Glass Lewis 2024 Policy Updates (UK and Europe)

Introduction

Glass Lewis has released their guideline updates to their main voting policies for 2024 for the UK and Europe. The updates will be effective from the 2024 AGM season. This memo summarizes the policy changes that will be applied across the UK, Ireland and Continental Europe (including separate, specific updates for Germany, France, Switzerland, the Netherlands, Italy and Spain).

The main changes relate to director accountability for climate-related issues, cyber risk oversight, interlocking directorships, director attendance and executive shareholding requirements. Below we provide a more detailed overview.

Updates across both UK & Europe

Director Accountability for Climate-Related Issues

Glass Lewis believes that companies with "*material exposure to climate risk stemming from their own operations*" should provide thorough climate-related disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). In addition, Glass Lewis believes that the boards of these companies should have explicit and clearly defined oversight responsibilities for climate-related issues. In practice, this means that in instances where Glass Lewis finds either of these disclosures to be absent or significantly lacking, they may recommend voting against the responsible directors. Beginning 2024, Glass Lewis will apply this policy to "*most large-cap companies operating in industries where the Sustainability Accounting Standards Board (SASB) has determined that companies' GHG emissions represent a financially material risk*."

Director Accountability for Cyber Risk Oversight

Glass Lewis has expanded their policy on cyber risk oversight. In instances where a company has been materially impacted by a cyber-attack, Glass Lewis may recommend voting against appropriate directors should Glass Lewis find the board's oversight, response or disclosures concerning cybersecurity-related issues to be absent or insufficient.

Interlocking Directorships

Glass Lewis has expanded their policy on interlocking directorships specifying that Glass Lewis will consider both public and private companies. Besides this, Glass Lewis has indicated that they will "*evaluate other types of interlocking relationships on a case-by-case basis, and review multiple board interlocks among non-insiders for evidence of a pattern of poor oversight.*"

Director Attendance

In their updated guidelines, Glass Lewis has now clarified that in their assessment of director attendance, they typically recommend voting against re-election of directors that failed to attend either: "*at least 75% of board meetings; or an aggregate of 75% of board and applicable committee meetings*." Glass Lewis will continue to typically grant exceptions to directors in their first year of service on a board or when the company discloses adequate mitigating circumstances for a director's poor attendance record.

Executive Shareholding Requirements

Glass Lewis has outlined that "companies should generally adopt minimum executive share ownership requirements that should apply for the duration of an executive's tenure, and our view that additional post-vesting/post-termination holding requirements may serve to further align executives' interests with those of long-term free-float shareholders".

UK specific updates

Glass Lewis has not provided material changes to their 2024 policy guidelines applicable to the UK only. For the common changes, please see the overview, above.

Ireland specific updates

Gender Diversity

Glass Lewis has updated their guidelines to clarify that they will generally recommend against the chair of the nomination committee at any ISEQ 20 board that has failed to meet the 33% board gender diversity target set out by the Balance for Better Business review and *"has failed to provide clear and compelling disclosure for why it has been unable to do so"* but may apply limited exceptions to this policy.

Continental Europe common updates

Vote on the Non-Financial Report

Large Spanish companies have been required to include proposals to approve their non-financial reporting on the agenda of their AGMs since 2019. These companies were required to have their non-financial report independently verified, which therefore led to Glass Lewis's policy on a non-financial report resolution relying on the assessment of a third-party assurance provider. From 2024 onwards, Large Swiss companies are now required to include these types of proposals on the agenda of their AGMs. However, the Swiss disclosure requirements do not require the company to get its report assured by an external third-party. In response to the Swiss Law Change, Glass Lewis updated its guidelines so that the proxy advisor will generally recommend shareholders to vote in favour of these proposals, unless any of the following apply:

(i) the company has failed to make the report publicly available with sufficient time for shareholder review;
(ii) the company has failed to provide a sufficient response to material controversies in its reporting;
(iii) there are material concerns regarding the completeness and/or quality of the reporting; or
(iv) the company is listed on a blue-chip or mid-cap index and has failed to disclose its Scope 1 and 2 greenhouse gas emissions.

Glass Lewis also states that it may "*extend our Environmental and Social Risk Oversight policy to recommend a vote against the approval of a company's non-financial reporting in addition to, or instead of, a recommendation to vote against accountable directors of large-cap companies and other companies with material ESG oversight concerns that have failed to provide explicit disclosures concerning the board's role in overseeing material ESG issues.*"

Remuneration relative to peers

The guidelines now include a section that clarifies the expectation that companies disclose their peer group utilised for remuneration benchmarking, as well as the criteria utilised in the selection process – especially in cases where companies consider U.S.-based peers. In addition, Glass Lewis states they now generally believe "*companies should provide supporting disclosures where key elements of their executive pay plan deviate from the prevailing market practice. This is particularly relevant in cases where multiple exchange listings or another company-specific situation leads a company to benchmark its pay-setting across multiple jurisdictions.*"

'Overperformance' Resulting in Pay-for-Performance Concerns

Glass Lewis has clarified that in cases where maximum vesting occurs even if the threshold hurdle for one or more performance metrics was missed (due to the structure of the incentive plan and above-target performance against other metrics), which results in a clear pay-for-performance disconnect, they may recommend that shareholders vote against the company's remuneration report.

Capital Authorities to Service Equity Programmes

Glass Lewis has clarified that where a company proposes a capital authority to service an equity programme that includes participants beyond the executive committee, they *"generally believe that the authority should not exceed 10% of a company's issued share capital. Where a company proposes a capital authority to service an equity programme that is exclusively for executive directors, we continue to believe that the authority should not exceed 5% of a company's issued share capital".*

Germany specific updates

Implementation of New Remuneration Policy

In updating their guidelines, Glass Lewis has reinforced their view that they favour the simultaneous implementation of a new or amended remuneration policy into all active management board members' contracts. Particularly, Glass Lewis clarified that "*a staggered implementation – occurring only upon renewal of each executive's multi-year contract – may not only hinder transparency, but also represent a disservice to minority shareholders when the new policy was aimed at addressing structural concerns they had previously expressed.*" Glass Lewis indicates that companies should provide specific disclosures supporting the board's decision-making process in this regard.

Disclosure of Earned/Paid Remuneration

Glass Lewis indicates that "*despite the absence of clear mandatory or recommended templates, best practice has developed towards a voluntary disclosure of both earned and paid variable pay elements and the addition of a preface to the relevant tables, detailing what variable pay elements are included and in reference to what performance period."* As a result, Glass Lewis states it may recommend voting against a remuneration report in which information regarding awards earned (or vested) for performance in the year under review is omitted or absent of a supporting and compelling rationale.

France specific updates

Remuneration Metrics Related to Social and Environmental Stakes

To align with the updated recommendation of the AFEP-MEDEF code, Glass Lewis has now clarified that variable remuneration should be based on "*multiple metrics that are related to the most important social and environmental stakes of the company.*" Glass Lewis underlines that they generally believe quantifiable metrics are preferable over qualitative indicators. Before, Glass Lewis's expectations were limited to the presence of one metric related to the company's social and environmental responsibility.

Employee Shareholder Representatives

In their updated guidelines, Glass Lewis has clarified their approach to a situation in which "*a company puts up for shareholder approval of multiple employee shareholder representatives that are competing for a single seat on the board."* In this case, Glass Lewis will generally recommend in favour of a single candidate. In recommending a candidate, Glass Lewis now considers "*the stake held in the company of the employee fund proposing the candidate, the candidates' individual skills, their previous role on the board as well as the board recommendation, if available*".

Equity-Based Incentive Plan Proposals

In their updated guidelines, Glass Lewis clarifies that no discount should be applied to the exercise price of the options granted to the corporate officers. Glass Lewis will generally recommend against authorities granting discounted options to corporate officers.

Switzerland specific updates

Vote on the Non-Financial Report

For information on Glass Lewis's updated approach to non-financial reporting proposals, see above.

Netherlands specific updates

Director Attendance Records

Glass Lewis views meeting attendance as a core responsibility of directors. In line with the recommendations of the Dutch Governance Code, the Glass Lewis guidelines now reflect the need to disclose directors' attendance at board and committee meetings on an annual basis. In absence of such disclosure, Glass Lewis will consider recommending an against vote on the re-election of the chair of the governance committee (or equivalent).

Italy specific updates

Glass Lewis has not provided any material changes to their 2024 policy guidelines for Italy only. For wider European developments, please see the common guideline updates, above.

Spain specific updates

Vote on the Non-Financial Report

For information on Glass Lewis's updated approach to non-financial reporting proposals, see above.

Remuneration Relative to Ownership Structure

In their updated guidelines, Glass Lewis has outlined several company practices that may serve to mitigate concerns when "*a significant equity award is made to an executive that is also a major shareholder.*" These mitigating measures include the presence of challenging targets attached to a diverse set of performance metrics, meaningful disclosure on the company's engagement with shareholders on the topic, or a policy that the executive will not participate in voting on the award.

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