ISS Releases 2021 Policy Survey: Key Topics and Questions to Consider

ISS is collecting shareholder feedback on potential changes for its global voting policies in 2021. Here’s a summary of core topics and questions included.

At this time each year, corporate issuers and ISS’ investor subscribers can weigh in on potential changes to ISS’ global voting policies. On the table for consideration this year are COVID-19 responses, covering governance and compensation, climate risk concerns, and racial and ethnic diversity of the board of directors.

On July 29, 2020, ISS released its 2021 Policy Survey. This survey is the first step in its annual policy review process, which culminates in the release of revised corporate governance and compensation policies in late fall each year. While the policy survey is intended to elicit issuer and institutional shareholder feedback to guide the direction of ISS’ policy revisions, directional policy considerations can often be gleaned from the questions and permissible response alternatives.

The current survey includes questions on the following topics that may be of particular interest to issuers.

COVID-19 Related Questions

- **Question 1 (Global) – Policy Guidance in Response to Pandemic**: On April 8, 2020, ISS issued policy guidance in response to the impact of the pandemic, covering a wide array of topics, such as annual shareholder meeting formats and timing, shareholder rights, director attendance, changes to boards and compensation, capital structure, dividends and other payouts. The question suggests an ISS preference with respect to the continuation into 2021 of its previously stated policy guidance issued in response to the pandemic.

- **Question 2 (Global) – Annual Shareholder Meeting Formats**: ISS asks absent continuing health and social restrictions which shareholder meeting formats do organizations prefer, such as in-person meetings (unless a compelling reason, such as pandemic restrictions), hybrid meetings or virtual-only.

- **Question 3 (Global) – Expectations Regarding Compensation Adjustments**: As a result of the impacts of the pandemic, many decisions regarding executive compensation and performance expectations, both short-term and long-term, will be made by boards and shareholders for the remainder of 2020 and throughout 2021. ISS wants to know how an organization’s view of executive compensation in the wake of the pandemic has changed, with answer options including:
  - The pandemic is different than previous market downturns and boards and compensation committees need flexibility to make decisions
The pandemic’s overall impact on the economy, employees, customers and communities, as well as the role of government-sponsored loans and other benefits, must be considered by boards and incorporated thoughtfully into compensation decisions.

The impact of the pandemic is not substantially different from other major market downturns. Decisions regarding performance and compensation should reflect actions taken to promote a return to profitability and financial health over a reasonable timeframe without significant short-term adjustments to performance expectations or executive compensation.

**Question 4 (Global) – Adjustments to Short-term/Annual Incentive Programs** – Many companies have announced changes to their immediate annual incentive or bonus programs in response to the pandemic and the resulting general economic downturn. ISS is asking what organizations consider a reasonable company response under most circumstances.

**Director-related Questions**

**Question 7 (Global) – Auditors and Audit Committees:** In the past year, questions about the quality of corporate audits have emerged again, including recent examples of allegedly fraud-related events at Wirecard AG and Luckin Coffee. ISS is revisiting the following questions asked in its 2018 governance principles survey:

- What other factors (in addition to the level of non-audit services and fees compared to audit-related services and fees) does an organization consider relevant to be considered in shareholders’ evaluations of the external auditor’s independence and performance?

- What information should be considered by shareholders in evaluating a company’s audit committee?

**Question 8 (Global) – Racial and Ethnic Diversity:** The recent focus on racial and ethnic inequalities has casted light on the low levels of company disclosure in some global markets. ISS is asking if all corporate boards should provide self-disclosure of the demographics of their board members, including directors’ self-identified race and/or ethnicity and what actions an organization considers appropriate for investors to take to encourage increased racial and/or ethnic diversity on the boards of their portfolio companies.

**Question 9 (U.S.) – Independent Chair:** A number of shareholder proposals at U.S. companies calling for independent board chairs received increased levels of support in 2020, although only two received majority support. ISS wants to know which governance or risk oversight failures organizations consider to be significant when evaluating an independent chair proposal.

**ESG Related Questions**

**Question 5 (Global) – Climate Change Risk – Director Accountability:** The emergence of widely-accepted voluntary disclosure frameworks, such as [recommendations of the Taskforce on Climate-related Financial Disclosures](https://www.tcfd.org) (TCFD), encourage companies to adopt standardized approaches to reporting that allow investors to better evaluate companies’ climate awareness and risk management. This question asks what actions, if any, do organizations consider appropriate for shareholders to take at a company that is thought to not effectively report on or address its climate change risk.

**Question 6 (Global) – Sustainable Development Goals:** The Sustainable Development Goals (SDGs) are a series of 17 interconnected goals developed by the United Nations on a range of social and environmental topics. ISS is asking if organizations consider the SDG framework to be an effective way for companies to measure environmental and social risks and to commit to improving environmental disclosures and actions. If no, what are other frameworks considered to be more effective or relevant.
Next Steps

It is important to note that many of the items raised in previous policy surveys have never made it into the final version of ISS’ policy changes. Nonetheless, we encourage our clients to submit comments either individually or through industry associations or affiliations. The proxy advisory firm continues to be highly influential among a large percentage of the shareholder voting population as evidenced by say-on-pay voting results.

Responses are due by 5 p.m. ET on August 21. Those wishing to respond to the survey can access the survey directly. In addition to, or in lieu of, taking the survey, further responses or commentary can be submitted via email to policy@issgovernance.com.

If you have any questions about the policy survey or want to speak to a member of our consulting team about related compensation and governance issues, please write to rewards-solutions@aon.com.
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