



ISS BENCHMARK POLICY UPDATES

Summary

Global Proxy Voting Guidelines Updates for 2024 and
Process of ISS Benchmark Policy Development

Effective for Meetings on or after February 1, 2024
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Summary of ISS' Policy Development Process

Each year ISS conducts a robust, inclusive, and transparent global policy review process to consider updates to 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 consider 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 in some markets conduct discussions with individual clients. We then publish some of the draft policy change proposals publicly for an open review and comment period. After considering the broad range of inputs and completing this extensive review process, the final policy updates are determined, 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 generally 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 helps inform 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, 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 ISS specialty policies may differ from those under the ISS benchmark voting policies.

ISS also helps clients to develop and implement their own custom voting policies based on their organizations' specific mandates and requirements. As part of the annual review process, ISS custom research specialists work with the many institutional investor clients that use ISS research to help implement their own customized approaches to proxy voting. ISS helps clients apply more than 500 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](https://www.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 insights into many critical issues. This ongoing dialogue enriches ISS' policy development and analysis and helps inform 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 our global expertise. ISS' global network of experts and locations provides access to regional, local market and topic experts across the Americas, Europe/Middle East/Africa (EMEA), and Asia-Pacific regions.

2023 Outreach

Policy Survey

ISS launched its 2023 Global Benchmark Policy Survey on Aug. 29 and closed it on Sept. 21, 2023.

The survey asked several market-specific questions and a number of global questions relating to governance and environmental and social topics. Specifically, we asked about non-GAAP incentive pay program metrics in the U.S., about ROE as a factor in director elections in Japan, about director accountability in South Korea, and about how professional services should impact director independence classifications. We also asked some questions on global consistency vs. market specific policy applications, on views on materiality assessments, and a number of questions to help guide us in developing the future analysis frameworks for assessing management proposals related to climate transition plans/disclosures, and climate-related shareholder proposals.

We received 455 responses to the survey: 239 responses from investors and investor-affiliated organizations ("investor respondents") and 216 from non-investor respondents, the majority being companies and corporate-affiliated organizations.

Over half of the investor respondents to the survey said they had a global focus. Just over half of the investor respondents were based in North America; 42 percent were based in Europe, and the remainder were based in Asia, Latin America, and Africa. The assets owned or under management by the investor respondents were roughly evenly split between: over \$100 billion, between \$10 billion and \$100 billion, and under \$10 billion.

The 2023 Global Benchmark Policy Survey results report is available [here](#).

Policy Roundtables and Other Feedback

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

- **Board and Shareholder Rights:** One roundtable discussion was held on Sept. 27, 2023, with a total of 10 participants including institutional investors and corporate directors, covering topics such as Vote No Campaigns and exempt solicitations; the impact of universal proxy cards and amendments to advance notice bylaws provisions; directors independence, particularly related to professional services provided by a director's family member or the family member's employers; as well as conversions from a dual-class capital structure to a single-class structure.
- **Compensation:** Two roundtable discussions included 10 institutional investors in aggregate, both held in the month of September 2023. The discussions primarily focused on investors' views on the new pay vs. performance information disclosed by companies during the 2023 proxy season, due to recent regulatory changes; evergreen provisions, and absolute pay magnitude of CEO pay levels. In addition, the US Compensation team also held one-on-one engagements with institutional investors to further discuss the new pay vs. performance data, as well as the topic of shareholder proposals related to severance payments.

Regarding Environmental and Social topics, the US research team held one-on-one engagements with a number of investors, discussing topics such as global E&S principles, climate related analysis, disclosure frameworks, scope 3 targets, board climate accountability, diversity equity and inclusion, reproductive rights-related shareholder proposals, and a number of other areas.

In Canada, one virtual roundtable was held, with 28 participants representing 15 institutional investors. The topics discussed included: (i) compensation, particularly the impact of negative say-on-pay vote recommendations for compensation committee members and non-employee director limits for equity-based compensation plans; (ii) climate, specifically different investors' approaches on climate-related shareholder proposals, investors' expectations on company climate transition plans and the relevance of industry peer comparisons, as well as

investors views on targets, degree scenarios, and absolute vs. intensity emissions, and (iii) social topics including investors' views on third-party racial equity audit shareholder proposals. The Canadian research team also held several engagements with companies around similar topics such as compensation, climate and social issues.

In Europe, a virtual roundtable was held on Oct. 17th, with 38 attendees representing 24 institutional investors from across Europe. The topics discussed ranged from unequal voting rights, climate and related recent developments, and investors' views on the evaluation of say-on-climate proposals, to executive remuneration in light of the upcoming SRD II cycle on remuneration votes expected across Continental Europe in 2024. The research team also held meetings with a number of associations including the "Seven Chairs Group" to discuss unequal voting rights in Europe and separate meetings with the Swedish Enterprise Chamber and the Danish Corporate Governance Commission to discuss the same topic. In addition, the French research team also held five one-on-one conversations with investors regarding policy development(s).

In Japan, one-on-one meetings remain the most effective way to garner feedback from institutional investors. In 2023, the research team held 15 one-on-one engagement conversations during the months of July through September with institutional investors based in Japan and overseas. The topics discussed included the potential resumption of the Japan ROE policy, more stringent board independence requirements for the adoption of poison pills, board gender diversity, and the coverage of REIT companies.

In other Asian markets, feedback was received on ISS policy and policy application for various Asian markets through one-on-one meetings held with nine institutional investors between March and November 2023. Topics discussed included: board independence and diversity trends across the region; shareholder proposals and activism in Korea; related-party transactions, board independence, government representation, director qualification and equity compensation in India; as well as related party transactions in China, among other topics.

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

Public Comment Period on Proposed Policy Changes

On Nov. 21, 2023, ISS opened its public comment period and invited institutional investors, corporate issuers, and any other interested constituents to provide views and feedback on some of proposed policy changes for 2024. The comment period, which ran through Nov. 30, 2023, sought feedback on four proposed updates to ISS' benchmark policy guidelines, a smaller number than in recent years.

ISS received 35 responses to the comment-period proposals, primarily from institutional investors or institutional investor groups and non-profit organizations. A summary of the comments is included in Appendix A. ISS reviewed and considered all comments received.

Upcoming Policy Milestones

- *December:* Publication of updated ISS benchmark policies (proxy voting guidelines) for 2024 on ISS website.
- *By end January 2024:* Publication of updated Frequently Asked Questions (FAQ) documents on ISS website.
- *February 1, 2024:* The updated 2024 ISS benchmark policies (proxy voting guidelines) will take effect for meetings occurring on or after this date.
- *Various dates in 2024:* Policy guidelines for off-cycle markets (i.e., markets where the main proxy seasons do not happen in the first half of the year, for example Australia, New Zealand, Israel, and South Africa,) 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 summary reflect changes to proxy voting policies within ISS' three global research regions – the Americas, Europe/Middle East/Africa (EMEA), and Asia-Pacific.

Separate regional update documents addressing Americas, EMEA, and Asia-Pacific policy changes in further detail will be released shortly after this summary, and these documents will be available through the [ISS Policy Gateway](#).

In addition to the main policy updates, a number of minor changes and policy clarifications including the expiration of transition periods for previously announced policy changes are summarized below in [Appendix B](#). The full text of all updates will be found in the regional update documents.

The changes will be effective for meetings that occur on or after Feb. 1, 2024, except when noted otherwise.

Board Diversity – Canadian Policy

In 2022, a new board diversity policy was approved for Canadian S&P/TSX Composite Index constituents with a one-year grace period (the policy to be effective as of Feb. 1st, 2024). As we approach the end of the previously announced grace period, the transition language is now removed.

Since 2020, Canada has broadened disclosure requirements on board diversity for publicly traded corporations beyond gender, mandating businesses to report on four employment equity groups (women, visible minorities, Indigenous peoples, and persons with disabilities) through new requirements introduced to the Canada Business Corporations Act (CBCA) in Bill C-25. According to the Government of Canada, these measures aim to foster diversity at the highest levels of corporate leadership in Canada, improve shareholder democracy, and help investors make better and more informed decisions through better transparency.

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

of the previously announced grace period, will align the ISS policy for Canadian S&P/TSX Composite Index more closely with the ISS US policy guidelines for Russell 3000 and/or S&P 1500 indices on racial/ethnic diversity.

Election of Directors – Japan Policy

This policy change will reinstate the application of the “return on equity” (or ROE) policy for Japanese companies under ISS benchmark policy. Until 2020, ISS’ Japan benchmark policy generally recommended votes against the re-election of the top executives at companies that underperformed in terms of capital efficiency (i.e., when the company had posted average ROE of less than 5 percent over the previous five fiscal years), unless an improvement (defined as ROE of 5 percent or greater for the most recent fiscal year) was observed. However, it was decided that the impact of the COVID-19 pandemic on companies’ operating performance reduced the appropriateness of using ROE to measure capital efficiency during the emergency. The application of the ROE policy has been suspended since June 2020.

However, now that the pandemic has receded, the temporary suspension is no longer relevant. Overall, Japanese companies’ operating performance has generally improved, and the median ROE of Japanese companies with fiscal years ending March 2023 improved to 6.8 percent. In response to the ISS 2023 Policy Survey, out of 184 investor respondents to the question “Do you think it is appropriate for ISS to resume the application of the ROE policy for Japanese companies?” 77 percent of respondents answered “yes.” Out of 86 corporate respondents to the question, 60 percent answered “yes.”

Takeover Defense Plans (Poison Pills) – Japan Policy

In Japan, there has been a reduction in the number of companies with poison pills. Nonetheless, in recent years, with an increase in shareholder activism in Japan, some companies have implemented newly introduced poison pills, often designed to work against specific shareholders. Meanwhile, overall board independence of Japanese companies has improved. Based on ISS data as of June 2023, 84.3 percent of Japanese boards were comprised of at least one-third outside directors, meeting the board independence criteria in the current ISS Japan benchmark policy regarding poison pills. However, only 8.8 percent of Japanese companies covered by ISS from January to June 2023 had a majority-independent board, based on ISS criteria. The poison pill policy update reflects the improving board independence in the market and signals that board independence is critical if a company seeks to deploy a poison pill. It is intended to prevent a non-independent board from arbitrarily using a poison pill mechanism for management entrenchment, particularly when pills are designed for specific shareholders.

Equity Compensation Plans – Asia-Pacific Regional markets

The Asia Pacific Regional policy is being updated to clarify and codify the policy approach regarding equity compensation plans for companies in Indonesia, Malaysia, Pakistan, Sri Lanka, Thailand, and Vietnam under the ISS Asia-Pacific Regional Policy. The update outlines ISS’ approach already being applied for the evaluation of stock option plans and restricted share plans for those markets and provides greater transparency of the existing framework applied on the analysis of such proposals.

Off-Cycle Policy Updates in 2023

South Africa

Two updates were made to the [South Africa policy guidelines](#) and published in October 2023. Firstly, was the removed of the one-year grace period for the implementation of the gender diversity policy, previously announced in 2022 with a grace period during 2023. The policy recommends a minimum requirement of one woman on the board and is now effective since of Oct. 1, 2023. 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) compliance with the relevant board diversity standard at the previous 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 amended simply to remove a footnote reference of auditor rotation as being mandatory in the market. The amendment was due to recent developments in the market and the fact that the Independent Regulatory Board for Auditors (IRBA) acknowledged a recent ruling by the country's Supreme Court of Appeals stating that mandatory auditor rotation was beyond IRBA's legislative authority. IRBA, nonetheless, continues to recommend auditor rotation as way to strengthen auditor's independence. The policy application remains unchanged and continues to 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. Lastly, the South Africa policy was also updated to include a sentence related to the existence of "significant governance concerns regarding remuneration practices" as part of the framework for the analysis of remuneration reports.

Israel

There was one update to the [Israel policy guidelines](#) in 2023 related to the classification of directors, particularly in the context of "external directors," which went into effect in October 2023. The updated policy aligns the definition of independent directors with the language used in the Israeli Company Law, accounting for provisions of the Israel banking regulation regarding banks without a controlling core. Specifically, all non-executive directors, also referred to as "external directors," in banks without a controlling core are considered independent by the banks under existing regulation, and are, therefore, also classified as independent under the ISS updated policy guidelines.

Appendices

Appendix A – Summary of Comments

ISS received 35 comments on the proposed policy changes for 2024. All comments received during the open comment period have been reviewed and considered. Many were helpful and will help inform future ISS policy development and application for 2024 and beyond, particularly in the area of climate-related topics as that area continues to evolve.

The policy changes proposed were not particularly controversial, and very few of the comments expressed a direct opinion on the proposed changes themselves. To the extent that they were mentioned, commenters were supportive.

Many of the comments received expressed disappointment that there were no policy changes proposed regarding climate change and/or racial justice topics. Many of these commenters said that they saw strong feedback in the annual policy survey for including new requirements or raising the expectations for the climate board accountability policy. Some expressed that they would like ISS to recommend support for more climate-related shareholder proposals and to hold management climate transition plans to higher standards. Regarding racial justice topics, some commenters wanted ISS to generally recommend support for shareholder proposals requesting third-party audits and for shareholder proposals promoting racial equality.

There were also a number of commenters urging ISS to adopt a more positive stance toward shareholder proposals requesting greater tax transparency, particularly for country-by-country reporting.

Appendix B – Full List of Other Policy Updates

The following table summarizes for transparency the updates to ISS policy guidelines for 2024 not already previewed under the Comment Period or otherwise in this Summary document. Full details of all policy updates will be provided in the three regional policy update documents referred to above.

Regional Guideline Document (Market)	Topic	Policy Change/Update
Americas		
U.S.	Severance Agreements for Executives/Golden Parachutes	Codifies the case-by-case approach when analyzing shareholder proposals requiring that executive severance arrangements or payments be submitted for shareholder ratification. The updated policy (i) harmonizes the factors used to analyze both regular termination severance as well as change-in-control related severance (golden parachutes) and (ii) clarifies the key factors considered in such case-by-case analysis.
Canada	Compensation (TSX-Listed Companies) – Individual Grants	Removes legacy language regarding a percentage limit related to non-executive directors (NEDs) option grants, which no longer reflects market practice. The policy now states that the maximum annual individual NED limit “should not exceed \$150,000 across all equity compensation plans in aggregate, of which no more than \$100,00 of value may comprise stock options.”
Canada	Equity-Based Compensation Plans (TSX-Listed Companies) – Non-Employee Director (NED) Participation	Similar to the policy update above, this update also removes the same legacy language regarding a percentage limit when analyzing an equity compensation plan proposal, as it no longer reflects market practices.
Canada	Equity-Based Compensation Plans (Venture Companies)	Adds the circumstance when companies have adopted an equity plan without seeking shareholder approval, as companies listed on the Canadian Securities Exchange (CSE) are required to obtain shareholder approval within three years after the creation of a rolling equity plan and within every three years thereafter.
Brazil	Board of Directors	Reflects recent regulatory changes in the Brazilian market following the approval of the New Business Development Law, in 2021 (Law 14,195), which mandates a minimum board independence for all publicly-traded companies in the market. The law was regulated by the Brazilian Securities Regulator, in 2022, establishing the minimum board independence at 20 percent.
Americas Regional	Director Elections – Unbundled Elections - Independence	Provides greater transparency on the currently applied board independence level recommended for unbundled director elections under the Americas Regional policy. The added language matches the existing language already included under the bundled director election portion of the policy document and provides greater clarity on the policy application.
EMEA		
UK and Ireland	Board Diversity	Simplifies the policy language and removes transitory provisions, as the Financial Conduct Authority’s (FCA) diversity rules now apply to all companies, irrespective of when their financial year falls.
UK and Ireland	Share Issuance Authorities	Reflects the Investment Association’s (IA) updated share capital management guidelines (Recommendation 14), as updated in February 2023.

UK and Ireland	Significant Shareholder definition	Adds a footnote including that, for the purposes of historical application of the UK policy, a 3 percent holding is deemed to be identified as a significant shareholder.
Continental Europe	Board Accountability Unequal Voting Rights	Clarifies and defines such policy application, without adjusting the context or scope of the application. Specifically, the reference to the one-year grace period was removed as it is no longer applicable and the application of the policy regarding control enhancing share structures is clarified.
Continental Europe (Cyprus and Malta)	Overboarded Directors	Removes the transition language regarding the effectiveness of the policy as of Feb. 1, 2024.
Continental Europe (Serbia)	Coverage Universe	Includes Serbia as part of the coverage universe of the EMEA Regional policy.
Middle East & Africa		
Sub-Saharan Africa	Board Elections – Bundled	Removes the transition language regarding the effectiveness of the policy as of Feb. 1, 2024.
Asia- Pacific		
Hong Kong	Director Election	Aligns the policy language with added provisions in the Hong Kong Corporate Governance Code applicable to companies that have all their independent non-executive directors serving for more than nine years on the board. Specifically, the update recommends a vote against nominees who are part of the nomination committee in the event the company is unable to align with the recommended best practices set out in the revised Hong Kong Corporate Governance Code.
Singapore	Director Election and Director Classification	Aligns the policy language with the 2023 amended Singapore Code of Corporate Governance and removes the two-tier voting mechanism for long-serving independent non-executive directors, consistent with the recent amendments to the Code and the end of the one-year transition period.
India	Board Permanency	Introduces a ‘check-in mechanism’ seeking to prevent non-executive directors from holding a board seat on a permanent basis by virtue of contractual arrangements. This policy update is consistent with recent amendments to the Listing Obligations and Disclosure Requirements, carried out by SEBI, to be in effect as of April 1, 2024, requiring shareholder approval for a director’s continuation on the board at least once every five years.
India	Executive Appointment	Adds a footnote to the policy framework related to the voting on appointment of executive directors to provide additional clarity that executive roles held in more than one company will be taken into account when applying this policy.

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