GLASS LEWIS 2021 Policy Updates

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On November 24, 2020, Glass Lewis (GL) published updates to its policy guidelines for several markets, including the US. It also published updates to its global Environmental, Social & Governance ("ESG") Initiatives guidelines which covers shareholder sponsored proposals. The guideline documents include new policies as well as codification and clarification of existing policies. Some of the updates will apply to 2021 proxy season meetings, while others will not impact voting recommendations until meetings held after January 1, 2022 and will be noted in Proxy Papers as a concern in 2021.

Glass Lewis's updated guidelines are available through its **policy page**, and a press release can be found on the Glass Lewis **blog**.

US Policy Updates, Codifications and Clarifications

BOARD GENDER DIVERSITY

Glass Lewis has expanded its policy on gender diversity such that it will generally recommend against the chair of the nominating committee at companies with fewer than two female directors, beginning with meetings held after January 1, 2022. Glass Lewis will note in a company's Proxy Paper the lack of gender diversity as a concern for meetings held in 2021 but voting recommendations will continue to be based on current requirements of at least one female board member.

STATE LAWS ON DIVERSITY

In addition to Glass Lewis' own policy on board gender diversity, it has added a policy that it will recommend in accordance with board composition requirements dictated by state law, where applicable.

DISCLOSURE OF DIRECTOR DIVERSITY AND SKILLS

Glass Lewis has expanded its Proxy Paper reporting to include an assessment of disclosure in the proxy statement relating to board diversity, skills and the director nomination process. Beginning in 2021, reports for S&P 500 companies will include the assessment[1]. Glass Lewis will not issue vote recommendations in 2021 solely based on the new assessment but notes that it may use the data as a contributing factor where additional concerns have been identified.

BOARD REFRESHMENT

Glass Lewis has added a policy to note as a "potential concern" instances where average board tenure for non-executive directors is ten years or more and no new independent directors have joined in the past five years. This policy will be implemented in 2021 and Glass Lewis notes it will not currently issue vote recommendations solely on this basis but may use the data as a contributing factor where additional concerns have been identified.

1) The elements of Glass Lewis' assessment are analyses of disclosure around: "(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."

ENVIRONMENTAL AND SOCIAL RISK OVERSIGHT

Beginning in 2021, Glass Lewis has updated it guidelines to note as a concern in Proxy Papers for S&P 500 companies those that do not provide "clear disclosure concerning the board-level oversight afforded to environmental and/or social issues." For meetings held after January 1, 2022, Glass Lewis will generally recommend against the chair of the governance committee for S&P 500 where the disclosure is lacking.

SPECIAL PURPOSE ACQUISITION COMPANIES

Glass Lewis has added a guideline section relating to Special Purpose Acquisition Companies (SPACs). Glass Lewis will generally support "reasonable" requests to extend business combination deadlines. Glass Lewis will generally consider former SPAC executives on the board of the combined company to be independent in the absence of evidence to the contrary.

VOTE RESULTS DISCLOSURE

Glass Lewis has added a policy relating to the disclosure of vote results. Beginning with meetings held after January 1, 2021, Glass Lewis will recommend against the chair of the governance committee in all instances where there has not been disclosure of the last annual meeting's detailed proxy vote results.

SHORT-TERM INCENTIVES (CODIFICATION)

Glass Lewis has codified additional factors for consideration when assessing short-term incentive plans. It expects any "significant changes to a company's short-term incentive plan structure, as well as any instances in which performance goals have been lowered from the previous year" to be accompanied by clearly disclosed justifications. Glass Lewis will also now consider retroactively prorated performance periods to be examples of the application of upward discretion.

LONG-TERM INCENTIVES (CODIFICATION)

Glass Lewis has codified additional factors for consideration when assessing long-term incentive plans. It has defined "inappropriate performance-based award allocation" as well as "any decision to significantly roll back performance-based awards allocation" as criteria which may contribute to a negative recommendation. Glass Lewis has also defined the expectation that "long-term incentive equity granting practices, as well as any significant structural program changes or any use of upward discretion" be accompanied by clearly disclosed explanations.

BOARD RESPONSIVENESS (CLARIFICATION)

Glass Lewis has clarified its approach to board responsiveness on shareholder proposals. Previously Glass Lewis had used the 20% support level for shareholder proposals as a threshold for board responsiveness (the same threshold for votes against or withheld from a director or votes against a management proposal). Now, Glass Lewis clarified that while it "may note instances of significant support," a majority of votes cast is the threshold for warranting clear action in the case of shareholder proposals.

GOVERNANCE FOLLOWING AN IPO OR SPIN-OFF (CLARIFICATION)

Glass Lewis has clarified its approach to post-IPO governance-based director recommendations to note that it will expand negative recommendations to additional director nominees if there is no governance committee or there are no governance committee members standing for election. Glass Lewis has also clarified that in instances where a multi-class share structure with disproportionate voting rights is put to shareholder vote it will examine the support of unaffiliated shareholders when determining the vote outcome.

EXCISE TAX GROSS-UPS AND VOTES ON GOLDEN PARACHUTE PAYMENTS (CLARIFICATION)

Glass Lewis has added language to clarify that when evaluating the addition of new excise tax gross-ups in change-in-control transactions it may expand a negative recommendation beyond the golden parachute proposal to recommendations against compensation committee members and the say-on-pay proposals of any involved corporate parties.

OPTION EXCHANGES AND REPRICING (CLARIFICATION)

Glass Lewis has added language that clarifies the importance of option exchanges and repricing proposals being value-neutral or value-creative and excluding officers and directors if such proposals are to merit an exception to Glass Lewis' general opposition.

PEER GROUP METHODOLOGY (CLARIFICATION)

Glass Lewis has clarified that the proprietary peer groups used in pay-for-performance analyses consider country- and sector-based peers as well as "each company's network of self-disclosed peers."

VIRTUAL-ONLY SHAREHOLDER MEETINGS (CLARIFICATION)

Glass Lewis has clarified that its temporary guidance on virtual shareholder meeting disclosure is no longer in effect and that companies which choose to hold a virtual-only meeting should expect to be reviewed under the standard policy. Glass Lewis specifically notes the expectation of disclosure "addressing the ability of shareholders to participate in the meeting."

ESG Initiatives Updates and Codifications

Glass Lewis' ESG Initiatives updates provide for, among other items, an increase in recommendations in favor of multiple shareholder proposals. According to data from ISS, proposals requesting diversity-related reports passed at two companies in the Russell 3000 this past season, at Genuine Parts Company and Fortinet. Four climate-related reporting proposals passed in the same group, at J.B. Hunt, Ovinitiv, Chevron and Dollar Tree.

DIVERSITY REPORTING

Glass Lewis has updated its ESG Initiatives guidelines such that it will generally support shareholder proposals requesting that a company provide EEO-1 reporting and will no longer consider a company's industry when evaluating diversity reporting proposals.

MANAGEMENT-PROPOSED ESG RESOLUTIONS

Glass Lewis has codified its approach to management E&S proposals, considering among other factors: "(i) the request of the resolution and whether it would materially impact shareholders; (ii) whether there is a competing or corresponding shareholder proposal on the topic; (iii) the company's general responsiveness to shareholders and to emerging environmental and social issues; (iv) whether the proposal is binding or advisory; and (v) management's recommendation on how shareholders should vote on the proposal."

CLIMATE CHANGE

Beginning in 2021, Glass Lewis will no longer consider a company's industry when reviewing climate reporting proposals and will generally recommend in favor of shareholder proposals requesting enhanced disclosure on climate-related issues. Glass Lewis has also codified its approach to reviewing climate-related lobbying proposals. It will evaluate: "(i) whether the requested disclosure would meaningfully benefit shareholders' understanding of the company's policies and positions on this issue; (ii) the industry in which the company operates; (ii) the company's current level of disclosure regarding its direct and indirect lobbying on climate change-related issues; and (iii) any significant controversies related to the Company's management of climate change or its trade association memberships."

ENVIRONMENTAL AND SOCIAL RISK OVERSIGHT

Glass Lewis has updated its ESG Initiatives guidelines with a policy to note as a concern instances where boards of large cap companies do not provide "clear disclosure concerning the board-level oversight afforded to environmental and/or social issues." This policy goes into effect in 2021. Beginning with meetings held after January 1, 2022, Glass Lewis will generally recommend against the governance chair in these instances. This update mirrors a similar one in the 2021 US guidelines applying to S&P 500 companies.

For European Policy Updates visit:
georgeson.com/uk/gl-2021-policy-updates

If you are curious to what extent Glass Lewis recommendations - or those of other proxy advisory firms - impact the voting decisions of your particular shareholders, reach out to your Georgeson representative, email info@georgeson.com or call us at 212.440.9800