

Board diversity, executive compensation key ISS policy updates for 2024

December 21, 2023

Institutional Shareholder Services (ISS) has published policy updates for its [2024 Global Proxy Voting Guidelines](#) (Guidelines) which include key developments with respect to board diversity disclosure and executive compensation. ISS' updated Guidelines ([TSX](#) and [Venture](#)) will apply to shareholder meetings beginning on Feb. 1, 2024.

Takeaways

Directors of Canadian publicly traded companies should take note of the following updated ISS Guidelines for the 2024 proxy season:

- Constituents of the S&P/TSX Composite Index are expected to have at least **one racially or ethnically diverse member** on their boards in addition to any gender diversity expectations.
- For TSX-listed issuers, ISS is removing legacy language regarding **percentage limits for non-executive directors'** option grants and ISS' analysis of equity compensation plan proposals.
- ISS is amending its guidance on **equity-based compensation plans for venture companies** by addressing the circumstances where companies have adopted an equity plan without seeking shareholder approval.

Board diversity disclosure and executive compensation to remain ISS' key focus for 2024

Board diversity disclosure

As previously announced by ISS, and as discussed [in an earlier Bulletin](#), beginning with meetings on or after Feb. 1, 2024, ISS will expect S&P/TSX Composite Index constituents to have at least one racially or ethnically diverse board member in addition to satisfying ISS' gender diversity expectations. Where an issuer does not meet ISS' expectation, ISS will generally recommend voting against or withholding from the Chair of the Nominating Committee (or similarly tasked committee) unless the board publicly commits in writing to adding at least one racially and/or ethnically diverse member at or

prior to the issuer's next annual general meeting. Where an issuer has failed to meet ISS' diversity expectations over two or more years, ISS will evaluate whether negative voting recommendations are warranted against additional board members. For the purposes of this new policy, ISS defines racial and/or ethnic diversity to include **Aboriginal peoples (Indigenous, Inuit or Métis) and members of visible minorities** (persons other than Aboriginal peoples who are non-Caucasian in race or non-white in colour).

The 2024 Guidelines align ISS' policy for Canadian S&P/TSX Composite Index companies more closely with the ISS US policy guidelines for Russell 3000 and/or S&P 1500 indices on racial and ethnic diversity.

Executive compensation practices

In the updated Guidelines, ISS is also making the following changes with regards to its policies on executive compensation:

- **Compensation (TSX-Listed Companies) - Individual grants:** ISS is removing legacy language regarding a percentage limit related to non-executive directors' (NEDs) option grants, which no longer reflects market practice. The Guidelines for 2024 state that the maximum annual individual NED limit "should not exceed \$150,000 across all equity compensation plans in aggregate, of which no more than \$100,000 of value may comprise stock options."
- **Equity based compensation plans (TSX-Listed Companies) - Non-employee director (NED) participation:** This policy will have similar language to the above. ISS will remove the same legacy language regarding a percentage limit when analyzing an equity compensation plan proposal, as it no longer reflects market practices.
- **Equity based compensation plans Venture Companies):** ISS will add to the existing policy the circumstance when companies have adopted an equity plan without seeking shareholder approval, as companies listed on the Canadian Securities Exchange (CSE) are required to obtain shareholder approval within three (3) years after the creation of a rolling equity plan and within every three years thereafter.

Next steps

As the 2024 proxy season is fast approaching, we [encourage you to contact BLG](#) if you have questions related to the ISS Guidelines, or for more information on any other corporate governance initiatives.

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