

# ISS Releases Surveys Seeking Feedback on ESG Metrics in Executive Pay Plans, Climate Governance Failures and More

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*ISS' annual policy survey and new climate policy survey are open for issuers and investors to submit feedback until August 20. Questions include using multi-year CEO pay data in the ISS pay-for-performance analysis, mid-cycle changes to long-term incentives, ESG metrics in executive pay, SPACs, racial equity audits, climate voting policies and more.*

Institutional Shareholder Services (ISS) took the first step in its annual policy update process with the release of its Benchmark Policy Survey. Following the survey period, ISS will release draft policies in the late summer or early fall for a two-week comment period, followed by final policy updates that typically come out in November. Adopted policies are effective in February 2022.

Additionally, this year ISS is conducting a separate Climate Policy Survey, focusing on ISS' climate voting policy and climate-related material governance failures.

Companies can complete the surveys by [clicking here](#) for the Benchmark Policy Survey and [clicking here](#) for the Climate Policy Survey before they close on August 20.

Below is a summary of the topics in the surveys that are relevant for public companies in North America.

## **Non-financial ESG Performance Metrics in Incentive Compensation (Global)**

ISS noted that non-financial environmental, social and governance (ESG) metrics are increasingly used by companies in incentive compensation plans. ISS is seeking input on whether non-financial ESG performance metrics are an appropriate and effective way to incentivize executives to achieve company ESG goals. ISS is also interested in which pay components (short or long term) companies deem to be the most appropriate for the incorporation of non-financial ESG performance metrics.

For more information on whether and how to add ESG metrics into executive compensation plans, please read our recent articles on the topic: [A Framework for Tying ESG Metrics to Executive Compensation Plans](#) and [As More Firms Add ESG Metrics to Executive Pay, Best Practices are Emerging](#).

## **Long-Term Perspective on CEO Pay (U.S. and Canada)**

For U.S. and Canadian companies, the ISS quantitative pay-for-performance screen currently includes a measure that evaluates one-year CEO pay quantum as multiple of median of CEO peers. The survey asks if ISS' pay-for-performance screen should include a long-term perspective — for example, a three-year assessment — of CEO pay beyond the one-year period.

### **Mid-Cycle Changes to Long-Term Incentive Programs (U.S. and Canada)**

The only other executive compensation issue covered in the survey relates to mid-cycle adjustments to long-term incentive programs. ISS noted that mid-cycle adjustments were generally viewed by ISS and investors as a problematic response to the pandemic given that many investors believe long-term incentives should not be adjusted based on short-term (i.e., less than one year) market disruptions. The survey asks for feedback on mid-cycle adjustments to long-term incentive programs at U.S. and Canadian companies that continue to be negatively affected by the pandemic.

### **Companies with Pre-2015 Poor Governance Provisions (U.S. only)**

Since 2015, ISS has recommended against directors of newly public companies with certain poor governance practices, including multiple classes of stock with unequal voting rights, classified boards and supermajority vote requirements for amendments to the governing documents. However, companies that were public before the 2015 ISS policy change are exempted from this policy. ISS is now asking whether it should consider issuing negative voting recommendations for directors at companies maintaining these provisions, regardless of when the company went public, and which provisions the firm should revisit.

### **Recurring Adverse Director Vote Recommendations for Supermajority Vote Requirements (U.S. only)**

Under current ISS policy, for newly public U.S. companies that maintain supermajority vote requirements in their charter or bylaws, ISS evaluates director nominations on a case-by-case basis. The survey asks about a situation where a company has sought, but failed, to receive shareholder approval to eliminate supermajority vote requirements. In this case, ISS is asking if it should continue to make recurring adverse vote recommendations against directors for maintaining such supermajority vote requirements.

### **Racial Equity Audits (Global)**

In response to the increased shareholder focus on diversity, inclusion and racial equity issues, ISS is inquiring about opinions regarding third-party racial equity audits. Additionally, the proxy advisor asks which, if any, specific statistics, frameworks, programs or disclosures surrounding racial diversity and inclusion are relevant.

### **SPACs (U.S. and Canada)**

ISS' current policy regarding SPAC transactions is determined on a case-by-case basis, with a focus on the market price relative to the redemption value. However, ISS is considering a change to this policy due to the evolving SPAC investor voting practices and the mechanics of SPACs. Therefore, ISS wants to know whether it makes sense for investors to generally vote in favor of SPAC transactions regardless of the target company combination's merits or governance concerns. Additionally, ISS is curious about potential dealbreakers that give investors reason enough to vote against a SPAC transaction.

### **Proposals With Conditional Poor Governance Provisions (U.S. only)**

ISS notes that in many SPAC transactions, shareholders are asked to approve a new governing charter (which includes poor governance features like a classified board or unequal voting structures) as a condition to consummation of the transaction. In light of this practice, the survey asks about the best course of action for a shareholder that supports the underlying transaction where approving the deal requires approval of other ballot items with poor governance provisions.

### **Virtual-Only Meetings (Global)**

In light of the COVID-19 pandemic, many companies moved to virtual-only shareholder meetings in 2020 and 2021. ISS is following up on its 2020 Policy Survey, which indicated that the vast majority of respondents preferred a hybrid meeting approach. This year, ISS is reviewing potentially problematic practices used in virtual-only meetings, such as the inability to ask live questions, muted participation, the inability for shareholders to vote or change their votes, and the absence of Q&As. Additionally, ISS is interested in appropriate ways for shareholders to address concerns around problematic practices at virtual-only meetings.

### **Climate-Related Material Governance Failures (Global)**

In the brand-new Climate Policy Survey, ISS is seeking input on climate-related data and other disclosures that would be considered useful indicators for investors. ISS is seeking feedback to determine which climate-related actions, or lack thereof, demonstrate such poor climate change risk management that they may be considered “material governance failures” and what minimum actions should be expected. ISS is also asking about “dealbreakers” for shareholder support and other similar matters.

### **ISS Specialty Climate Voting Policy (Global)**

ISS is developing a Specialty Climate Voting Policy — a thematic policy available to investors if they are interested in a voting approach highly focused on climate matters. ISS is interested in whether companies with disproportionate greenhouse gas emissions, labeled as “high impact companies,” should be subject to more rigorous evaluation than companies with less substantial contributions to climate change. The firm is also seeking input on whether net zero goals, which call for net zero greenhouse gas emissions by 2050, should be assessed in its new climate policy.

## **Next Steps**

Our global corporate governance team includes more than 50 consultants with legal, investor and corporate backgrounds to help companies navigate changing governance standards. For related insights, visit our future-ready boardroom hub at [humancapital.aon.com/future-ready-boardroom](https://humancapital.aon.com/future-ready-boardroom).

For questions about the topics in this alert or to speak with one of our experts, please write to [humancapital@aon.com](mailto:humancapital@aon.com).

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