

ISS Finalizes Voting Policy Changes in Four Hot Areas for US Companies

About a month after proposing changes to its voting policies, ISS [announced](#) its final voting policies for next year a few days ago (here is the [final policy updates](#) – and here is an [executive summary](#)). The final policy updates largely adhere to what ISS proposed last month, which I [blogged](#) about back then, as follows: **1. Board Diversity:** ISS has expanded its board gender diversity policy to apply to most listed U.S. Companies for meetings on - or after - February 1st, 2023. The prior policy covered companies in the Russell 3000 and S&P 1500 indices. This year the previously announced board racial/ethnic diversity policy will go into effect. For companies in the Russell 3000 and S&P 1500 indices, ISS will generally recommend votes against the chair of the nominating committee where the board has no apparent racially or ethnically diverse members, subject to certain exceptions.

2. Board Accountability – Unequal Voting Rights: ISS previously implemented a voting policy on unequal voting rights applicable only to newly-public companies that adopted unequal voting rights (i.e., dual class or multi-class capital structures with high/low vote or high/low/no vote classes) without a sunset mechanism. ISS is now removing grandfathering for companies that went public prior to 2015 and – after a year's grace period in 2022 – will begin in 2023 recommending against responsible directors at all U.S. companies with unequal voting rights. As noted in the policy updates, this policy will mean that ISS will likely be recommending votes against directors at several large companies that have long had unequal voting rights structures. The rationale for the change provided on pages 9-11 discusses other governance provisions as well, including classified boards and supermajority voting requirements to amend governing documents. But this year's updates do not make changes to existing voting policies regarding these provisions, which result in recommendations against governance committee members or all board members at newly public companies. Such provisions can also factor into other voting recommendations.

3. Climate – Board Accountability: ISS adopted a policy for 2022 for significant greenhouse gas (GHG) emitting companies, which it defines as those on the current Climate Action 100+ Focus Group (which currently consists of 167 companies). On page 12, the policy introduces recommendations to vote against the re-election of relevant directors or any other appropriate items at companies that have not made appropriate climate-related disclosures, such as according to the TCFD framework, or that have not set quantitative GHG reduction targets. For 2022, the policy defines appropriate GHG emissions reduction targets as "any well-defined GHG reduction targets" and doesn't require targets for Scope 3 emissions. While this policy is limited to a select group of companies for 2022, companies outside the Climate Action 100+ Focus Group may want to review this ISS policy as they think about proxy statement disclosure on climate change issues. For example, consider highlighting that your company reports in line with the TCFD framework. Reporting on any GHG emissions reductions targets in the proxy statement may not be a practice every company is ready for, depending on materiality to the company and level of comfort with including such information in SEC filings. But it is something to consider, given institutional investor focus on this topic for significant emitting companies.

4. Climate – "Say-on-Climate" Voting: ISS adopted new policies codifying the case-by-case analysis frameworks for both management proposals seeking approval of climate transition plans and progress, and shareholder proposals requesting climate reporting (including where the proposal requests regular shareholder votes on climate transition plans and progress). In analyzing a management-offered climate transition plan

presented for shareholder approval, ISS will assess the completeness and rigor of the plan in coming to a case-by-case determination and voting recommendation. For shareholder proposals requesting "say-on-climate" votes (requesting GHG reporting or shareholder votes on climate transition or GHG emission reduction plans), ISS will analyze each request on a case-by-case basis, taking into account the details of the request and the company's current climate-related disclosures and performance.

Also check out [ISS' updated FAQs](#) regarding its executive compensation policies and the pandemic.

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