ISS 2022 U.S. POLICY UPDATES

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On December 7, 2021, Institutional Shareholder Services (ISS) published updates to its U.S. benchmark proxy voting policies.

Unless specified otherwise, the new policies are applicable to all U.S. company meetings held on or after February 1, 2022. This year, ISS's key policy updates relate to the issues of board composition and board accountability.

The 2022 Americas Policy Updates, redlining the changes being made as well as the rationale therefor, are available now on the **ISS Policy Gateway**. ISS's complete 2022 policy voting guidelines, which will incorporate these updates, are expected to become available in late December.

The policy updates are summarized below.

Board Composition — Gender Diversity

ISS has an existing policy to generally vote against or withhold from the chair of the nominating committee (or other directors on a case-by-case basis) at S&P 1500 or Russell 3000 companies where the company lacks women directors on its board. Against the backdrop of investors increased diversity expectations and NASDAQ's board diversity rules, ISS is expanding its current policy requiring at least one female director to all companies, not just those in the S&P 1500 or Russell 3000 indicies, starting with meetings on or after Feb. 1, 2023.

Board Composition — Racial/Ethnic Diversity

ISS's policy to require at least one ethnically/racially diverse director for U.S. companies in the Russell 3000 and S&P 1500 indices that was announced last year will go into effect beginning with meetings on or after Feb. 1, 2022. In the absence of racially or ethnically diverse board members, ISS will generally vote against or withhold from the chair of the nominating committee (or other directors on a case-by-case basis).

A comparison of ISS's diversity-related policies to those of Glass Lewis and other large institutional investors is included as an Appendix hereto.

Board Accountability — Unequal voting rights

ISS has a current policy to recommend vote against the entire board (except new nominees, who are considered on a case-by-case basis) at newly public companies that adopted unequal voting rights without a reasonable sunset period not to exceed seven years. However, the policy exempts companies with an unequal voting rights structure whose first shareholder meeting was prior to 2015.

ISS is removing such grandfathering and after a notice period of one year, beginning with meetings on or after Feb. 1, 2023, will start holding directors individually, committee members, or the entire board (except new nominees, who will be considered on a case-by-case basis) accountable at all companies with unequal voting rights. ISS will allow for exemptions in cases of companies having a sunset period for unequal voting rights of no more than seven years from the date of going public; limited partnerships or operating partnership unit structure of REITs; unequal voting rights being de-minimis; and company providing protection to minority shareholders by allowing them a regular binding vote on whether the capital structure should be maintained.

Climate — Board accountability

For the companies that are significant greenhouse gas (GHG) emitters, ISS is adopting a new policy to generally vote against or withhold from the incumbent chair of the responsible committee (or other directors on a case-by-case basis) in cases where the company is not taking the minimum steps needed to address the climate change risks to the company and the economy.

For 2022, ISS will focus on the 167 companies included in the current Climate Action 100+ Focus Group list. ISS will generally recommend against the responsible committee chair at these identified companies that have not made appropriate climate-related disclosures, such as according to the four pillars of the TCFD framework, and that have not set quantitative GHG reduction targets covering at least a significant portion of the company's direct emissions (Scope 1 and 2) targets. The targets for Scope 3 emissions will not be required for 2022. However, ISS's expectations about what constitutes "minimum steps to mitigate risks related to climate change" will increase over time.

A comparison of ISS's policies to those of Glass Lewis and the big three institutional investors on climate reporting and board oversight of E&S risks is included in the appendix.

"Say on Climate" Management Proposals

ISS is codifying its current case-by-case approach relating to "Say on Climate" proposals. In analyzing a management proposal seeking shareholder approval of company's climate transition plan, ISS will assess the completeness and rigor of the plan. Among other information, ISS will consider the extent of disclosures in line with TCFD or other market standards; disclosure of GHG emissions (Scope 1, 2 and 3); completeness and rigor of short-, medium- and long-term emission reduction targets in line with Paris Agreement goals; commitment to be "net zero" emitter by 2050; whether targets are science-based; external verification; alignment of company's lobbying activities and its capital expenditures with company strategy.

"Say on Climate" Shareholder Proposals

For shareholder proposals requesting "say on climate" votes that require companies to publish a climate action plan and put it to a shareholder vote, ISS is adopting a new policy that takes a case-by-case approach. In its analysis of such shareholder proposals, ISS will take into account the company's current climate-related disclosures; actual GHG performance; any company controversies relating to its GHG emissions; and the reasonableness of the proposal's request, among other factors.

Common Stock Authorization

Under its existing policy, ISS reduces the allowable increase in authorized common stock by half if the company was in the bottom decile of 1- and 3-year TSR performance compared to the U.S. market. In its updated policy, ISS has removed such limitation as it considers the additional equity authorization as the least-bad option for financing available to such a company despite dilution concerns due to the low-priced share issuance.

ISS has also updated its policy to generally vote against the proposed share increase if the company has a non-shareholder approved poison pill (including NOL pill). Under the current policy, ISS only looked at such use of capital for the last three years and did not account for longer term non-shareholder approved pills (such as 5- or 10-year pills). This change aligns ISS's capital authorization policy with its recommendations on directors for non-shareholder approved poison pills.

The policy has also been rearranged to better differentiate between general and specific use authorizations of capital, and to clarify the hierarchy of factors considered.

Preferred Stock Authorization

In line with its common stock authorization policy changes, ISS has updated its preferred stock authorization policy by removing the limitations of TSR underperformance and 3-year look back period.

Equity-Based and Other Incentive Plans – Three Year Burn Rate

Effective for meetings on or after Feb. 1, 2023, ISS will replace current volatility-based adjusted burn rate calculation with a Value-Adjusted Burn Rate. Instead of using volatility-based multiplier for full-value awards to group companies into six "buckets", the new methodology will more accurately capture the value of equity awards by using Black Scholes model for measuring the value of option grants.

The Value-Adjusted Burn Rate will be calculated as follows:

> Value-Adjusted Burn Rate = ((# of options * option's dollar value using a Black Scholes model) + (# of full-value awards * stock price)) / (Weighted average common shares * stock price).

Along with the burn rate calculation, ISS will also be changing the benchmark calculation in 2023. Value-Adjusted Burn Rate benchmarks will be calculated as the greater of: (1) an industry-specific threshold based on three-year burn rates within the company's GICS group segmented by S&P 500, Russell 3000 index (less the S&P 500) and non-Russell 3000 index; and (2) a de minimis threshold established separately for each of the S&P 500, the Russell 3000 index less the S&P 500, and the non-Russell 3000 index.

Shareholder Proposals on Racial Equity and/or Civil Rights Audit Guidelines

ISS added a new policy that codifies its current approach to analyze shareholders proposals on racial equity and/or civil rights audit that first appeared on the ballot this past proxy season. In its case-by-case analysis, ISS will consider the company's existing process for addressing racial inequity and discrimination internally; any recent public statement by the company relating to its racial justice efforts; any engagement by the company with impacted communities, stakeholders, and civil rights experts; company's track record on racial justice measures and outreach; any company controversy on this issue; and alignment of company's actions with market practices.

Along with the burn rate calculation, ISS will also be changing the benchmark calculation in 2023.

APPENDIX

The following table represents a high-level summary of proxy advisors' and big three investors' policies with respect to board oversight of environmental and social issues, and climate reporting for the U.S. companies.

	BOARD GENDER DIVERSITY	BOARD RACIAL/ETHNIC DIVERSITY	WORKFORCE DIVERSITY
ISS	Generally recommends against or withhold from the chair of the nominating committee (or other directors on a case-by-case basis) at companies[1] where there are no women on the company's board	Generally recommends vote against or withhold from the chair of the nominating committee (or other directors on a case-by-case basis) at Russell 3000 or S&P 1500 companies where the board has no apparent racially or ethnically diverse members	Generally recommends for proposals requesting disclosure of diversity policies, initiatives, or comprehensive workforce diversity data, including EEO-1 data
Glass Lewis (GL)	Generally recommends against the nominating committee chair of a board with fewer than two gender diverse directors, or the entire nominating committee of a board with no gender diverse directors, at companies within the Russell 3000 index Effective January 1, 2023, will generally recommend voting against the nominating committee chair of a board that is not at least 30 percent gender diverse at companies within the Russell 3000 index	May recommend voting against the chair of the nominating and/or governance committee at S&P 500 companies with poor disclosure[2] of board diversity and skills Beginning in 2023, will generally recommend voting against the chair of the governance committee at S&P 500 companies that fail to provide any disclosure of individual or aggregate racial/ethnic minority demographic information	N/A
BlackRock	May vote against directors on the nominating committee (or equivalent) for an apparent lack of commitment to fostering board effectiveness if there is insufficient progress on enhancing board diversity within a reasonable timeframe. When considering a company's commitment to diversity, BlackRock looks at factors such as market norms, the addition of a diverse director within the previous year, the existence of time-bound board diversity targets, average board tenure, and public statements that focus on efforts to advance diversity, equity, and inclusion in the boardroom Believes boards should aspire to 30% diversity[3] of membership and encourage companies to have at least two directors on their board who identify as female and at least one who identifies as a member of an underrepresented group	Encourages disclosure of how diversity is considered in board composition, including demographic factors such as gender, race, ethnicity, and age; as well as professional characteristics, such as a director's industry experience, specialist areas of expertise, and geographic location Also encourages boards to disclose aspects of diversity relevant to company's business and how the diversity characteristics of the board are aligned with a company's long-term strategy; the process by which candidates are identified and selected and whether diverse slate of nominees is considered; and the process by which boards evaluate themselves and any significant outcomes of the evaluation process	Expects disclosure of workforce demographics, such as gender, race and ethnicity, in line with the EEO-1 Survey, alongside steps being taken to advance diversity, equity and inclusion. Where disclosure or practice falls short relative to market or peer norms, may vote against members of the appropriate committee or support relevant shareholder proposals

	BOARD GENDER DIVERSITY	BOARD RACIAL/ETHNIC DIVERSITY	WORKFORCE DIVERSITY
Vanguard	Generally votes against a company's nominating and/or governance committee chair (or any other director if needed) if the company's board has made insufficient progress on board diversity or board diversity-related disclosure. No specified minimum diversity requirements, but indicates that the greatest board diversity risks to its portfolio will be companies with no disclosed board gender diversity, no disclosed board racial or ethnic diversity, or a lack of a disclosed board diversity policy		Likely to support proposals that request "reasonable" disclosure on workforce demographics, including gender and racial/ethnic categories. Case-by-case approach to other workforce diversity-related proposals
State Street Global Advisors (SSGA)	May vote against the Chair of the board's nominating committee at Russell 3000 companies that do not have at least one female board member; may vote against all incumbent nominating committee members where a company has had no gender diversity for three consecutive years	Will vote against the Chair of the Nominating & Governance Committee at S&P 500 companies that do not have at least one director from an underrepresented community on their boards	Will vote against the compensation committee chairs at S&P 500 companies that do not disclose their EEO-1 survey responses
Goldman Sachs Asset Management	Will vote against the full board if there is not at least one woman director on the board	Will vote against nominating committee members if there is not at least one woman director and one other diverse director on the board[4]	Expects disclosure of a company's EEO-1 statement and/or diversity policy
Invesco	Will vote against nominating committee chairs at companies where women constitute less than two board members or 25% of the board, whichever is lower, for two or more consecutive years, absent incremental improvement	Will vote against nominating committee chairs where multiple concerns exist with respect to board diversity broadly speaking, including ethnic diversity among other factors	N/A
Capital Group	Expects companies to have diversity on the board consistent with local market best practice		Expects companies to make public EEO-1 data or other equivalent information for US employees, and where feasible, to disclose similar information for other segments of the workforce
JP Morgan Asset Management	Will generally vote against the nominating committee chair where a company does not disclose the gender or racial and ethnic composition of the board Will generally vote against the nominating committee chair where the company lacks any gender or any racial/ethnic diversity absent mitigating factors		Generally supports shareholder proposals seeking disclosure of workforce diversity demographic data, and release of EEO-1 or comparable data
Fidelity	Will vote against boards that do not have at least 30% female representation	Will consider voting against the election of accountable directors where there are serious concerns relating to racial or ethnic the board, or the number is inadequate, based on factors including the board size, industry, and market	N/A

[1] The policy currently applies to companies in the Russell 3000 or S&P 1500 indices. Effective Feb. 1, 2023, it will apply to all companies.

[2] Glass Lewis assesses the quality of such disclosure based on how a company's proxy statement presents: (i) the board's current percentage of racial/ethnic diversity; (ii) whether the board's definition of diversity explicitly includes gender and/or race/ethnicity; (iii) whether the board has adopted a policy requiring women and minorities to be included in the initial pool of candidates when selecting new director nominees (aka "Rooney Rule"); and (iv) board skills disclosure.

[3] Reflects BlackRock's 2022 policy updates announced on Dec. 14, 2021

[4] From March 2022, GSAM will require all companies to have at least two women on the board, unless the board has 10 or fewer members; also, will require S&P 500 companies to have at least one diverse director from an underrepresented ethnic minority group on their board.

The following table represents a high-level summary of proxy advisors' and big three investors' policies with respect to board oversight of environmental and social issues, and climate reporting for the U.S. companies.

	ENVIRONMENTAL & SOCIAL RISK OVERSIGHT	CLIMATE REPORTING
ISS	Under exceptional circumstances, will recommend against directors individually, committee members, or the entire board for poor risk oversight of environmental and social issues	At significant greenhouse gas (GHG) emitter companies, will recommend against the responsible committee chair at companies that have not made appropriate climate-related disclosures and that have not set quantitative GHG reduction targets covering at least a significant portion of the company's direct emissions (Scope 1 and 2) targets Generally vote for proposals requesting that a company disclose information on the financial, physical, or regulatory risks it faces related to climate change, or for proposals requesting a report on GHG emissions from company operations
Glass Lewis	Will generally recommend voting against the governance committee chair of a company in the S&P 500 index that fails to provide explicit disclosure concerning the board's role in overseeing environmental and/or social issues Will note as a concern when boards of companies in the Russell 1000 index do not provide clear disclosure concerning the board-level oversight afforded to environmental and/or social issues	Will generally recommend in favor of shareholder resolutions requesting that companies provide enhanced disclosure on climate-related issues, such as requesting that the company undertake a scenario analysis or report against the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) Will consider supporting on a case-by-case basis, well-crafted proposals requesting that companies report their GHG emissions and adopt a reduction goal for these emissions
BlackRock	Will consider voting against committee members and / or individual where the board has failed to exercise sufficient oversight with regard to material ESG risk factors, or the company has failed to provide shareholders with adequate disclosure to conclude appropriate strategic consideration is given to these factors by the board	May vote against the directors it consider responsible for climate risk oversight, where corporate disclosures are insufficient to make a thorough assessment, or a company has not provided a credible plan to transition its business model to a low carbon economy, including short medium and long-term targets May also support shareholder proposals that address gaps in a company's approach to climate risk and the energy transition
Vanguard	Will generally vote against directors who failed to effectively monitor, and ensure management of material risks and business practices including environmental and social risks	Likely to support shareholder proposals that request disclosure on how climate change risks are incorporated into strategy and capital allocation decisions, ask for an assessment of climate impact (including scenario analysis) and/or request feasibility analysis
State Street Global Advisors (SSGA)	Will vote against the independent board leaders at S&P 500 companies that are underperformers on financially material ESG factors based on its proprietary R-Factor scores and have not shown positive momentum in the previous two years	Case-by-case approach considers whether the adoption of a shareholder proposal addressing a material sustainability issue would promote long-term shareholder value in the context of the company's existing practices and disclosures as well as existing market practice

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If you have questions or comments, please email **info@georgeson.com** or call **212 440 9800**.

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