

MORROW SODALI

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CANADA PROXY UPDATES

PROPOSED ISS BENCHMARK POLICY CHANGES FOR 2023

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On November 4, 2022, Institutional Shareholder Services Inc. ("ISS") announced the launch of its 2023 Benchmark Voting Policy comment period. ISS is soliciting input from market participants on **proposed benchmark policy changes**, effective for shareholder meetings taking place on or after February 1, 2023. The comment period will remain open until 5:00 PM ET on November 16, 2022, and ISS anticipates releasing its final benchmark policies in the first week of December.

For the Canadian market, ISS proposes the changes below covering:

(i) Climate Board Accountability for High Emitting Companies and (ii) Board Racial or Ethnic Diversity.

CLIMATE BOARD ACCOUNTABILITY FOR HIGH EMITTING COMPANIES

ISS is proposing to extend its policy regarding Climate Board Accountability, first introduced in 2022 for select large markets (U.S., Continental Europe, U.K. & Ireland, and Russia and Kazakhstan), to all global markets. The policy is also being refined for 2023; in cases where a company in the covered universe is not considered adequately disclosing climate risk disclosure information, such as disclosures in alignment with Task Force on Climate-related Financial Disclosures ("TCFD"), and the company does not either have medium-term or net-zero green house gas ("GHG") emission reduction targets by 2050 for Scope 1 and Scope 2 emissions, ISS will generally recommend that shareholders vote against what they consider to be appropriate directors or other available voting items. ISS notes that the emission reduction targets should cover 95% or more of the company's Scope 1 and 2 emissions. This policy will continue to apply to 'high emitters' as identified by the Climate Action 100+ focus list. The same framework will be applied across all Climate Action 100+ focus group list companies but implementation may vary depending on markets and specific company factors.

- Principally, companies within the Canadian ISS coverage and as part of the Climate Action 100+ focus list would be impacted by ISS' global application of the Climate Board Accountability policy.
- Based on the proposed policy, we note that ISS does not qualify whether or not they would scrutinize medium-term or net-zero targets disclosed by issuers and therefore, there appears to be some leeway as it pertains to targets attested by issuers.
- While not explicit, we anticipate that standing committee members or the chair of the committee responsible for sustainability or environmental and social matters to be held responsible if the policy is triggered.
- ISS is currently soliciting feedback as to whether they should develop its own target group (presumably beyond Climate Action 100+) during the benchmark comment period. We note that in Canada, there are other focus lists such as Climate Engage Canada 40 ("CEC40"), and these lists may serve to inform ISS' expansion of their policy. It remains to be seen as to whether CEC40 focus list companies will be covered in ISS' final benchmark voting guidelines for the 2023 proxy season.
- From an institutional shareholder standpoint, we expect that respective institutions will release their own Climate Board Accountability guidelines which may or may not overlap with ISS' proposed Climate Board Accountability policy. From our experience, we expect that certain institutions will consider the inclusion of requirements related to Scope 3 emission reduction targets. We also anticipate that some institutions may be more lenient than ISS and in some cases, emission reduction targets, with or without TCFD aligned disclosure, may be considered adequate.

BOARD RACIAL AND/OR ETHNIC DIVERSITY

For meetings occurring on or after Feb. 1, 2024 (one-year grace period), ISS will generally vote against or withhold from the Chair of the Nominating Committee (or equivalent) or the Chair of the board if no such committee has been identified where the board of a S&P/TSX Composite Index constituent has no apparent racial or ethnically diverse members. ISS notes that an exception will be made if there was a racial and/or ethnically diverse member at the preceding meeting and the issuer makes a firm public commitment to appoint at least one racial and/or ethnically diverse member prior to the next annual meeting. For continuing offenders over two or more years, ISS will consider voting against or withholding from additional directors.

- The inclusion of a Board Racial and/or Ethnic Diverse policy to the Canadian market is to no surprise given ISS' application of similar policies in other global markets. We observe that certain Canadian institutional shareholders have already implemented similar policies in the previous proxy season and with ISS' addition, issuers will need to accelerate their racial and/or ethnic diversity recruitment if such diversity is lacking within their boardrooms.

Based on our experience, the final ISS benchmark voting guidelines may include policy changes that are additional to those proposed herein. The Morrow Sodali Canadian team will continue to monitor the market developments and provide necessary updates in a timely manner.

Interested to know what influence ISS has on your shareholder base and what these proposed changes mean for you?

Contact our experts today to find out.

Issuers and clients who wish to discuss the above-mentioned changes can also contact our expert team directly to explore ways in which we can help you prepare for your next AGM.

ABOUT MORROW SODALI

Morrow Sodali is a leading provider of strategic advice and shareholder services to corporate clients around the world.

The firm provides corporate boards and executives with strategic advice and services relating to corporate governance, shareholder and bondholder communication and engagement, capital markets intelligence, proxy solicitation, shareholder activism and mergers and acquisitions.

From headquarters in New York and London, and offices and partners in major capital markets, Morrow Sodali serves approximately 1,000 corporate clients in 80+ countries, including many of the world's largest multinational corporations. In addition to listed and private companies, its clients include financial institutions, mutual funds, ETFs, stock exchanges and membership associations.

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