

# Shareholder Proposals & ESG-Related Issues



GLASS LEWIS

2026 Benchmark Policy Guidelines

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# About Glass Lewis

Glass Lewis is the world's choice for governance solutions. We enable institutional investors and publicly listed companies to make informed decisions based on research and data. We cover 30,000+ meetings each year, across approximately 100 global markets. Our team has been providing in-depth analysis of companies since 2003, relying solely on publicly available information to inform its policies, research, and voting recommendations.

Our customers include the majority of the world's largest pension plans, mutual funds, and asset managers, collectively managing over \$40 trillion in assets. We have teams located across the United States, Europe, and Asia-Pacific giving us global reach with a local perspective on the important governance issues.

Investors around the world depend on Glass Lewis' [Viewpoint](#) platform to manage their proxy voting, policy implementation, recordkeeping, and reporting. Our industry leading [Proxy Paper](#) product provides comprehensive research and voting recommendations weeks ahead of voting deadlines. Public companies can also use our innovative [Report Feedback Statement](#) to deliver their opinion on our proxy research directly to the voting decision makers at every investor client in time for voting decisions to be made or changed.

The research team engages extensively with public companies, investors, regulators, and other industry stakeholders to gain relevant context into the realities surrounding companies, sectors, and the market in general. This enables us to provide the most comprehensive and pragmatic insights to our customers.

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# Purpose

The purpose of the Benchmark Policy proxy research and advice is to serve as a framework that facilitates shareholder voting in favor of governance structures that will drive performance and promote and maintain long-term shareholder value.

## Guidelines Introduction

Shareholders are playing an increasingly important role at many companies by engaging in meetings and discussions with the board and management. When this engagement is unsuccessful, shareholders may submit their own proposals at the companies' annual meetings. While shareholder resolutions are relatively common in some countries like the United States, Japan and Canada, in other markets shareholder proposals are rare. Additionally, securities regulations in nearly all countries define and limit the nature and type of allowable shareholder proposals including submission ownership thresholds. For example, in the United States, shareholders currently need only own as little as \$2,000 of a company's shares to submit a proposal for inclusion on a company's ballot. However, U.S. issuers are able to exclude shareholder proposals for many defined reasons, such as when the proposal relates to a company's ordinary business operations. In other countries such as Japan, however, shareholder proposals are not bound by such content restrictions. Additionally, whereas in the U.S. and Canada the vast majority of shareholder proposals are precatory (requesting an action), such proposals are binding in most other countries. Binding votes in the U.S. are rare and are most often presented in the form of a bylaw amendment, thereby incorporating the proponent's "ask" in the company's governing documents.

The Benchmark Policy generally places more scrutiny on binding proposals, as they do not allow the board latitude in implementation to ensure consistency with existing corporate governance provisions. Nonetheless, the Benchmark Policy will recommend supporting well-crafted, binding shareholder proposals that clearly mitigate risks to shareholder value or protect and enhance important shareholder rights.

Shareholder initiatives are not just limited to shareholder proposals. For example, in some markets, shareholders may submit counter motions (e.g., Germany) and/or may solicit votes against management proposals, most commonly the ratification of board acts.

While the types and nature of shareholder initiatives vary significantly across markets, the Benchmark Policy approaches such initiatives in the same manner, regardless of a company's domicile. The Benchmark Policy generally views decisions regarding day-to-day management and policy decisions, including those related to social, environmental or political issues, as best left to management and the board, given these individuals typically have more and better information about company strategy and risk exposure. However, when there is a clear link between the subject of a shareholder proposal and value enhancement or risk mitigation, the Benchmark Policy will recommend in favor of such proposal in instances where the company has inadequately addressed the issue. The Benchmark Policy is generally of the view that shareholders should not attempt to micromanage a company, its businesses or its executives through the shareholder initiative process. Rather, they should use their influence to push for governance structures that protect shareholders and promote director accountability. Shareholders should then vote into place a trustworthy and qualified board of directors,

who can make informed decisions that are in the best interests of the business and its owners. These directors can then be held accountable for management and policy decisions through board elections.

The Benchmark Policy evaluates all shareholder proposals on a case-by-case basis. However, it will generally recommend shareholders support proposals on certain issues such as those calling for the elimination or prior shareholder approval of anti-takeover devices such as poison pills and classified boards. Additionally, it will generally recommend shareholders support proposals that are likely to protect shareholder value, including those that promote the furtherance of shareholder rights, those that promote director accountability and those that seek to improve compensation practices, especially those promoting a closer link between compensation and performance as well as those that promote more and better disclosure of relevant risk factors where such disclosure is lacking or inadequate.

## Summary of Changes for 2026

Glass Lewis evaluates these guidelines on an ongoing basis and formally updates them on an annual basis.

For 2026, the language in this document has been updated to clarify that these guidelines contain the views of the Benchmark Policy. The Benchmark Policy reflects broad investor opinion and widely accepted governance principles and is intended to provide clients with nuanced analysis informed by market best practice, regulation, and prevailing investor sentiment. This change better conveys Glass Lewis' role as a service provider to a diverse, global client base with a wide spectrum of viewpoints and objectives. The Benchmark Policy represents just one of Glass Lewis' policy offerings.

In addition, the following noteworthy revisions have been made to the Benchmark Policy, which are summarized below and discussed in greater detail in the relevant section of this document.

## General Approach to Shareholder Proposals

Noting the dynamic nature of, and impending changes to, the shareholder proposal process in the United States, the Benchmark Policy has adjusted some of its language regarding the general approach to shareholder proposals, including guidance around companies' treatment of the SEC's former no-action process. While this specific guidance has been removed, the Benchmark Policy will generally approach these matters with the basic premise that shareholders should be afforded the opportunity to vote on matters of material importance. Given ongoing changes and the prospect of additional changes to the shareholder proposal process, the Benchmark Policy may be updated prior to or during the 2026 proxy season should its approach to these matters change or regulatory developments warrant such an update.

# Governance

## Board and Committee Composition

The selection and screening process for identifying suitably qualified candidates for a company's board of directors requires the examination of many factors, including the balance of skills and talents and breadth of experience, as well as the diversity of candidates and existing board members. Diversity of skills, abilities and points of view can foster the development of a more creative, effective and dynamic board. However, the Benchmark Policy generally does not recommend in favor of shareholder proposals requesting that companies establish specific quotas regarding board or committee diversity. Rather, such matters should be left to a board's nominating committee, which is generally responsible for establishing and implementing policies regarding the nomination of directors and overall composition of the board. Members of this committee may be held accountable through the director election process. However, in cases of egregious oversight lapses or behavior seriously detrimental to shareholder value, the Benchmark Policy may support reasonable, well-crafted proposals to broaden a board's composition including, for example, to increase board diversity where there is evidence a board's lack of diversity led to a decline in shareholder value.

## CEO Succession Planning

Decisions regarding what information to publicly disclose regarding executive succession can be complex. Boards must balance the competing demands of safeguarding sensitive information regarding CEO succession against disclosing sufficient and appropriate information to shareholders and employees in a manner consistent with their fiduciary duty and other legal obligations. Shareholders generally benefit when firms disclose appropriate and pertinent details of the succession plan including: (i) the process in which the next CEO would be selected, including the board's role in that process; and (ii) whether the CEO reports to the board concerning internal candidates for the CEO position, including an evaluation of the development of senior management. The Benchmark Policy may consider recommending support for well-crafted proposals requesting companies adopt policies or provide shareholders with more information regarding their CEO succession planning process if the company provides shareholders with no information or assurance regarding this process and if there are specific concerns regarding CEO succession at the company. However, the Benchmark Policy will generally not recommend supporting such shareholder proposals if the rigidity of the proposed requirements could unduly hinder the board's ability to approach CEO succession planning in a way that it deems most appropriate in the fulfillment of its fiduciary duties or if the requested disclosure encompasses confidential or otherwise sensitive information.



## Conflicting and Excluded Proposals

SEC Rule 14a-8(i)(9) allows companies to exclude shareholder proposals “if the proposal directly conflicts with one of the company’s own proposals to be submitted to shareholders at the same meeting.” On October 22, 2015, the SEC issued Staff Legal Bulletin No. 14H (SLB 14H) clarifying its rule concerning the exclusion of certain shareholder proposals when similar items are also on the ballot. SLB 14H increased the burden on companies to prove to SEC staff that a conflict exists; therefore, many companies still chose to place management proposals alongside similar shareholder proposals in many cases.

During the 2018 proxy season, a new trend in the SEC’s interpretation of this rule emerged. Upon submission of shareholder proposals requesting that companies adopt a lower special meeting threshold, several companies petitioned the SEC for no-action relief under the premise that the shareholder proposals conflicted with management’s own special meeting proposals, even though the management proposals set a higher threshold than those requested by the proponent. No-action relief was granted to these companies; however, the SEC stipulated that the companies must state in the rationale for the management proposals that a vote in favor of management’s proposal was tantamount to a vote against the adoption of a lower special meeting threshold. In certain instances, shareholder proposals to lower an existing special meeting right threshold were excluded on the basis that they conflicted with management proposals seeking to ratify the existing special meeting rights. The exclusion of these shareholder proposals can be problematic as, in these instances, shareholders are not offered any enhanced shareholder right, nor would the approval (or rejection) of the ratification proposal initiate any type of meaningful change to shareholders’ rights. In instances where companies have excluded shareholder proposals, such as those instances where special meeting shareholder proposals are excluded as a result of “conflicting” management proposals, the Benchmark Policy will take a case-by-case approach, taking into account the following issues:

- The threshold proposed by the shareholder resolution;
- The threshold proposed or established by management and the attendant rationale for the threshold;
- Whether management’s proposal is seeking to ratify an existing special meeting right or adopt a bylaw that would establish a special meeting right; and
- The company’s overall governance profile, including its overall responsiveness to and engagement with shareholders.

The Benchmark Policy generally favors a 10-15% special meeting right. Accordingly, it will generally recommend voting for management or shareholder proposals that fall within this range. When faced with conflicting proposals, the Benchmark Policy will generally recommend in favor of the lower special meeting right and will recommend voting against the proposal with the higher threshold. However, in instances where there are conflicting management and shareholder proposals and a company has not established a special meeting right, the Benchmark Policy may recommend that shareholders vote in favor of the shareholder proposal and that they abstain from a management-proposed bylaw amendment seeking to establish a special meeting right. An abstention can ensure that shareholders are sending a clear signal regarding their preference for the appropriate threshold for a special meeting right, while not directly opposing the establishment of such a right. In cases where the company excludes a shareholder proposal seeking a reduced special meeting right by means of ratifying a management proposal that is materially different from the shareholder proposal, the Benchmark Policy will generally recommend voting against the chair or members of the governance committee. In other

instances of conflicting management and shareholder proposals, the Benchmark Policy will consider the following:

- The nature of the underlying issue;
- The benefit to shareholders of implementing the proposal;
- The materiality of the differences between the terms of the shareholder proposal and management proposal;
- The context of a company's shareholder base, corporate structure and other relevant circumstances; and
- A company's overall governance profile and, specifically, its responsiveness to shareholders as evidenced by a company's response to previous shareholder proposals and its adoption of progressive shareholder rights provisions.

In recent years, the considerations given by the SEC when determining whether companies may exclude certain shareholder proposals have been dynamic. As of Fall 2025, these changes have accelerated as the SEC has announced a series of current and planned measures that may significantly change the number and type of shareholder proposals that come to a vote at U.S. companies.

While the impact of these changes and how investors respond to them is uncertain at this time, the Benchmark Policy will generally approach these matters with the basic premise that shareholders should be afforded the opportunity to vote on matters of material importance. To be sure, the Benchmark Policy respects the limitations placed on shareholder proponents, as certain shareholder proposals can unduly burden companies or cross the line between the purview of shareholders and that of the board. It also recognizes that not all shareholder proposals serve the long-term interests of shareholders. Nonetheless, the Benchmark Policy views the basic right of shareholders to file proposals as critical to the proper functioning of our system of corporate governance and in the best economic interest of all shareholders. A number of important corporate governance reforms, such as declassified boards and majority voting, would not have been achieved without shareholders' willingness and ability to submit proposals, for which they bear the costs and only realize a portion of the benefits. Empirical evidence has shown that even withdrawn shareholder proposals, such as those on executive compensation, can encourage beneficial corporate practices, thereby benefiting all shareholders.<sup>1</sup>

The SEC's ongoing changes and their ramifications will be closely monitored as the 2026 proxy season in the United States approaches. The Benchmark Policy may be updated prior to or during the 2026 proxy season should its approach to these matters change or regulatory developments warrant such an update.

## Counting Shareholder Votes

The tabulation of proxy votes for U.S. public companies is determined by several sources: (i) federal securities regulations; (ii) the law of the state in which a company is legally domiciled; (iii) rules established by securities exchanges; and (iv) a company's charter and/or bylaws. According to the SEC, matters other than voting on the election of directors are typically approved by a vote of a majority of the shares voting or present at the meeting. However, the effect of abstentions on these items varies depending on the voting rules applicable to each company based on its state of incorporation and its own governing documents. Delaware's General

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<sup>1</sup> Colleen Honigsberg, Robert Jackson. "[Exxon's Suit Against its Own Shareholders Threatens Valuable Bargaining.](#)" *Promarket*. July 16, 2024.

Corporation Law Section 216 (2) requires the affirmative vote of the majority of shares present in person or presented by proxy at the meeting entitled to vote on the subject matter for approval of proposals other than the election of directors, unless otherwise stipulated in a company's charter or bylaws.

The Benchmark Policy is of the view that companies should clearly communicate their vote tabulation processes to shareholders including how abstentions are treated for vote tabulation. This will ensure that investors fully understand the effects of their abstention votes. Given that shareholders actively decide to abstain for various reasons, absent evidence that a company has clearly ignored the will of shareholders or has been unresponsive to shareholder concerns, the Benchmark Policy will generally not support proposals requesting that companies exclude abstentions from voting tabulation

## Cumulative Vote for the Election of Directors

Cumulative voting generally acts as a safeguard for shareholders by ensuring that those who hold a significant minority of shares can elect a candidate of their choosing to the board. This allows the election of directors who are responsive to the interests of all shareholders rather than just a small group of large holders. However, when a company has both majority voting and cumulative voting in place, there is a higher likelihood of one or more directors not being elected as a result of not receiving a majority vote since shareholders cumulating their votes could unintentionally cause the failed election of one or more directors for whom shareholders do not cumulate votes.

As such, where a company (i) has adopted a true majority vote standard; (ii) has simultaneously proposed a management-initiated true majority vote standard; or (iii) is simultaneously the subject of a true majority vote standard shareholder proposal, the Benchmark Policy will recommend voting against cumulative voting proposals due to the potential incompatibility of the two election methods.

For companies that have not adopted a true majority voting standard but have adopted some form of majority voting, the Benchmark Policy will also generally recommend voting against cumulative voting proposals if the company has not adopted anti-takeover protections and has been responsive to shareholders.

## Declassification of the Board

There is evidence to suggest that classified boards (or staggered boards) do not serve the best interests of shareholders. Empirical studies have shown that: (i) companies with classified boards may show a reduction in firm value; (ii) in the context of hostile takeovers, classified boards operate as a takeover defense, which entrenches management, discourages potential acquirers and delivers less return to shareholders; and (iii) companies with classified boards are less likely to receive takeover bids than those with boards whose directors stand for election on an annual basis.

Moreover, there is not persuasive evidence to demonstrate that staggered boards improve shareholder returns in a takeover context. Some research has indicated that shareholders are worse off when a staggered board blocks a transaction; further, when a staggered board negotiates a friendly transaction, no statistically

significant difference in premium occurs.<sup>2</sup> Additional research found that charter-based staggered boards “reduce the market value of a firm by 4% to 6% of its market capitalization” and that “staggered boards bring about and not merely reflect this reduction in market value.”<sup>3</sup> A subsequent study reaffirmed that classified boards reduce shareholder value, finding “that the ongoing process of dismantling staggered boards, encouraged by institutional investors, could well contribute to increasing shareholder wealth.”<sup>4</sup>

The annual election of directors provides increased accountability and requires directors to focus on the interests of shareholders. When companies have classified boards, shareholders are deprived of the right to voice annual opinions on the quality of oversight exercised by their representatives. As such, the Benchmark Policy will, in nearly all cases, recommend shareholders support proposals seeking their repeal.

## Disclosure of Shareholder Proponents

In recent years, there has been a growing number of and focus on shareholder-submitted proposals. These proposals can help facilitate important changes at companies and can advance investor priorities. However, in order to effectively support this process, shareholders need to understand which groups or individuals are requesting that companies make the proposed changes so that they are able to understand if they want to lend their support to the individual or group’s engagement with the company on the proposed matter.

Accordingly, companies should provide clear disclosure in their proxy statements concerning the identity of the proponent (or lead proponent if multiple proponents have submitted a proposal) of any shareholder resolutions that may be going to a vote. Although, in the U.S., companies are not required to disclose the identity of shareholder proponents in their proxy filings, a failure to do so can leave shareholders with an incomplete picture of the proposal on which they are being asked to vote. Accordingly, should a U.S.- based company determine to not clearly disclose the identity of a proponent (or lead proponent when there are multiple filers) in their proxy statement, the Benchmark Policy may recommend against the chair of the nominating and governance committee. However, it is important to note that, while this transparency can provide important context for shareholders, the Benchmark Policy does not make recommendations on shareholder proposals based on the identity of the proponent.

Shareholders may also benefit when companies provide, to the best extent possible, information regarding the share ownership levels of the proponent(s). While the Benchmark Policy will not be making vote recommendations on the basis of this disclosure, providing this disclosure could allow shareholders a better understanding of whether and how the proponent’s financial interests are aligned with those of the company and its shareholders. In addition, disclosure concerning a company’s engagement (or lack thereof) with a proponent as well as disclosure from proponents concerning their engagement with companies can also provide an important input for shareholders when they are making decisions concerning how they vote on these

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<sup>2</sup> Lucian Bebchuk, John Coates IV, Guhan Subramanian, “The Powerful Antitakeover Force of Staggered Boards: Further Findings and a Reply to Symposium Participants,” 55 Stanford Law Review 885-917 (2002).

<sup>3</sup> Lucian Bebchuk, Alma Cohen, “The Costs of Entrenched Boards” (2004).

<sup>4</sup> Lucian Bebchuk, Alma Cohen and Charles C.Y. Wang, “Staggered Boards and the Wealth of Shareholders: Evidence from a Natural Experiment,” SSRN: <http://ssrn.com/abstract=1706806> (2010), p. 26.

proposals, as such information allows shareholders to gauge a company's responsiveness and a proponent's willingness to act in good faith and with interests that are aligned with the broader shareholder base.

Please see "Overall Approach" to environmental and social issues for more information on how this disclosure will be considered in the Benchmark Policy analysis and recommendations on shareholder proposals.

## Exclusive Forum Provisions

Charter or bylaw provisions limiting a shareholder's choice of legal venue are not in the best interests of shareholders, as such clauses may effectively frustrate shareholder derivative claims. Shareholder derivative lawsuits can provide an important mechanism for shareholders to ensure that directors and officers fulfill their fiduciary duties to a company. Requiring shareholders to bring actions solely in a state of the company's choosing may discourage the pursuit of derivative claims by increasing their difficulty and cost. Therefore, companies should seek shareholder approval for the adoption of any exclusive forum provision. Where companies have not sought shareholder approval for the adoption of such provisions, the Benchmark Policy will generally recommend shareholders support proposals requesting that companies repeal exclusive forum provisions, as restricting shareholders' ability to seek remedy under the court of their choosing without prior shareholder approval is not in the best interests of shareholders. However, the Benchmark Policy may consider recommending shareholders vote against a shareholder proposal to remove an exclusive forum provision if the company makes a cogent case for the adoption of the provision, including benefits to shareholders and evidence of abuse of legal process in other, non-favored jurisdictions.

## Facilitating Nonbinding Shareholder Proposals (Australia)

In Australia, regulations permit either shareholders owning 5% of voting shares or the support of 100 shareholders who are entitled to vote the ability to give a company notice of a resolution that they propose to move at a general meeting. Although shareholders may submit ordinary resolutions, companies are only required to put forward binding (or special) resolutions and are allowed to exclude precatory (non-binding, or ordinary) resolutions if it is determined that they request the board act in a certain manner.

Some of the matters that may be addressed by ordinary resolution, which requires majority shareholder support to be approved, are: election/re-election of directors; appointment of an auditor; acceptance of reports at the annual general meeting; strategic or commercial decisions; increase or reduction in the number of directors; and passing a board limit resolution. Special resolutions, which require 75% shareholder approval, include but are not limited to: a modification of a company's constitution; company change of name; conversion of ordinary shares into preference shares; and company dissolution.

In recent years, shareholders have proposed amendments to Australian companies' constitutions that would allow shareholders to submit nonbinding shareholder resolutions, similar to those proposed at U.S. or Canadian companies. Although shareholders generally benefit when they are afforded the right to submit and vote on nonbinding shareholder resolutions, the Benchmark Policy does not view this as a matter that is best addressed through private ordering. Rather, this is a process best facilitated through regulatory changes that could

establish some protections for companies, which could be subject to distracting and time-consuming proposals submitted by shareholders whose interests are not necessarily aligned with that of the broader shareholder base. As such, the Benchmark Policy will generally recommend shareholders vote against such proposals. However, in instances where it appears that a separate, contingent proposal submitted to a company has merit, the policy may recommend shareholders abstain from proposals to amend companies' constitutions to facilitate nonbinding proposals.

## Independent Chair

The Benchmark Policy is of the view that an independent board chair is better able to oversee executives and set a pro-shareholder agenda without the conflicts that a CEO, executive insider, or close company affiliate may face. As such, separating the roles of CEO and chair may lead to a more proactive and effective board of directors. The presence of an independent chair can foster the creation of a thoughtful and dynamic board not dominated by the views of senior management. Further, separating these two key roles eliminates the conflict of interest that inevitably occurs when a CEO or other executive is responsible for self-oversight. As such, the Benchmark Policy will typically support reasonably crafted shareholder proposals seeking the installation of an independent chair. However, it will not support proposals that include overly prescriptive independence definitions and may consider recommending against proposals where the company makes a compelling case for combining the two roles and has a clearly defined lead independent director role or has indicated that it intends to separate the roles and has strong performance and governance provisions.

## Majority Vote for the Election of Directors

To promote a basic level of director accountability, investors broadly agree that companies should require that directors must receive a majority of votes cast to be elected. Unlike a plurality vote standard, a majority voting standard allows shareholders to collectively vote to reject a director they believe will not pursue and protect their best interests. As such, a majority vote standard leads to more attentive directors. Further, although shareholders only rarely fail to support directors, the occasional majority vote against a director's election will likely deter the election of directors with a record of ignoring shareholder interests. The Benchmark Policy will generally support shareholder proposals calling for the election of directors by a majority vote in uncontested director elections.

## Multi-Class Share Structures

Multi-class voting structures are typically not in the best interests of common shareholders. This is particularly the case when the voting power of one class is significantly different from that of common shareholders, giving a small group of shareholders a significant amount of control over the affairs of a company. Instead, all shareholders should have a say in decisions that will affect them.

Allowing one vote per share generally operates as a safeguard for common shareholders by ensuring that those who hold a significant minority of shares are able to weigh in on issues set forth by the board, especially in regard to the director election process. Elimination of the multi-class structure creates an even playing field for all shareholders, as well as a board that is more responsive to shareholders. Accordingly, the Benchmark Policy



will generally recommend that shareholders vote in favor of proposals that would eliminate a company's multi-class share structure to allow for one vote per share.

## Mutual Fund Shareholder Proposals

When reviewing shareholder proposals put forth at mutual funds, the Benchmark Policy generally begins with the premise that decisions regarding capital structure and a fund's management are typically best left to management and the board, as they have more and better information regarding the fund. In addition, the fund's trustees can be held accountable for their decisions through their election. Absent compelling evidence of egregious or illegal behavior, the Benchmark Policy will typically not recommend supporting shareholder proposals relating to the structure or management of a fund, such as a change in fund structure, the repurchase of shares, or the termination of advisor or management agreements. However, it may consider recommending support for well-crafted proposals in cases where the proponent has clearly demonstrated that adoption of the requested proposal will protect shareholder interests.

## Poison Pills (Shareholder Rights Plans)

Shareholder rights plans, or poison pill plans, are not generally in shareholders' best interests, as they can reduce management accountability by substantially limiting opportunities for corporate takeovers. Rights plans can thus prevent shareholders from receiving a buy-out premium for their stock. On an issue such as this, where there is a substantial link between the shareholders' financial interests and their right to consider and accept buyout offers, shareholders should be allowed to vote on whether they support such a plan's implementation. This issue is different from other matters that are typically left to board discretion, because its potential impact on and relationship to shareholders is direct and substantial. This is also an issue in which management interests may be different from those of shareholders; thus, ensuring that shareholders have a voice is the only way to safeguard their interests.

The Benchmark Policy will typically recommend in favor of shareholder proposals that require shareholder approval of any future poison pills or the redemption of a current poison pill adopted without shareholder approval.

## Proxy Access

The Benchmark Policy will consider supporting reasonable proposals requesting shareholders' ability to nominate director candidates to management's proxy (proxy access), as significant, long-term shareholders should have the ability to nominate their representatives to the board. The Benchmark Policy reviews proposals requesting proxy access on a case-by-case basis, and will consider the following:

- Company size;
- Existing or proposed proxy access provisions;
- Board independence and diversity of skills, experience, background and tenure;
- The shareholder proponent and the rationale for putting forth the proposal at the target company;
- The percentage ownership requested and holding period requirement;

- Shareholder base in both percentage of ownership and type of shareholder (e.g., hedge fund, activist investor, mutual fund, pension fund, etc.);
- Responsiveness of board and management to shareholders evidenced by progressive shareholder rights policies (e.g., majority voting, declassifying boards, etc.) and reaction to shareholder proposals;
- Company performance and steps taken to improve poor performance (e.g., new executives/directors, spin-offs, etc.);
- Existence of anti-takeover protections or other entrenchment devices; and
- Opportunities for shareholder action (e.g., ability to act by written consent or right to call a special meeting).

In recent years, shareholders have requested that companies amend existing proxy access bylaws (commonly referred to as “fix it” proposals) in order to, for example, change the percentage of proxy access nominees that can be submitted to the board or to allow for a larger group limit for shareholder nominators. The Benchmark Policy will review such proposals on a case-by-case, and will assess the company’s existing bylaws in order to assess whether the company’s current provisions unnecessarily restrict shareholders’ ability to exercise this right. In cases where companies have adopted proxy access provisions that reasonably conform with broad market practice, the Benchmark Policy will generally recommend against such proposals.

However, in instances where a company has adopted unnecessarily restrictive proxy access provisions, the Benchmark Policy may consider support for well-crafted “fix it” proposals that directly address areas of the company’s bylaws that warrant shareholder concern.

## Reimbursement of Solicitation Expenses

Where a dissident shareholder is seeking reimbursement for expenses incurred in waging a contest or submitting a shareholder proposal and has received the support of a majority of shareholders, the Benchmark Policy will generally recommend in favor of reimbursing the dissident for reasonable expenses. In those rare cases where a shareholder has put his or her own time and money into organizing a successful campaign to unseat a poorly performing director (or directors) or sought support for a shareholder proposal, the shareholder should be entitled to reimbursement of expenses via the company. In such cases, shareholders express their agreement by virtue of their majority vote for the dissident (or the shareholder proposal) and will share in the expected improvement in company performance.

## Requiring Two or More Nominees Per Board Seat

In an attempt to address lack of access to the ballot, shareholders occasionally submit proposals requesting that the board give shareholders a choice of directors for each open board seat in every election. It is possible that policies requiring a selection of multiple nominees for each board seat could discourage prospective directors from accepting nominations. A prospective director could not be confident either that he or she is the board’s clear choice or that he or she would be elected. Therefore, the Benchmark Policy generally will recommend that shareholders vote against such proposals.



## Right of Shareholders to Act by Written Consent

The Benchmark Policy is generally supportive of the right for shareholders to act by written consent. However, it could be argued that special meetings are preferable to action by written consent, as special meetings provide more protection for minority shareholders and better ensure that management is able to respond to the concerns raised by shareholders. Accordingly, in instances where companies have established other means for shareholders to influence a company's proxy or act outside the annual meeting cycle, the Benchmark Policy may consider recommending against shareholder proposals requesting that companies adopt a right for shareholders to act by written consent. Specifically, if a company has adopted a special meeting right of 15% or below and has adopted reasonable proxy access provisions, the Benchmark Policy will generally recommend that shareholders vote against shareholder proposals asking companies to amend their bylaws to provide shareholders with the right to action by written consent.

In instances where companies have already adopted written consent, but there is a shareholder proposal requesting that the company lower the ownership threshold to initiate written consent, the Benchmark Policy will take a similar approach. It will generally recommend in favor of lowering the ownership threshold when the company has no special meeting provision, or only allows shareholders owning more than 15% of its shares the ability to call a special meeting. The Benchmark Policy will generally oppose lowering the ownership threshold necessary to initiate written consent if the company in question has a 15% or lower special meeting threshold.

## Right of Shareholders to Call a Special Meeting

Shareholders generally benefit when they are afforded the ability to call meetings of shareholders between annual meetings to consider matters that require prompt attention. However, in order to prevent abuse and waste of corporate resources by a small minority of shareholders, shareholders representing at least a sizable minority of shares should support such a meeting prior to its calling. If this threshold is set too low, companies might frequently be subjected to meetings that disrupt normal business operations in order to focus on the interests of only a small minority of owners. Best practice indicates this threshold should not fall below 10 to 15% of shares, depending on company size.

In its case-by-case shareholder proposal evaluations, the Benchmark Policy considers the following:

- Company size;
- Shareholder base in both percentage of ownership and type of shareholder (e.g., hedge fund, activist investor, mutual fund, pension fund, etc.);
- Responsiveness of board and management to shareholders evidenced by progressive shareholder rights policies (e.g., majority voting, declassifying boards, etc.) and reaction to shareholder proposals;
- Company performance and steps taken to improve bad performance (e.g., new executives/directors, spin-offs, etc.);
- Existence of anti-takeover protections or other entrenchment devices;
- Opportunities for shareholder action (e.g., proxy access or the ability to act by written consent); and
- Existing ability for shareholders to call a special meeting.

## Supermajority Vote Requirements

Best practice dictates that a simple majority is appropriate in approving all matters presented to shareholders. As such, the Benchmark Policy will recommend that shareholders vote accordingly. Supermajority vote requirements can impede shareholder action on ballot items critical to shareholder interests. In a takeover context, supermajority vote requirements can strongly limit the voice of shareholders in making decisions on crucial matters such as selling the business. These limitations, in turn, may degrade share value and reduce the possibility of buyout premiums for shareholders. Moreover, a supermajority vote requirement can enable a small group of shareholders to overrule the will of the majority.

However, in instances where shareholder proposals seeking to eliminate supermajority voting provisions are submitted at controlled companies (i.e., where a majority of the voting power is held by an individual or group voting together), the Benchmark Policy may recommend that shareholders vote against such proposals. In these instances, supermajority vote provisions may act to protect minority shareholders and thus should be maintained.

# Compensation

The Benchmark Policy carefully reviews executive compensation, as this is an important area in which the board's priorities and effectiveness are revealed. Executives should be compensated with appropriate base salaries and incentivized with additional awards in cash and equity when their performance and that of the company warrant such rewards. Compensation should be closely aligned with company performance, with reference to compensation paid by the company's peers, and compensation programs should be designed to promote sustainable shareholder returns while discouraging excessive risk-taking.

As a general rule, the Benchmark Policy does not encourage shareholders to be involved in the design, approval and negotiation of specific elements of compensation packages. Such matters should be left to the board's compensation committee, which can be held accountable for its decisions through the election of directors. Further, in many cases compensation is subject to an advisory vote, giving shareholders another avenue to express concern about compensation and therefore promote change. The Benchmark Policy closely scrutinizes shareholder proposals regarding compensation in order to determine if the requested actions or disclosures have already been accomplished or mandated, and whether they provide the board with sufficient, appropriate discretion to design and implement reasonable compensation programs.

## Accelerated Vesting of Shares on a Change in Control

In general, the practice of accelerating the vesting of shares does not effectively link executive compensation with performance. In addition, accelerated vesting of equity upon a change in control may discourage potential buyers from making an offer for a company both because the purchase price will be higher and because substantial numbers of employees may earn significant amounts of money and decide to leave their positions with the company. In short, this sort of provision may lower the chances of a deal, lower the premium paid to shareholders in a takeover transaction, or both. As such, the Benchmark Policy will generally recommend that shareholders support proposals that prohibit the accelerated vesting of shares upon a change in control in instances where companies maintain a single-trigger change in control policy.

However, the Benchmark Policy will consider recommending voting against proposals requesting that companies prohibit the accelerated vesting of shares upon a change in control in instances where companies have a true double-trigger change in control policy, whereby an executive must depart a company prior to the acceleration of vesting of shares. In these instances, prohibiting the accelerated vesting of shares upon a qualifying termination could penalize executives by forcing them to forfeit shares that they have already earned, but are not yet vested. As such, double-trigger change in control provisions ensure an effective link between pay and performance and that they provide sufficient safeguards to ensure that executives don't receive windfall compensation upon a change in control.

## Adopt or Amend Recoupment Provisions (Clawbacks)

On October 26, 2022, the SEC adopted Rule 10D-1 under the Securities Exchange Act of 1934. The rule mandates national securities exchanges and associations to promulgate new listing standards requiring companies to maintain recoupment policies (“clawback provisions”). The final clawback listing standards were approved by the SEC, effective October 2, 2023 and required listed companies to adopt a compliant policy by December 1, 2023. Clawback provisions play an important role in mitigating excessive risk-taking that may be encouraged by poorly structured variable incentive programs. Current listing standards require recoupment of erroneously awarded payouts to current and former executive officers in the event of an accounting restatement or correction to previous financial statements that is material to the current period, regardless of fault or misconduct.

Excessive risk-taking that can materially and adversely impact shareholders may not necessarily result in such restatements. As such, clawback policies should allow recovery from current and former executive officers in the event of a restatement of financial results or similar revision of performance indicators upon which the awards were based. Additionally, recoupment policies should provide companies with the ability to claw back variable incentive payments (whether time-based or performance-based) when there is evidence of problematic decisions or actions, such as material misconduct, a material reputational failure, material risk management failure, or a material operational failure, the consequences of which have not already been reflected in incentive payments and where recovery is warranted.

The Benchmark Policy has increasingly focused attention on the specific terms of recoupment policies, beyond whether a company maintains a clawback that simply satisfies the legal minimum. The Benchmark Policy supports a policy of clawbacks being triggered, at a minimum, in the event of a restatement of financial results or similar revision of performance indicators upon which bonuses were based. In addition, conduct resulting in financial or reputational harm for a company could cause a significant loss of shareholder value. In those instances, shareholders can benefit when a company retains some recourse to recoup incentive compensation from individuals who are responsible for such conduct.

If the board has already adopted a comprehensive recoupment policy, the Benchmark Policy will generally not support amendments to that policy. However, in instances where companies have not adopted policies that provide sufficient protections for reputational and financial harm, it may consider supporting resolutions seeking to expand a company’s recoupment policy.

## Advisory Votes on Compensation

In markets where shareholder approval of executive compensation is not required by law, the Benchmark Policy will generally support shareholder resolutions requesting a company adopt an advisory vote on executive compensation. An advisory vote to approve executive compensation can be an effective mechanism for enhancing transparency in setting executive pay, improving accountability to shareholders and providing a more effective link between pay and performance. While such a vote will not directly affect the board’s ability to set executive compensation policy, it will allow shareholders to register their opinions regarding a company’s compensation practices. A vote against a company’s executive compensation may compel the board to reexamine its compensation practices and act accordingly.

While the Benchmark Policy is of the view that shareholders should have the ability to vote on executive compensation, it generally does not support the adoption of such a vote for director compensation. The relatively straightforward design, the lack of complicated performance metrics and the comparatively low levels of director compensation render shareholder input on non-employee director compensation less necessary. However, the Benchmark Policy may consider supporting proposals concerning director compensation where the compensation or perquisites received by directors are egregious or excessive in relation to a company's peer group.

## Compensation Consultants

Best practice dictates that consultants engaged by a company's compensation committee be unquestionably free of conflicts of interest. Because a potential or actual conflict of interest may arise when a consultant is engaged by a company's compensation committee or performs other business services for the company or management, such consultants should avoid providing services unrelated to those commissioned by the compensation committee. As mandated by Section 952 of the Dodd-Frank Act, as of January 11, 2013, the SEC approved new listing requirements for both the NYSE and NASDAQ which require compensation committees to consider six factors in assessing compensation advisor independence. These factors include: (i) provision of other services to the company; (ii) fees paid by the company as a percentage of the advisor's total annual revenue; (iii) policies and procedures of the advisor to mitigate conflicts of interests; (iv) any business or personal relationships of the consultant with any member of the compensation committee; (v) any company stock held by the consultant; and (vi) any business or personal relationships of the consultant with any executive officer of the company. According to the SEC, "no one factor should be viewed as a determinative factor." In light of these disclosure requirements, the Benchmark Policy will review proposals requesting that companies provide more information regarding the independence of or the services obtained from compensation consultants on a case-by-case basis.

## Disclosure of Compensation

The disclosure of information regarding compensation is critical to allowing shareholders to evaluate the extent to which executive compensation is based on performance. The Benchmark Policy generally supports improving disclosure regarding the compensation paid to top executives, directors and statutory auditors (as applicable per market). This information can allow shareholders to better determine whether an individuals' compensation is reasonable in terms of his or her position at a company, relative to the company's performance and to the compensation paid by a company's peers to individuals with similar responsibilities.

In many markets, regulators currently mandate significant disclosure of executive compensation. In those cases, providing information beyond that which is required by law, such as the details of individual employment agreements of employees below the senior level, could create internal personnel tension or put the company at a competitive disadvantage, prompting employee poaching by competitors. Further, it is not clear that this information would be beneficial to shareholders. Given these concerns, the Benchmark Policy generally does not support the production of additional disclosure of individual compensation packages beyond the significant level that is already required for senior executives in many countries; it, therefore, typically recommends voting against shareholder proposals seeking such detailed disclosure. It will, however, review each proposal on a case-

by-case basis, taking into account the company's history of aligning executive compensation, the company's current disclosure, and the likelihood of the protection of shareholder value from adoption of the proposal.

## Equity Holding Requirements

The Benchmark Policy generally supports the premise of linking of executive compensation to the creation and protection of long-term sustainable shareholder value. Executives generally receive a significant portion of their compensation in equity grants intended to provide this link, i.e., to align their interests with those of shareholders. However, the alignment benefit from equity grants is eliminated when executives sell the shares they have been granted. Therefore, it could be beneficial if executives are encouraged to retain some level of shares acquired through equity compensation programs to provide continued alignment of their interests with those of shareholders.

As such, the Benchmark Policy will generally recommend support for well-crafted shareholder proposals requiring executives to retain a significant portion of shares until or after termination of employment. As part of our evaluation, it will examine the number of shares executives own as well as any existing executive share ownership requirements and any limitations placed on the sale of their shares.

## Golden Coffins

The payment of substantial, unearned posthumous compensation does not provide any incentive to executives or in any way align the interests of executives with those of shareholders. The Benchmark Policy is broadly of the view that compensation paid to executives should be clearly linked to the creation of shareholder value. As such, the Benchmark Policy favors compensation plans centered on the payment of awards contingent upon the satisfaction of sufficiently stretching and appropriate performance metrics. The payment of posthumous, unearned and unvested awards should be subject to shareholder approval, if not eliminated altogether. Shareholders should be skeptical regarding any putative benefit they derive from costly payments made to executives who are no longer in any position to affect company performance.

To that end, the Benchmark Policy will consider supporting reasonably crafted shareholder proposals seeking to prohibit or require shareholder approval of survivor benefit payments to senior executives' estates or beneficiaries. It will not recommend supporting proposals that would, upon passage, violate existing contractual obligations or the terms of compensation plans currently in effect.

## Hedging of Stock

The hedging of shares by executives in the shares of the companies where they are employed can sever the alignment of interests of the executive with shareholders. As such, companies should adopt strict policies to prohibit executives from hedging the economic risk associated with their share ownership in the company. Therefore, in cases where companies have clearly failed to provide proper mechanisms that prevent executives from using financial instruments that are adverse to the interests of shareholders, the Benchmark Policy will recommend shareholders support shareholder resolutions that request that companies adopt and disclose information regarding restrictions on the hedging of executives' stock.

## Linking Executive Pay to Environmental & Social Criteria

A company's involvement in environmentally or socially sensitive and labor-intensive industries influences the degree to which a firm's overall strategy must weigh environmental and social concerns. However, the value generated by incentivizing executives to prioritize environmental and social issues is difficult to quantify and measure, and necessarily varies among industries and companies.

When reviewing proposals seeking to tie executive compensation to environmental or social practices, the Benchmark Policy will review the target firm's compliance with (or contravention of) applicable laws and regulations, and examine any history of environmentally and socially related concerns, including those resulting in material investigations, lawsuits, fines and settlements. It will also review the firm's current compensation policies and practices. However, regarding the selection of performance metrics for executive compensation, the Benchmark Policy generally believes that such decisions should be left to the compensation committee.

## Linking Executive Pay to Performance

Performance-based compensation is generally viewed as an effective means of motivating executives to act in the best interests of shareholders. An executive's compensation should be specific to the company and its performance and should also be tied to the executive's achievements within the company.

However, when firms have inadequately linked executive compensation and company performance, the Benchmark Policy will consider recommending support for reasonable proposals seeking to link a percentage of equity awards to performance criteria. It will also consider supporting appropriately crafted proposals requesting that the compensation committee include multiple performance metrics when setting executive compensation, provided that the terms of the shareholder proposal are not overly prescriptive. Though companies often argue that these types of restrictions would unduly hinder their ability to attract and retain talent, boards are able to develop an effective, consistent and reliable approach to remuneration utilizing a wide range (and an appropriate mix) of fixed and performance-based compensation.

## Pledging of Shares

Shareholder interests are generally best served when employees, particularly senior executives, have "skin-in-the-game." As such, there can be benefits when companies implement measures designed to encourage employees to both buy shares out of their own pocket and to retain shares they have been granted. However, blanket policies prohibiting stock pledging may discourage executives and employees from doing either.

While these blanket prohibitions could have adverse consequences for shareholders, the pledging of shares can present a risk that, depending on a host of factors, an executive with significant pledged shares and limited other assets may have an incentive to take steps to avoid a forced sale of shares in the face of a rapid stock price decline. Therefore, to avoid substantial losses from a forced sale to meet the terms of the loan, the executive may have an incentive to boost the stock price in the short term in a manner that is unsustainable, thus hurting shareholders in the long-term. Moreover, concerns regarding pledging may not apply to less senior employees,



given the latter group's more limited influence over a company's stock price. Therefore, the Benchmark Policy is of the view that the issue of pledging shares should be reviewed in that context, as should policies that distinguish between the two groups.

Ultimately, the benefits of stock ownership by executives and employees may outweigh the risks of stock pledging, depending on many factors. As such, the Benchmark Policy reviews all relevant factors in evaluating proposed policies, limitations and prohibitions on pledging stock, including:

- The number of shares pledged;
- The percentage executives' pledged shares are of outstanding shares;
- The percentage executives' pledged shares are of each executive's shares and total assets;
- Whether the pledged shares were purchased by the employee or granted by the company;
- Whether there are different policies for purchased and granted shares;
- Whether the granted shares were time-based or performance-based;
- The overall governance profile of the company;
- The volatility of the company's stock (in order to determine the likelihood of a sudden stock price drop);
- The nature and cyclicity, if applicable, of the company's industry;
- The participation and eligibility of executives and employees in pledging;
- The company's current policies regarding pledging and any waiver from these policies for employees and executives; and
- Disclosure of the extent of any pledging, particularly among senior executives.

## Retirement Benefits and Severance

As a general rule, the Benchmark Policy is of the view that that shareholders should not be involved in the design or approval of individual severance plans. Such matters should be left to the board's compensation committee, which can be held accountable for its decisions through the election of its director members.

However, when proposals are crafted to require approval only if the benefit exceeds 2.99 times the amount of the executive's base salary plus bonus, the Benchmark Policy typically supports such requests. In the United States, above this threshold, based on the executive's average annual compensation for the most recent five years, a company can no longer deduct severance payments as an expense; thus shareholders are deprived of a valuable benefit without an offsetting incentive to the executive. As such, shareholders should be consulted before such large payments are made, along with the payments' concomitant tax penalty, and implementing such policies would still leave companies with sufficient freedom to enter into appropriate severance arrangements. The Benchmark Policy may, however, recommend against these proposals in instances where companies have adopted policies whereby they will seek shareholder approval for any cash severance payments exceeding 2.99 times the sum of an executives' salary and bonus.

## Tax Gross-Ups

Tax gross-ups can act as anti-takeover measures, as larger payouts to executives result in larger gross-ups, which could artificially inflate the ultimate purchase price under a takeover or merger scenario. Additionally, gross-ups



can result in opaque compensation packages where shareholders are unlikely to be aware of the total compensation an executive may receive, and therefore the ultimate cost to shareholders. In addition, highly compensated executives are already well-positioned to protect themselves financially from the effects of takeover. Further, in instances where companies have severance agreements in place for executives, payments made pursuant to such arrangements are often large enough to soften the blow of any additional excise taxes. Finally, such payments are not performance based, thus providing no incentive to recipients and, if large, can be a significant cost to companies.

As such, the Benchmark Policy will typically recommend supporting proposals requesting that a compensation committee adopt a policy that it will not make or promise to make to its senior executives any tax gross-up payments, except those applicable to management employees of the company generally, such as a relocation or expatriate tax equalization policy.

# Environmental and Social Issues

## Overall Approach

The Benchmark Policy is of the view that part of the board's role is to ensure that management conducts a complete risk analysis of company operations, including those that have environmental and social implications and that directors should monitor management's performance in mitigating environmental and social risks related to operations in order to eliminate or minimize the risks to a company and its shareholders. Companies face significant financial, legal and reputational risks resulting from poor environmental and social practices, or negligent oversight thereof. Therefore, in cases where the board or management has neglected to take action on a pressing issue that could negatively impact shareholder value, shareholders should take necessary action in order to effect changes that will safeguard their financial interests.

The Benchmark Policy supports shareholders using their influence to push for governance structures that protect shareholders and promote director accountability. When management and the board have displayed disregard for environmental or social risks, have engaged in egregious or illegal conduct, or have failed to adequately respond to current or imminent environmental and social risks that threaten shareholder value, the Benchmark Policy will typically hold directors accountable. When a substantial environmental or social risk has been ignored or inadequately addressed, the Benchmark Policy may recommend voting against members of the audit committee, or members of a committee specifically charged with oversight of the issue in question.

To that end, the Benchmark Policy evaluates shareholder resolutions regarding environmental and social issues in the context of the financial materiality of the issue to the company's operations. All companies face risks associated with environmental and social issues. However, these risks manifest themselves differently at each company as a result of a company's operations, workforce, structure, and geography, among other factors. Accordingly, the Benchmark Policy places a significant emphasis on the financial implications of a company adopting, or not adopting, any proposed shareholder resolution. In order to determine the financial materiality of the issue, the Benchmark Policy will, among other factors, consider the standards developed by the Sustainability Accounting Standards Board (SASB). Additionally, Glass Lewis also examines:

**Direct environmental and social risk** — Companies should evaluate financial exposure to direct environmental risks associated with their operations. Examples of direct environmental risks include those associated with oil or gas spills, contamination, hazardous leakages, explosions, or reduced water or air quality, among others. Social risks may include non-inclusive employment policies, inadequate human rights policies, or issues that adversely affect the company's stakeholders. Further, firms should consider their exposure to risks emanating from a broad range of issues, over which they may have no or only limited control, such as insurance companies being affected by increased storm severity and frequency resulting from climate change.

**Risk due to legislation and regulation** — Companies should evaluate their exposure to changes or potential changes in regulation that affect current and planned operations. Regulation should be carefully monitored in all jurisdictions in which the company operates. The Benchmark Policy will look closely at relevant and proposed legislation and evaluate whether the company has responded proactively.

**Legal and reputational risk** — Failure to take action on important environmental or social issues may carry the risk of inciting negative publicity and potentially costly litigation. While the effect of high-profile campaigns on shareholder value may not be directly measurable, it is prudent for firms to evaluate social and environmental risk as a necessary part of assessing overall portfolio risk.

**Governance risk** — Inadequate oversight of environmental and social issues carries significant risks to companies. When leadership is ineffective or fails to thoroughly consider potential risks, such risks are likely unmitigated and could thus present substantial risks to the company, ultimately leading to loss of shareholder value. A critical factor in analyzing the risks presented to companies in the form of environmental and social issues is the level and quality of oversight over such issues. When management and the board have displayed disregard for environmental risks, have engaged in egregious or illegal conduct, or have failed to adequately respond to current or imminent environmental risks that threaten shareholder value shareholders should hold directors accountable. When a substantial environmental or social risk has been ignored or inadequately addressed, the Benchmark Policy may recommend voting against responsible members of the risk committee or its equivalent (including an environmental or sustainability committee), or in favor of a well-crafted shareholder proposal that addresses the company's failure to address such risks, particularly around providing more disclosure and reporting regarding the risk and related mitigation initiatives. In addition, or alternatively, depending on the proposals presented, the Benchmark Policy may also recommend voting against a company's accounts and reports and/or ratification of management and board acts.

**Engagement with issuers, proponents, and shareholders:** Engagement between shareholders and companies is a critical facet of an effective governance structure. Disclosure concerning companies' efforts to engage with investors, including shareholder proponents, can play an important role in shareholders' understanding of how the company is responding to areas of significant concern to shareholders and stakeholders. As part of the Benchmark Policy's broader evaluation of a company's governance risks when making a recommendation on a shareholder proposal, publicly available disclosures made by both the company and shareholder proponents concerning engagement between the two parties will be evaluated. In instances where there is compelling disclosure that either party has failed to engage in good faith, the Benchmark Policy may take such information into account when making recommendations on these resolutions.

Companies should make a concerted effort to provide disclosure in their proxy statements concerning their engagements with their broader shareholder bases on issues raised by shareholder proposals. Particularly in cases where companies receive repeat shareholder proposals, disclosure of a company's engagement efforts on related topics will be considered in the Benchmark Policy analysis and recommendations, especially in cases where such repeat proposals have received significant support from shareholders. While companies are not necessarily expected to take action on proposals that receive less than majority shareholder support, they are expected to ensure that they are soliciting feedback from shareholders concerning the topics raised by the proposals and communicating the feedback they have received in their proxy disclosures with a particular focus on responding to such feedback. Such disclosure will also be strongly considered when the Benchmark Policy is evaluating whether companies have sufficiently responded to majority-supported shareholder proposals.

## Animal Welfare

The Glass Lewis Benchmark Policy believes it is prudent for management to assess potential exposure to regulatory, legal and reputational risks associated with all business practices, including those related to animal welfare. A high-profile campaign launched against a company could result in shareholder action, a reduced customer base, protests and potentially costly litigation. However, in general, the board and management are in the best position to determine policies relating to the care and use of animals. While the Benchmark Policy will review all such proposals on a case-by-case basis, it will generally recommend voting against proposals seeking to eliminate or limit board discretion regarding animal testing or animal slaughter unless there is a clear and documented link between the board's policies and the degradation of shareholder value.

## Artificial Intelligence

As the science and technology underpinning artificial intelligence ("AI") have rapidly developed, so have the potential uses for this technology for companies in myriad industries. However, alongside the potential uses of AI come a variety of risks for companies that are employing this technology. Given AI is a relatively novel and highly dynamic technology, the use of which has the potential to lead to unintended consequences, the Benchmark Policy takes the view that companies should ensure responsiveness to stakeholder expectations as well as the changing regulatory and legal landscape governing this issue.

The Benchmark Policy generally encourages companies to provide sufficient disclosure to allow shareholders to broadly understand how they are using AI in their operations and whether there have been any ethical considerations incorporated in their use of this technology. The Benchmark Policy will carefully evaluate all shareholder proposals dealing with companies' use of AI technologies and will make recommendations on these proposals on a case-by-case basis. When evaluating these proposals, it will closely review the request of the proposal, and the disclosure provided by the company and its peers concerning their use of AI and the oversight afforded to AI-related issues. It will also evaluate any lawsuits, fines, or high-profile controversies concerning the company's use of AI as well as any other indication that the company's management of this issue presents a clear risk to shareholder value.

## Climate Change

### Climate-Related Lobbying

On a global basis, companies have begun providing additional disclosure concerning how they are ensuring that corporate funds are being spent in ways that further their objectives with respect to climate policy. As such, there is a growing acknowledgement by investors and companies that ensuring alignment between stated values and lobbying expenditures, including those of trade associations, is an important consideration. When companies actively lobby, whether directly or indirectly, in a manner that seems to contradict their espoused priorities and positions, it can result in the inefficient use of corporate resources, confuse a company's messages, and expose a company to significant reputational risks. Accordingly, the Benchmark Policy will generally recommend in favor of proposals requesting more information on a company's climate-related

lobbying. When reviewing proposals asking for disclosure on this issue, it will evaluate: (i) whether the requested disclosure would meaningfully benefit shareholders' understanding of the company's policies and positions on this issue; (ii) the industry in which the company operates; (ii) the company's current level of disclosure regarding its direct and indirect lobbying on climate change-related issues; and (iii) any significant controversies related to the Company's management of climate change or its trade association memberships. While the Benchmark Policy will generally recommend that companies enhance their disclosure on these issues, it will generally recommend against any proposals that would require a company to suspend its memberships in industry associations in or otherwise limit a company's ability to participate fully in the trade associations of which it is a member.

## Climate Reporting

Because the changing climate can have broad and wide-ranging impacts, climate change is an issue that should be addressed and considered by companies in every industry. Accordingly, the Benchmark Policy will generally recommend in favor of shareholder resolutions requesting that companies provide enhanced disclosure on climate-related issues, such as requesting that the company undertake a scenario analysis or report in alignment with broadly accepted climate reporting frameworks. While it is generally supportive of proposals seeking this enhanced disclosure, the Benchmark Policy will closely evaluate the request of each resolution in the context of a company's unique circumstances and will evaluate the following when making vote recommendations: (i) how the company's operations could be impacted by climate-related issues; (ii) the company's current policies and the level and evolution of its related disclosure; (iii) whether a company provides board-level oversight of climate-related risks; (iv) the disclosure and oversight afforded to climate change-related issues at peer companies; and (v) if companies in the company's market and/or industry have provided any disclosure that is aligned with IFRS S2, the recommendations of the Task Force on Climate-related Disclosures ("TCFD"), or other regional frameworks approximating such reporting.

The Benchmark Policy may recommend against these proposals, however, if a company's existing climate policies or reporting sufficiently address the request of the resolution or if it is not clear that adoption of the resolution, as written, is consistent with the protection of long-term shareholder value.

## Say on Climate

### Shareholder Proposals

Beginning in 2021, companies began placing management proposals on their ballots that ask shareholders to vote on their climate transition plans, or a Say on Climate vote. The Benchmark Policy is broadly supportive of companies' providing robust disclosure concerning their climate strategies, but there have been some concerns raised regarding the implications associated with companies' Say on Climate votes. Generally, the Benchmark Policy is of the view that the setting of a company's business strategy is a function that is best served by the board, which has a fiduciary duty to shareholders. By allowing shareholders to weigh in on a company's long-term climate strategy (which should be closely aligned with and integrated into a company's long-term business strategy), the board may be abdicating some of this responsibility. Additionally, these votes require that shareholders make informed voting decisions associated with the setting of companies' long-term business

strategy – as is the case with the establishment of net zero emissions goals to 2050 – with potentially incomplete information relating to operational changes and related costs.

Given the concerns raised above, the Benchmark Policy will generally recommend against shareholder proposals requesting that companies adopt a Say on Climate vote. However, when evaluating these proposals, the Benchmark Policy will consider: (i) the request of the resolution; (ii) the company's existing climate governance framework, initiatives, and reporting; (iii) the company's industry and size; and (iv) the company's exposure to climate-related risks. While there are concerns regarding companies adopting a Say on Climate vote, as previously noted, the Benchmark Policy is generally supportive of companies providing disclosure concerning their climate-related risks and opportunities and will apply the policies enumerated in the "Climate Reporting" section of these guidelines when requests for the production of climate transition plans are disaggregated from proposals requesting that shareholders be afforded a vote on these plans.

### Management Proposals

When evaluating management-sponsored votes seeking approval of climate transition plans the Benchmark Policy will look to the board to provide information concerning the governance of the Say on Climate vote. Specifically, it will evaluate whether companies have provided information concerning the board's role in setting strategy in light of this vote, and how the board intends to interpret the vote results for the proposal. The Benchmark Policy also evaluates how companies are engaging with investors prior to and after the vote and will favorably view disclosure of information concerning these engagement efforts. In instances where disclosure concerning the governance of the Say on Climate vote is not present, the Benchmark Policy will recommend that shareholders either abstain or vote against the proposal, depending on the quality of the plan presented.

Regardless of disclosure concerning the governance of a company's Say on Climate vote, the Benchmark Policy will evaluate the quality of the climate transition plans presented by companies on a case-by-case basis. Because Say on Climate votes are relatively nascent, best practices or the standardization of the proposals or underlying disclosures have not been developed. Absent such standards, the Benchmark Policy looks to companies to clearly articulate their climate plans in a distinct and easily understandable document, which should be aligned with broadly accepted climate frameworks (such as TCFD or IFRS S2). In this disclosure, it is important that companies clearly explain their goals, how their greenhouse gas emissions targets support achievement of any climate-related goals, and any foreseeable obstacles that could hinder their progress on these initiatives.

When evaluating these proposals, the Benchmark Policy will take into account a variety of factors, including: (i) the request of the resolution (e.g., whether companies are asking shareholders to approve its disclosure or its strategy); (ii) the board's role in overseeing the company's climate strategy; (iii) the company's industry and size; (iv) whether the company's GHG emissions targets and the disclosure of these targets appear reasonable in light of its operations and risk profile; and (iv) where the company is on its climate reporting journey (e.g., whether the company has been reporting and engaging with shareholders on climate risk for a number of years or if this is a relatively new initiative).

### Setting GHG Reduction Targets

On a case-by-case basis, the Benchmark Policy will consider supporting well-crafted proposals requesting that companies report their greenhouse gas emissions and adopt a reduction goal for these emissions. Particularly for companies operating in carbon- or energy- intensive industries, such as those in the basic materials,

integrated oil and gas, iron and steel, transportation, utilities and construction industries, managing and mitigating carbon emissions can be important to ensuring companies' long-term sustainability. As such, the Benchmark Policy will carefully review these proposals on a case-by-case basis, taking into account: (i) the industry in which the company operates; (ii) the existence of robust risk management of environmental issues as evidenced by material fines, lawsuits or reputational damage; and (iii) the disclosure and emissions reduction targets adopted by the company's peers.

## Diversity Reporting

Human capital management is an area of material importance for virtually all companies. Maintaining a diverse and engaged workforce can help mitigate risks related to low worker productivity, employee turnover, and lawsuits based on discrimination or harassment. Given the importance of this issue, companies should provide shareholders with adequate information to be able to assess the management of this critical aspect of their operations, and the mitigation of any attendant risks. Accordingly, the Benchmark Policy will generally support shareholder proposals requesting that companies disclose EEO-1 reports. It will also generally support proposals requesting that companies provide other types of disclosure concerning their workforce diversity, as well as those asking for details concerning how companies are promoting diversity within their workforce. When making these recommendations, the Benchmark Policy will consider: (i) whether the requested disclosure would meaningfully benefit shareholders' understanding of the company's diversity considerations; (ii) the company's current level of disclosure on issues related to workforce diversity; (iii) the level of such disclosure at the company's peers; and (iv) any lawsuits or accusations of discrimination within the company.

## Energy-Related Proposals

When reviewing proposals requesting an action or disclosure related to renewable energy or energy efficiency, the Benchmark Policy considers the following factors: (i) current energy regulations facing the company and their attendant risks to its operations; (ii) the company's responsiveness to issues related to energy efficiency and renewable energy; (iii) the company's current disclosure on this issue; and (iv) whether the company's actions and disclosure are aligned with that of its peers.

The Benchmark Policy may recommend in favor of well-crafted proposals requesting increased disclosure of renewable energy strategies or efforts toward increased energy efficiency, if: (i) there is credible evidence of egregious or illegal behavior regarding the company's energy strategy or actions in this regard; (ii) the company has been largely unresponsive to shifting regulatory changes related to energy policies; or (iii) adoption of the requested disclosure will clearly lead to the protection of shareholder value. However, the Benchmark Policy likely will not support proposals requesting the adoption of renewable energy goals or proposals seeking the implementation of prescriptive policies related to energy efficiency or renewable energy.



# Environmental and Social Risk Oversight

## Board Oversight of Environmental and Social Issues

Insufficient oversight of material environmental and social issues can present direct legal, financial, regulatory and reputational risks that could serve to harm shareholder interests. Therefore, shareholders generally benefit when such issues are carefully monitored and managed by companies, and when companies have an appropriate oversight structure in place to ensure that they are mitigating attendant risks and capitalizing on related opportunities to the best extent possible.

To that end, the Benchmark Policy looks to companies to ensure that boards maintain clear oversight of material risks to their operations, including those that are environmental and social in nature. These risks could include, but are not limited to matters related to climate change, human capital management, diversity, stakeholder relations, and health, safety & environment. In most markets, the Benchmark Policy will review a company's overall governance practices and identify which directors or board-level committees have been charged with oversight of environmental and/or social issues.

Given the importance of the board's role in overseeing environmental and social risks, the Benchmark Policy will generally recommend voting against the governance chair of a company who fails to provide explicit disclosure concerning the board's role in overseeing these issues.

While it is important that material environmental and social issues are overseen at the board level and that shareholders are afforded meaningful disclosure of these oversight responsibilities, the Glass Lewis Benchmark Policy is of the view that companies should determine the best structure for this oversight for themselves. This oversight can be effectively conducted by specific directors, the entire board, a separate committee, or combined with the responsibilities of a key committee.

When evaluating the board's role in overseeing environmental and/or social issues, the Benchmark Policy will examine a company's proxy statement and governing documents (such as committee charters) to determine if directors maintain a meaningful level of oversight of and accountability for a company's material environmental and/or socially-related impacts and risks.

## Board Accountability for Environmental and Social Performance

The Benchmark Policy carefully monitors companies' performance with respect to environmental and social issues, including those related to climate and human capital management. In situations where there is evidence that a company has not properly managed or mitigated material environmental or social risks to the detriment of shareholder value, or when such mismanagement has threatened shareholder value, the Benchmark Policy may recommend that shareholders vote against the members of the board who are responsible for oversight of environmental and social risks. In the absence of explicit board oversight of environmental and social issues, the Benchmark Policy may recommend that shareholders vote against members of the audit committee. In making these determinations, the Benchmark Policy will carefully review the situation, its effect on shareholder value, as well as any corrective action or other response made by the company.



For more information on how the Benchmark Policy evaluates environmental and social issues, please see “Overall Approach”.

## Board Accountability for Climate-Related Issues

Given the exceptionally broad impacts of a changing climate on companies, the economy, and society more broadly, climate risk can present material risks for companies in all industries. Accordingly, it is important that boards consider and evaluate their operational resilience under lower-carbon scenarios. While all companies maintain exposure to climate-related risks, additional consideration should be given to, and disclosure should be provided by, those companies whose own GHG emissions represent a financially material risk. For companies with this increased risk exposure, the Benchmark Policy evaluates whether companies are providing clear and comprehensive disclosure regarding these risks, including how they are being mitigated and overseen. Such information is crucial to allow investors to understand the company’s management of this issue as well as the impact of a lower carbon future on the company’s operations.

In line with this view, the Benchmark Policy will carefully assess whether climate-related disclosures are aligned with the recommendations of the TCFD or IFRS S2 Climate-related Disclosures at large-cap companies<sup>5</sup> with material exposure to climate risk stemming from their own operations<sup>6</sup> as well as companies where emissions or climate impacts, or stakeholder scrutiny thereof, represent an outsized, financially material risk. The Benchmark Policy will also assess whether these companies have disclosed explicit and clearly defined board-level oversight responsibilities for climate-related issues. In instances where either or both of these disclosures is absent or significantly lacking, the Benchmark Policy may recommend against relevant directors. In instances where appropriate directors are not standing for election, the Benchmark Policy may instead recommend shareholders vote against other matters that are up for a vote, such as the ratification of board acts, or the accounts and reports proposal.

## Equal Opportunity Employment Principles

The Benchmark Policy carefully reviews proposals requesting the implementation of equal employment opportunity principles in order to determine whether the actions requested of the company will clearly lead to the protection of shareholder value. Directors who are conscientiously exercising their fiduciary duties will typically have more and better information about a company and its situation than shareholders. Therefore, the Benchmark Policy generally allows discretion for the board and management in designing and implementing employment policies. However, the Benchmark Policy may recommend supporting reasonable proposals seeking enhancements to, or the establishment of, an equal employment opportunity policy if there is evidence of

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<sup>5</sup> Companies in the following indices: ASX 200, CAC 40, DAX40, Euronext 100, FTSE 100, FTSE MIB, Hang Seng, Ibex 35, IBRX 50, JSE Top 40, KOSPI 200, Nikkei 225, OMNX40, SMI, S&P 500, S&P Europe 350, S&P/NZX 50, TSX 60

<sup>6</sup> This policy will generally apply to companies in the following SASB-defined industries: agricultural products, air freight & logistics, airlines, chemicals, construction materials, containers & packaging, cruise lines, electric utilities & power generators, food retailers & distributors, health care distributors, iron & steel producers, marine transportation, meat, poultry & dairy, metals & mining, non-alcoholic beverages, oil & gas, pulp & paper products, rail transportation, road transportation, semiconductors, waste management.

discriminatory treatment of employees that the company failed to address, leading to a decrease in shareholder value.

## Holy Land Principles

In order to address some of the issues of economic disparity between Israelis and Palestinians, the Holy Land Principles were launched by Fr. Sean McManus, who was also involved in the MacBride principles campaign. Whereas the MacBride principles consisted of nine fair employment principles for U.S. companies with operations in Northern Ireland, the Holy Land Principles have been established to promote fair and just employment practices in the Holy Land, which the principles describe as encompassing Israel/Palestine, the West Bank, the Gaza Strip, and East Jerusalem. In evaluating proposals requesting adoption of the Holy Land Principles, the Benchmark Policy will examine a company's current equal employment opportunity policy and the extent to which the company has been subject to protests, fines or litigation with a material economic impact resulting from discrimination in the workplace. It will also examine any evidence of the firm's specific record of labor concerns in the above-described Holy Land.

## Foreign Government Business Policies

When a company operates in foreign countries, the company and board should maintain sufficient controls to prevent illegal or egregious conduct with the potential to decrease shareholder value, examples of which include bribery, money laundering, severe environmental violations or human rights violations. When these controls are ineffective, shareholders should hold board members, particularly those that serve on the audit committee, or the CEO accountable when they face reelection, as these concerns may subject the company to financial risk. In some instances, the Benchmark Policy will support appropriately crafted shareholder proposals specifically addressing concerns with a company's actions outside its home jurisdiction.

## Gender/Racial Pay Equity

Failing to address issues related to gender pay inequity can present legal and reputational risks for companies. Not only can inequitable compensation inhibit companies' ability to attract and retain qualified, diverse employees and cause workplace dissatisfaction, lost productivity and high turnover, but pay inequity can result in expensive and time-consuming lawsuits for a company. Given these risks, companies have been asked by shareholders to report on efforts being made to ensure pay parity. The Benchmark Policy will review such proposals on a case-by-case basis, taking into consideration: (i) the company's industry; (ii) the company's current efforts and disclosure with regard to gender pay equity; (iii) practices and disclosure provided by a company's peers concerning gender pay equity; and (iv) any legal and regulatory actions at the company. The policy will consider supporting well-crafted shareholder resolutions requesting more disclosure on the issue of gender pay equity in instances where the company has not adequately addressed the issue and there is some evidence to suggest that such inattention could present a risk to the company's operations and/or shareholders.

The Benchmark Policy will also review on a case-by-case basis proposals that request that companies disclose their median gender pay ratios (as opposed to proposals asking that such information be adjusted based on factors such as job title, tenure, and geography). In instances where companies have provided sufficient

information concerning their diversity initiatives as well as information concerning how they are ensuring that women and men are paid equally for equal work, the Benchmark Policy will generally recommend against these resolutions.

## Human Rights

The policies adopted by companies' boards of directors on human rights provide shareholders with the means to determine whether companies have taken steps to mitigate risks from their human rights practices. It is generally viewed as prudent for a company to actively evaluate risks to shareholder value stemming from global activities and human rights practices along its entire supply chain. Findings and investigations of human rights abuses can inflict, at a minimum, reputational damage on targeted companies and have the potential to dramatically reduce shareholder value. This is particularly true for companies operating in extractive industries and in politically unstable regions. As such, while the Benchmark Policy will typically rely on the oversight of the board on these important policy issues, there are some instances where shareholders could benefit from increased reporting or further codification of human rights policies. In such instances, the Benchmark Policy will support well-crafted proposals concerning the adoption of a human rights policy or additional disclosure concerning how companies are managing this issue.

## Internet Censorship

Legal and ethical questions regarding the use and management of the internet have been present since access was first made available to the public almost twenty years ago. Prominent among these debates are the issues of privacy, censorship, freedom of expression and freedom of access. It is generally viewed as prudent for management to assess its potential exposure to risks relating to the internet management and censorship policies. Even the perceived violation of user privacy or censorship of internet access can lead to high-profile campaigns that could potentially result in decreased customer bases or potentially costly litigation. However, management and boards are best equipped to deal with the evolving nature of this issue in the various jurisdictions of their operations. As such, the Benchmark Policy will only recommend in favor of proposals dealing with this issue in instances where it is clear that a company's management of internet censorship presents a clear risk to shareholders.

## Management-Proposed ESG Resolutions

In a variety of markets, companies have begun submitting proposals to a shareholder vote that relate to how they are managing environmental and social risks. The requests of these proposals can vary significantly from market-to-market. For example, companies have occasionally placed management proposals alongside shareholder proposals on the same or similar topics. In addition, some companies propose ESG-related management proposals in response to shareholder concerns or to preempt or replace a shareholder resolution. There have also been a number of companies acting proactively on environmental and social issues and that use a management proposal as a tool to gauge investor sentiment on their proposed initiatives.

In addition to voluntary ESG-related proposals, several countries have mandated shareholder votes on non-financial reporting. For example, Spanish law requires that large public companies publish a report on non-financial information, which must be submitted to an annual shareholder vote on a standalone basis.<sup>7</sup> Similarly, large Swiss public companies are also obliged to prepare a report on non-financial matters, which must be submitted to an annual shareholder vote.<sup>8</sup>

In these cases, the Benchmark Policy will generally recommend that shareholders vote for proposals to approve a company's non-financial reporting, unless any of the following apply: (i) the company has failed to make the report publicly-available with sufficient time for shareholder review prior to the general meeting;<sup>9</sup> (ii) the company has failed to provide a sufficient response to material controversies in its reporting; (iii) there are material concerns regarding the completeness and/or quality of the reporting; or (iv) the company is listed on a blue-chip or mid-cap index and has failed to disclose its Scope 1 and 2 emissions.<sup>10</sup>

In addition, for large-cap companies and in instances where there are material ESG oversight concerns, the Benchmark Policy will review the manner in which the board oversees ESG issues. In instances where the board has failed to provide explicit disclosure concerning its role in overseeing material ESG issues, the Benchmark Policy may recommend that shareholders vote against the approval of a company's non-financial reporting instead of or in addition to a recommendation to vote against accountable directors.<sup>11</sup>

Outside of countries where these votes are mandatory, management-sponsored proposals on ESG-related topics remain relatively infrequent and often deal with myriad topics. The Benchmark Policy will take a case-by-case approach to all other management-sponsored ESG resolutions. When reviewing these proposals, the Benchmark Policy will consider a variety of factors. Specifically, it will consider: (i) the request of the resolution and whether it would materially impact shareholders; (ii) whether there is a competing or corresponding shareholder proposal on the topic; (iii) the company's general responsiveness to shareholders and to emerging environmental and social issues; (iv) whether the proposal is binding or advisory; and (v) management's recommendation on how shareholders should vote on the proposal.

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<sup>7</sup> Article 49 of the Spanish Commercial Code.

<sup>8</sup> Article 964a-c of the Swiss Code of Obligations.

<sup>9</sup> The Benchmark Policy generally expects that relevant disclosures should be made publicly available at least 21 days prior to a general meeting. Where the report has not been made available with sufficient time for shareholder review, it will generally recommend that shareholders abstain from voting on the report.

<sup>10</sup> Article 49.6 of the Spanish Commercial Code and Article 964b of the Swiss Code of Obligations require companies to report on a number of non-financial issues, including CO<sub>2</sub> emissions. (47) and article 29b of Directive 2022/2464 of the European Parliament and Council (CSRD) requires that the European Sustainability Reporting Standards shall specify the information that companies will be required to report on "Scope 1, Scope 2 and, where relevant, Scope 3 greenhouse gas emissions" and notes the usefulness to users in having access to this information. This policy will apply to companies listed on the Swiss SMI or SMIM indices, or the Spanish IBEX 35 or IBEX Medium Cap indices.

<sup>11</sup> Please refer to the "Environmental and Social Risk Oversight" section of these guidelines.

## Military and Government Business Policies

The disclosure of information on key company endeavors is important. However, the Benchmark Policy generally does not support resolutions that call for shareholder approval of policy statements for or against government programs, most of which are subject to thorough review by the federal government and elected officials at the national level. It also generally does not support proposals favoring disclosure of information where similar disclosure is already mandated by law, unless circumstances exist that warrant the additional disclosure.

## Nondiscrimination Policies

Companies with records of poor labor relations may face lawsuits, efficiency-draining turnover, poor employee performance, and distracting, costly investigations. Moreover, as an increasing number of companies adopt inclusive equal employment opportunity (EEO) policies, companies without comprehensive policies may face damaging recruitment, reputational and legal risks. A pattern of making financial settlements as a result of lawsuits based on discrimination could indicate investor exposure to ongoing financial risk. Where there is clear evidence of employment practices resulting in negative economic exposure, the Benchmark Policy may support shareholder proposals addressing such risks. In addition, the Benchmark Policy may consider supporting proposals requesting that companies adopt broader nondiscrimination policies in cases where a company's lack of alignment with peers in this regard may hamper its ability to attract and retain employees or where a company may be subject to regulatory scrutiny as a result of its nondiscrimination policies.

## Nuclear Proposals

Shareholder proposals requesting that companies decommission their nuclear operations are most common in Japan, but are also seen in other markets, including the United States. As with other environmental and safety issues, operational decisions, particularly those related to the decommissioning of a nuclear power plant or ending nuclear operations, are best left to management and the board. As such, the Benchmark Policy will typically recommend shareholders vote against proposals regarding operational matters. However, as nuclear operations have significant attendant risks, companies should thoroughly address their exposure to direct environmental, regulatory, legislative, legal and reputational risks stemming from nuclear operations and incorporate this information into their overall business risk profile. In cases where companies have been negligent in ensuring the safety of their nuclear operations or there is credible evidence of egregious or illegal behavior on behalf of the company, the Benchmark Policy may consider supporting proposals requesting increased disclosure of a company's nuclear operations or other related issues.

## Oil Sands

Companies should strongly consider and evaluate exposure to financial, legal and reputational risks associated with operations in oil sands since the procedure required to extract usable crude from oil sands emits significantly more greenhouse gases than do conventional extraction methods. In addition, development of the oil sands has a deleterious effect on the local environment, such as Canada's boreal forests which sequester significant levels of carbon.

Companies should adequately disclose information regarding operations in oil sands, including a discussion of exposure to sensitive political and environmental areas. Companies should also broadly outline the scope of oil sands operations, describe the commercial methods for producing oil, and discuss the management of greenhouse gas emissions. However, detailed disclosure of investment assumptions could unintentionally reveal sensitive information regarding operations and business strategy, which would not serve shareholders' interest. The Benchmark Policy will review all proposals seeking increased disclosure of oil sands operations in the above context, but will typically not support proposals seeking cessation or curtailment of operations.

## Pharmaceutical and Healthcare-Related Proposals

Healthcare reform in the United States has long been a contentious political issue. Companies, therefore, must evaluate and mitigate the level of risk to which they may be exposed regarding potential changes in healthcare legislation. However, individual corporate boardrooms may not be the appropriate forum in which to address evolving and contentious national policy issues. The Benchmark Policy will review proposals regarding healthcare-related issues on a case-by-case basis and may consider supporting proposals in cases where proponents have clearly demonstrated that a company's current practices or policies present significant financial or reputational harm.

The Benchmark Policy will generally recommend against proposals requesting that companies adopt policies of price restraint on their branded pharmaceuticals in order to ensure that their drugs are affordable. Generally speaking, strategic and operational decisions regarding investments in innovation and pricing structures are best left to management and the board, as they know what pricing structures are appropriate based on current market conditions and are better able to assess the desirability of any market-based price adjustments. To that end, the Benchmark Policy will review proposals requesting increased disclosure of risks associated with drug pricing on a case-by-case basis.

## Racial Equity Audits

Companies can face increased reputational risk when their operations result in adverse stakeholder impacts, particularly when those stakeholders belong to minority or underrepresented groups. Companies can also face legal and regulatory risk if their business engages in or appears to engage in potentially discriminatory behavior or if such behavior results in disparate impacts on certain groups of stakeholders. As a result of these potential risks, it is important for companies to take steps to mitigate any potential adverse impacts both internally and externally. In many cases, undertaking an audit of such impacts could be beneficial as a risk mitigation tool.

When analyzing these resolutions, the Benchmark Policy will assess: (i) the nature of the company's operations; (ii) the level of disclosure provided by the company and its peers on its internal and external stakeholder impacts and the steps it is taking to mitigate any attendant risks; and (iii) any relevant controversies, fines, or lawsuits. After taking into account these company-specific factors, the Benchmark Policy will generally recommend in favor of well-crafted proposals requesting that companies undertake a racial or civil rights-related audit when there is evidence that doing so could help the target company identify and mitigate potentially significant risks.



## Reporting Contributions and Political Spending

While in the United States corporate contributions to national political parties and committees controlled by federal officeholders are prohibited under federal law, corporations can legally donate to state and local candidates, organizations registered under 26 USC Sec. 527 of the Internal Revenue Code and state-level political committees. There is, however, no standardized manner in which companies must disclose this information. As such, shareholders often must search through numerous campaign finance reports and detailed tax documents to ascertain even limited information. Corporations also frequently join trade associations, which are not required to report funds they receive for or spend on political activity and which may be politically active.

Further, in 2010 the *Citizens United v. Federal Election Commission* decision by the United States' Supreme Court affirmed that corporations are entitled to the same First Amendment right to free speech as individuals and that it is legal for groups including a corporation to donate to political causes without monetary limit. While that decision did not remove bans on direct contributions to candidates, companies are now able to contribute indirectly, and substantially, to candidates through political organizations.

When evaluating whether adoption of a proposal to increase a company's political contributions or lobbying expenditures disclosure would benefit shareholders, the Benchmark Policy generally considers the following:

- The risk to shareholders from the company's political activities;
- The comprehensiveness and accessibility of the company's existing corporate political spending disclosures;
- How the company's corporate political spending disclosure compares to that provided by its peers;
- The level of oversight afforded to issues of corporate political spending; and
- Whether adoption of the resolution would lead to the protection of shareholder value.

The Benchmark Policy will consider supporting a proposal seeking increased disclosure of corporate lobbying or political expenditure and contributions if the firm's current disclosure is insufficient, if the firm's disclosure is significantly lacking compared to its peers, or if the company faces significant risks as a result of its political activities. The Benchmark Policy will typically recommend voting for proposals requesting reports on lobbying or political contributions and expenditures when there is no explicit board oversight or there is evidence of inadequate board oversight of such contributions. Given that political donations are strategic decisions intended to increase shareholder value but at the same time have the potential to negatively affect the company, the board should either implement processes and procedures to ensure the proper use of the funds or closely evaluate the process and procedures used by management. The Benchmark Policy will also consider supporting such proposals when there is evidence, or credible allegations, that the company is mismanaging corporate funds through political donations or lobbying activities. In the case of particularly egregious actions by the company, the policy may recommend voting against the governance committee members or other responsible directors.

While the Benchmark Policy considers proposals requesting reports on political contributions and expenditures and lobbying activities on a case-by-case basis, it generally recommends against proposals requesting that companies adopt an advisory vote on electioneering expenditures. Absent egregious behavior allowing shareholders a vote on political contributions oversteps the line between tasks appropriately conducted by the

board and those reasonably subject to shareholder approval or ratification. The Benchmark Policy will also consider proposals requesting that companies construct policies that ensure that their values are aligned with their political spending on a case-by-case basis. Generally, companies should disclose as much relevant information as possible to help shareholders assess whether political spending activities are aligned with a company's policy and best interests and that companies should carefully consider the inherent reputational risks associated with supporting candidates or trade associations whose positions can be interpreted as contrary to company values. The Benchmark Policy may consider supporting these proposals in cases where there is clear evidence of a lack of oversight of political spending that has resulted in a degradation of shareholder value or in cases where companies have acted illegally or egregiously with respect to corporate political spending.

The Benchmark Policy will generally not support shareholder resolutions requesting that companies either provide a study on prohibiting or prohibit corporate political spending. While boards should investigate and report to shareholders what benefit, if any, a company is deriving from the use of its corporate political spending, firms should generally not be explicitly prohibited from legal participation in the political process, as legal participation by companies in the political process can benefit shareholders by facilitating legislation and regulations that are favorable and likely to increase shareholder value.

## Safety-Related Issues

The Benchmark Policy recognizes the complexity of accurately gauging the potential risks to shareholder value with respect to safety and accident mitigation issues. Despite these difficulties and challenges, it is prudent for management to assess its potential exposure to associated risks and incorporate this information into its overall business risk profile. When reviewing proposals requesting that companies increase disclosure regarding their efforts toward increased safety and accident mitigation, the Benchmark Policy considers a company's exposure to direct risks, regulatory, legislative and legal risks and reputational risks. It also considers a company's current level of disclosure and the level of oversight given to safety issues. In certain situations, the Benchmark Policy may consider supporting a proposal requesting increased disclosure regarding a company's efforts to ensure safe operations if the company has been unresponsive to safety violations or injuries, if there is credible evidence of egregious or illegal behavior, or if there is a clear link between the adoption of the requested proposal and the protection of shareholder value.

## Sustainability and Environment-Related Reports

When evaluating requests that a firm produce a sustainability report or an environment-related report, such as a report on coal combustion waste or hydraulic fracturing, the Benchmark Policy will consider, among other things:

- The financial risk to the company from its business operations, particularly as it relates to its environmental and social practices and/or applicable regulation;
- The company's current level of relevant disclosure;
- The quality and comprehensiveness of sustainability information disclosed by the company's peers;
- The industry in which the company operates;
- The company's oversight of sustainability issues;



- The level and type of sustainability concerns and controversies at the company;
- The time frame within which the relevant report is to be produced; and
- The level of flexibility granted to the board in implementing the proposal.

Firms with significant exposure to sustainability-related risks, such as in the extractive industries, should produce reports regarding the risks presented by their environmental and adverse effects on stakeholders that reduce shareholder value, and the Benchmark Policy will consider recommending a vote for reasonably crafted proposals requesting that such a report be produced; however, as with all shareholder proposals, it will evaluate these report requests on a case-by-case basis.

## Tobacco

Due to the contentious nature of the production, procurement, marketing and selling of tobacco products, tobacco companies are particularly susceptible to reputational and regulatory risk due to the nature of their operations. As such, the Benchmark Policy will consider supporting uniquely tailored and appropriately crafted shareholder proposals requesting increased information or the implementation of suitably broad policies at target firms on a case-by-case basis. However, it typically does not recommend support for proposals requesting that firms shift away from, or significantly alter, the legal production or marketing of core products.

## Water-Related Proposals

Companies whose operations are especially susceptible to water scarcity issues should integrate water management into their overall business strategy, as a failure to appropriately manage water resources could lead to increased shareholder risk, either through reputational damage or increased economic costs associated with water procurement. In the case of proposals requesting that a company adopt policies or improve disclosure regarding some aspect of its water usage or its impact on water supplies, the Benchmark Policy will consider a company's current level of related disclosure, the level of oversight afforded to water-related issues and a company's overall management of its water usage and impact on water supplies. The Benchmark Policy will also review a company's exposure to potential regulatory, legislative, legal, reputational and direct environmental and social risks associated with its water management.

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Corporate Website | [www.glasslewis.com](http://www.glasslewis.com)

Email | [info@glasslewis.com](mailto:info@glasslewis.com)

Social |  [@glasslewis](https://twitter.com/glasslewis)  [Glass, Lewis & Co.](https://www.linkedin.com/company/glass-lewis-&-co)

## Global Locations

### North America

#### United States

##### Headquarters

100 Pine Street, Suite 1250  
San Francisco, CA 94111  
+1 415 678 4110

New York, NY  
+1 646 606 2345

2323 Grand Boulevard, Suite 1125  
Kansas City, MO 64108  
+1 816 945 4525

#### Canada

65 Front Street East, Suite 201  
Toronto, ON M5E 1B5

### Asia Pacific

#### Australia

CGI Glass Lewis  
Suite 5.03, Level 5  
255 George Street  
Sydney NSW 2000  
+61 2 9299 9266

#### Japan

Shinjuku Mitsui Building, 11th floor  
2-1-1, Nishi-Shinjuku, Shinjuku-ku,  
Tokyo 163-0411, Japan

#### Philippines

One Ayala East Tower, 1 Ayala Ave  
Makati, Metro Manila

### Europe

#### Ireland

15 Henry Street  
Limerick V94 V9T4  
+353 61 534 343

#### United Kingdom

80 Coleman Street  
Suite 4.02  
London EC2R 5BJ  
+44 20 7653 8800

#### France

Proxinvest  
6 Rue d'Uzès  
75002 Paris  
+33 (0)1 45 51 50 43

#### Germany

IVOX Glass Lewis  
Kaiserallee 23a  
76133 Karlsruhe  
+49 721 35 49622

#### Romania

Calea Aradului 11  
Timișoara 300254

#### Sweden

Norrskens House  
Birger Jarlsgatan 57C  
113 56 Stockholm

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