclosure of emission targets for high-emitting companies.

- 33.44% of investor respondents do not view climate-related shareholder proposals as overly burdensome and tend to support them if shortcomings are identified in the company's current approach. 15.31% of investor respondents stated that they were less likely to support shareholder proposals when the technology necessary to achieve full value chain Net-Zero goals is not yet competitive.

- 22.14% of investor respondents supported Racial/Ethnic and Gender Representation Data (such as EEO-1 data in the U.S.) for different categories of positions across an organization as the most relevant metrics/disclosure for the analysis of human capital management shareholder proposals, while 19.24% supported board oversight of the human capital management issue raised in the respective shareholder proposal. 14.34% of investor respondents supported adjusted Gender Pay Gap Disclosure accounting for factors such as job role, education, and experience.

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

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