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Institutional Shareholders Services (“ISS”) and Glass Lewis have updated their voting guidelines for 2025. The updated guidelines from ISS will apply to shareholder meetings for publicly traded companies on or after February 1, 2025, while those from Glass Lewis apply to meetings held on or after January 1, 2025. This briefing provides a summary of updates on compensation-related and select governance-related topics for Canadian issuers.

Compensation Policy Highlights

Pay for Performance Evaluation

- For all Say on Pay resolutions at S&P/TSX Composite companies, ISS may use the compensation of a named executive officer (“NEO”) in its pay for performance model other than that of the CEO in exceptional circumstances (i.e., where the compensation of such NEO is regularly significantly higher than that of the CEO.)
 - *Hugessen Commentary: The use of CEO compensation in situations where there is no or low pay (i.e., no annual bonus or equity awards) may drive a more favourable result in ISS’ pay for performance assessment. This policy update may change how ISS views the pay for performance alignment of a Company by focusing on pay of non-CEO executives in its model. We expect such instances to be limited and likely confined to founder-led and/or controlled businesses.*

Approach to Executive Pay Program

- Glass Lewis has made clarifying statements to its section titled, “The Link Between Compensation and Performance.” The update highlights the proxy advisor’s holistic approach to analyzing executive compensation programs and that they do not use a pre-determined scorecard approach when considering individual features of a pay program
 - *Hugessen Commentary: The clarifying amendments do not represent any substantive changes on how Glass Lewis assesses pay programs. The summary reaffirms Glass Lewis’ approach of reviewing each situation on a case-by-case basis.*

Governance Policy Updates

Shareholder Meetings

- Glass Lewis revised its policy on shareholder meeting formats to confirm that the benchmark policy may recommend against the chair of the governance committee, or another relevant director, in cases where a board has failed to sufficiently respond to shareholder concerns regarding the shareholder meeting format. ISS has updated its policy to recommend against amendments to articles or bylaws that give the board discretion to hold shareholder meetings in virtual-only format without compelling rationale.
 - *Hugessen Commentary: Glass Lewis does not have a policy based solely on the meeting format chosen by the Company, rather they seek clear disclosure on how shareholders can meaningfully participate in a virtual-only meeting format. ISS’ policy on meeting formats appears to be more critical of a virtual-only format without sufficient supporting rationale.*

Governance Policy Updates (*Continued*)

Independence of Former/Interim CEO

- ISS clarified its definition of an independent former / interim CEO, but the overall determination of independence did not materially change. This clarified definition is used when assessing the independence of a former CEO on the Audit or Compensation Committee.
 - *Hugessen Commentary: ISS clarified that it will only reassess a former CEO's independence classification after the minimum cooling off period of 5 years in "exceptional circumstances". This will likely make it more difficult for former CEOs to be considered independent and will be flagged when serving on the Audit or Compensation committees.*

Skills & Experience

- For S&P / TSX 60 companies that do not provide sufficient disclosure to assess the skills and experiences of directors, Glass Lewis may recommend a vote against the chair of the nominating committee (or equivalent).
 - *Hugessen Commentary: Issuers should review their disclosure to ensure appropriate description of director skills and experience*

Governance Committee

- Glass Lewis added a policy relating to cases where a governance committee fails to have at least one meeting in a year. The benchmark policy will generally recommend against the chair of the committee in question, or in the absence of a chair, the senior member of this committee.
 - *Hugessen Commentary: Issuers should ensure governance committee meetings are incorporated when planning future schedules of board / committee meetings*

Board Diversity

- ISS removed a prior reference to "extraordinary circumstances" where judgment was used in determining if there was fair reason for the issuer falling below the policy's board gender diversity threshold. Additionally, ISS updated its policy on board racial and ethnic diversity to remove transitory language (policy was first implemented for meetings in 2024) and also provided clarity on when exemptions will be applied.
 - *Hugessen Commentary: Changes to the gender and racial / ethnic diversity policies provide greater clarity on when exemptions will be applied.*

Artificial Intelligence (AI)

- In cases where insufficient management of AI technologies has led to material harm to shareholders, the Glass Lewis benchmark policy may recommend that shareholders vote against the re-election of responsible directors or other proposals subject to a shareholder vote. This recommendation may be made if Glass Lewis determines that the board's oversight, response, or disclosure regarding AI-related matters is inadequate.

Closing Remarks

Proxy advisor recommendations can have a material impact on voting results at shareholder meetings. As a result, we believe issuers should be aware of the policy updates from ISS and Glass Lewis and the potential implications of these policies. Increasingly, institutional shareholders are taking a nuanced approach to assessing company compensation programs.

Hugessen supports its clients with understanding the full range of policy guidelines set by the proxy advisors and drafting proxy disclosure to enhance shareholders' understanding of the company's compensation policies and pay decisions.