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# ISS Seeks Comments from UK and EU Companies to Proposed 2023 Policy Updates

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*As part of its annual policy review and update process, ISS has issued draft 2023 policy updates for comment until November 16. In United Kingdom (UK) and European markets, global climate disclosure, unequal voting rights in Continental Europe and remuneration reports in the UK and Ireland are priority areas of ISS.*

The open comment period runs until 5:00 p.m. ET on November 16. As in the past, the proposed policy changes do not cover all potential changes under consideration by ISS. The final policies often contain additional changes from the draft policies. We can expect ISS to publish FAQs in December or in the new year as a supplement to any new or existing policy guidelines.

Full details of the proposed changes can be accessed on the ISS [website](#). Comments should be submitted to ISS directly at [policy@issgovernance.com](mailto:policy@issgovernance.com).

Key topics relevant to companies in the UK and European markets include:

## **Climate Board Accountability for High-Emissions Companies (Global)**

ISS is proposing to extend its climate board accountability policy to all global markets after it was first introduced in 2022 for select large markets (i.e., the United States (US), Continental Europe, U.K., Ireland, Russia and Kazakhstan). The policy is being refined for 2023 to potentially apply to cases where a company in the UK and European markets is not considered to be adequately disclosing climate risk disclosure information such as:

- Disclosures in alignment with the Task Force on Climate-Related Financial Disclosures (TCFD), and
- The company does not have publicly disclosed medium-term or net-zero greenhouse gas emission reduction targets by 2050 for scope 1 and 2 emissions.

The potential consequence to application will be that ISS will generally recommend that shareholders vote against what they consider to be relevant director nominees or other available voting items in response to inadequate disclosure of climate risk information. ISS notes that the emission reduction targets should cover 95 percent or more of a company's scope 1 and 2 emissions. This policy will continue to apply to high-emissions companies identified by the Climate Action 100+ focus [list](#) with each company implementing it differently based on market and company-specific factors. Additional data points and information will be included in ISS research reports for Climate Action 100+ companies.

## **Board Accountability – Unequal Voting Rights (Continental Europe)**

ISS is proposing the introduction of a new policy application framework for unequal voting rights that applies to companies in mainland Europe that would be effective for meetings held on or after February 1, 2024 (i.e., following the conclusion of a one-year grace period starting in 2023). The proposed policy for widely-held companies is to vote against relevant directors or against the discharge of non-executive directors if the company employs a stock structure with unequal voting rights. This could include classes of common stock that have additional votes per share than other shares, classes of shares that are not

entitled to vote on all the same ballot items or nominees or stock with time-phased voting rights (i.e., loyalty or double-voting shares). With some limited exceptions, vote recommendations will generally be directed at director nominees primarily tasked with overseeing or benefitting from the unequal voting structure.

### **Remuneration Reports – Clarification (UK and Ireland)**

ISS is proposing a policy wording change to clarify that keeping directors' annual salary increases low and ideally lower proportionally than general increases across the broader workforce would be considered a good market practice. This action is more of a proposed point of clarification on the existing remuneration report policies than a new or formally-amended policy change. The proposed wording change is driven by ISS's concern that part of the current wording of the UK and Ireland policies might be misunderstood as encouraging companies to increase directors' base salaries proportionally in line with increases made to the wider company workforce. This aligns with the recognition that any potential increases to the level of salary should be considered in tandem with the effect this will have on overall quantum. For the majority of remuneration structures, increasing the salary will have a multiplier effect on the overall level of remuneration with UK policies on executive director annual bonus and long-term incentive plan (LTIP) opportunity set as a percentage of salary. Small percentage increases to salary might lead to substantial increases in overall remuneration. In Aon's discussions with UK proxies this year, it became clear that with the current cost of living crisis in the UK, there will be an expectation that this effect should be recognized in the allocation of a company's salary budget.

### **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 might 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 final ISS policies for 2023 are expected to be announced toward the end of November and will become effective for shareholder meetings taking place on or after February 1, 2023.

For questions about policy updates and their potential impact on the 2023 annual meeting cycle or ESG ratings, developments in best practice on governance or other inquiries, including any support to make submissions in respect of the ISS proposals, please contact the authors or write to [humancapital@aon.com](mailto:humancapital@aon.com).

For additional information about how you can utilize Aon's [Digital Business Insights](#) (DBI) platform to navigate the topics contained within this alert and more, please reach out to Laura Davidson ([laura.strum@aon.com](mailto:laura.strum@aon.com)) or Shana Gotlieb ([shana.gotlieb@aon.com](mailto:shana.gotlieb@aon.com)).

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