Compensation Advisory Partners

cap

Alert // October 07, 2021

ISS' Annual Policy Survey Results

By **Han Wen Zhang** and **Shaun Bisman**

Institutional Shareholder Services (ISS) released on October 1st the results of its annual Global Benchmark Policy survey and its new climate survey. The surveys are part of ISS' annual policy development process. ISS will release the final policy updates by the end of the year, to be adopted for shareholder meetings during the 2022 proxy season. This CAP alert examines key findings from the 2021 Global Benchmark Policy Survey that foreshadow shareholder expectations in 2022. Overall, the survey results align with recent trends of increased shareholder interest in environmental, social, and governance (ESG) issues.

Overview of the Survey

The global benchmark policy survey covers a wide array of issues including executive compensation, board meeting practices, and governance provisions. The survey received 409 responses, of which 39% were from investors and investor-affiliated organizations, 60% from companies or corporate-affiliated organizations ("non-investors"), and the remaining 1% from non-profit and academic organizations.

Key Findings

ESG Performance Metrics in Executive Compensation

The significant majority of respondents view the inclusion of ESG metrics as an appropriate way to incentivize executives. Investors and non-investors differ, however, on the necessity of measurable ESG metrics. Most investors maintain that ESG metrics in compensation programs must be specific and measurable, and their associated targets communicated transparently. Among non-investors, the most popular position is that even ESG-related metrics that are non-financially measurable can effectively incentivize positive outcomes that may be important to the company. Investors and non-investors favoring the inclusion of ESG metrics generally agreed that both short-term and long-term incentives can be appropriate depending on the circumstances.

Racial Equity Audits

New in 2021, several companies received shareholder proposals to conduct an independent audit for racial bias both internally within the company and externally through its business practices. Investors are split between those who support an independent racial equity audit for most companies, regardless of the corporate programs the company might have in place to address racial equity and those who favor commissioning an audit on a case-by-case basis. Most non-investors agree with the latter position. Among those respondents, the prevailing factor that would require a company to commission an audit is involvement in significant racial and/or ethnic diversity-related controversies followed by the company's lack of initiatives at enhancing workforce diversity and inclusion. For investors, the prevailing factor that would require an audit is also the company's involvement in significant diversity-related controversy, but the second most popular factor is the company's lack of detailed workforce diversity statistics such as EEO-1 type data.

Long-Term Perspective on Performance

CEO pay quantum has received increased attention over the past decade. One of ISS' three quantitative pay-for-performance tests evaluates one-year CEO pay quantum in the multiple of the median test. The survey asked respondents whether they would find a long-term perspective (such as a three-year horizon) helpful. The majority of both investors and non-investors view the long-term perspective to be relevant and helpful.

Mid-Cycle Long-Term Incentive Plan (LTIP) Changes

For the 2021 proxy season, ISS viewed mid-cycle changes to long-term incentive awards as a problematic response to the pandemic, given that many investors consider that long-term incentives should not be adjusted based on short-term market disruptions. The survey asked whether mid-cycle changes to long-term incentive programs for companies incurring long-term negative impacts should be considered problematic. Investors were divided on the topic. 53% responded against the adjustment of long-term incentives based on short-term market disruptions while 40% believed adjustments may be reasonable.

Looking Ahead

Responses from the survey indicates that investors favor more extensive disclosures on ESG issues and measuring compensation against long-term performance. Survey responses typically provide insight into future ISS policy direction. ISS will release its draft policies for public comment later this month, before finalizing them in December for meetings starting on February 1, 2022.

For full detail related to ISS Annual Global Survey results, please visit the complete published report.