

## Client Alert

# Glass Lewis and ISS Publish 2022 Policy Updates

---

**EXEQUITY**

Independent Board and  
Management Advisors

Glass Lewis<sup>1</sup> and ISS<sup>2</sup> have now both published their policy updates for the 2022 proxy season. Glass Lewis's updates apply starting January 1, 2022, while ISS's policy updates apply to shareholder meetings held on and after February 1, 2022. Neither Glass Lewis nor ISS announced any significant compensation-related policy changes for 2022.

### Glass Lewis Policy Updates

Glass Lewis introduced a new section into its compensation-related policies regarding linking executive pay to environmental and social (E&S) criteria. In this section, Glass Lewis expressed the belief that explicit E&S criteria in executive incentive plans can serve to provide both executives and shareholders with a clear line of sight into a company's environmental, social, and governance (ESG) strategy, ambition, and targets.

Notably, Glass Lewis does not maintain a policy on the inclusion of such metrics or whether these metrics should be used in a company's short- or long-term incentive program. When a company opts to use environmental and/or social metrics, Glass Lewis expects thorough disclosure on the metrics selected, the rigor of performance targets, and the determination of corresponding payout opportunities, consistent with its considerations for other types of metrics. In addition, for qualitative metrics, Glass Lewis expects a company to provide shareholders with an in-depth understanding of how such metrics will be used or assessed.

Glass Lewis offered its preferences with respect to E&S criteria used in executive pay plans as well, including:

- Where E&S criteria are reasonably viewed as prerequisites for executive performance (e.g., ethical behavior), they should not be incentivized.
- Companies using E&S criteria should provide shareholders with sufficient disclosure to allow them to understand how these criteria align with company strategy:
  - Clearly lay out the rationale for the selection of the specific E&S metrics;
  - Detail the target-setting process; and
  - Detail the payout opportunities.

---

<sup>1</sup> Glass Lewis's 2022 Policy Guidelines can be found at <https://www.glasslewis.com/voting-policies-upcoming>.

<sup>2</sup> ISS's Proxy Voting Guidelines Updates for 2022 can be found at <https://www.issgovernance.com/policy-gateway/upcoming-policies>.

- Where quantitative targets have been set, these should be disclosed on an ex-ante basis, or the board should outline why it believes it is unable to do so.
- For qualitative E&S metrics, shareholders should be provided with a clear understanding of the basis on which the criteria will be assessed.

### **ISS Policy Updates**

ISS only introduced one new compensation-related policy in its updates. However, this compensation-related policy will not go into effect until the 2023 proxy season, i.e., for shareholder meetings on and after February 1, 2023. In analyzing equity-based and other incentive plans under its equity plan scorecard policy, ISS will switch how it calculates burn rate. It will change from the current burn rate standard that looks to the average **number** of shares granted during a three-year period to the average **value** of shares granted during a three-year period.

ISS has introduced a new term, Value-Adjusted Burn Rate, to describe the use of the value of share awards granted. The formula for determining the Value-Adjusted Burn Rate is  $((\# \text{ of options} \times \text{option's dollar value using a Black-Scholes model}) + (\# \text{ of full-value awards} \times \text{stock price})) / (\text{Weighted average common shares} \times \text{stock price})$ .

ISS did not offer up how each of the components of the formula are calculated, nor what each means. For example, will ISS use the most recent 200-day average stock price as of the applicable lock-in date, or will it use the 200-day average stock price for each of the past three lock-in dates, or something else when trying to value the full-value awards and options granted during each of the past three years? Hopefully ISS will release greater details on how it will actually calculate the Value-Adjusted Burn Rate before the 2023 proxy season arrives.



If you have any questions about this **Client Alert**, please contact Ed Hauder ((847) 996-3990 or [Edward.Hauder@exqty.com](mailto:Edward.Hauder@exqty.com)) or any of the following:

Ben Burney	(847) 996-3970	<a href="mailto:Ben.Burney@exqty.com">Ben.Burney@exqty.com</a>
Steven Dolan	(949) 748-6132	<a href="mailto:Steven.Dolan@exqty.com">Steven.Dolan@exqty.com</a>
Chris Fischer	(847) 996-3972	<a href="mailto:Chris.Fischer@exqty.com">Chris.Fischer@exqty.com</a>
Robbi Fox	(847) 996-3978	<a href="mailto:Robbi.Fox@exqty.com">Robbi.Fox@exqty.com</a>
Mark Gordon	(925) 478-8294	<a href="mailto:Mark.Gordon@exqty.com">Mark.Gordon@exqty.com</a>
Jeff Hyman	(203) 210-7046	<a href="mailto:Jeff.Hyman@exqty.com">Jeff.Hyman@exqty.com</a>
Lynn Joy	(847) 996-3963	<a href="mailto:Lynn.Joy@exqty.com">Lynn.Joy@exqty.com</a>
Stacey Joy	(847) 996-3969	<a href="mailto:Stacey.Joy@exqty.com">Stacey.Joy@exqty.com</a>
Chad Mitchell	(949) 748-6169	<a href="mailto:Chad.Mitchell@exqty.com">Chad.Mitchell@exqty.com</a>
Jeff Pullen	(847) 996-3967	<a href="mailto:Jeff.Pullen@exqty.com">Jeff.Pullen@exqty.com</a>
Dianna Purcell	(718) 273-7444	<a href="mailto:Dianna.Purcell@exqty.com">Dianna.Purcell@exqty.com</a>
Bob Reilley	(856) 206-9852	<a href="mailto:Bob.Reilley@exqty.com">Bob.Reilley@exqty.com</a>
Mike Sorensen	(847) 996-3996	<a href="mailto:Mike.Sorensen@exqty.com">Mike.Sorensen@exqty.com</a>
Ross Zimmerman	(847) 996-3999	<a href="mailto:Ross.Zimmerman@exqty.com">Ross.Zimmerman@exqty.com</a>

Headquarters • 1870 West Winchester Road, Suite 141 • Libertyville, IL 60048

East Region • 309 Fellowship Road, Suite 200 • Mt. Laurel, NJ 08054

West Region • 2 Park Plaza, Suite 820 • Irvine, CA 92614

[www.exqty.com](http://www.exqty.com)

You are receiving this **Client Alert** as a client or friend of Exequity LLP. This **Client Alert** provides general information and not legal advice or opinions on specific facts. If you did not receive this directly from us and you would like to be sure you will receive future **Client Alerts** and our other publications, please click on the following link to add yourself to our subscription list: <http://www.exqty.com/References/Subscribe.aspx>. If you want to unsubscribe from our list, please click on "Manage Subscription" at the bottom of the e-mail sent to you.

PUB/GL ISS 2022 Policy Updates\_20211217

© 2021 Exequity LLP. All Rights Reserved.