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2024 Global Proxy Season Wrap-up Note

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This note is based on the contents of the ISS 2024 Global Proxy Season Wrap-up Report podcast, released June 20, 2024

INTRODUCTION

This recap of the main 2024 global proxy season covers the main Americas, Europe and Asia proxy seasons over the last few months, looking at interesting trends, new developments and key meetings of interest. The note also highlights some markets that are still in season, and India where main season is upcoming.

North America

U.S. Executive Compensation

After years of record low average vote results each year since U.S. companies began giving say-on-pay votes in 2011, say-on-pay support levels have so far increased in 2024. Through the end of May for companies in the S&P 500 Index we saw an average of 90.2% support for say-on-pay proposals, which is above the average of 89.5 percent support by this time last year. Across all US indices, there has been an approximately 91.4% average support rate, up from 91 percent year-over-year.

As of the first week of June 2023, median CEO pay for the S&P 500 (the pay that was voted on at this year's say-on-pay proposals) was \$15.6 million, which is approximately an 8.3 percent increase compared to the median pay figure at this time last year which represents a record high. It's worth noting that FY2022 median CEO pay at S&P 500 companies dropped for the first time since 2015, so an increase from the prior year's dip is not particularly surprising.

Failed U.S. Say-on-Pay Votes

An even more glaring trend we are monitoring is the sharp drop in say-on-pay failure rates this proxy season. There was a record number of failed say-on-pay votes at S&P 500 companies during the 2022 US proxy season. In 2023, the failure rate dropped significantly, with only 9 S&P 500 companies receiving less than 50 percent support through the first five months of the year. Thus far in 2024, only 3 companies in the S&P 500 Index failed to receive majority support for their say on pay proposal. While June meetings results have not yet been fully tallied, so far the 2024 failure rate marks the lowest say on pay failure rate dating back to the inception of mandated say-on-pay in 2011.

Interestingly, we are not seeing a similar drop off in the number of companies receiving less than 70% support for their say-on-pay proposal this year, which remains at a similar level to 2023. Only 2 fewer S&P 500 companies received less than 70 percent support compared to this time last year, and we are seeing a similar trend across all US indices. These figures include companies that failed to get majority support for the proposal, which indicates that a *greater* number of S&P 500 companies received between 50 and 70% support for their say-on-pay proposals compared to the prior year, even though the failure rate is lower.

One potential reason for the record say-on-pay failure rates in 2021 and 2022 was investor dissatisfaction with atypical pay program decisions companies made in response to COVID-19-related impacts. This was a non-issue in 2024 as nearly all companies have returned to a pre-pandemic pay program structure. We have also noticed that many compensation committees appear to be doing a better job at addressing investor concerns and clearly communicating responsive actions in their disclosures following a prior low say-on-pay vote result. It is worth noting that we are now more than a decade into mandated say-on-pay votes and many companies have been tasked with demonstrating responsiveness to low vote support at least once. Familiarity with the process is one possible factor in the perceived improvement in board responsiveness.

We have also observed a positive trend with respect to better pay program disclosure generally. More than ever, companies are providing more meaningful disclosure surrounding the rationale for certain pay decisions that can reasonably be anticipated to be met with investor scrutiny, such as lowering annual incentive target goals or granting off-cycle retention awards. Detailed and compelling rationale disclosures may be the difference between an investor supporting, or voting against, the say-on-pay proposal. Improved disclosure may also explain the reason that we are not seeing the same drop in proposals that receive less than 70% support compared to what is on track for a record-low failure rate. Some investors may consider a company's rationale for a questionable pay decision compelling and support the proposal, while others may not, and improved disclosure may be the difference between a proposal that fails and one that passes, even with significant shareholder opposition.

U.S. Compensation-related Shareholder Proposals

The number of shareholder proposals seeking shareholder ratification of severance payments has declined in 2024. Last year we had observed an increase to a record high of 39 of such proposals, two of which received majority support. The number of shareholder severance proposals declined this year to 29 and so far none of the proposals have received majority support.

U.S. Governance-related Shareholder Proposals

The volume of governance-related shareholder proposals at U.S. companies fell once again year-over-year, from 182 last year to 168 this year. Traditional retail shareholder proponents continued to diversify away from core governance centric proposals. While some proponents raised novel governance topics this proxy season, these proposals were not widespread.

As highlighted in the Bulletin Note released on May 2, 2024, after several years of mostly repeat governance-related shareholder proposals, two new types of governance shareholder proposals have emerged in 2024, one seeking to require shareholder approval of director pay, and another seeking mandatory resignation of directors who fail to win majority support. Neither of these proposals did particularly well this year. However, the perennial favorite governance topics, such as board declassification and elimination of supermajority vote requirements, still have appeal to investors. While proxy season 2024 voting statistics have not been finalized, average support rates for governance-related shareholder proposals and the number of majority-supported proposals have both shown significant increases compared to last year. One factor in the increased support seems to have been that

proponents such as John Chevedden have changed their portfolios and are targeting companies that they previously had not targeted. Some of the companies where shareholder proposals to eliminate supermajority vote requirements were approved include **Analog Devices**, **Sherwin-Williams Company**, **Tesla** and **Akamai Technologies**, where the proposal was supported by more than 90 percent of votes cast despite the board's opposition. Board declassification shareholder proposals were approved at **Meritage Homes**, **Tesla** and **Monolithic Power Systems**.

U.S. E&S Issues and Shareholder Proposals

2024 is shaping up to be another record year for the number of E&S-related proposals. Overall, the number of environmental and social shareholder proposals has continued to increase, including the number that can be broadly defined as "Anti-ESG" or "E&S skeptical," which in general continue to receive low support. Average support level for all E&S proposals has continued to decrease, although there are subcategories where support has remained strong.

There have been only three majority-supported environmental and social shareholder proposals so far this year, down from a high of 33 at this time in 2021 (and 39 for the full year), and down from 8 majority-supported proposals in 2023. The average support rate for all environmental and social shareholder proposals in the U.S. was 16 percent, down from over 30 percent in 2021 and 18.7 percent last year.

We continue to see a growing number of proposals on a wide variety of topics. ISS is tracking over 600 proposals filed and 387 on ballot, or 64 percent. To date, 28 percent of E&S proposals were withdrawn, and 6 percent were allowed to be omitted. More proposals were in fact filed last year, but with fewer withdrawn and omitted, the number on ballot this year was the highest on record.

It is likely due to the proliferation of E&S proposals that we are continuing to see lower support rates. With the growth in the number of proposals, there has been a decline in the quality of proposals where more proposals appear not to be grounded in evidence of risk or value to the company. With sharply negative rhetoric around the materiality or fiduciary relevance of certain corporate actions taken to improve workforce diversity or operate in a more sustainable manner, there has been strong growth in the number of shareholder proposals that many investors appear to think are frivolous, not productive, or not based in fact. The number of shareholder proposals that received five percent shareholder support or less has grown from about 15 percent in 2021 to about 25 percent so far in 2024.

U.S. E&S-related Proposal Focus Areas in 2024

The most common E&S-related shareholder proposal topics continue to be in the areas of climate change, political spending/lobbying, human rights, diversity, equity, and inclusion (DEI), and health/safety. However, we are seeing new requests within those topics and a few new subjects are emerging as well.

Climate Change Shareholder Proposals

The most popular climate proposal types filed and on ballot continue to be requests for the company to disclose emissions and to adopt and disclose GHG emission reduction targets. Two of the three majority-supported proposals were this type (at **Jack in the Box** and **WingStop**). There were a growing number of proposals filed asking for a climate transition plan, which is an action plan where a company describes its targets and strategies to transition its operations to meet its public climate commitments within a specified timeframe. Only two of these got to the ballot (13 proposals were withdrawn). Official reasons for withdrawal are not always provided. In some cases, proponents may have determined that they would not get strong support and in others the company may have made commitments that satisfied proponents. The court action taken by **Exxon** to allow it to omit shareholder proposals outside of the SEC's shareholder proposal process may also have had an indirect impact (which is discussed in more detail below). Vote results show that shareholders tended to support requests for more disclosure about a company's climate lobbying efforts, both directly from the company and indirectly through trade associations and other organizations.

A new shareholder proposal this year was a request at several financial institutions for a report on their clean energy supply financing ratio. Vote support ranged from 21 percent at **Berkshire Hathaway** to 28.8 percent at **Goldman Sachs**. Several bank peers came forward and made commitments to disclose this statistic going forward which added momentum to the campaign.

We also saw a few requests for companies to disclose more information on how they intend to protect their workforces and reduce community impacts as they transition away from fossil fuels. Although often not in the format requested by the proponents, some companies have begun to disclose some information about workforce protection and re-education that will likely be useful as the economy evolves.

From so-called "anti-ESG" or climate-skeptical proponents, there was a rise in requests for companies to report on risks that the proponent argued arose from a company's voluntary commitments to reduce its carbon emissions. These generally received low support (well under 5 percent).

Diversity, Equity & Inclusion (DEI) Shareholder Proposals

2024 saw a backlash against "DEI" programs in politics and the media, and we saw evidence of that in shareholder proposals as well. The number of requests for companies to conduct racial equity audits was dramatically down from previous years – there were only five on ballot in 2024, down from 27 in 2022.

In the wake of the Supreme Court decision in the *Students for Fair Admissions v. Harvard* case that found that race-based affirmative action was unconstitutional, there were a number of shareholder proposals concerned with potential discriminatory effects of affinity groups and other company actions taken to promote inclusivity to minority groups. These almost all got under 5 percent support. There were also several proposals asking for companies to report on efforts to avoid discrimination against those with certain conservative political and religious views. These often asserted that companies' policies against hate speech were vague and could be used in a discriminatory manner, although they

failed to provide evidence, beyond anecdotes, of that happening. Investors did not tend to support these proposals.

Requests for increased disclosure about median gender and racial/ethnicity pay gaps remained numerous and fairly strongly supported, although none received majority support. Such a request at **American Tower Corp** came very close to majority shareholder support, with over 49 percent support. Average support for this kind of proposal was 29 percent. Requests for increased disclosure about the effectiveness of a company's DEI efforts were similarly relatively strongly supported.

Political Spending Disclosure Shareholder Proposals

In terms of political disclosure, the requested topics were similar to those we have seen in the past. There were a few proposals asking companies to disclose information about the political congruency of their spending with stated corporate principles, but these have waned as the amount of time has lengthened from the January 6, 2021, violence at the Capitol. Whether we see this category grow or continue to decrease likely depends on how the US election in November and any resulting actions play out. Proponent requests for greater disclosure in terms of political contributions and lobbying expenses remain strong and have been fairly strongly supported.

Emerging Risks Related to Technological Innovation

ISS is currently tracking a growing number of shareholder proposals concerned with risks related to Artificial Intelligence (AI), from how the use of AI may impact the workforce to how it may foster misinformation and further distrust of expertise and institutions.

Proposals asking for a report on the use of artificial intelligence were seen at entertainment companies **Netflix**, **Warner Brothers Discovery**, and **Paramount**. It was withdrawn at **Disney**. At tech giants **Meta**, **Alphabet** and **Apple**, a proposal asked for a report on risks related to AI-generated disinformation. Apple announced that it would disclose AI plans after that proposal received over 30 percent support. Meta and Alphabet both have share structures with unequal voting rights, so those proposals appear to have weak support, but a look only at the vote results from independent investors show that they tend to get pretty strong support from them.

Exxon Mobil

Exxon sued two shareholder proponents, Follow This and Arjuna Capital, in federal court to exclude from its ballot a proposal asking it to adopt Scope 3 targets. The company did not follow the usual SEC No Action process because it stated that it believes that the SEC is not properly enforcing the shareholder proposal rules. The proponents withdrew the proposal and pledged not to file it again, but Exxon did not withdraw its case. The court recently ruled that the case against the U.S.-based proponent Arjuna Capital could proceed. If the case is successful, some observers fear that Exxon and other companies will use that ruling to block more shareholder resolutions and that the threat of litigation will suppress some proponents from filing proposals in the first place.

At the Exxon shareholder meeting held in late May, as noted above, directors continued to receive fairly strong vote support, showing that most shareholders did not use the director election process to disagree with the company's use of this tactic to suppress shareholder proposals. Director support varied though, and ranged from 87% to 98%, with directors targeted by Vote No campaigns because of the court case receiving lower support rates. It is also unclear whether some investors have adopted a wait-and-see approach. We will have to wait to see what kind of effect this lawsuit may have on shareholder proposals in 2025. If Exxon is successful, it is likely to diminish filings especially at energy companies related to climate change emission targets and transition planning, with proponents deterred by the threat and risks of litigation.

Delaware Court Decision

The Delaware Chancery Court recently invalidated a stockholder agreement at **Moelis & Company** that was deemed to impermissibly infringe on the board's authority. For example, it not only gave the founder the right to designate a majority of the directors, but required the board to recommend that shareholders support those directors in all cases. It also required the board to obtain the founder's prior approval for a wide variety of transactions, including dividend payments and appointment of officers. In response to this ruling, the Delaware legislature is working on an amendment to the Delaware General Corporation Law that would not only overturn the Moelis ruling, but enshrine the board's freedom to limit its powers through such agreements without input from shareholders other than the parties to the agreement. This prompted a group of 57 corporate law professors to write to the Delaware legislature urging caution; with some signatories pointing out that most stockholder agreements are not with company founders, but with activist shareholders. However, the Delaware Senate has ignored the warnings and pushed ahead; and the House is likely to do the same. Delaware companies are not expected to seek shareholder approval of charter amendments or other items related to this potential change to Delaware law, but we will continue to monitor developments in this area.

High-Profile U.S. Meetings

Norfolk Southern had proxy contest in which dissident Ancora Capital nominated seven directors to the 13-member board. Shareholders ended up electing three of the dissident nominees, although CEO Alan Shaw, who was one of the incumbent directors targeted by Ancora, kept his seat. The company also lost its say-on-pay vote, in one of the highest-profile say-on-pay defeats of the season.

Directors at **Boeing** were all re-elected, but David Joyce, the chair of Boeing's Aerospace Safety Committee, was opposed by about a third of votes cast, and lame-duck outgoing CEO David Calhoun was opposed by 22 percent. Boeing's say-on-pay vote received just under 64 percent support.

At **Exxon**, Chairman and CEO Darren Woods and lead director Joseph Hooley were targeted in a Vote No campaign due to Exxon's decision to pursue a lawsuit against shareholder proponents, even after withdrawal of their proposal, rather than simply challenging their proposal at the SEC. Woods received 91.6 percent support and Hooley 87.1 percent, which was below the other directors' support in the mid-to-upper 90s, but not at a level that seems likely to make Exxon re-think its approach. Although the

court dismissed the case with respect to one of the defendants, Follow This, due to lack of jurisdiction, the case against Arjuna Capital remains active.

Tesla shareholders voted to ratify Elon Musk's 2018 stock option award that had been struck down by a Delaware judge, as well as the company's reincorporation from Delaware to Texas. The stock option award to Musk, which had a grant value of \$2.6 billion, was originally approved by shareholders in 2018. Since the award was granted, the options have been fully earned (though not yet exercised), Tesla's stock price has grown exponentially, and the award is currently valued at over \$50 billion. The primary reason the board sought ratification of the award was to address what the Delaware court determined to be disclosure deficiencies and a lack of effective board independence from Elon Musk when the award was originally approved by shareholders. It appears the Tesla board's arguments for ratification were sufficiently compelling for many shareholders, as the proposal received majority support, though there are many legal uncertainties remaining. It is unclear how the Delaware court will factor in the shareholder ratification following its earlier decision to strike down the award, or how the reincorporation into Texas may impact such proceedings.

Lastly, **Paramount Global** held its annual meeting against the backdrop of a potential sale of the company. Paramount's controlling shareholder, Shari Redstone, was thought to favor a deal with Skydance Media, who would purchase Redstone's controlling stake, held through National Amusements, but leave Paramount as a public company. However, some Paramount shareholders preferred a potential bid from **Sony** and **Apollo Global Management**, which expressed an interest in buying Paramount outright in an all-cash deal. A few weeks before the meeting, after the proxy had already been released, the company announced that CEO Bob Bakish, previously thought to be a close ally of Redstone, would step down as CEO in what the company treated as a termination without cause; leaving the company to be run by a three-person "office of the CEO." This leaves the board with only six directors, as four other directors did not stand for reelection. Some sort of sale process appears to be continuing, though Sony was reported to be rethinking its offer and several new potential bidders have emerged. Although Skydance was reported to be considering giving minority shareholders the chance to cash out at a premium, any transaction that leads to unequal treatment of Redstone and the minority shareholders is likely to lead to litigation – and some news reports have suggested that the talks with Skydance fell apart due to Redstone's insistence on being indemnified from any such lawsuits. Not coincidentally, Paramount proposed at the annual meeting to extend its exculpation provisions to cover corporate officers. However, that proposal would not impact Redstone, who is not an officer.

Canada

Canadian Shareholder Proposals

There was an influx in shareholder proposals that made it to a vote this year in Canada, after a temporary dip in 2023. While the total number of shareholder proposals voted on increased, this year also marked a record number of withdrawn proposals for the last five years, indicating a high level of engagement between Canadian companies and proponents.

The total number of shareholder proposals requesting say-on-climate votes that made it onto the ballot almost doubled since 2023. While in previous years this proposal primarily targeted the major Canadian banks and some other financials, the universe of targeted companies was extended this year to include non-financials like **AtkinsRealis**, **Bombardier**, **Cascades**, **Quebecor**, and **Saputo**. However, average vote support for this proposal dropped from approximately 19 percent in 2023 to 13 percent in 2024 so far, with the highest vote support of 20.3 percent at **IA Financial**. Average vote support at Canada's major banks was approximately 16 percent.

The only shareholder proposal that received majority support this year was a request for companies to hold in-person annual meetings, with virtual meetings as a complement. This proposal was voted on at the annual meetings of 13 companies and received majority support at seven of those companies. Four of the six companies where the proposal did not receive majority support are controlled companies. However, despite that, total average shareholder support for this proposal was approximately 42 percent.

Lastly, we continued to also see so-called anti-ESG shareholder proposals in Canada this year which mostly took the shape of disclosure requests, which were largely intended to be critical of climate, DEI, or other corporate E&S-related initiatives. Vote support for these proposals remained low.

Executive Compensation in Canada

Executive compensation and company performance seem to be in better alignment this year at many Canadian companies. Nevertheless, say-on-pay resolutions at two companies failed to garner majority support so far. The vote result at **First Majestic Silver Corp** was a particularly close one, with 49.2 percent of shareholders voting in favor of the say-on-pay resolution. Shareholders also seemed to indicate dissatisfaction with the company's compensation structure by casting only 57 percent of vote support for the compensation committee chair.

Other noteworthy cases are **GFL Environmental** and **Shopify**. At GFL, the say-on-pay resolution garnered 64 percent vote support; however, excluding shares held by Dovigi Group and BC Partners, the company's two largest shareholders in terms of voting power and parties to an investor rights agreement, remaining vote support for the resolution was about 28 percent only. At Shopify, the say-on-pay resolution received 69 percent vote support. In this case, excluding the founder/CEO's over 40 percent voting power, 61 percent of the remaining shares were cast against the say-on-pay resolution.

Agnico Eagles Mines Limited has been on investors' radar since its failed say-on-pay resolutions over the two prior years. This year, the company's say-on-pay resolution received 96 percent vote support. The shift in shareholder sentiment occurred as the company incorporated certain changes to its compensation and governance structures following an extensive outreach effort in 2023 with some of its largest shareholders. These changes include the adoption of a policy of not paying special cash bonuses or one-time cash bonuses to executives; the elimination of option grants for executives at VP level and above; and a change in the compensation committee chair.

High-Profile Canadian Meetings

Gildan Activewear was one of the most talked about meetings in Canada this year. The entire incumbent board resigned prior to the meeting, indicating that shareholder support for the dissident slate, including the former CEO, was probably overwhelming based on pre-meeting vote indicators. Glenn Chamandy was reinstated to the board with approximately 84 percent vote support, while the seven other dissident nominees received vote support ranging from 83 to 99 percent. It appears to be the most consequential outcome since the 2012 proxy fight at **Canadian Pacific Railway**.

It also may have been the most expensive proxy contest in Canadian history, with severance payments to outgoing board members and two executives, costs incurred from the company's sale process which was later scrapped, as well as legal costs that include a pair of lawsuits launched by Gildan against Browning West, a five percent shareholder of the company that led to efforts to replace a majority of the company's board of director. These lawsuits were later dismissed.

Latin America

Overview of Proxy Season in Latin America

2024 saw a continued trend of improving disclosure in the Latin American region. Although not a significant concern in Brazil, investors in the other Latin American markets have historically faced a challenging landscape due to the lack of timely disclosure of board nominees prior to shareholder meetings. However, in recent years, we have seen steady and sustained improvements, and 2024 continued this trend, as approximately 47 percent of companies with full board elections published the names of their proposed director nominees in a timely manner this year, a notable increase over the 41.8 percent that did so in 2023. Also worth mentioning is that for the first time, Mexico, the second largest market in the region, saw more than 50 percent of the companies covered by ISS providing timely disclosure this year.

Furthermore, meeting concentration in the region continues to worsen. Overall, through April 30, ISS covered 845 meetings during the 2024 proxy season, which was largely unchanged in number over last year. However, the proxy season continues to become concentrated, illustrated by the two largest markets. In 2024, approximately 66 percent of all Brazilian meetings took place during the final four business days of April, up slightly from 65 percent in 2023. And in Mexico, 53 percent of meetings took place in these same four days in April, a significant increase over the 44 percent of meetings seen in Mexico for the same period in 2023. The ongoing trend of increasing meeting concentration is a concern for investors as it forces them to review, analyze, and vote in a higher number of meetings during a very short window towards the end of April.

Director Remuneration Policy in Latin America

2024 was the first year of the full implementation of ISS Benchmark's new director remuneration policy.

The updated policy, which became effective as of February this year states that companies that report paying more to their non-executive board chair than to their CEO will generally receive an against vote recommendation for their annual binding say-on-pay resolution, unless a compelling rationale is provided.

In 2024, 15 Brazilian companies that fell into this scenario were identified, and only one of them, retail company **Lojas Renner**, which is going through a succession process, provided a compelling rationale for its pay structure. Thus, there were 14 Brazilian companies that received an AGAINST vote recommendation for their say-on-pay binding resolution due to the new policy.

While this problematic pay structure is not a widespread practice in Brazil, it is nonetheless concerning as these highly compensated non-executive board chairs are oftentimes the controlling shareholders and/or the companies' founders.

High-Profile Latin American Meetings

Probably the most high-profile meeting this proxy season was that of **Petrobras**, the Brazilian state-run oil company, which held its AGM on April 25. Once again, the company had a contentious board election, with 14 nominees presented for 11 board seats; minority shareholders presented five candidates and were able to elect four independent directors. The remaining seats were elected by the company's controlling shareholder, the Brazilian federal government.

Aside from the high number of candidates, one contentious issue regarding the election of directors was the eligibility of certain management nominees. Four of the eight candidates nominated by the controlling shareholder were political appointees in the government and another served in the national directory of a political party; all five were elected.

On May 15, 2024, shortly after the contested election, Petrobras' board announced the "negotiated early termination" of the company's CEO and board member Jean Paul Prates, as Brazilian president Luiz Inacio Lula da Silva sought to appoint new CEO Magda Chambriard. The changes in the administration continued to illustrate the concerns with the governance of state-owned enterprises in Brazil.

Europe

European Executive Remuneration

Remuneration was once again a notable theme of the 2024 European proxy season. Overall, improvements in disclosure following implementation of the SRD II have somewhat stagnated in some markets. Information on remuneration policies and practices often lag behind acceptable standards, especially in smaller or less mature markets. Many companies in these markets continue to provide limited retrospective details on variable pay, and disclosures related to remuneration policies and the policy approval vote often remain very generic.

In more developed markets, disclosure is generally better – although that is not always the case – and the inclusion of ESG performance criteria in short- and long-term incentive schemes has become

increasingly common, though the appropriateness of the underlying targets has often raised questions. On balance, major shifts in executive pay practices were not observed this year, except for pay raises in the wake of inflation or due to what companies consider the lack of competitiveness vis-a-vis US pay standards (the debate being similar in some European countries to the competitiveness debate in the UK that we noted at the start of the 2024 season).

Regarding non-executive pay, we have seen debate in several markets over what some companies and directors consider unappealing pay levels for non-executive or supervisory board-related duties. Many proposals to increase board fees have therefore been put forward, with the stated aim of closing the potential gap between the expanded time commitment and increased responsibilities of non-executive directors and their pay.

In France, remuneration policies subject to shareholder approval have come under intense scrutiny. Many issuers proposed to increase executive remuneration packages globally or partly (for example limited to the LTI plans). The supporting rationale was mostly based on inflation, impacting the general increase of employee salaries or a benchmarking process set by the companies' consultants. However, the rationales are not always considered compelling enough, notably owing either to a lack of public disclosure of the rationale, or repeated increases year after year without justification. Lack of support was also driven because the company's chosen benchmark was considered unbalanced as the chosen peers were either much bigger in terms of market capitalization or incorporated in markets where remuneration practices are very different.

There has also been a growing trend among issuers of non-compliance with the recommendations of the French corporate governance code (AFEP MEDEF code) to modify remuneration packages at relatively long intervals only.

Climate Change Matters in Europe

In the U.K., the most notable voting item was **Shell's** energy transition strategy, which was not supported by nearly 22 percent of shareholders, a high level of dissent for a company-proposed transition plan vote. The climate plan introduced an absolute Scope 3 target for 2030 but discontinued its 2035 net carbon intensity reduction target. The Company is yet to disclose the outcome of its shareholder engagement process.

In France, more issuers are linking executive remuneration with one or several environmental or climate-related criteria, in line with the recommendation of the AFEP-MEDEF code. However, an assessment of these criteria often show that the underlying targets are not challenging enough. Targets set for the upcoming financial year were sometimes below the levels achieved during the last financial year, almost guaranteeing their achievement.

With respect to climate-related proposals in France, there has been a decrease in management say-on-climate votes as only six French issuers proposed a vote in 2024 compared to nine in 2023. Two issuers nevertheless presented their climate strategies for a shareholder vote for the first time (**Gecina** and **Eramet**) and three have committed to provide an annual regular vote (**Amundi**, **Icade** and **TotalEnergies**).

No climate-related shareholder proposals were filed this year in France.

U.K. Executive Remuneration

There has been an ongoing debate since last year on the UK competitiveness of executive pay relative to US peers. Late last year, the so-called Capital Markets Industry Taskforce or CMIT called for what it called a resetting of UK corporate governance standards to ensure that they also consider UK competitiveness and economic growth. There have been no listing departures from the London Stock Exchange reported during the AGM season so far; but **Indivior** did move its primary listing to the US and there were rumours of a possible exit by **Shell**, which was later clarified by its CEO, saying that a listing move is currently not under consideration. **Ashtead** has also been reported to be exploring a move to the US.

At this time, no guidance has been published by the Financial Conduct Authority (FCA) or the Investment Association (IA) that directly addresses this competitiveness concern, which at least in part is argued to be linked to executive pay. Nonetheless, we have seen several UK companies revise their executive pay packages in an attempt to bridge what they consider to be a pay gap between the UK and US markets, especially for US-based UK company executives.

A handful of companies proposed to adopt hybrid incentive schemes which mix time-based restricted shares with performance-based incentive pay, and some of them received the highest dissent recorded in season to date. Restricted shares are not a new concept in the UK, but adopting both performance-based awards and restricted shares under the same executive pay framework is not at all common currently.

Smith & Nephew, for example, sought to introduce a restricted share model in addition to increasing its performance share award size. **Spirent Communications** also proposed to double its LTIP award size, with half being restricted shares. Both remuneration policies received approximately 43 percent dissent. **Hunting** and **W.A.G. Payment Solutions** also proposed to deliver half of their LTIP awards as restricted shares but maintained the same quantum, which seems to have been more palatable for shareholders, as these resolutions received far lower dissents of 15.4 percent and 3.8 percent, respectively.

There are also other companies, such as **Astrazeneca**, that instead sought to increase pay quantum whilst retaining their current market-aligned pay structures. In Astrazeneca's case, the proposed maximum LTIP of 8.5x salary was exceptionally high for the UK market. Its remuneration policy was approved but received relatively high shareholder dissent of approximately 36 percent.

Voting outcomes so far reflect shareholder hesitation in adopting hybrid incentive models but also that large pay increases can sometimes be supported by shareholders, ultimately depending on any specific justification provided by the companies. In this context, **London Stock Exchange Group** is worth highlighting. It has compared itself to US peers, even though it does not have US operations like many of the other companies previously mentioned. The Company proposed increases in both fixed pay and variable pay, which raised the CEO's total pay opportunity by approximately 108 percent. Its rationale was linked to its growth and transformation under the CEO's leadership. The remuneration policy received comparably lower dissent of 11 percent.

Other trends in UK remuneration relate to **Clarkson** and **Plus 500** which again received significant shareholder opposition in respect of their remuneration report resolutions. Clarkson continues to operate an uncapped annual bonus scheme and saw 43 percent dissent. Plus500's remuneration report failed to pass, with support of only 34 percent, owing to pay and performance alignment concerns.

These shareholder revolts at Clarkson and Plus 500 fed through to the re-election of their respective Remuneration Committee Chairs, with dissent of 38.1 and 28.4 percent, respectively. **The Gym Group's** remuneration policy also received a dissent of 22.7 percent after the Company proposed to combine its annual bonus and LTIP awards under one incentive scheme. Most recently, **Puretech** also reported dissent of 44 percent on its remuneration report, apparently largely due to the retrospective payment of substantial housing benefits to its executives.

Regulatory Updates in France

The French Parliament discussed during the first half of 2024 corporate financing regulation and Paris' attractiveness as a financial market. This resulted in the adoption on June 5, 2024, of a new law. The new legislation reduces minority shareholders' rights in a number of areas and appears as an example of a current "race to the bottom" on shareholder rights in Europe at the expense of minority shareholder interests in pursuit of so-called "market attractiveness." Specifically, the new law will allow multiple voting rights for issuers whose shares are traded on regulated or non-regulated markets; simplify capital increases often with limited or no shareholder approval or preemptive rights; grant the tribunal of commerce sole responsibility to decide whether shareholder proposals can be omitted by issuers; and update rules surrounding virtual-only meetings and the live broadcast of general meetings.

The law was adopted on June 5, 2024, and enacted on June 13, 2024. However, given the recent decision to call snap elections, its implementation may be put on hold.

Regulatory Updates in Italy

This has been the first proxy season since the approval in March of Italy's so-called "Capital Markets Bill". The new legal framework of the Capital Markets Bill has the main goals of stimulating the Italian IPO market as well as incentivizing investors to invest in companies listing in Italy. Similar to some other European countries (e.g., UK, France and Germany), the proposed legislation comes on the heels of a debate over the perceived shortcomings of the local capital markets and an asserted need to undertake a comprehensive reform to make the existing regulatory system more flexible and increase its attractiveness. This has already led to some regulatory changes further reducing some shareholder rights or their ability to hold boards accountable; for example, by increasingly allowing unequal voting rights throughout Europe.

The Italian Capital Market bill affects, among other things, rules on multiple voting structures, shareholder meeting participation, and board renewals. Changes in the first two areas of multiple voting structures and meeting participation, had a direct impact during the 2024 proxy season, with some companies introducing further unequal voting rights and distortions of the one-share, one-vote principle. The bill also introduced the possibility for Italian listed companies to permanently provide that participation in shareholder meetings and the exercise of voting rights can take place exclusively through a representative designated by the company. Although this meeting format provision was introduced to deal with the COVID-19 emergency, the bill also extended the application of the corresponding emergency legislation until the end of 2024, giving listed companies time to adopt it permanently via bylaw amendments. Most Italian companies adopted such meeting format during the

last proxy season, and some issuers proposed to amend their bylaws to incorporate the possibility to convene shareholders meetings behind closed doors also in future years. We have observed the trend to allow for virtual-only meetings in several other European countries, but this issue in Italy is unique and is even a step further to keep some shareholders away from an in-person engagement with management.

High-Profile European Meetings

As European proxy season comes to a close, on July 5, shareholders of the second largest Spanish bank, **BBVA**, will be asked to approve a share issuance to fund a 12-billion-euro hostile takeover bid for the smaller Spanish rival **Banco Sabadell**. A potential merger between the two entities may be the first step in further European banking consolidation, as advocated by European regulators and several other market players, citing the presence of too many banks and the largely nonexistent cross-border banking in Europe. Other lenders that could play a role in the consolidation process include blue chip players like **UniCredit**, **Deutsche Bank**, **Commerzbank**, **ING** or **UBS**. A consolidation would likely strengthen the European banking sector, though cross-border mergers seem difficult to implement in the absence of a real European banking union and considering localistic interests.

TotalEnergies' AGM was once again a high-profile meeting this year as the company proposed its fourth consecutive vote on its climate strategy and progress report. In addition, a coalition of investors led by the Ethos Foundation – and supported by the FIR - Sustainable Investment Forum – proposed to add an advisory resolution to separate the chair and CEO functions at the company. The board decided to reject this resolution arguing that:

- Firstly, the French legislation empowers the board as the sole corporate body able to choose between whether to combine or separate the chair and CEO functions.
- Secondly, according to the company, the French legislation may not explicitly allow shareholders to file for an advisory resolution.

The board then specified that it would not support advisory shareholder resolutions on any matter going forward, and suggested shareholders should instead propose non-voting items to trigger a debate at future AGMs. Later, the board slightly clarified its statement saying that it would still support the filing of shareholder resolutions that comply with applicable laws.

In response to the board decision, the co-filers decided to file an appeal with the Nanterre Commercial Court under the accelerated procedure. Eventually, the judge ruled that the draft resolution filed by the shareholders, even though only advisory, impinged on the board's prerogative to decide the combination or separation of the CEO and chair functions. However, the question remains as to whether the filing of other advisory shareholders resolutions comply with the applicable French regulation.

Second Half of U.K. Proxy Season

Looking ahead to the second half of U.K. proxy season, most retailers have or will hold their AGMs in June and July. There are no reports of these companies adopting a US-style remuneration package or proposing a climate resolution.

More broadly, ISS is tracking a few market events. Most immediate is the snap UK general election on the 4th of July. Current polls indicate a change in the governing party from the Conservatives to the Labour Party after 14 years of a Conservative Government. It will be interesting to see how changes to the parliament could impact the UK's capital market.

There are also the UK Corporate Governance Code and the QCA Corporate Governance Code for smaller companies, which have both been revised and will both take effect next year. As a quick review, the key changes to the UK Code relate to internal controls assurance and the emphasis of the 'explain' part in its 'comply' or 'explain' principle of Code application. Meanwhile, the revised QCA Code for smaller companies contains a number of new recommendations. Among others, it has specified that audit and remuneration committees should comprise at least a majority of independent NEDs and "ideally aim for full independence". The QCA Code has also for the first time included a list of factors that could potentially impair Non-Executive Director (NED) independence.

The UK's Investment Association is also expected to carry out a fundamental review of its Principles of Remuneration later this year. Lastly, the FCA's revised Listing Rules are expected to be finalised this year. The proposal includes the consolidation of premium- and standard-listed companies on the Main Market of LSE, among others. These changes will be reviewed as part of ISS Policy Development later in the year.

Asia-Pacific: India

India's Regulatory Agenda

The main regulator, the Securities and Exchange Board of India (SEBI), proposed several amendments in the last year to improve governance practices. The objective of the amendments was twofold: first to empower shareholders and second to increase access to information.

With respect to empowering shareholders, SEBI amended the Listing Regulation regarding special rights or arrangement between shareholders, which would impact the management or control of a company or create any liability on a company. Prior to this amendment, only a one-time shareholder approval was required for such special rights, such as at the time of listing. However, this recent amendment now requires shareholder review of such rights once every five years. And to increase access to information, if any such agreement is entered into by shareholders, promoters or senior management, a disclosure on the stock exchange is to be provided within 2 working days.

Listing regulations were also amended to get rid of board permanency. The Companies Act previously provided that some directors could hold a permanent seat on the board once appointed. To do away with such cases, the updated listing regulation requires shareholder approval for continuation of any director, at least once every five years. However, there are some exceptions to this regulation such as nominee of financial sector regulator, nominee of debenture trustee, nominee under a lending arrangement or appointed pursuant to a court order.

A mix of proactive measures to improve transparency are also being introduced by SEBI, such as introducing threshold based criteria for determining materiality of events and information to be disclosed on stock exchanges, requiring companies to disclose any fraud or defaults by the company or

subsidiary, promoter, director, or senior management including an arrest whether occurred within India or abroad, disclosure of communication from regulatory, statutory or judicial authority and verification of market rumors. Such regulatory measures to improve transparency are likely to continue in India into the future.

One of the major impacts this season stems from the amendment made to the Companies Act in 2014 capping tenure of independent directors at 10 years, two terms of 5 years each. The act was applied prospectively, which effectively reset the clock to tenure being counted from 2014. As this 10-year term cliff arrives, 1000 plus tenured independent directors are likely to retire, and a widespread board refreshment has already commenced. We have so far seen an increase of approximately 200 special meetings and volume increase of agenda items proposing appointment of fresh independent directors in 2024.

In line with changes in listing regulations, there is a small increase in items for approval of any existing arrangement providing special rights to a set of shareholders, as well as for continuation of directors having permanent board seat.

High-Profile Indian Meetings

We have already seen several notable meetings in 2024. **Nestle** had proposed an increase in the percentage of royalty to be paid to the holding company from 4.5 percent per annum to 5.25 percent of sales, over a five-year period. Since this proposal was a related-party transaction, the holding company was not allowed to vote. Over 70 percent of shareholders voted against the transaction and the proposal failed to pass. Royalty payments from subsidiaries to parents have been contentious in India, as investors are of the view that India is already paying high royalty which contribute to the profits at parent level.

Shareholders of **ITC** approved a demerger of its hotel business which would be listed on the stock exchange. While ITC would continue to hold a 40 percent stake in the hotel business, remaining 60 percent will be held by the shareholders of ITC.

Shareholders also approved **ICICI Securities'** request to delist its equity shares. Against their stake in ICICI securities, shareholders would be allotted shares of **ICICI Bank** in exchange. Although, retail shareholders had concern over the proposal, institutional shareholders voted favorably, and the proposal passed.

Last year, shareholders of **Zee Entertainment** had approved a merger with Sony Group to create a broadcasting major. The merger however has now been called off by Sony upon certain merger conditions not being satisfied.

In the upcoming Indian proxy season, **Siemens India** would be demerging its energy business into a separate listed entity. **Apollo Hospitals** has announced a merger of the online healthcare business Apollo 24/7 with a wholesale pharma distribution business, which is held by promoters. The company also announced that the subsidiary will raise equity capital from private equity investor Advent International.

Asia-Pacific: Japan

Japan Season Overview

The peak main Japan proxy season meeting dates this year were June 25th-26th-27th, and there was a lot going on this year. With respect to scandals, Japan's four largest casualty insurance companies were ordered by the Japanese Financial Services Agency to improve their internal control systems, after they allegedly colluded to set rates for policies for corporate clients over a decade or more. The FSA also reportedly told the companies to accelerate the sale of shares in client companies, which are currently among the largest such holdings in Japan. The insurance companies in question are **Tokio Marine & Nichido Fire Insurance** (a subsidiary of **Tokio Marine Holdings**), **Sompo Japan Insurance** (a subsidiary of **Sompo Holdings, Inc.**), and **Mitsui Sumitomo Insurance** and **Aioi Nissay Dowa Insurance** (both of which are subsidiaries of **MS&AD Insurance Group Holdings, Inc.**) The companies all held their annual meetings on June 24.

The **Toyota Motor** group has also gotten itself in trouble with regulators, after several group companies admitted to submitting false information relating to crash testing, fuel economy and exhaust emissions (again over a multi-year period). Toyota held its annual meeting on June 18, and that meeting was noteworthy for another reason as well, namely, a shareholder proposal, relatively unusual in Japan, seeking a report on the company's climate lobbying.

Climate-related Shareholder Proposals in Japan

Nippon Steel also had a proposal on climate lobbying, as well as a proposal seeking to link executive compensation to greenhouse gas reductions. The three megabanks – **Mizuho Financial Group**, **Mitsubishi UFJ Financial Group** and **Sumitomo Mitsui Financial Group** – each had two types of climate proposals: one seeking to ensure that the board has the competence to properly oversee climate-related risks and opportunities, and one seeking disclosure of the banks' assessment of their clients' climate transition plans. And **Chubu Electric Power** also got the proposal on board climate competency.

In Japan, shareholders may only submit proposals on the same types of items that can be submitted as management proposals. As a result, a nonbinding shareholder proposal seeking additional disclosure related to an area of risk, with details left to the board, is not permitted. However, shareholders can submit a binding proposal to amend the articles of incorporation to require such disclosure, because any type of article amendment is considered a legitimate subject for a proposal. As such, nearly all shareholder proposals on environmental and social topics in Japan take the form of a proposed article amendment. Companies often complain that such highly prescriptive language does not belong in the articles, but Japanese law leaves proponents with no other choice. By law, article amendments in Japan must be approved by two-thirds of votes cast, so these proposals are not getting approved, but they do sometimes garner enough support that the board takes notice.

Other Shareholder Proposals in Japan

There are several contested director elections, where a shareholder either nominated directors or is seeking to remove incumbent directors. Some of the meetings include **Dai Nippon Printing** and **Hokuetsu Corp.**, both on June 27. And as is the case every year, there are numerous shareholder proposals seeking to increase dividends and/or share buybacks. Some notable examples include **Yodogawa Steel Works**, which took place on June 25; **Toyo Securities**, on June 26; and **TBS Holdings**, on June 27.

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