Proposed ISS Benchmark Policy Changes for 2025

ISS Governance

02 December 2024

Consultation response from Ellason LLP in relation to the proposed benchmark policy changes for UK and Ireland

Ellason LLP is an independent advisor on executive remuneration and board governance. We advise a wide range of listed and privately-owned companies in the UK and Ireland. We have extensive experience in the design and implementation of effective and motivational performance related pay schemes to underpin business success, and advise our clients across all aspects of the executive reward agenda. This response reflects the collective views of our Partners. Our comments relate to only the UK and Ireland Remuneration section of the Proposed Benchmark Policy changes.

Do you have any concerns with the proposed policy update?

We welcome the proposed amendments to the *discussion* section of the ISS Benchmark Policy for UK and Ireland, in particular removal of the wording that the "introduction of new share award schemes on top of existing plans is likely to be viewed sceptically". However, in light of the current debate on UK/US competitiveness and recent developments in executive remuneration structures, we encourage ISS to provide greater clarity to companies in the Policy on its expectations with regards to hybrid schemes (i.e. comprising both performance and restricted shares). We recognise that such plans will be considered on a case-by-case basis, but it would be helpful to companies considering such schemes, if ISS could provide clarity on its minimum expectations, particularly with regard to the design of the restricted share element.

On *shareholder requirements* we were somewhat surprised to see that ISS has chosen to retain the PLSA's guidance on minimum shareholding levels (200% of salary). Whilst we recognise that this is expressed as a minimum expectation and companies must choose the level that is appropriate to their circumstances, setting a binary hurdle such as this does not take into account the range in size and complexity of companies in the FTSE. Shareholders frequently express to us their preference for strong alignment between executives and shareholders, and higher levels of executive share ownership can facilitate this. Further, we would encourage ISS to recognise that for some smaller companies, where incentive opportunities are more modest, a 200% of salary minimum requirement (on a post-tax basis) can be a disproportionately high bar to achieve. As such, we encourage ISS to align more closely with the guidance recently issued by the Investment Association, which is to encourage alignment between the minimum shareholding requirement and the long-term incentive annual award opportunity.

On *approval of a new or amended LTIP*, we welcome removal of the wording on a 5% in 10-year dilution limit for executive schemes and note ISS' guidance that if companies wish to exceed this limit, they should explain why this is appropriate. This proposed change provides additional flexibility for companies, which is helpful.

If the proposed change contemplates ISS adverse vote recommendations, are they implemented appropriately and are appropriate mitigating factors considered?

No response offered.

If the proposed change applies to a particular set of companies, is the proposed coverage universe appropriate?

We welcome the additional clarity provided by the expanded guidance on voting considerations for *Remuneration for Smaller Companies*.

Are there any other factors that ISS should consider when contemplating the proposed policy update?

ISS has provided tacit support this AGM season for companies seeking to reduce the proportion of annual bonus to be deferred in shares. Companies have typically sought approval for the change where an executive has met the minimum shareholding requirement and therefore already has strong alignment with shareholders. It would be helpful for ISS to provide clarity on its minimum expectations for companies considering proposing such a change to remuneration policy.

We also encourage ISS to review the construct of its European Pay for Performance model. The current methodology allows for only European peers to be used in this relative assessment. This regional segmentation does not reflect the global reach and talent market of many large-cap FTSE companies and thus their benchmarking and performance groups, especially those with US operations and/or executives.

We also have some other minor suggested changes to the Benchmark Policy Guidelines, which we have marked-up in the attached.