

ISS Launches Open Comment Period for Potential 2022 Policy Updates

As part of its annual policy review and update process, ISS has issued draft 2022 policy updates for comment until November 16. Areas up for consideration include climate disclosure, board diversity and director accountability. ISS is addressing executive pay in its future FAQs.

As part of its annual policy review and update process, Institutional Shareholder Services (ISS) has issued draft 2022 policy updates for comment. Topics span board diversity, director accountability and climate-related issues. For the third year in a row, there are no executive pay topics for U.S. companies proposed for feedback in the open comment period. This fits the recent pattern where changes to ISS' compensation policies roll out in the form of updates to its FAQs later in the year.

The open comment period runs until November 16. Full details of the proposed changes can be accessed on the ISS website [here](#). Comments should be submitted to ISS directly at policy@issgovernance.com. As in the past, the draft policies do not cover all potential changes under consideration by ISS.

ISS is soliciting input from investors, issuers and other stakeholders on 16 potentially new or amended policies across various geographic markets and governance topics. Key topics relevant to companies in the United States market include:

Board Diversity – Gender, Race and Ethnicity (U.S.)

ISS is proposing expanding the coverage of its board gender diversity policies in the U.S. Current policy dictates ISS will recommend against, or withhold from, the chair of the nominating committee (or other directors on a case-by-case basis) at Russell 3000 or S&P1500 companies where there are no female directors on the board. The proposed updates would broaden this requirement to all companies listed in the U.S., regardless of index status. If adopted, this change would go into effect in proxy year 2023, following a one-year grace period.

Board Accountability – Unequal Voting Rights (U.S.)

This proposed update would broaden coverage of ISS's problematic capital structure policy. This policy currently only applies to companies that have been public since 2015 or earlier. Following this change, ISS would recommend against or withhold incumbent board members at all non-REIT U.S. companies that employ a common stock structure with unequal voting rights. The only exception would be if the company has subjected the practice to a sunset provision of no more than seven years or has provided sufficient alternative protections for minority shareholders. ISS notes that situations where unequal voting rights are considered "de minimis" may also

be granted exceptions. This policy update would go into effect for the 2023 proxy season, following a one-year grace period.

Climate – Emissions and Say on Climate (Global policies, including U.S.)

ISS is proposing significant additions to its approach on board accountability of climate-related issues for companies considered to be significant greenhouse gas emitters. For these organizations, ISS will recommend voting action against one or more directors who have been deemed responsible for not taking the minimum steps needed to understand, assess and mitigate risks related to climate change. ISS provides some definition for these acceptable minimum steps, which include the disclosure of climate-related risks according to the Task Force on Climate-related Financial Disclosures (TCFD) framework, and the adoption of GHG emissions reduction targets. ISS notes that Scope 3 emissions reduction targets will not be required at this time, but indicates that this and other requirements may change as the definition of “minimum steps” evolves.

Additionally, ISS plans to formally adopt an approach for analyzing management and shareholder-proposed climate transition and reporting plans, also known as say-on-climate (SoC) proposals. These proposals give shareholders an opportunity to opine on a company’s climate-related practices and strategies on a non-binding advisory basis, similar to management say-on-pay proposals. ISS would analyze these proposals on a case-by-case basis, taking into account the completeness and rigor of the plan, as well as the company’s current climate reporting standards, GHG-reduction goals, and other ESG-related disclosures and targets.

Next Steps

Across these topics, ISS is seeking feedback as to whether respondents support the proposed changes. It is also using this period to determine if there are any concerns that may arise or mitigating factors that ISS should consider when evaluating these matters before issuing a negative vote recommendation. ISS is additionally seeking feedback on other factors to consider when evaluating the proposed policy changes.

Revised ISS policies for 2022 are expected to be announced toward the end of November and will become effective for shareholder meetings taking place on or after February 1, 2022.

For questions about policy updates, their potential impact or other corporate governance inquiries, please contact the author or write to humancapital@aon.com.

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