



Compensation
Advisory Partners

Alert // December 10, 2021

ISS Publishes Proxy Voting Guidelines Updates for 2022

■ By Jared Sorhaindo and Shaun Bisman

ISS recently published its 2022 policy updates, which will go into effect for annual meetings held on or after February 1, 2022 (and, in some instances, February 1, 2023). This article discusses key updates made to ISS' compensation and Environmental, Social and Governance (ESG) voting policies.

NEW YORK
1133 Avenue of the Americas
New York, NY 10036
Phone: +1 (212) 921-9350
www.capartners.com

HOUSTON
840 Gessner
Suite 375
Houston, TX 77024
Phone: +1 (713) 559-2715

CHICAGO
200 S Wacker Drive
Suite 3100
Chicago, IL 60606
Phone: +1 (312) 462-4500

LOS ANGELES
400 Continental Blvd
6th Floor
El Segundo, CA 90245
Phone: +1 (310) 426-2340

Executive Compensation-Related Update

Burn Rate

For stock plan valuations, ISS has changed its burn rate calculation, which will be in effect for meetings on or after February 1, 2023. The burn rate will be referred to as the "Value-Adjusted Burn Rate" and will be calculated as follows:

$$\frac{\left(\text{number of options granted} \times \text{option \$ value using a Black-Scholes model} \right) + \left(\text{number of full-value awards granted} \times \text{stock price} \right)}{\left(\text{weighted average common shares outstanding} \times \text{stock price} \right)}$$

The calculation currently in effect is:

$$\frac{\left(\text{number of appreciation awards granted} + \text{number of full-value awards granted} \times \text{volatility multiplier} \right)}{\text{weighted average common shares outstanding}}$$

Note: The volatility multiplier is used to provide a more equivalent valuation between stock options and full-value shares and is based on a company's historical stock price volatility.

The Value-Adjusted Burn Rate benchmark will be the greater of: (1) an industry-specific threshold based on three-year burn rate within the company's GICS group (broken down by S&P 500, Russell 3000 excluding the S&P 500, and non-Russell 3000) and (2) a minimum threshold for each of the three segmented groups noted above. The change in the burn rate benchmark year-over-year will be limited to a predetermined range above or below the prior year's burn rate benchmark.

The current burn rate benchmarks are calculated as the greater of: (1) the mean plus one standard deviation of the company's GICS group (broken down by S&P 500, Russell 3000 excluding the S&P 500, and non-Russell 3000) and (2) two percent of weighted average common shares outstanding. Year-over-year benchmark changes are limited to a maximum of two percentage points plus or minus the prior year's benchmark.

Per ISS, the new Value-Adjusted Burn Rate calculation will more accurately measure the value of recently granted equity awards, as the methodology is based on the actual stock price for full-value awards and the Black-Scholes value for stock options. The current calculation uses a multiplier based on three-year stock price volatility and groups companies into broad categories based on six volatility-based multiplier buckets.

Details on the new Value-Adjusted Burn Rate calculations have not been released to date.

Diversity-Related Updates

Board Gender Diversity

ISS has made certain updates to its policies on board gender diversity. ISS already recommends a vote against or withhold from the chair of the nominating committee in instances where there are no women on the board for companies in the Russell 3000 and S&P 1500, considering it mitigating if there was a woman at the previous meeting and the board has made a firm commitment to have a woman on the board within a year. This same policy will apply to all companies, not just in the aforementioned indices, beginning February 1, 2023.

Racial/Ethnic Diversity

In its policy update last year, ISS indicated that it would recommend a vote against or withhold from the chair of the nominating committee if the board had no apparently racially or ethnically diverse members (with the same exceptions with respect to gender diversity noted above) beginning on February 1, 2022. As such, ISS will now actively begin to issue vote recommendations related to the racial/ethnic diversity of boards.

Shareholder Proposals on Racial Equity and/or Civil Rights Audits

ISS has indicated that it will take a case-by-case approach to shareholder-proposed resolutions on racial equity and/or civil rights audits, in which it will consider: the company's current process for addressing racial inequity; the company's racial justice efforts and track record in recent years; the company's engagement with "impacted communities, stakeholders, and civil rights experts"; whether the company has been the subject of recent controversy, litigation, or regulation related to inequity or discrimination; and whether the company is aligned with market practice on these issues.

Climate Accountability

For companies that are significant greenhouse gas (GHG) emitters, through operations or value chain, ISS has indicated that it will generally recommend a vote against or withhold from the chair of the responsible committee overseeing GHG emissions if the company has not taken what ISS considers to be the minimum steps toward understanding, assessing, or mitigating emission-related risks. These steps include a detailed disclosure of climate-related risks and appropriate GHG emissions reduction targets.

In 2022, this policy will only apply to the companies appearing on the [Climate Action 100+ Focus Group](#) list. ISS states that its expectations for the minimum criteria noted above will increase over time.

This article highlights changes to ISS' policies and is not intended to be exhaustive. For information related to ISS voting policies, please visit [ISS Proxy Voting Guidelines Updates for 2022](#).

We expect further changes to ISS compensation-related policies when the FAQs are released at the end of this month.



Compensation Advisory Partners

Please contact us at (212) 921-9350 if you have any questions about the issues discussed above or would like to discuss your own executive compensation issues. You can access our website at www.capartners.com for more information on executive compensation.