ISS consultation on BM voting policy – draft Sarasin's responses

Section 2. Market Specific Questions

U.S. Compensation - Non-GAAP Incentive Pay Program Metrics

1. Should companies disclose a line-item reconciliation of non-GAAP adjustments to incentive pay metrics in the proxy statement?

Response: Yes, line-item reconciliation should always be disclosed whenever non-GAAP metrics are used

Japan - ROE as a Factor in Director Elections

2. Do you think it is appropriate for ISS to resume the application of the ROE policy for Japanese companies?

Response: Yes

South Korea - Director Accountability, Material Governance Failures

4. In your organization's view, if a sunset provision is introduced to end such negative ISS vote recommendations after a certain period of time, what should be the scope of the application?

Response: A sunset provision should apply to all involved directors, regardless of the result of the court's ruling, but only if the board has made sufficient efforts to address governance concerns.

5. If you choose the answer choice that a sunset provision should apply to all involved directors if the board has made sufficient effort to address governance concerns, please specify the actions that you would expect the board to have taken (Choose all that apply):

Responses:

- Internal investigation into the matter and publicly disclosing the result of the investigation
- Internal control/compliance/governance enhancements to prevent the recurrence of the issue
- Shareholder engagement and disclosure of shareholder feedback
- Other: If the Problematic director is ultimately acquitted, the sunset should happen immediately and not require additional checks

7. What would your organization consider to be an adequate sunset time period for negative vote recommendations to cease to be applied for Problematic directors and the Enabling directors?

Response: Six years starting from the date of indictment or regulatory sanction (legally allowed maximum tenure for independent directors in a single company).

Section 3. Global Governance Questions

Director Independence Classification: Professional Services

1. Assuming full disclosure of relevant information by the company, which of the following best describes your organization's view of professional service relationships involving directors or members of their families? Please select all that apply.

Response: The current policy is appropriate: if a director or director's family member is employed by a firm which provides professional services to the company in excess of the current de minimis amount, the director should be deemed non-independent. The director may (for example) be involved in future board deliberations over whether to expand the services provided by the firm in question.

Cross Market Companies/FPI Policy

2. Should companies that have added a dual primary listing on a non-US exchange be moved from ISS' FPI Policy to the new dual listing market's Country of Coverage, and ISS benchmark policy applicable for that market?

Response: It depends (please specify)
If the standards for the secondary or dual primary market are more stringent than those that apply under the FPI Policy, then yes. However, ideally, the primary listing market standards (i.e., the US) should apply to all companies listed in the US, no matter whether they are an FPI or not.

Section 4. Global Environmental & Social Questions

1. In your organization's view, on globally-applicable environmental and social topics, particularly climate change, biodiversity, and human rights, should ISS benchmark policy and policy application aim for global consistency (to the extent possible), or should it take a market-specific approach where relevant due to differing country and/or region-specific standards, regulations or practices? Please respond with respect to each issue.

Response: Globally Consistent on Principles and Policy Application

Comment: "As an exception, race equity and ethnic diversity should be Globally Consistent on Principles and Market Specific on Policy Application, applicable to jurisdictions where ethnic diversity disclosure is permitted."

2. If you have further comments on Question 1, please share them here.

Response: We believe that global goals of shifting to safe and sustainable environmental, societal and corporate practices will only be met when companies strive to follow the global best practices

3. A "double" or "dynamic" materiality approach that is focused both on effects on the company from external sources and on company's externalities or impacts on the environment and society has been embedded in some regulatory regimes and corporate governance guidelines, such as the EU's Corporate Sustainability Reporting Directive, the Global Reporting Initiative, and the OECD Corporate Governance Principles (2023 version). How does your organization consider such "double materiality" in assessing E&S topics?

Response: Materiality assessments should include the company's expected impact on the environment and society, as externalities can be expected to impact the company's financial performance in the medium- to long-term.

4. If there is evidence that an environmental or social risk may be material to a company -- such as presence of one or more significant controversies, identification of the risk as material by the company, or a clear link to that risk by the company's business activities, what kinds of actions/disclosures do you consider it appropriate for investors to expect from the company to address the risk? (Choose all that apply)

Response: All actions/disclosures
Also tick "Other" and include a comment: We would recommend expecting country-by-country reporting (CbCR) of tax information, ideally under the GRI standard 207, for all companies where foreign operations are significant (say 25% of the revenue or more).

5. In 2023, for boards of companies considered to be high emitters of greenhouse gases (GHGs), ISS benchmark policy considers a board to be materially failing in its risk oversight responsibilities if the company did not have an overall ISS assessment of at least "Meets Standards" on climate-related disclosure. A possible policy change that is being considered for the future would be to consider that each ISS "climate disclosure pillar" assessment – specifically "Governance," "Strategy," "Risk Management," and "Metrics and Targets" – should individually be at the level of "Meets Standard", as well as the overall assessment. Do you consider boards of such companies to be materially failing if not assessed to be at least

"Meets Standards" on each ISS climate disclosure pillar – specifically “Governance,” “Strategy,” “Risk Management,” and “Metrics and Targets”?

Response: Yes

6. Climate transition strategy/plans ('Say on Climate' votes)
Which guidelines, standards, and frameworks does your organization consider relevant to use when drafting (for issuers) /assessing (for investors) a company's climate transition strategy or plan? (Choose all that apply)

Responses: IIGCC guidelines, SBTi guidelines, TCFD recommendations, CA100+ Benchmark, CDP

7. Does your organization apply a stricter approach for assessing a climate transition plan presented by a company that…

Response: Meets both above criteria

8. Based on company climate transition plans submitted to a shareholders vote in the last few years, ISS has identified some common disclosure and other shortcomings. How does your organization consider the following shortcomings when assessing a company climate transition plan?

Responses: All Very Negative, except:

No commitment to
submit climate
transition strategy to
a shareholder vote
again in the future –

and

No commitment to
submit climate
transition strategy to
a shareholder vote
again in the future

These 2 are Somewhat Negative

9. Which scenario does your organization consider to be an acceptable target level for a company's GHG emission reduction target-setting purposes? (Select only one option).

Response: 1.5°C scenario

10. In the table below, please indicate which GHG emission reduction targets if any your organization expects a company's climate strategy to include? (that is, if a company climate transition plan is missing this element, you would consider voting against the plan). If you do not expect a company's climate strategy to include these targets, do not select any answer. (Choose all that apply)

Response: All 12

11. Does your organization take into account the following target-related factors when assessing a company's climate transition plan?

Responses: All 3 Yes

12. Does your organization consider any of the following CapEx-related factors to be relevant when assessing a company's climate transition plan?

Responses: All 5. Please note that there is an option for comments in this question.

Comments: We consider all these factors but what matters most is that the disclosures are credible in the context of the stated strategy and plans. It is also vital the plans are appropriately reflected in critical accounting assumptions in the entity’s financial statements, which is another routine vote we use where we believe the company fails to meet existing requirements for the accounts to provide a true and fair view of economic health.

13. Does your organization consider the same or similar criteria when evaluating management say on climate plans as when evaluating shareholder resolutions that ask companies to report on or issue greenhouse gas reduction targets or climate transition plans?

Response: Yes, our organization uses the same or similar criteria.

14. Following previous approval of a climate transition strategy/plan or similar by shareholders, some companies present implementation or progress reports on implementation of their strategy/plan for future shareholder consideration at subsequent AGMs.
When assessing such proposals, how would your organization consider the following factors?

Responses: Very Negative on the first 3, Negative on the 4th. Please note that there is an option for comments in this question.

Comments? none

15. What are the most and least helpful parts for you of an ISS E&S shareholder proposal analysis? Please rank them from least (1) to the most (5) helpful.

Responses: 5 for all

16. How tolerant would you be of a company's reduction in transparency that resulted from risks from increased politicization of "ESG"?

Response: Risks from lack of transparency are greater – I would not be tolerant of reductions in transparency

Comment: In fact, we believe that if anything, increased and better structured disclosure would help to avoid claims of greenwashing, neglect of business interests or pursuing political agenda.