ISS 2022 GLOBAL BENCHMARK POLICY SURVEY RESULTS

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Every year, as part of their annual global policy development process, Institutional Shareholder Services Inc. (ISS) conducts a benchmark policy survey by gathering feedback from institutional investors and market stakeholders on various pertinent ESG topics and on areas of potential ISS policy change for 2023 and beyond.

The survey ran between August 3 and August 31, 2022 and received 417 responses: 205 responses from investors and investor-affiliated organisations, 212 from non-investor respondents. ISS released its results on October 10th and indicated that answers it gathered would be taken into consideration and likely influence the new ISS 2023 voting guidelines. In November, the proxy advisor will release key draft policy updates and *open a public comment period* for all interested market participants on key proposed changes to its voting policies for next year.

Environmental and Social (E&S) issues have been areas of focus in recent years and seem to remain key topics for the proxy advisors and investors ahead of the 2023 proxy season, with ISS's questionnaire fully reflecting this trend. This year's benchmark policy primarily covered the global topic of climate change risk management as well as executive pay increases in the context of inflation and the high cost of living, unequal voting rights and virtual general meetings.

In this paper, CMi2i offers a summary of the survey's most notable findings for Continental Europe, UK and Ireland.

Key Takeaways

- **Climate-Related Board accountability –** with increasing demands for board oversight and accountability on Climate Related issues, respondents would consider material governance failure if large GHG emitters do not provide adequate disclosure with regards to climate-related oversight, risks, and targets as TCFD framework. The majority of respondents voiced support for the extension of ISS's Board Accountability policy application to all markets.

- **Management Say-on-Climate Proposals –** The respondents' top three priorities, when determining if a company's transition plan is adequate include:

  (i) whether the company has set adequately comprehensive and realistic medium-term targets for reducing operational and supply chain emissions (Scopes 1, 2 & 3) to net zero by 2050

  (ii) whether the company's short- and medium-term capital expenditures align with long-term company strategy and the company has disclosed the technical and financial assumptions underpinning its strategic plans

  (iii) and the extent to which the company's climate-related disclosures are in line with TCFD recommendations and meet other market standards. Other respondents will assess the proposals based on where the disclosures are in line TCFD, where the markets stand

and whether the company discloses a commitment to report on the implementation of its plan in subsequent years.

- **Climate Risk as Critical Audit Matter –** Investor respondents in majority in favour of including commentary by auditors in the audit report on climate risks and Critical Audit Matters / Key Audit Matters (CAMs). However, they queried whether auditors currently have the expertise to accurately gauge these climate risks. Non-investor respondents tended to not support seeing auditors comment on climate-related risks.

- **Financed Emissions –** on the question of expectations on climate-related disclosure and performance of financial institutions, the majority of investors responded that in 2023 large companies in the banking and insurance sectors should fully disclose their financed emissions, have clear long-term and intermediary financed emissions reduction targets for high emitting sectors, have a net-zero by 2050 ambition including financed portfolio emissions or should publicly commit to disclose financed emissions at some point in the future by joining a collaborative group such as the Partnership for Carbon Accounting Financials (PCAF) and/or the Glasgow Financial Alliance for Net Zero (GFANZ).

- **Climate Expectation –**investors' minimum expectations are that thresholds for climate-related disclosure and performance need to increase over time. Four common buckets were highlighted:

  - Heightened focus on whether companies' targets are aligned with net-zero, and that these targets be verified by organisations such as the Science Based Targets initiative (SBTi).
  - Disclosure of more climate-related information driven by regulatory changes and industry practices and more effective utilisation of climate-related disclosure.
  - Greater disclosure of Scope 3 emissions and this information to be more integrated into investors' strategies.
  - More interest in companies investing in low-carbon products and a shift toward expecting corporate climate strategies that result in reductions in greenhouse gas emissions.

- **Audit Related Matters (UK & Ireland) –** The majority of respondents strongly believe that ISS should note the frequency of audit committee meetings held each year and consider negative vote recommendations where the number of meetings appeared to be insufficient.

- **Executive Pay Increases (UK & Ireland) –** In the context of rising inflation and cost of living challenges, respondents were split between "*each board should determine executive pay in the context of the company's need"* and "*executive salaries should generally be rising more slowly in percentage terms*". In fact, although a salary increase to executives may be similar to the one granted to the general workforce in percentage terms, the actual increase may be much larger in reality and executives also have greater bonus opportunities.

- **Unequal Voting Rights / Multi-Class Shares Structures (Continental Europe) –** Most of the respondents believe ISS should revisit its policy, and issue negative recommendations toward companies with poor governance structures such as unequal voting rights.

- **Virtual Meeting (Continental Europe) –** on the question whether virtual-only meetings represent a problematic diminution of shareholder rights, the majority of respondents said that as long as the company put in shareholder rights safeguards and time limits and participation rights, virtual-only meetings do not represent a diminution of shareholder rights.

Conclusion

As mentioned above, this exercise is part of ISS's annual global policy development process and the feedback gathered will be taken into consideration and likely influence their 2023 voting guidelines. Hence, we should expect some amendments / further refinement to the polices on topics such as climate-related board accountability, audit committee meetings and/or Executive Pay Increases in the UK & Ireland.

As in previous years, ISS new policy updates will be announced in late November and the publication of the final policies in December for shareholder meetings occurring on or after Feb. 1 of 2023.