

ISS 2022 Canadian Benchmark Proxy Voting Policy Updates

On December 7, 2021 ISS released updates to its 2022 ISS benchmark proxy voting policies. The updated policies will generally be applied for shareholder meetings taking place on or after February 1, 2022, except for certain policies that are being announced now with a one-year transition period and which will become effective in 2023.

Below is a summary of the changes that apply to the Canadian market.

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The full text of ISS' 2022 proxy voting policy guidelines for Canada can be found [here](#).

Global Policy Updates

1) Say on Climate — Management Proposals

Management sponsored say-on-climate proposals are relatively new to global capital markets. In 2021, there were over two dozen management Say on Climate proposals on ballots across the globe. The proposals were seen in Canada, France, South Africa, Spain, Switzerland, the UK, the U.S., and Australia. While only one of these proposals was made by a Canadian company, the number of these proposals is expected to grow, as more issuers begin to follow this trend.

The proposals varied as they sometimes requested an approval of a company's climate transition plan or sometimes its climate reporting. While all were advisory votes, some were one-off votes, and others were announced to be the first of a regularly-occurring vote.

ISS has now codified the framework that was developed over the last year to analyze management-offered climate transition plans put up for shareholder approval. ISS has incorporated feedback received during this year's policy development process including from the Climate Survey. For transparency, the policy lists the main criteria that will be considered when analyzing these plans (a non-exhaustive list).

ISS' General Recommendation:

Vote case-by-case on management proposals that request shareholders approve the company's climate transition action plan¹, taking into account the completeness and rigor of the plan. Information that will be considered where available includes the following:

- The extent to which the company's climate related disclosures are in line with TCFD recommendations and meet other market standards;
- Disclosure of its operational and supply chain GHG emissions (Scopes 1, 2, and 3);

¹ Variations of this request also include climate transition related ambitions, or commitment to reporting on the implementation of a climate plan.

- The completeness and rigor of the company's short-, medium-, and long-term targets for reducing operational and supply chain GHG emissions in line with Paris Agreement goals (Scopes 1, 2, and 3 if relevant);
- Whether the company has sought and received third-party approval that its targets are science-based;
- Whether the company has made a commitment to be "net zero" for operational and supply chain emissions (Scopes 1, 2, and 3) by 2050;
- Whether the company discloses a commitment to report on the implementation of its plan in subsequent years;
- Whether the company's climate data has received third-party assurance;
- Disclosure of how the company's lobbying activities and its capital expenditures align with company strategy;
- Whether there are specific industry decarbonization challenges; and
- The company's related commitment, disclosure, and performance compared to its industry peers.

2) Say on Climate — Shareholder Proposals

Say on Climate shareholder proposals emerged late in 2020 and the number increased in 2021. The proposals generally asked that companies publish a climate action plan and to put it to a regular shareholder vote. ISS' new voting policy establishes a *case-by-case approach toward such proposals and provides a transparent framework of analysis that will allow for consistency of assessment across markets.*

ISS' General Recommendation: Vote case-by-case on shareholder proposals that request the company to disclose a report providing its GHG emissions levels and reduction targets and/or its upcoming/approved climate transition action plan and provide shareholders the opportunity to express approval or disapproval of its GHG emissions reduction plan, taking into account information such as the following:

- The completeness and rigor of the company's climate-related disclosure;
- The company's actual GHG emissions performance;
- Whether the company has been the subject of recent, significant violations, fines, litigation, or controversy related to its GHG emissions; and
- Whether the proposal's request is unduly burdensome (scope or timeframe) or overly prescriptive.

TSX-listed Issuer Policy Updates

3) NEO Exchange

ISS' proxy voting guidelines for TSX-listed companies are currently applied to both TSX-listed companies and companies listed on the NEO Exchange. The NEO Exchange has substantially the same listing requirements as the TSX and is also considered to be a primary exchange. The TSX voting guidelines are therefore being updated to clearly state their application to NEO Exchange-listed companies as well.

4) Board Diversity

ISS' Gender Diversity Policy was first introduced in Canada in 2018. It initially targeted the S&P/TSX Composite Index companies and required them to disclose a formal written gender diversity policy or have at least one woman on the board of directors. The policy was expanded in 2019 to apply to all widely-held companies. "Widely-held" refers to S&P/TSX Composite Index companies as well as other companies that ISS designates as such based on the number of ISS clients holding securities of the company. Based on most recent ISS data, TSX-listed company boards having no female directors now appear to be outliers. As such, the gender diversity policy for widely-held non-S&P/TSX Composite Index companies is being expanded to include the entire TSX-listed universe.

ISS' General Recommendation:

- 1) **For S&P/TSX Composite Index companies**, generally vote withhold for the chair of the nominating committee or chair of the committee designated with the responsibility of a nominating committee, or chair of the board of directors if no nominating committee has been identified or no chair of such committee has been identified, and:

- Women comprise less than 30% of the board of directors; and
- The company has not provided a formal, publicly-disclosed written commitment to achieve at least 30% women on the board at or prior to the next AGM.

2) For TSX companies which are not also S&P/TSX Composite Index constituents, generally vote withhold for the chair of the nominating committee or chair of the committee designated with the responsibility of a nominating committee, or chair of the board of directors if no nominating committee has been identified or no chair of such committee has been identified, where:

- The company has not disclosed a formal written gender diversity policy; and
- There are zero women on the board.

ISS will evaluate on a case-by-case basis whether withhold recommendations are warranted for additional directors at companies that fail to meet the above policy (that would apply to their respective constituent group) over two years or more.

The gender diversity policy should include a clear commitment to increase board gender diversity. Boilerplate or contradictory language may result in withhold recommendations for directors.

The gender diversity policy should include measurable goals and/or targets denoting a firm commitment to increasing board gender diversity at or prior to the next AGM.

ISS' will continue to avoid the application of the policy to non-composite constituents in the following cases:

- Newly publicly listed,
- Newly transitioned from a venture exchange, or
- Companies with four or fewer directors.

5) Board Communications and Responsiveness

Under current Canadian policy, ISS will evaluate board responsiveness following cases where a company's previous say-on-pay proposal, or a failure to respond to majority-supported shareholder proposals on executive pay topics, received support of less than 70 percent of votes cast. ISS is moving that threshold up to 80 percent based on Canadian market expectations.

Venture-listed Issuer Policy Updates

6) Overboarded Directors (2023)

ISS is introducing a new overboarded director policy for Venture issuers which is aligned with the existing policy for TSX-listed issuers. This change is consistent with prevailing client expectations based on the feedback received at the 2021 ISS Canadian Policy Discussion Roundtable, and is also aligned with ISS global policy approach. Given the potential impact on companies and individual directors, the policy change will be effective February 1, 2023, providing a one-year transition period.

ISS' General Recommendation:

For meetings on or after February 1, 2023, generally vote withhold for individual director nominees who:

- Are non-CEO directors and serve on more than five public company boards; or
- Are CEOs of public companies who serve on the boards of more than two public companies besides their own – withhold only at their outside boards.

7) Equity-Based Compensation Plans

Last year, ISS introduced a voting policy that required Venture listed companies with evergreen plans (i.e. rolling plan limits) to seek periodic shareholder reapproval of those plans similar to what is required by the TSX (at least once every three years). Companies listed on the TSXV are required to seek shareholder approval annually for rolling plans, so this change effectively only applied to non-TSXV listed Venture companies, such as companies listed on the Canadian Securities Exchange (CSE). ISS' update has clarified that this policy also applies to evergreen plans adopted prior to the company's public listing.

Additional Updates

Laurel Hill's 7th Annual Trends in Corporate Governance

Additional updates on governance in the Canadian market can be found in Laurel Hill's 7th annual Trends in Corporate Governance report which can be found [here](#).

About Laurel Hill

Laurel Hill Advisory Group is North America's leading independent, cross-border shareholder communications and advisory firm. We provide industry-leading governance advisory, compensation advisory, strategic advisory, proxy solicitation, information agent, depositary, escrow, and asset recovery services. Our customized solutions, delivered by the industry's most experienced, multidisciplinary and collaborative team, help our clients develop and maintain market-leading governance, shareholder engagement, and activism preparedness. We are regularly engaged on the most high-profile, complex, and contentious governance, M&A, and activism situations. Our cross-border operations allow us to effectively reach shareholders regardless of their location - Canada, U.S. and globally. **We deliver results.**

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