Feedback for the ISS Open Comment Period

To Whom It May Concern,

Thank you for launching Open Comment Period and providing the opportunity to submit feedback about the policy changes that you have proposed for your 2025 policies.

Unfortunately, we observe little progress in enhancing the ambition of the ISS Benchmark Policy to (a) address escalating environmental and social risks, (b) advance superior governance standards, (c) foster greater transparency. On the contrary, we see a concerning regression, especially with the potential endorsement of time-based metrics in long-term incentive plans.

Climate-related risks represent significant systemic threats and continue to compound within investment portfolios at an accelerating pace. As one of the largest and influential proxy advisor firms globally, ISS must acknowledge its pivotal role and embrace responsibility in addressing climate change and advancing superior governance standards. At a minimum, we ask for consistent, gradual improvements to the Benchmark Policy to reflect objective realities rather than shifting political dynamics.

Accompanying this letter, we provide concrete proposals for policy amendments. These recommendations are built upon the changes proposed by MajorityAction, which we support, with additional refinements.

We hope that you take this feedback into consideration.

Sincerely Yours,

Responsible Investments Team
Erste Asset Management GmbH

Proposed changes to the policy

1. General recommendations

1. We are strongly in favor of analysis on company climate performance in ISS Benchmark reports to assess whether a company's current and future business plans, capital allocation, and political activity are aligned with a 1.5°C scenario and/or science-based sectoral decarbonization plans.
2. Companies' climate transition plans should include, at minimum, all of the following:
   - Acceptable emissions targets – both medium-term targets that are compatible with the global imperative to cut absolute emissions in half by 2030, and a net-zero commitment by 2035 at the latest for OECD utilities or 2050 at the latest for all companies.
   - Corporate strategy that is aligned with achieving these targets.
   - Capital expenditure plans that are consistent with achieving the targets.
   - Political spending and lobbying policies and practices that are consistent with the targets.
   - Incorporation of transition targets into executive remuneration incentive plans.
3. We encourage ISS to generally recommend votes in favor of shareholder proposals that substantially foster racial and social equity, including those that call for further action or disclosure related to racial equity or civil rights audits, board diversity, political spending and lobbying activity, human capital management, consumer product safety, climate and environmental justice, executive compensation, and oversight of tech company product and services.

2. Changes to the ISS Benchmark Policy

Below are the proposed changes to the following sections of ISS U.S. Benchmark Policy:

- Climate Accountability [p. 17]
- Majority Vote Standard for the Election of Directors [p. 23]
- Advisory Votes on Executive Compensation-Management Proposals (Say-on-Pay) [p. 47)
- Compensation: Executive Pay Evaluation [p. 47-58)
- Climate Change/Greenhouse Gas (GHG) Emissions [p. 70-71]
- Racial Equity and/or Civil Rights Audit Guidelines [p. 73]

Note:

Any text in red is what we recommend deleting from ISS' U.S. Benchmark Policy.
Any text in blue is what we recommend adding to ISS' U.S. Benchmark Policy.
Any text in black is the existing ISS' 2024 U.S. Benchmark Policy language and is included for context only.

2.1. Climate Accountability [p. 17]

For companies that are significant greenhouse gas (GHG) emitters, through their operations or value chain[1], generally vote against or withhold from the incumbent chair of the responsible committee, as well as the chair and/or lead independent director in the case of companies where fossil fuel production and/or consumption is the only or primary business (or other directors on a case-by-case basis) in cases where ISS determines that the company is not taking the minimum steps needed to understand, assess, and mitigate risks

[1] Companies defined as "significant GHG emitters" will be those on the current Climate Action 100+ Focus Group list or those deemed as significant emitters based on a company's emissions profile.

related to climate change to the company, diversified portfolios, and the larger economy.

Minimum steps to understand and mitigate those risks are considered to be the following. Both minimum criteria will be required to be in alignment with the policy :

- Detailed disclosure of climate-related risks, such as according to the framework established by the Task Force on Climate-related Financial Disclosures (TCFD), including:
  - Board governance measures;
  - Corporate strategy;
  - Risk management analyses; and
  - Metrics and targets.
- Appropriate GHG emissions reduction targets.

At this time, "appropriate GHG emissions reductions targets" will be medium-term GHG reduction targets and Net Zero-by-2050 GHG reduction targets for a company's operations (Scope 1), electricity use (Scope 2), and, where applicable, products (Scope 3). Targets should cover the vast majority of the company's emissions. Targets should be compatible with the imperatives (a) to cut overall global emissions in half by 2030, and (b) to achieve net-zero electricity in OECD countries by 2035.

2.2. Majority Vote Standard for the Election of Directors [p. 23]

General Recommendation: Generally vote for management proposals to adopt a majority of votes cast standard for directors in uncontested elections. Vote against if no carve-out for a plurality vote standard in contested elections is included.

Generally vote for precatory and binding shareholder resolutions requesting that the board change the company's bylaws to stipulate that directors need to be elected with an affirmative majority of votes cast, provided it does not conflict with the state law where the company is incorporated. Binding resolutions need to allow for a carve-out for a plurality vote standard when there are more nominees than board seats.

Companies are strongly encouraged to also adopt a post-election policy (also known as a director resignation policy) that will provide guidelines so that the company will promptly address the situation of a holdover director.

Generally vote for proposals that call for the adoption of bylaws that require the resignation of a board member without board acceptance after the board member's failure to receive a majority of shareholder support for reelection one or more times.

2.3. Reincorporation Proposals [p. 33]

General Recommendation: Management or shareholder proposals to change a company's state of incorporation should be evaluated case-by-case, giving consideration to both financial and corporate governance concerns including the following:

- Reasons for reincorporation;
- Comparison of company's governance practices and provisions prior to and following the reincorporation; and
- Comparison of corporation laws of original state and destination state.

Vote for reincorporation when the economic factors outweigh any neutral or negative governance changes.

Special Note for management proposals to reincorporate out of Delaware. The corporate law of Delaware includes standards that protect shareholders when companies (1) enter into conflict transactions (2) take actions that entrench directors, or (3) engage in a sale process. Proposals from management to change jurisdictions create a risk that shareholders will lose such protections. In addition, Delaware's executive, legislative and judicial branches all have a long history in providing a stable, balanced corporate law environment that preserves corporate value. We will therefore recommend against such proposals unless there are specific circumstances that suggest shareholders will benefit from the change.

2.4. Advisory Votes on Executive Compensation-Management Proposals (Say- on-Pay) [p. 47]

General Recommendation: Vote case-by-case on ballot items related to executive pay and practices, as well as certain aspects of outside director compensation.

Vote against Advisory Votes on Executive Compensation (Say-on-Pay or "SOP") if:

1. There is an unmitigated misalignment between CEO pay attributed to financial targets and company performance (pay for performance);
2. There is an unmitigated misalignment between CEO pay and company impact on social and environmental sustainability such that the CEO is rewarded for achievements whether or not they come at the expense of the social and environmental systems that support the capital markets generally.
3. The company maintains significant problematic pay practices; or
4. The board exhibits a significant level of poor communication and responsiveness to shareholders.

Vote against or withhold from the members of the Compensation Committee and potentially the full board if:

- There is no SOP on the ballot, and an against vote on an SOP would otherwise be warranted due to pay-for-performance misalignment, problematic pay practices, or the lack of adequate responsiveness on compensation issues raised previously, or a combination thereof;
- The board fails to respond adequately to a previous SOP proposal that received less than 70 percent support of votes cast;
- The company has recently practiced or approved problematic pay practices, such as option repricing or option backdating; or
- The situation is egregious.

2.5. Compensation: Executive Pay Evaluation [p. 47]

Underlying all evaluations are five global principles that most investors expect corporations to adhere to in designing and administering executive and director compensation programs:

1. Maintain appropriate pay-for-performance alignment, with emphasis on long-term shareholder value: This principle encompasses overall executive pay practices, which must be designed to attract, retain, and appropriately motivate the key employees who drive shareholder value creation over the long term. It will take into consideration, among other factors, the link between pay and performance; the mix between fixed and variable pay; performance goals (including goals with respect to social and environmental sustainability that ensure that company profits do not come at the expense of the social and environmental systems that support the capital markets generally); and equity-based plan costs;

2. Avoid arrangements that risk "pay for failure": This principle addresses the appropriateness of long or indefinite contracts, excessive severance packages, and guaranteed compensation;
3. Maintain an independent and effective compensation committee: This principle promotes oversight of executive pay programs by directors with appropriate skills, knowledge, experience, and a sound process for compensation decision-making (e.g., including access to independent expertise and advice when needed);
4. Provide shareholders with clear, comprehensive compensation disclosures: This principle underscores the importance of informative and timely disclosures that enable shareholders to evaluate executive pay practices fully and fairly; and
5. Avoid inappropriate pay to non-executive directors: This principle recognizes the interests of shareholders in ensuring that compensation to outside directors is reasonable and does not compromise their independence and ability to make appropriate judgments in overseeing managers' pay and performance. At the market level, it may incorporate a variety of generally accepted best practices.

2.6. Pay-for-Performance Evaluation [p. 48]

2. Absolute Alignment - the absolute alignment between the trend in CEO pay and company TSR over the prior five fiscal years - i.e., the difference between the trend in annual pay changes and the trend in annualized TSR during the period.

If the above analysis demonstrates significant unsatisfactory long-term pay-for-performance alignment or, in the case of companies outside the Russell indices, a misalignment between pay and performance is otherwise suggested, our analysis may include any of the following qualitative factors, as relevant to an evaluation of how various pay elements may work to encourage or to undermine long-term value creation and alignment with shareholder interests:

- The effect on company financial performance of efforts to limit negative impacts on the social and environmental systems that support the capital markets generally;
- The ratio of performance- to time-based incentive awards;
- The overall ratio of performance-based compensation to fixed or discretionary pay;
- The rigor of performance goals;
- The complexity and risks around pay program design;
- The transparency and clarity of disclosure;
- The company's peer group benchmarking practices;
- Financial/operational results, both absolute and relative to peers;
- Special circumstances related to, for example, a new CEO in the prior FY or anomalous equity grant practices (e.g., bi-annual awards);
- Realizable pay compared to grant pay; and
- Any other factors deemed relevant.

2.7. Problematic Pay Practices [p. 49]

Problematic pay elements are generally evaluated case-by-case considering the context of a company's overall pay program and demonstrated pay-for-performance philosophy. The focus is on executive compensation practices that contravene the global pay principles, including:

- Problematic practices related to non-performance-based compensation elements;
- Incentives that may motivate excessive risk-taking (including systemic risks that threaten the capital markets generally, such as those related to climate change) or present a windfall risk; and

– Pay decisions that circumvent pay-for-performance, such as options backdating or waiving performance requirements.

2.8. Equity-Based and Other Incentive Plants [p. 51-52]

Grant Practices:

- The company's three-year burn rate relative to its industry/market cap peers;
- Vesting requirements in CEO's recent equity grants (3-year look-back);
- The estimated duration of the plan (based on the sum of shares remaining available and the new shares requested, divided by the average annual shares granted in the prior three years);
- The proportion of the CEO's most recent equity grants/awards subject to performance conditions;
- Whether the company maintains a sufficient claw-back policy (including clawbacks for failure to maintain adequate sustainability guardrails to protect the the social and environmental systems that support the capital markets generally); and
- Whether the company maintains sufficient post-exercise/vesting share-holding requirements.

Generally vote against the plan proposal if the combination of above factors indicates that the plan is not, overall, in shareholders' interests, or if any of the following egregious factors ("overriding factors") apply:

- Awards may vest in connection with a liberal change-of-control definition;
- The plan would permit repricing or cash buyout of underwater options without shareholder approval (either by expressly permitting it - for NYSE and Nasdaq listed companies - or by not prohibiting it when the company has a history of repricing - for non-listed companies);
- The plan is a vehicle for problematic pay practices or a significant pay-for-performance disconnect under certain circumstances;
- The plan is excessively dilutive to shareholders' holdings;
- The plan contains an evergreen (automatic share replenishment) feature; or
- Any other plan features are determined to have a significant negative impact on shareholder interests (including the interests of shareholders in protecting the social and environmental systems that support the capital markets generally).

2.9. Climate Change/Greenhouse Gas (GHG) Emissions [p. 70-71]

General Recommendation: Generally vote for resolutions requesting that a company disclose information on the financial, physical, or regulatory risks it faces related to climate change on its operations and investments or on how the company identifies, measures, and manages such risks, considering:

- Whether the company already provides current, publicly-available information on the impact that climate change may have on the company as well as associated company policies and procedures to address related risks and/or opportunities;
- The company's level of disclosure compared to industry peers; and
- Whether there are significant controversies, fines, penalties, or litigation associated with the company's climate change-related performance.

Generally vote for proposals requesting a report on greenhouse gas (GHG) emissions from company operations and/or products and operations, unless:

- The company already discloses current, publicly-available information on the impacts that GHG emissions may have on the company as well as associated company policies and procedures to address related risks and/or opportunities;
- The company's level of disclosure is comparable to that of industry peers; and
- There are no significant controversies, fines, penalties, or litigation associated with the company's GHG emissions.

Generally vote for proposals that call for the adoption of GHG reduction goals from products and operations, taking into account:

- ~~Whether the company provides disclosure of year over year GHG emissions performance data;~~
- ~~Whether company disclosure lags behind industry peers;~~
- The company's actual GHG emissions performance;
- The company's current GHG emission policies, oversight mechanisms, and related initiatives; and
- Whether the company has been the subject of recent, significant violations, fines, litigation, or controversy related to GHG emissions.

2.10. Racial Equity and/or Civil Rights Audit Guidelines [p. 73]

General Recommendation: Given that corporate actions that perpetuate systemic racial inequalities can create risks and harms at both the issuer and portfolio levels and that ameliorating those disparities can lead to opportunities and benefits for issuers and portfolios, generally vote, ~~case by case on~~ in favor of proposals asking a company to conduct an independent racial equity and/or civil rights audit, taking into account:

- The company's established process or framework for addressing racial inequity and discrimination internally;
- Whether the company adequately discloses workforce diversity and inclusion metrics and goals;
- Whether the company has assessed the racial equity and civil rights impacts of its policies, practices, products, political and charitable contributions, and contracts
- Whether the company has issued a public statement related to its racial justice efforts in recent years, or has committed to internal policy review;
- Whether the company has engaged with impacted communities, stakeholders, and civil rights experts;
- The company's track record in recent years of racial justice measures and outreach externally; and
- Whether the company has been the subject of recent controversy, litigation, or regulatory actions related to racial inequity or discrimination.

There are proposals that seek to undermine racial equity auditing or propose audits that would not in good faith assess racial inequalities to which companies contribute. These can often be identified by proposals that request a racial equity or civil rights audit, but also ask that the audit assess "non-discrimination" or "returns to merit"; refer to diversity, equity and inclusion **("DEI")** programs or trainings as discriminatory against "non-diverse" people; assert that DEI programs are or are likely unlawful; and express skepticism about the existence of, or harms caused by, systemic racism by placing words like racism, anti-racist and equity in quotation marks.
Generally vote against these proposals.