

LENS ON:

ISS 2022 Policy Voting Guidelines

December 2021

ISS has joined fellow proxy advisors Glass Lewis and IVIS in releasing a 2022 update of its Proxy Voting Guidelines. The update applies both to UK and European companies, and will take effect for general meetings held on or after 1 February 2022. ISS has made just one addition to its guidelines for remuneration, concerning the use of ESG measures in incentive plans:

ESG target setting

The updated Guidelines state that any ESG targets used to measure performance in incentive plans should be 'material' and 'quantifiable'. ISS explains that investors expect to assess the stringency and relevance of ESG targets in the same way they do financial targets – especially when it comes to environmental metrics – and are wary of measures that appear too vague or discretionary. ISS's rationale draws heavily on the Investment Association's Principles of Remuneration, which state that the link between ESG targets and company strategy must be clearly disclosed, as must the method of measuring performance. Our own conversations with ISS have revealed that it strongly encourages companies to have their ESG performance externally audited, environmental metrics in particular.

Ellason commentary

ESG and the selection of appropriate, robust performance measures were also key areas of focus in the recent policy updates published by Glass Lewis and the Investment Association. This chimes with the heightened emphasis on ESG that emerged throughout this year's AGM season, for which the pandemic served as a catalyst.

Having met recently with ISS, we also understand that it will focus on the following in 2022:

- **Payment of bonuses for FY21:** ISS, like many shareholders, is unlikely to support the payment of bonuses at companies that have taken and not repaid Government support. This is true even in cases where the payment is deferred, as ISS believes bonuses should be based on performance in the year under review alone, rather than being conditional on future performance. The payment of bonuses at companies that have not resumed paying dividends will be reviewed on a case-by-case basis.
- **Inflight adjustments to LTIP awards:** ISS's default position is to vote against such changes. However, ISS recommended support for a small number of companies in 2021, which had prospectively disclosed targets in 2020 but delayed awards (and subsequently revised the targets prior to making the awards).

- **LTIP structure:** ISS has observed an increase in one-off incentives, but is unlikely to support such plans unless it can see a clear justification and the company is able to demonstrate that the plan is aligned with shareholder interests. ISS is also likely to vote against the introduction of value creation plans (VCPs), as it believes such 'high risk/high reward' plans can be a disincentive when targets are missed. ISS is clear that VCPs must be capped in terms of absolute quantum and, whilst it does not prescribe a specific level, expects the cap to be appropriate for the context and justified externally. Mitigating factors that ISS may take into account when assessing any given VCP proposal include company circumstances (e.g. in a turnaround situation for a new management team), and/or the extent of participation.
- **Salary increases:** ISS continues to scrutinise the awarding of salary increases to executive directors in line with the workforce rate year-on-year; and expects increases to be justified rather than automatic. Salary increases, and the resultant impact on the total remuneration opportunity, are expected to remain an area of focus going into 2022; and may also include closer scrutiny of the appropriateness of the CEO pay ratio figure.

Please do not hesitate to contact any of the Ellason team should you wish to discuss this issue further.