



ISS POLICY UPDATES 2022

JANUARY 2022

ISS Policy Updates for 2022

On 7 December 2021, ISS released its guidelines updates for its main voting policies for 2022. The updated policies will generally be applied for shareholder meetings taking place on or after Feb. 1, 2022, except for those updates that are being announced now with a one-year transition period and which will become effective in 2023. This document summarizes the policy changes that will be applied across UK (plus Ireland) and Europe. The ISS media release can be found [here](#).

Say on Climate, Board Accountability, Ethnic Diversity, Non-Financial ESG Performance Conditions, Derogation Policies and Pay Equity Ratios are among the major topics updated by ISS in their 2022 policy update.

Below, CMI2i provides a summary of the key changes. For full details the published 2022 EMEA ISS policy update can be downloaded [here](#).

All Markets

The following updates, related to social and environmental issues, are applicable to all the markets

- **Say on Climate (management proposals):** ISS is codifying the framework developed over the last year for analysing management-offered climate transition plans put up for shareholder approval, incorporating feedback received during this year's policy development process including from the Climate Survey. For transparency, the policy lists the main criteria that will be considered when analysing these plans (a non-exhaustive list).

Some of the criteria ISS will take in consideration while assessing a management SoC proposal are: TCFD recommendations, GHG emissions, Paris Agreement goals, net-zero emission plan, specific industry decarbonization challenges, company's commitment related to peers.

- **Say on Climate (shareholder proposals):** "Say-on Climate" shareholder proposals emerged late in 2020 and increased in 2021, generally asking companies to publish a climate action plan and to put it to a regular shareholder vote. The new ISS policy establishes a case-by-case approach toward such proposals and provides a transparent framework of analysis that will allow for consistency of assessment across markets.

Some of the criteria ISS will take in consideration while assessing a shareholder SoC proposal are: completeness of company's climate related disclosure, GHG emissions, whether the company has been linked with GHG related controversies, whether the proposal's request is unduly burdensome or overly prescriptive.

UK & Ireland

The ISS 2022 policy update for UK & Ireland reflect the introduction of new voting policies on climate change, board gender and ethnic diversity and remuneration-related non-financial ESG performance.

The major changes observed in the ISS 2022 guidelines are the following:

- **Board Accountability on Climate:** From 2022, ISS will issue a negative recommendation against the chairman of companies that are considered significant GHG emitters through their operations or value chain, **whenever ISS will determine that the company is not taking the minimum steps needed to understand, assess and mitigate risks related to climate change to the company and larger economy.**

ISS defined the “minimum steps” needed for 2022 as: detailed disclosure of climate-related risks (board governance measures, corporate strategy, risk management analysis, metrics and targets) and appropriate GHG emissions reduction targets.

- **Ethnic Board Diversity:** From 2022, ISS will generally recommend against the chair of the nomination committee of a FTSE 100 listed company, **if the company has not appointed at least one individual from an ethnic minority background to the board.** The expectation will expand to constituents of the FTSE 250, the FTSE SmallCap, the ISEQ 20 indices, and the AIM index with a market capitalisation of over GBP 500 million (excluding investment companies) to appoint at least one individual from an ethnic minority background to the board by 2024

This update follows the previous update in 2021, in which ISS implemented a gender diversity policy (at least 33% female representation for FTSE 350 companies). The 2022 policy update is based on the recommendations of the Parker Review, such that ISS will expect FTSE 100 companies to already have at least one ethnically diverse director on the board (expected by the Parker Review by the end of 2021). If this is not the case, then ISS may recommend a vote against any director who is considered accountable for board composition. As the Parker Review recommendations are already in place for FTSE 100 companies and that the impact would be limited, ISS do not propose to implement a grace period. **For FTSE 250 companies, ISS policy will look for at least one ethnically diverse director on the board by 2024.**

- **Non-Financial ESG Performance Conditions:** In line with the IA Principles of Remuneration, the ISS policy update confirms that **ESG metrics can be included as performance measures** utilised by a company's variable remuneration schemes as long as the measures are clearly linked to the company's long-term strategy, material to the business and quantifiable. ISS will therefore assess the non-financial ESG performance conditions in line with this approach, despite ISS made clear that the amendment to the its Benchmark policy document for UK and Ireland is not designed to replicate the level of detail introduced by the IA Principles of Remuneration

Continental Europe

The ISS 2022 policy update for Europe, similarly to the UK & Ireland introduces guidelines around board accountability on climate and non-financial ESG performance conditions. Moreover, ISS changed their remuneration guidelines in order to cover derogation policies and pay equity ratios.

- **Board Accountability on Climate:** From 2022, ISS will issue a negative recommendation against incumbent director(s) or any other appropriate voting item(s) of companies that are considered significant GHG emitters through their operations or value chain, whenever ISS will determine that the company is not taking the minimum steps needed to understand, assess and mitigate risks related to climate change to the company and larger economy. The policy is similar to the one presented above under the UK section, however for Continental

Europe, **the vote recommendations will be against the responsible incumbent director(s), or any other appropriate voting item(s).**

- **Non-Financial ESG Performance Conditions:** ISS 2022 policy update confirms that ESG metrics can be included into remuneration frameworks as long as they reward an effective performance in line with the purpose, strategy, and objectives adopted by the company.
- **Derogation Policy:** From 2022, ISS will take into account the presence and terms of a derogation policy when analysing the remuneration policy. **Policies will be expected to clearly define and limit any elements (e.g., base salary, STI, LTI, etc.) and extent (e.g., caps, weightings, etc.) to which derogations may apply.**

This update follows the introduction of derogation clauses by the SRD II: most EU member states now allow companies to temporarily derogate from their existing remuneration policy under exceptional circumstances, provided that the policy includes the procedural conditions under which a derogation can be applied and specifies the elements of the policy which may be derogated. According to SRD II, derogations should only be permissible in exceptional circumstances, that is in situations in which the derogation from the remuneration policy is necessary to serve the long-term interests and sustainability of the company as a whole or to ensure its viability. However, some EU companies have included very general derogation clauses in their remuneration policies that are broadly aligned with SRD II but are not clear on the elements or extent under which derogation may be applied, allowing those companies a broad power to derogate from most of the policy features. For these reasons, ISS decided to implement this new policy.

- **Pay Equity Ratios:** ISS policy update introduces pay equity ratios. From 2022, where applicable the **remuneration report shall contain the annual change of remuneration for each individual director**, of the performance of the company and of average remuneration on a full-time equivalent basis of employees of the company other than directors over at least the five most recent financial years, presented together in a manner which permits comparison

Along these substantial changes, ISS added a few additional provisions with the aim to clarify the scope and application of existing provisions.

- **Share Issuance Requests:** ISS updated policy clarifies that share issuances that may lead to a capital increase of up to 60 percent are generally supported: 50 percent with pre-emptive rights plus 10 percent without pre-emptive rights. Moreover, ISS specify that **all authorizations are considered: both the existing authorizations that remain effective after the concerned general meeting and the authorizations proposed at the general meeting under analysis.**
- **Increases in Authorised Capital:** From 2022, ISS will make a distinction between dilutive and non-dilutive measures in order to remove any ambiguity and confusion. A case-by-case approach will be adopted, and it will depend on the local legal framework of authorized capital taking into account shareholders' interest.
- **Equity Based Compensation Guidelines:** ISS also updated its policies around equity-based compensation plans in order to reflect investor sentiment and development of local best practice. The changes align ISS policy with local best practice standards on performance

criteria and their measurement, including a cliff three-year performance period, and removes the preference for relative performance measures.

For full details, the published 2022 ISS policy guidelines can be downloaded [here](#).