

ISS Annual Global Benchmark Policy Survey

August - September, 2024

You are invited!



* Required

Respondent Information

We appreciate you taking the time to provide input to our 2024 ISS annual global benchmark policy survey. Your answers will help inform ISS voting policy development on a variety of different topics across global markets. ISS Benchmark Policy and voting guidelines are designed to provide research, analysis and recommendations consistent with ISS' Global Voting Principles covering the four key tenets of accountability, stewardship, independence, and transparency, and to assist institutional investors in meeting their fiduciary requirements with respect to voting by promoting long-term shareholder value creation and risk mitigation by reference to responsible global corporate governance practices.

ISS is seeking feedback this year on the following topics: topics specific to the U.S. market, including poison pills and executive compensation; general share issuances in France; virtual meetings and auditor rotation topics related to the European region; cumulative voting for the election of directors in Middle East and North African markets, and environmental and social topics specifically related to Scope 3 GHG emission reduction targets/disclosure and workforce diversity.

To the extent possible, please respond to reflect your organization's "house" views. Respondents must provide verifiable information pertaining to the name, title, email, and organization for responses to be accepted. However, individual responses and respondent details will not be shared with anyone outside of ISS and will be used by ISS only for policy development purposes.

The survey will close on September 5, 2024 (answers received after the survey's close may be considered but will not be compiled statistically in the results report.)

In addition to our annual policy survey, ISS conducts a variety of regional and topic-specific roundtables and conference calls each year as part of our annual policy development process to gather broad input from investors, directors, and others. These will also factor into the update and development of ISS' voting policy guidelines for 2025 and beyond. After analysis and consideration of this year's survey responses and the many other inputs we receive, we will, as in prior years, open a public comment period for all interested market participants on the major final proposed changes to our policies in 2025. The open comment period is designed to elicit objective and specific feedback from investors, companies, and other market constituents on the practical implementation of the proposed policy updates, before the final policy changes are published later in the year.

If you have questions or would like to submit any further responses to any of the survey questions, please send requests to policy@issgovernance.com

1. Please provide your Name: *

2. Please provide your Title: *

3. Please provide your Organization: *

4. Please provide your valid e-mail address: *

5. Which category best describes you or the organization on whose behalf you are responding?

*

If you are a mutual fund, bank, or insurance company responding as a public corporation, please select the "public corporation" category in the questions below.

- Institutional investor (asset manager)
- Institutional investor (asset owner)
- Advisor to institutional investors
- Public corporation
- Board member of a public corporation
- Advisor to public corporation
- Other

6. If you are an institutional investor, what is the size of your organization's equity assets under management or assets owned (in U.S. dollars) or if you are a public corporation, what is the size of your organization's market capitalization (in U.S. dollars)? *

- Under \$100 million
- \$100 million - \$500 million
- \$500 million - \$1 billion
- \$1 billion - \$100 billion
- Over \$100 billion
- Not Applicable

7. What is your primary geographic area of focus in answering the survey questions? *

- Global (most or all of the below)
- U.S.
- Canada
- Latin America
- Continental Europe
- U.K. and/or Ireland
- Asia-Pacific
- Developing/Emerging markets generally
- Other

Market Specific Questions

U.S.

8. Poison Pills

Poison pills (also known as "shareholder rights plans") were first developed in the 1980s as a defense against unsolicited takeovers and have historically been justified as a way to place the board in a stronger negotiating position vis-à-vis a would-be acquirer. Over time, as the number of hostile takeover attempts declined dramatically in the United States, pills have morphed into a defense against shareholder activism, and are frequently adopted in response to accumulation of shares by a known activist, even when the activist has stated they have no intention of acquiring a controlling stake. When it comes to trigger thresholds, some companies and their advisors have attempted to normalize triggers of 12.5 percent, 10 percent, or even lower levels; compared to the 15-20 percent that used to be considered standard. Most newly-adopted pills in the US have an initial duration of one year or less (though boards often renew them), and are rarely put to a shareholder vote. Concerned investors must therefore evaluate the board's decision to unilaterally adopt a poison pill and determine whether it was reasonable or whether the board's actions may constitute a material governance failure. Under ISS Benchmark policy, unilateral adoption of a pill is evaluated with reference to, among other things, the terms of the pill (duration, trigger threshold etc), the board's stated rationale for adopting it, and the context in which it was adopted. This context includes market and industry conditions, company-specific performance, sudden or opportunistic accumulations of shares, and the company's overall track record of corporate governance and responsiveness to shareholders.

In the view of your organization, is the adoption by a board of a short-term poison pill to defend against an activist campaign acceptable?

- Generally, no
- It depends
- Generally, yes

9. If you responded "It depends", please provide more details.

10. Should pre-revenue or other early-stage companies be entitled to greater leeway than mature companies when it comes to the adoption of a short-term poison pill?

- Yes, but only if their governance structures and practices ensure accountability to shareholders
- Generally, no
- Generally, yes

11. Is it ever acceptable for a board to set the trigger of a short-term poison pill below 15 percent?

- Yes, but only in extraordinary circumstances, such as the global pandemic, that cause companies to temporarily trade below their long-term fair value
- Yes, if the board believes there is a specific reason that a higher trigger would leave shareholders exposed to the threat of a loss of value
- It depends on factors specific to each company
- Yes, the trigger level should be at board's discretion
- No

12. If you responded "It depends", what company-specific factors would justify a lower trigger threshold?

13. Some companies have adopted a two-tier trigger threshold, with a higher trigger for passive investors (13G filers). Do you consider this to be a mitigating factor for a low trigger?

- Yes, it should prevent the pill from being triggered by a passive asset manager who has no intention of exercising control
- No, all investors can be harmed when a company erects defenses against activist investors whose campaigns can create value, so the lowest trigger is the relevant datapoint.
- It depends

14. How important is it that a poison pill include a "qualifying offer clause", giving shareholders the ability to bypass the pill in the event of an offer that is deemed beneficial?

- Important - poison pills should always have a qualifying offer clause to prevent them from being used as an entrenchment mechanism
- Not important - because of the rarity of unsolicited takeovers, qualifying offer clauses are no longer relevant
- Sometimes important - it depends on the trigger threshold and other terms of the pill

15. Executive Compensation

The ratio of performance-based to time-based equity awards has long been a focal point of ISS' qualitative review in the pay-for-performance analysis. When a company exhibits a quantitative pay-for-performance misalignment, ISS' qualitative review usually views a predominance of performance-conditioned equity awards as a positive mitigating factor, while a predominance of time-vesting equity awards is generally considered a negative exacerbating factor. This longstanding approach was first adopted based on investor views that the use of performance vesting criteria for a majority of equity pay, when well-designed and disclosed, strengthens the alignment of interests between executives and shareholders.

However, in recent years a growing number of investors have become skeptical, or even critical, of performance equity practices in US executive pay. These investors have raised various concerns, including that such programs are often complex and that non-rigorous performance goals often result in vesting of significantly more than the target value. Such investors believe that replacing performance-conditioned equity awards with time-based equity awards that have extended vesting periods could eliminate some of the problems they see with performance equity and still provide long-term alignment between executives and shareholders.

Do you consider that ISS' qualitative review in the context of a pay-for-performance misalignment should:

- Continue with the current approach, which considers a predominance of time-based equity awards to be a negative factor, irrespective of if such awards have extended vesting periods (i.e. longer than four years)?
- Revise the current approach, whereby time-based equity awards with extended vesting periods are considered a positive mitigating factor, similar to performance-based awards?
- Other

16. If you responded "Other", please explain.

17. If you answered, "Revise the current approach...", what length of extended vesting period for time-based equity awards would you consider sufficient for ISS to view such awards as a positive mitigating factor in the context of a pay-for-performance misalignment?

- The awards should vest over at least five (5) years
- The awards should vest over at least seven (7) years
- Other

18. If you responded "Other", please explain.

19. Should a meaningful post-vesting holding period be required for ISS to view such awards as positive mitigating factor in the context of a pay-for-performance misalignment?

- Yes, a post-vesting holding period requirement should be applicable
- No, a post-vesting holding period requirement is not necessary
- Other

20. If you responded "Other", please explain.

21. ISS policy maintains a positive view of annual incentive programs that are primarily based on the achievement of quantified, pre-set goals with disclosed targets and weightings. Conversely, annual incentive programs that are heavily reliant on discretionary determinations, or which lack key disclosures such as target goals and weightings, are viewed negatively. Programs that incorporate a limited discretionary element are generally not viewed negatively based on this factor alone. The vast majority of S&P500 companies have adopted annual incentive programs that are primarily based on the achievement of specific metrics with weightings and quantified, pre-set goals, with any discretionary components being clearly defined and limited.

However, some companies, including many large financial firms, deviate from broader market standards by maintaining an annual incentive program that is based entirely on year-end discretionary performance assessments. Such companies sometimes disclose various factors the board considered when arriving at the discretionary award determination, but the key disclosures noted above are often absent. These companies usually contend that a discretionary structure is necessitated by company- and/or industry-specific considerations, such as peer practices, macroeconomic factors, and risk management.

Does your organization believe that largely discretionary annual incentive programs, such as those adopted by some large financial sector companies, are problematic, even if the program structure is consistent with industry and/or peer practice?

- Yes, largely discretionary annual incentive programs are problematic, and companies should primarily utilize preset goals and limit the impact of discretion
- No, discretionary programs are not problematic when the structure is consistent with industry and/or peer practice, and the company discloses the main factors considered
- Sometimes, discretionary programs are only problematic if pay is not aligned with company performance
- Other

22. If you responded "Other", please explain.

23. Companies in certain niche industries, including alternative asset managers, will sometimes make awards or distributions that represent a share of the profits from managed funds. In many cases these distributions are not capped, the calculation formula is complex, and the values drive exceedingly high reported compensation. For these reasons, fund distributions are often viewed negatively under ISS' qualitative pay-for-performance analysis. Companies that maintain this compensation element often cite industry practice and competition concerns with privately held competitors.

Does your organization believe that ISS policy should consider a different approach towards award structure or quantum of distributions that represent profits from managed funds?

- Yes, such awards reflect managed fund performance and ISS should not apply the same considerations of award structure and quantum as it would to regular incentive pay
- No, ISS should analyze the magnitude and structure of such awards as it would for regular incentive pay.
- Other

24. If you responded "Other", please explain/

Continental Europe

25. General Share Issuances - France

Until June 2024, French law contained a limit on the maximum discount for the main issuances of shares without preemptive rights set at 10 percent of the market price over the previous three days. Following the removal of this requirement under French law, do you believe it is appropriate for ISS policy to maintain a maximum limit for French companies on the possible discount for issuances without preemptive rights?

- Yes, in line with previous law (at 10 percent)
- No, companies should be able to choose the level of discount
- Other

26. If you responded "Other", please explain.

27. Virtual Meetings - All Continental Europe

Based on your experience with virtual-only meetings since they have been allowed and implemented in Continental Europe, what is your organization's current view of virtual-only meetings?

- Positive, it should always be allowed
- Somewhat positive, the decision is best left to the board
- Mixed, it depends on company practice (e.g., frequency, rationale, conduct of previous meetings, etc.)
- Somewhat negative, only permissible in extraordinary circumstances, with authorization limited in time
- Negative, not supportive under any circumstance
- Other

28. If you responded "Other", please explain.

29. Auditor Rotation - All Continental Europe

All Public Interest Entities* within EU member states are bound by mandatory auditor rotation rules, which allow for maximum audit firm tenures of 20 years if a tender is conducted after an initial 10-year period or 24 years if joint audits are performed after an initial 10-year period. Should ISS consider the introduction of an auditor rotation policy for companies that are not subject to these EU rules?

** Definition of a Public Interest Entity under EU legislation: All entities that are both governed by the law of a member state and listed on an EU regulated market*

- Yes, the mandatory EU rules represent good practice regarding auditor rotation that could benefit shareholders in all European countries
- No, if a company is not subject to the mandatory EU rules, this is not necessary
- Other

30. If you responded "Other", please explain.

Middle East and North Africa

31. Cumulative Voting Elections

In a number of Middle East and North African markets such as Saudi Arabia, United Arab Emirates, Egypt, and Qatar, publicly listed companies use the cumulative voting system to elect the board of directors as stipulated by their local laws and regulations. Under a cumulative voting system, each share gives a number of votes equal to the size of the board that will be elected. These votes may be apportioned equally among the candidates or concentrated only on specific candidates.

When directors are elected through a cumulative voting system, when the number of nominees exceeds the number of board vacancies, if the company's disclosure about the nominees is sufficient to allow an assessment of the independence of all proposed candidates (both incumbent and new ones), all relevant disclosed factors are considered in the ISS analysis to identify the nominees best suited to add value for shareholders- such as their independence classification, professional background, executive positions/directorships at other listed companies and any other relevant factors.

However, in the above-mentioned markets, and specifically in Saudi Arabia where cumulative voting elections are most common, companies often do not disclose information on their assessments of the independence of all the director candidates prior to the annual general meeting (AGM). Generally, disclosures are provided only for the incumbent nominees. Under the ISS Middle East and North Africa policy, in the event of insufficient disclosure on any candidate(s) ISS currently recommends to ABSTAIN from voting on all candidates submitted under cumulative voting.

However, in some of these cases, the number of incumbent independent candidates for whom sufficient information is provided to assess may be adequate to meet the required one-third board independence threshold for the upcoming term. In addition, the incumbent independent candidates know the specificities of the company and may bring valuable experience to the board.

Given this context, ISS is considering amending its current policy for Middle East and North African companies in cases where only the incumbent directors' disclosures and independence classifications are available at the time of analysis.

As such, in your organization's view, should ISS consider recommending support for incumbent directors presented for board elections under cumulative voting, if assessed as independent, even if not all candidates are covered by sufficient disclosures to be assessed?

- Yes
- Yes, if the required one-third board independence will be satisfied for the upcoming term.
- No, ISS should maintain its current approach under existing policy where the disclosure of the company is not sufficient to allow the assessment of all candidates on equal terms.
- Other

32. If you responded "Other", please explain.

Global Environmental & Social Questions

33. Scope 3

As a stakeholder, does your organization believe that Scope 3 GHG emission reduction targets should be disclosed?

- Yes, companies should be setting targets for their Scope 3 emissions
- Yes, but only those companies for which Scope 3 emissions are significant in their carbon footprint
- Yes, but only high emitting companies should be setting targets for their scope 3 emissions
- No, companies should not be required to set targets for their Scope 3 emissions
- Other

34. If you responded "Other", please explain.

35. If your answer to the previous question is one of the options that starts with "Yes", does your organization believe that those targets should be:

- Mid-term Scope 3 targets only
- Net zero Scope 3 targets only
- Both Mid-term AND Net Zero Scope 3 targets

36. Climate-related Shareholder Proposals

In evaluating climate-related shareholder resolutions asking companies to report on or establish targets or plans to reduce emissions, ISS analysis takes into consideration many factors, including adequacy of climate-related disclosure, existing and potential legal and regulatory risks, comparison between the company and its peers, and board and management oversight disclosure. There seemingly is a more diverse set of opinions on what criteria make a proposal more or less burdensome. ISS Benchmark Policy's current approach generally does not view such requests as overly burdensome and tends recommend support if shortcomings are identified in the company's current approach to signal that actions lowering GHG-related risk are likely in shareholders' interest, even if they don't achieve full value chain net zero emissions. As a market participant, which - if any - of these factors would your organization consider most relevant when addressing proposals asking for a report on or to take climate-related actions. Please select the one(s) that most reflect your organization views.

- Less relevant (or less likely to support, if an investor) if the resolution explicitly asks to align with the Paris Agreement's 1.5 degree Celsius goal
- Less relevant (or less likely to support, if an investor) when the resolution includes target requirements for supply chain emissions (Scope 3)
- Less relevant (or less likely to support, if an investor) when the horizon term for targets includes short- or medium-term
- Less relevant (or less likely to support, if an investor) when the technology necessary to achieve full value chain net-zero goals is not yet cost-competitive
- Less relevant (or less likely to support, if an investor) if the resolution asks for the adoption of a target rather than reporting on the adoption of targets
- Generally, do not view such requests as overly burdensome and, if an investor, tend to support them if shortcomings are identified in the company's current approach
- Other

37. If you responded "Other", please explain.

38. Workforce Diversity

Which - if any- of the following human capital management metrics or disclosure topics do you consider that investors should support, if requested in a shareholder proposal; assuming they related to markets where such metrics are legal and reflective of societal norms? If more than three, please select your organization's top three (3) options.

Please select 3 options.

- Racial/Ethnic Diversity and Gender Representation Data for different categories of positions across an organization (such as EEO-1 data in the U.S.)
- Promotion Velocity Data by Race/Ethnicity and Gender (examining whether sex and race/ethnicity differences exist in promotions)
- Retention Rates by Race/Ethnicity and Gender
- Hiring Rates by Race/Ethnicity and Gender
- Board oversight of the human capital management issue raised in the proposal
- Management oversight of the human capital management issued raised in the proposal
- Adjusted (accounting for factors such as job role, education, and experience) Gender Pay Gap Disclosure
- Unadjusted Gender Pay Gap Disclosure.
- Other

39. If you responded "Other", please explain.

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