Continental Europe

GLASS LEWIS

2026 Benchmark Policy Guidelines

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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.

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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 favour of governance structures that will drive performance and promote and maintain long-term shareholder value.

Guidelines Introduction

While corporate governance practices in Europe vary significantly by country, many principles and regulations are common to most European countries. Therefore, the Benchmark Policy Guidelines for companies located in Europe (with the exception of the UK and Ireland, for which there are separate Benchmark Policy voting guidelines) have been consolidated into a single pan-European policy to reflect the growing convergence of both corporate governance regulations among EU Member States as well as governance practices among European companies. Corporate governance practices in Europe are increasingly codified by regulations, directives, and recommendations of the European Commission and other European regulatory authorities, which apply to all European Union Member States and are frequently adopted by non-member European states such as Switzerland and Norway.

These guidelines are intended to summarise the underlying principles and definitions when applying market-specific Benchmark Policies across continental Europe. Certain country-level policy variations are identified in these guidelines. However, for details on local regulations and best practice recommendations, as well as a complete overview of Benchmark Policy variations that account for local rules, structures, and prevailing market practice, these guidelines should be read in conjunction with the following country-level Benchmark Policy guideline sets:

Austria	*France*	*Luxembourg*	*Portugal*
Belgium	*Germany*	*Netherlands*	*Spain*
Denmark	*Greece*	*Norway*	*Sweden*
Finland	*Italy*	*Poland*	*Switzerland*

In all cases, the country-specific Benchmark Policy guidelines shall prevail.

Shareholder Rights Directive II

The European Union Shareholder Rights Directive (SRD II) is a legally binding regulatory act which has been particularly influential in driving the convergence of governance and disclosure norms. In 2017, SRD II was amended to improve issuer transparency of related party transactions and executive remuneration, while also standardising board and shareholder approval procedures of those issues. As an EU Directive, the substance of the regulations was implemented separately in each of the 27 EU Member States and varies from country to country, within the framework of minimum standards set by SRD II.

With regard to executive remuneration, SRD II sets minimum standards for detailed disclosure of each component of executive remuneration as well as performance criteria. Remuneration policies should include non-financial criteria and describe their application in detail, though specific requirements are left to Member States. Shareholders must have the right to vote on executive remuneration policies at least every four years. They also have a vote on the remuneration report on implementation of the policy annually, unless a Member State makes use of the option to make the remuneration report a non-voting discussion item for smaller companies.

With regard to approval of related party transactions (RPTs), Member States have set materiality thresholds for evaluating RPTs. Material RPTs must be publicly disclosed and either approved by the board or shareholders, without the participation of interested parties. Some Member States also require the publication of a fairness opinion.

Finally, SRD II also imposes certain disclosure requirements for EU-based asset managers and asset owners on engagement and investment strategies. It also imposes shareholder identification and data transmission requirements for intermediaries. The overall purpose of these requirements of SRD II is to enhance the flow of information across the institutional investment community and to promote common stewardship objectives between institutional investors and asset managers, while improving transparency of issuers, investors and intermediaries.

Voting Recommendations

Throughout these guidelines, references are provided to the Benchmark Policy's approach in recommending a vote for or against, or to abstain from voting on certain proposals. In some markets and at certain companies, against or abstain votes may not be valid options. In these cases, the Benchmark Policy recommendation will be adjusted accordingly. In other markets and at certain companies, an abstain vote may not be counted towards the quorum for a proposal. In such cases, particularly where there is a significant deficit of relevant information, the Benchmark Policy may instead recommend that shareholders vote against the proposal in order to ensure that their votes are counted.

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 summarised below and discussed in greater detail in the relevant sections of this document.

Pay for Performance

A new section of these guidelines has been added in order to describe Glass Lewis' new proprietary pay-for-performance model, including score ranges, the individual tests that comprise the balanced scorecard, and information on the selection of peers. Further, it is clarified that while the outcome of this assessment may impact the analysis of a company's executive remuneration practices, Benchmark Policy recommendations on remuneration report and policy proposals will continue to be derived from a holistic assessment of a company's remuneration structure, disclosure and practices, as well as other relevant external factors.

Please refer to the "Pay for Performance" section of these guidelines for further information.

Non-Financial Reporting

Amendments have been made to multiple sections of these guidelines in order to specify that when the independent auditor refuses to provide an opinion, or provides a qualified or adverse opinion, on a company's non-financial reporting, the Benchmark Policy may recommend that shareholders vote against proposals to approve a company's accounts and reports or non-financial reporting, or to ratify the acts of the board for the past fiscal year, as appropriate. The reasoning provided by the statutory auditor as well as the type and structure of relevant proposals will be taken into account in the assessment.

Please refer to the "Accounts and Reports", "Non-Financial Reporting", and "Ratification of Board, Management and Auditors' Acts" sections of these guidelines for further information.

Non-Financial Metrics

The guidelines have been amended to specify that when a performance metric set is largely reliant on qualitative and/or non-financial metrics with no financial underpins or gateways, this may contribute to the Benchmark Policy recommending that shareholders vote against a company's remuneration policy or report, as appropriate.

Please refer to the "Votes on Executive Remuneration (Say-on-Pay)" section of these guidelines for further information.

Clarifying Amendments

The following clarifications of existing policies are included this year:

Shareholder Meeting Format

The 2025 Continental Europe Benchmark Policy Guidelines noted that a new policy on closed door shareholder meetings would be introduced for 2026. However, given that legal reform in this area is still ongoing in Italy, a new policy is not being introduced at this time. The Benchmark Policy's discussion on shareholder meeting format has also been expanded to state that companies should provide a sufficient rationale for holding a shareholder meeting at which in-person attendance is not permitted in instances when the board has legitimate concerns with convening an in-person meeting and/or has received relevant advice from local authorities.

Please refer to the “Shareholder Meeting Format” section of these guidelines for further information.

Board Responsiveness

The Benchmark Policy’s discussion on board responsiveness has been amended to clarify that, when assessing the level of unaffiliated shareholder dissent expressed at a previous shareholder meeting, a company’s ownership structure and the meeting quorum are taken into account.

Please refer to the “Board Responsiveness” section of these guidelines for further information.

Sign-On Awards

The list of factors that may contribute to a negative Benchmark Policy recommendation has been updated to explicitly include egregious or excessive sign-on awards, and to clarify the difference between such awards and ‘replacement awards’ (i.e., awards to a newly hired executive that closely replace forfeited awards from the individual’s previous role).

Please refer to the “Vote on Remuneration Report” section of these guidelines for further information.

A Board of Directors that Serves the Interest of Shareholders

A variety of board structures are available to companies in Europe. The two prevailing models are:

- One-tiered boards comprising both executive and non-executive directors; and
- Two-tiered boards, with a board comprising non-executive members responsible for oversight of a separate executive board.

In some countries, companies may choose a hybrid structure, with a corporate assembly or shareholders' committee of non-executive members responsible for oversight of a one-tiered board of directors. Other board structures are also available to certain types of companies, such as partnerships limited by shares.

Despite the many options for board structures at European companies, shareholders may typically elect only one oversight body, which is responsible for representing shareholders' interests. Throughout these guidelines, "board" will refer to the oversight body elected by and primarily accountable to shareholders, and "director" will refer to any member of the board including executives serving as directors, unless otherwise stated.

Election of Directors

The Benchmark Policy looks for talented boards with a record of protecting shareholders and delivering value over the medium- and long-term. It takes the view that a board can best protect and enhance the interests of shareholders if it is sufficiently independent, has a record of positive performance, and consists of individuals with diverse backgrounds and a breadth and depth of relevant experience.

Independence

The independence of directors, or lack thereof, is ultimately demonstrated through the decisions they make. In assessing the independence of directors, the Benchmark Policy will take into consideration, when appropriate, whether a director has a track record indicative of making objective decisions. Likewise, when assessing the independence of directors, the Benchmark Policy will also consider a director's track record on other boards that could indicate a lack of objective decision-making. The determination of whether a director is independent or not must takes into consideration both compliance with the applicable independence listing requirements as well as judgments made by the director.

The Benchmark Policy looks at each director nominee to examine the director's relationships with the company, the company's executives, and other directors to evaluate whether personal, familial, or financial relationships (not including director remuneration) may impact the director's decisions. Such relationships may make it difficult for a director to put shareholders' interests above the director's or the related party's interests.

Thus, the Benchmark Policy puts directors into four categories based on an examination of the type of relationship they have with the company:

Independent Director — An independent director has no material financial, familial[1] or other current relationships with the company,[2] its independent auditor, executives, or other directors, except for board service and standard fees paid for that service.

Affiliated Director — An affiliated director has a material financial, familial or other relationship with the company, its independent auditor or its executives, but is not an employee of the company.[3] This may include directors whose employers have a material relationship with the company or its subsidiaries or major shareholders. Directors will typically be considered affiliated if they:

1. Have been employed by the company within the past five years;[4]
2. Own or control 10% or more[5] of a company's share capital or voting rights or are employed by or have a material relationship with a significant shareholder;[6]
3. Have — or have had within the last three years — a material relationship with the company, either directly or as a partner, shareholder, director or senior employee of an entity that has such a relationship with the company;
4. Have close family ties with any of the company's advisors, directors or senior employees;
5. Hold cross directorships or have significant links with other directors through their involvement in other companies or entities; or
6. Have served on the board for more than 12 years.[7]

[1] Familial relationships include a person's spouse, parents, children, siblings, grandparents, uncles, aunts, cousins, nieces, nephews, in-laws, and anyone (other than domestic employees) who shares such person's home.

[2] A company includes any parent or subsidiary in a group with the company or any entity that merged with, was acquired by, or acquired the company.

[3] If a company classifies a non-executive director as non-independent, the director is classified as an affiliate, unless there is a more suitable classification (i.e., shareholder representative, employee representative).

[4] The five-year look back period is not applied to directors who have previously served as executives of the company on an interim basis for less than one year. In contrast, a director may continue to be classified as affiliated after the look back period has elapsed where a former executive has other significant ties to the company, such as being a member of the founding family of the firm or continuing to receive variable remuneration.

[5] In accordance with generally accepted best practice in Europe, 10%+ shareholders are classified as affiliates because they typically have access to, and involvement with, the management of a company that is fundamentally different from that of ordinary shareholders. More importantly, 10%+ holders may have interests that diverge from those of ordinary holders, for reasons such as the liquidity (or lack thereof) of their holdings, potential for materially increasing or decreasing their holdings in response to company performance, personal tax issues, etc. However, where local practice or regulations employ a lower threshold in a particular market, the respective recommended ownership threshold will instead be applied. Moreover, significant shareholders or representatives of significant shareholders owning or controlling less than 10% of a company's share capital may be classified as affiliated when there is evidence of the shareholder having a significant influence on the board or engaging in business transactions with the company.

[6] Evidence of significant ties to a major shareholder may be considered material in some cases, even when no direct employment or consulting relationship exists. For example, a history of serving on boards of entities controlled by a major shareholder may be sufficient for a director to be classified as affiliated. Moreover, directors may be classified as affiliated on the basis of directorships at entities controlled by a significant shareholder, particularly when a company fails to provide its own assessment of director independence.

[7] EU Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (EU Commission Recommendation of 15 February 2005), Annex II, Article 1 (h). Lower thresholds are applied for companies in countries with more stringent legal requirements or best practice recommendations.

Definition of "**material**" — A material relationship is one in which the value[8] exceeds:

- €50,000, or 50% of a director's total remuneration, for directors who personally receive remuneration for a professional or other service they have agreed to perform for the company, outside of their service as directors. This threshold also applies to directors who are the majority or principal owner of a firm that receives such payments;
- €100,000 for directors employed by a professional services firm such as a law firm, investment bank or large consulting firm where the firm is paid for services but the individual is not directly remunerated. This limit would also apply to charitable contributions to schools where a director is a professor, or charities where a director serves on the board or is an executive, or any other commercial dealings between the company and the director or the director's firm;
- For other business relationships, 1% of the consolidated gross revenue of either of the relevant companies (e.g., where the director is an executive officer of a company that provides services or products to or receives services or products from the company);
- 10% of shareholders' equity and 5% of total assets for financing transactions; or
- the total annual fees paid to a director for a personal loan not granted on normal market terms, or where no information regarding the terms of a loan has been provided.

Inside Director — An inside director, or "insider", simultaneously serves as a director and as an employee of the company. This category may include a board chair who acts as an employee of the company or is paid as such.

Employee Representative — An employee representative serves as a director to represent employees' interests. Employee representatives may be nominated and elected by employees pursuant to national law, or they may be nominated by employees and elected by shareholders.

Voting Recommendations on the Basis of Board Independence

Many investors believe a board will be most effective in protecting shareholders' interests when at least a majority of the directors are independent non-executive members.[9] In each market, the Benchmark Policy applies independence standards that are consistent with local best practice, and which may vary according to a company's index membership and share ownership structure. Where a board's composition does not meet local best practice standards, the Benchmark Policy typically recommends voting against some of the inside and/or affiliated directors in order to satisfy the relevant threshold. However, this generally does not apply where significant shareholders are represented on a board in proportion to their equity or voting stake in a company.

The Benchmark Policy does not recommend shareholders vote against any directors on the basis of lengthy tenure alone. However, votes against certain long-tenured directors may be recommended when it is determined that a lack of board refreshment may have contributed to poor financial performance, lax risk oversight, misaligned remuneration practices, unresponsiveness to shareholder concerns, diminution of shareholder rights, or other concerns. In conducting this analysis, the Benchmark Policy takes into account

[8] In cases where the value of a related party transaction with a director or related party of a director has not been disclosed, a director will generally be classified as affiliated.

[9] International Corporate Governance Network (ICGN) Global Principles, 2.2. Council of Institutional Investors (CII) Policies on Corporate Governance, 2.3 states that at least two-thirds of directors should be independent.

average board tenure, evidence of planned or recent board refreshment, and other concerns with the board's independence or structure.

Many investors support the appointment of an independent presiding or lead director with authority to set meeting agendas and to lead sessions outside the insider or affiliated chair's presence.[10] In accordance with best practice, boards should appoint an independent lead director when the chair is not independent, especially when the board is insufficiently independent.

Voting Recommendations on the Basis of Committee Independence

In accordance with best practice in Europe,[11] the Benchmark Policy will generally recommend shareholders vote against the election of certain affiliated or inside directors when the audit, remuneration, or nominating committees are not composed of a majority of independent members. Exceptions may be provided for the nominating committee if the committee does not strictly satisfy this threshold, but is structured to allow for the proportionate representation of major shareholders in line with their equity or voting stake in the company.

Further, the Benchmark Policy will generally recommend a vote against the election of any executive directors that serve, or are proposed to serve, on a company's audit and remuneration committees.[12]

Control-Enhancing Mechanisms

Where a group of shareholders, acting in concert, have entered into an agreement to control a company and its board or cooperate on significant strategic issues, the shareholder group is generally considered as a single entity for the purposes of identifying the company's shareholder structure and the Benchmark Policy's thresholds for independence.

Controlled Companies

The board's primary function is to protect shareholder interests; however, when an individual, entity (or group of shareholders party to a formal agreement) owns more than 50% of the voting shares, the interests of the majority of shareholders are effectively the interests of that entity or individual.

While many investors prefer majority board independence irrespective of a company's shareholder structure, at a minimum, controlled companies should seek to link board independence levels to the economic stake held by minority shareholders and should contain enough independent members to allow for the formation of sufficiently independent committees.[13] Accordingly, where the board's committees are sufficiently independent, the Benchmark Policy will generally not recommend a vote against the election of representatives of significant

[10] CII Policies on Corporate Governance, 2.4. ICGN Global Principles, 2.4.
[11] EU Commission Recommendation of 15 February 2005, Annex I, Articles 2.1, 3.1, and 4.1. Some investors expect the audit and remuneration committees to be composed solely of independent members (see CII Policies on Corporate Governance, 2.5; ICGN Global Principles, 5.10 and 8.3). More stringent recommendations may be applied if provided by the local corporate governance code in a market.
[12] *Ibid.*, Articles 3.1 and 4.1.
[13] ICGN Global Principles, 2.6; EU Commission Recommendation of 15 February 2005, Annex I, Articles 2.1, 3.1, and 4.1.

shareholders so long as the shareholder is represented in proportion to their equity or voting stake in a company.

As explained in further detail in the "Voting Recommendations on the Basis of Committee Independence" section above, the Benchmark Policy will also generally not recommend a vote against the election of representatives of significant shareholders when they are proportionately represented on the nominating committee. However, given more stringent investor expectations and best practice recommendations, the Benchmark Policy generally does not provide exceptions to its policy on the composition of audit and remuneration committees at controlled companies.[14]

Other Considerations for Individual Directors

The most crucial test of a board's commitment to the company and its shareholders lies in the actions of the board and its members. The Benchmark Policy conducts an assessment of the performance of these individuals as directors and executives of the company and of other companies where they have served.

Performance and Experience

A director's past conduct is often indicative of future conduct and performance. Directors with a history of overpaying executives or of serving on boards where avoidable disasters have occurred often serve on the boards of companies with similar problems. The Benchmark Policy leverages a proprietary database of directors that tracks the performance of directors across companies worldwide.

Voting Recommendations on the Basis of Performance and Experience

The Benchmark Policy typically recommends that shareholders vote against directors who have served on boards or as executives of companies with records of poor performance, inadequate risk oversight, excessive compensation, audit- or accounting-related issues, and/or other indicators of mismanagement or actions against the interests of shareholders. The Benchmark Policy will evaluate such directors based on, among other factors, the length of time passed since the incident giving rise to the concern, shareholder support for the director, the severity of the issue, the director's role (e.g., committee membership), director tenure at the subject company, whether ethical lapses accompanied the oversight lapse, and evidence of strong oversight at other companies. Likewise, the backgrounds of those who serve on key board committees are examined to ensure that they have the required skills and diverse backgrounds to make informed judgments about the subject matter for which the committee is responsible.

[14] *Ibid.*

In line with this view, the Benchmark Policy typically recommends shareholders vote against:

- A director who fails to attend a minimum of 75% of applicable board meetings and committee meetings.[15]
- A director who is also the CEO of a company where a serious and material restatement has occurred after the CEO had previously certified the pre-restatement financial statements.
- Some or all directors in the event a company's performance has been consistently lower than its peers and the board has not taken reasonable steps to address the poor performance.

External Commitments

Directors should have the necessary time to fulfil their duties to shareholders. An overcommitted director can pose a material risk to a company's shareholders, particularly during periods of crisis. The Benchmark Policy will generally recommend that shareholders oppose the election of a director who:

- Serves as an executive officer[16] of any public company while serving on more than one additional external public company board; or
- Serves as a 'full-time' or executive member of the board[17] of any public company while serving on more than two additional external public company boards; or
- Serves as a non-executive director on more than five public company boards in total.[18]

While non-executive board chair positions at North American companies are counted as one position, at European companies they are generally counted as two board seats given the increased time commitment associated with these roles. Accordingly, the Benchmark Policy generally considers an executive officer of a public company who also serves as a non-executive chair of another European company to have a potentially excessive level of commitments.

Policy Application

As executive directors will presumably devote their attention to the company where they serve as an executive, the Benchmark Policy generally does not recommend that shareholders vote against the election of a potentially overcommitted director at the company where they serve in an executive function. Similarly, the Benchmark

[15] This policy is applied to directors that, in the previous financial year, attended fewer than (i) 75% of board meetings; or (ii) an aggregate of 75% of board and applicable committee meetings. Where directors are elected for a term greater than one year, the attendance records of directors standing for re-election over their previous full term may also be taken into account. Exceptions to this policy are generally granted to directors that have served on the board for less than one full year and/or when the company discloses that the director missed the meetings due to serious illness or other extenuating circumstances. Council of Institutional Investors (CII) Policies on Corporate Governance, 2.8d.
[16] This policy applies to directors that serve in the top executive team of a publicly-listed company (i.e. executive committee, management board, etc.).
[17] This policy applies to directors that serve on a board in a 'full-time' or executive capacity without further defined responsibilities within the executive team (e.g., executive chair that is not a member of the executive committee, or a non-executive chair that serves in the role in a full-time capacity).
[18] Pursuant to Directive 2013/36/EU, executives of significant financial institutions are prohibited from serving on more than two outside boards, while non-executive directors of significant financial institutions are limited to four outside directorships.

Policy will generally not recommend that shareholders vote against the election of a potentially overcommitted director at a company where they hold the board chair position, except where the director:

- Serves as an executive officer of another public company; or
- Holds board chair positions at three or more public companies; or
- Is being proposed for initial election as board chair at the company.

When determining whether a director's external commitments could limit the ability of the director to devote sufficient time to their board duties, other potentially relevant factors may also be assessed, such as the size and location of the other companies where the director serves on the board, the nature of the role (including committee memberships) that the director holds at these companies, whether the director serves as an executive or non-executive director of any large privately-held companies, and the director's attendance record at all companies.

Exceptions to this policy may be provided to a potentially overcommitted director when the company provides disclosure that the director will sufficiently reduce their commitment level prior to the next annual general meeting, or otherwise presents a compelling rationale for the director's continued service on the board. Such rationale should allow shareholders to evaluate the scope of the director's other commitments as well as their contributions to the board, including specialised knowledge of the company's industry, strategy or key markets, the diversity of skills, perspective and background they provide, and other relevant factors.

Exceptions may also be provided to directors who serve on a potentially excessive number of boards within a consolidated group of companies in related industries, or a director that represents a firm whose sole purpose is to manage a portfolio of investments which include the company. In these cases, companies should proactively address potential shareholder concerns regarding a director's overall commitment level.

Conflicts of Interest

The board should be wholly free of individuals who have an identifiable and substantial conflict of interest, regardless of the overall level of independent directors on the board. Accordingly, the Benchmark Policy generally recommends that shareholders vote against the following:

- Directors who provide — or directors whose immediate family members provide — material professional services to the company, based on the same materiality thresholds set out above (see "Independence"). These services may include legal, consulting, or financial services. Such relationships may create conflicts for directors, since they may be forced to weigh their own interests against shareholder interests when making board decisions. In addition, a company's decisions regarding where to turn for the best professional services may be compromised when doing business with the professional services firm of one of its directors. The Benchmark Policy will also recommend that shareholders hold the relevant senior director with oversight of related party transactions (whether a board committee, ad hoc committee, or the board as a whole, depending on the board's internal procedures) accountable for particularly egregious transactions concluded between the company and an executive director, which may pose a potential risk to shareholders' interests.
    - Consideration will be given to the specific nature of the professional services relationship between the company and a director, the independence profile of the board and its key committees, and the conflict mitigation procedures in place when making voting

recommendations on this basis. Directors who may face a potential conflict of interest should refrain from serving on any key board committees. Exceptions are generally provided to directors that have a material business relationship with a company that falls under the normal course of business, provided that the company has adequately disclosed the relationship and mitigated the potential for serious conflicts of interest.

- Directors who engage in, or whose immediate family members engage in, airplane, real estate or similar deals, including perquisite-type grants, from the company amounting to more than €50,000. Directors who receive these sorts of payments from the company may have to make unnecessarily complicated decisions that pit their interests against those of shareholders.
- Directors who have interlocking directorships. CEOs or other top executives who serve on each other's boards create an interlock that poses conflicts that should be avoided to ensure the promotion of shareholder interests above all else.[19]

Board Responsiveness

Many investors expect that when a significant proportion of votes cast on a proposal (e.g. 20% or more) are contrary to the board's recommendation, the board should, depending on the issue, demonstrate some level of responsiveness to address shareholder concerns.[20] These include instances when 20% or more of unaffiliated shareholders: (i) abstain from or vote against a director nominee; (ii) abstain from or vote against a management-sponsored proposal; or (iii) vote for a shareholder proposal when the board has not recommended doing so. In assessing the level of dissent, the company's ownership structure and the meeting quorum are taken into account. While the 20% threshold alone will not automatically generate a negative recommendation under the Benchmark Policy on a future proposal on the same topic, it may be a contributing factor to a recommendation to vote against such a proposal in the event it is assessed that the board did not acknowledge and/or address shareholders' dissent appropriately.

Depending on the nature and severity of the issue, and the items up for a vote at the subsequent shareholder meeting, the Benchmark Policy may recommend that certain directors are held accountable for an insufficient response to dissent, for example through a recommendation to vote against a board ratification proposal and/or board election proposals. In the absence of an option to escalate concerns to specific directors, the Benchmark Policy may instead recommend a vote against the receipt of the annual report and accounts.

As a general framework, the evaluation of board responsiveness involves a review of publicly available disclosures released following the date of the company's last annual meeting up through the publication date of the most current Proxy Paper. Depending on the specific issue, this evaluation typically includes, but is not limited to, the following:

- At the board level, any changes in directorships, committee memberships, disclosure of related party transactions, meeting attendance, or other responsibilities;

[19] The Benchmark Policy does not apply a look-back period for this situation. The interlock policy applies to both public and private companies. On a case-by-case basis, other types of interlocking relationships will be evaluated, such as interlocks with close family members of executives or within group companies. Further, the analysis also evaluates multiple board interlocks among non-insiders (i.e., multiple directors serving on the same boards at other companies), for evidence of a pattern of poor oversight.

[20] ICGN Global Principles, 10.10.

- Any revisions made to the company's articles of incorporation, bylaws or other governance documents;
- Any press or news releases indicating changes in, or the adoption of, new company policies, business practices or special reports;
- Any modifications made to the design and structure of the company's remuneration programme; and
- Any modifications made to the company's capital management powers such as share issuance authority or buyback programmes.

The Proxy Paper analysis will include a case-by-case assessment of the specific elements of board responsiveness that were examined along with an explanation of how that assessment impacts current vote recommendations.

Board Structure and Composition

In addition to the independence of directors, other aspects of the structure and composition of a board may affect the board's ability to protect and enhance shareholder value. In Europe, these issues often play a central role in forming corporate governance best practices.

Separation of the Roles of Chair and CEO

Many investors believe that separating the roles of corporate officer and chair creates a better governance structure than a combined executive/chair position.[21] In accordance with best practice recommendations, when the roles of CEO and board chair are combined, boards should provide shareholders with information on any safeguards put in place.[22] Many investors believe that the appointment of a lead independent director (LID) can help to mitigate unfettered powers of decision-making being concentrated in an individual.[23]

When the roles of CEO and board chair are combined, the Benchmark Policy will generally recommend a vote against the nominating committee chair if one of the following criteria is met: (i) the board is not sufficiently independent; or (ii) the board has failed to implement adequate measures to prevent and manage the potential conflict of interests deriving from the combination of the two positions, such as appointing an independent lead or presiding director or adopting other countervailing board leadership structures. The Benchmark Policy will generally not recommend a vote against the election of the combined chair/CEO on the basis of this issue alone, except where one of the criteria above is met and the board does not maintain a nominating committee.

Further, the Benchmark Policy typically supports separating the roles of chair and CEO whenever that question is directly posed in a proxy (typically in the form of a shareholder proposal).

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[21] ICGN Global Principles, 2.1. The roles of chair and CEO may not legally be combined in some European countries. Most European codes of best practice for corporate governance recommend the separation of the roles of chair and CEO, where such a combined role is legally possible. Pursuant to Directive 2013/36/EU, a CEO or managing director may not simultaneously serve as board chair at significant financial institutions, unless a specific exemption is granted by competent regulatory authorities.

[22] EU Commission Recommendation of 15 February 2005, Section II, Article 3.2.

[23] ICGN Global Principles, 2.1 and 2.4.

Size of the Board of Directors

While there is no consensus on a universally applicable optimum board size, many investors believe that, absent compelling circumstances, a board should comprise no fewer than five directors, and should not be excessively large.[24] Absent compelling explanation, the Benchmark Policy will generally recommend a vote against the nominating committee chair if a board has more than 20 directors;[25] and abstaining from voting on the election of the nominating committee chair where a board has fewer than five directors. This policy will generally not be applied to small cap companies at which a board with five or more individuals may not be justified by the limited scope of the company's operations.

Human Capital Management and Diversity

Diversity in organisations and the boards that lead them is widely recognised as a positive force for driving corporate performance. Research indicates that diverse and inclusive companies with robust human capital management policies yield superior returns, are more innovative than their peers, and outperform in attracting and retaining talent.[26] A diverse board may benefit companies and their shareholders by providing a broader and more representative range of perspectives and insights, which enhances board dynamics and can help boards to overcome groupthink.[27]

Gender Diversity at Board Level

In December 2022, the EU Directive on Gender Balance on Corporate Boards[28] came into force and was supposed to be transposed by Member States into national law by December 2024. Member States are required to subject publicly-listed companies to the objective that at least 40% of non-executive positions, or 33% of an aggregate of executive and non-executive positions, be held by the underrepresented gender by June 30, 2026.

Prior to the Directive, most European countries had introduced measures intended to address the gender imbalance on the boards of publicly-listed companies. These measures vary by jurisdiction and include legally-binding gender quotas, comply-or-explain recommendations regarding gender representation on the board, and requirements to set and disclose targets or diversity policies. While the EU Directive is expected to lead to increased harmonisation on board level gender diversity regulations in the European Union, some variations between Member States persist.[29]

The Benchmark Policy generally recommends shareholder action when, following a proposed election, the boards of large-cap and mid-cap companies in the European Economic Area will not be composed of at least 30% of gender diverse directors,[30] or when the boards of all other companies listed on a main market will not

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[24] CII Policies on Corporate Governance, 2.11.

[25] While the CII states that a board of more than 15 members may be too large to function efficiently, board sizes of up to 20 directors are common in some European countries due to rules on co-determination.

[26] See: Credit Suisse (2019) CS Gender 3000 in 2019; Boston Consulting Group (2017) The Mix That Matters - Innovation Through Diversity; Deloitte (2017) Unleashing the power of inclusion: Attracting and engaging the evolving workforce.

[27] CII Policies on Corporate Governance, 2.8b; ICGN Global Principles, 3.2.

[28] EU Directive 2022/2381.

[29] This is due to the leeway that is provided to individual Member States to interpret and transpose the Directive into national law.

[30] Women, and directors that identify with a gender other than male or female.

contain at least one gender diverse director. When a company is subject to a more stringent local market binding gender quota, this will instead be applied.

Where a proposed election does not align with the applicable diversity policy, the Benchmark Policy will generally recommend that shareholders vote against the re-election of the chair of the nominating committee (or equivalent); when director nomination decisions are taken at full-board level, it will instead generally recommend that shareholders vote against the re-election of the board chair or Lead Independent Director (LID). In the case of a by-election, the Benchmark Policy may recommend that shareholders vote against the election of the new board nominee(s) of the overrepresented gender.

Limited exceptions to these policies may be provided where a company discloses a credible plan to address the lack of gender diversity on the board within a near-term and defined timeframe (typically by the time of the next annual meeting or scheduled board election). Recent progress made to improve board diversity while maintaining the required balance of board skills and refreshment will also be taken into account, particularly when a company provides compelling disclosure in this regard. Further, exceptions to these policies will generally be made for boards consisting of four or fewer members where a company provides compelling disclosure as to why it has failed to ensure board-level gender diversity.

Diversity of Ethnicity and National Origin at Board Level

Many investors believe that the composition of a board should be representative of a company's workforce, the jurisdictions in which it principally conducts its business activities, and its other key stakeholders.[31] Some European companies include diversity of ethnicity and national origin as attributes in their composition profiles, define targets for diversity of ethnicity and national origin, and disclose information on the ethnic and national backgrounds of directors and board nominees. The information provided by companies in this regard will be predicated on the diversity of ethnicity and national origin of the company's key stakeholders, as well as local legislation regarding the disclosure of protected characteristics.

In egregious cases where a board has failed to address legitimate shareholder concerns regarding the diversity of the ethnicity and national origin of directors, the Benchmark Policy may recommend that shareholders vote against the re-election of the chair of the nominating committee (or equivalent).

Diversity of Skills and Experience at Board Level

Many investors expect companies to disclose sufficient information to allow a meaningful assessment of a board's skills and competencies. The Benchmark Policy analysis of election proposals at large European companies includes an explicit assessment of skills disclosure.

If a board has failed to address material concerns regarding the mix of skills and experience of the non-executive element of the board, the Benchmark Policy may recommend a vote against the chair of the nominating committee (or equivalent). In the case of a by-election where it is unclear how the election of the candidate will address a substantial skills gap, the Benchmark Policy may recommend a vote against the new nominee to the board.

[31] CII Policies on Corporate Governance, 2.8b; ICGN Global Principles, 3.2.

In egregious cases where the disclosure of a large European company does not allow for a meaningful assessment of the key skills and experience of incumbent directors and nominees to a board, the Benchmark Policy may recommend a vote against the chair of the nominating committee (or equivalent).

Workforce Diversity and Inclusivity Measures

Many investors hold that human capital management is an area of material importance to companies and should be incorporated into the board's risk oversight responsibilities.[32] 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, the Benchmark Policy expects companies to provide shareholders with adequate information to be able to assess the oversight afforded to this critical aspect of their operations, and the mitigation of any attendant risks. Examples of disclosure in this regard include information on a company's workforce diversity policies, data on the diversity of underrepresented groups (e.g. gender) in management positions and in the wider workforce, measures to increase the representation of underrepresented groups, as well as other relevant policies and performance on hiring, retention, and equal treatment (e.g. measures to attract and retain staff from underrepresented groups, gender pay gap data, etc.).

In egregious cases where boards have failed to respond to legitimate concerns regarding a company's policies, practices and disclosure, the Benchmark Policy may recommend voting against the chair of the governance committee (or equivalent), the chair of the board, and/or board ratification proposals as appropriate.

Human Capital Management Oversight

Effective board oversight of human capital management issues is not limited to a company's policies and disclosure on workforce diversity and inclusivity measures; rather, boards should be considered broadly accountable for direct oversight of workplace issues at large, which includes labour practices, employee health and safety, and employee engagement, diversity, and inclusion.[33] In egregious cases where a board has failed to respond to legitimate concerns regarding a company's human capital management practices, the Benchmark Policy may recommend voting against the chair of the committee tasked with oversight of the company's governance practices or the chair of the board, as applicable.

Board-Level Risk Management Oversight

The Benchmark Policy evaluates the risk management function of a public company board on a strictly case-by-case basis. Sound risk management, while necessary at all companies, is particularly important at financial firms, which inherently maintain significant exposure to financial risk. Financial firms should have a chief risk officer and/or a risk committee that reports directly to the board or a committee of the board charged with risk oversight.[34] Moreover, many non-financial firms maintain strategies that involve a high level of exposure to financial risk. As such, any non-financial firm that has a significant hedging strategy or trading strategy that

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[32] CII Policies on Corporate Governance, 2.7; ICGN Global Principles, 1.1e and 6.2.
[33] SASB Universe of Sustainability Issues.
[34] EU Directive 2013/36/EU, Article 76(3).

includes financial and non-financial derivatives should likewise have a chief risk officer and/or a risk committee that reports directly to the board or a committee of the board.[35]

When analysing the risk management practices of public companies, the Benchmark Policy will take note of significant losses or write-downs on financial assets and/or structured transactions. In cases where a company has disclosed a sizable loss or write-down, and where a reasonable analysis indicates that the company's board-level risk committee should be held accountable for poor oversight, the Benchmark Policy may recommend that shareholders vote against such committee members on that basis. In addition, in cases where a company maintains a significant level of financial risk exposure but fails to disclose any explicit form of board-level risk oversight (via a dedicated committee or otherwise),[36] the Benchmark Policy may recommend a vote against the board chair on that basis.

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 capitalising 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. Given the importance of the board's role in overseeing environmental and social risks, this responsibility should be formally designated and codified in the appropriate committee charters or other governing documents.

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 Benchmark Policy is of the view that that companies should determine the best structure for this oversight. This oversight can be effectively conducted by specific directors, the entire board, a separate committee, or combined with the responsibilities of a key committee.

The Benchmark Policy will generally recommend voting against the governance committee chair (or equivalent) of companies listed on a major European blue-chip index that fail to provide explicit disclosure concerning the board's role in overseeing material environmental and social issues.

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 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

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[35] *Ibid.*

[36] A committee responsible for risk management could be a dedicated risk committee, or another board committee (usually the audit committee or the finance committee), depending on a given company's board structure and method of disclosure. In some cases, the entire board is charged with risk management.

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 the "Overall Approach to ESG" section of these guidelines as well as the comprehensive *Benchmark Policy Guidelines for Shareholder Proposals & ESG-Related Issues*, available at www.glasslewis.com/voting-policies-current/.

Board Accountability for Climate-Related Issues

Given the exceptionally broad impacts of a changing climate on companies, the economy, and society in general, climate risk can present a material risk 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 greenhouse gas (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 potential impact of a lower carbon future on the company's operations. In line with this view, the Benchmark Policy will carefully examine the climate-related disclosures provided by large cap companies with material exposure to climate risk stemming from their own operations,[37] as well as companies where their emissions, climate impacts, or stakeholder scrutiny thereof, represent an outsized, financially material risk, in order to assess whether they have produced disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), IFRS S2 Climate-related Disclosures, or other equivalent climate reporting framework. 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 are found to be absent or significantly lacking, the Benchmark Policy may recommend voting against the chair of the committee (or board) charged with oversight of climate-related issues, or if no committee has been charged with such oversight, the chair of the governance committee. Further, the Benchmark Policy may extend this recommendation on this basis to additional members of the responsible committee in cases where the committee chair is not standing for election due to a classified board, or based on other factors, including the company's size, industry and its overall governance profile. 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.

[37] 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.

Board Oversight of Technology

Cyber Risk Oversight

Companies and consumers are exposed to a growing risk of cyber-attacks. These attacks can result in customer or employee data breaches, harm to a company's reputation, significant fines or penalties, and an interruption to a company's operations. Further, in some instances, cyber breaches can result in national security concerns, such as those impacting companies operating as utilities, defence contractors, and energy companies.

In response to these issues, regulators have increasingly been focused on ensuring companies are providing appropriate and timely disclosures and protections to stakeholders that could have been adversely impacted by a breach in a company's cyber infrastructure.

Given the regulatory focus on, and the potential adverse outcomes from, cyber-related issues, many investors hold that cyber risk is material for all companies and that it is critical that companies evaluate and mitigate these risks to the greatest extent possible.[38] With that view, all issuers are encouraged to provide clear disclosure concerning the role of the board in overseeing issues related to cybersecurity, including how they are ensuring directors are fully versed on this rapidly evolving and dynamic issue. Such disclosure can help shareholders understand the seriousness with which companies take this issue.

In the absence of material cyber incidents, the Benchmark Policy will generally not make voting recommendations on the basis of a company's oversight or disclosure concerning cyber-related issues. However, in instances where cyber-attacks have caused significant harm to shareholders, the board's oversight of cybersecurity as well as the company's response and disclosures will be closely evaluated.

Moreover, in instances where a company has been materially impacted by a cyber-attack, it is reasonable for shareholders to expect periodic updates communicating the company's ongoing progress towards resolving and remediating the impact of the cyber-attack. Such updates should include (but are not necessarily limited to) details such as when the company has fully restored its information systems, when the company has returned to normal operations, and what resources the company is providing for affected stakeholders, and any other potentially relevant information, until the company considers the impact of the cyber-attack to be fully remediated. These disclosures should focus on the company's response to address the impacts to affected stakeholders and should not reveal specific and/or technical details that could impede the company's response or remediation of the incident or that could assist threat actors.

In such instances, the Benchmark Policy may recommend against appropriate directors should it be assessed that the board's oversight, response or disclosure concerning cybersecurity-related issues is insufficient or has not been provided to shareholders.

Board Oversight of Artificial Intelligence

In recent years, companies have rapidly begun to develop and adopt uses for artificial intelligence (AI) technologies throughout various aspects of their operations. Deployed and overseen effectively, AI technologies have the potential to make companies' operations and systems more efficient and productive. However, as the use of these technologies has grown, so have the potential risks associated with companies' development and

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[38] CII Policies on Corporate Governance, 2.7; ICGN Global Principles, 6.2.

use of AI. Given these potential risks, boards should be cognizant of, and take steps to mitigate exposure to, any material risks that could arise from their use or development of AI.

Companies that use or develop AI technologies should consider adopting strong internal frameworks that include ethical considerations and ensure they have provided a sufficient level of oversight of AI. As such, boards may seek to ensure effective oversight and address skills gaps by engaging in continued board education and/or appointing directors with AI expertise. With that view, all companies that develop or employ the use of AI in their operations should provide clear disclosure concerning the role of the board in overseeing issues related to AI, including how companies are ensuring directors are fully versed on this rapidly evolving and dynamic issue. Such disclosure can help shareholders understand the seriousness with which companies take this issue.

While it is important that these issues are overseen at the board level and that shareholders are afforded meaningful disclosure of these oversight responsibilities, clear investor preferences are yet to be established on the best structure for this oversight. Oversight may be effectively conducted by specific directors, the entire board, a separate committee, or combined with the responsibilities of a key committee.

In the absence of material incidents related to a company's use or management of AI-related issues, the Benchmark Policy will generally not make voting recommendations on the basis of a company's oversight of, or disclosure concerning, AI-related issues. However, in instances where there is evidence that insufficient oversight and/or management of AI technologies has resulted in material harm to shareholders, an assessment will be made of the company's overall governance practices and the directors or board-level committees that have been charged with oversight of AI-related risks. The board's response to, and management of, this issue as well as any associated disclosures will also be closely evaluated. Where it is assessed that the board's oversight, response or disclosure concerning AI-related issues is insufficient, the Benchmark Policy may recommend voting against the re-election of accountable directors, or other matters up for a shareholder vote, as appropriate.

Board Committees

In line with best practice recommendations and the expectations of many investors, the Benchmark Policy will generally recommend a vote against the board chair of companies that have failed to establish audit and remuneration committees.[39] This policy will generally not apply to small-cap companies with a sufficient number of independent directors.[40]

The Role of a Committee Chair

Given their assigned leadership role and additional powers and responsibilities, a designated committee chair is generally considered to maintain primary responsibility for the actions of their respective committee. As such, many of the committee-specific Benchmark Policy voting recommendations are against the applicable committee chair rather than the entire committee (depending on the seriousness of the issue). In cases where

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[39] EU Commission Recommendation of 15 February 2005, Annex I, Articles 3.1 and Articles 4.1; CII Policies on Corporate Governance, 2.5; ICGN Global Principles, 5.10 and 8.3.

[40] EU Commission Recommendation of 15 February 2005, Section II, Article 7.2 recommends that, at small companies, the functions assigned to committees may be performed by the board as a whole, provided that it meets the composition requirements advocated for the committee and that adequate information is provided in this respect.

the committee chair is not up for election due to a staggered board, and where substantial or multiple concerns have been identified, the Benchmark Policy will generally recommend voting against a long-serving committee member that is up for election, on a case-by-case basis.

In cases where the Benchmark Policy would ordinarily recommend voting against a committee chair but the chair is not specified, the following general rules are applied:

- If there is no committee chair, the Benchmark Policy will recommend voting against the longest-serving committee member or, if the longest-serving committee member cannot be determined, the longest-serving board member serving on the committee (i.e. in either case, the "senior director"); and
- If there is no committee chair, but multiple senior directors serving on the committee, the Benchmark Policy will recommend voting against both (or all) such senior directors.

In accordance with prevailing market practice, companies should provide clear disclosure of which director is charged with overseeing each committee. In cases where that simple framework is ignored and a reasonable analysis cannot determine which committee member is the designated leader, many investors take the view that shareholder action against the longest serving committee member(s) is warranted. To reiterate, this only applies if the Benchmark Policy would ordinarily recommend voting against the committee chair but there is either no such position or no designated director in such role.

Audit Committee Performance

Audit committees are integral in overseeing the financial reporting process because stable capital markets depend on reliable, transparent, and objective financial information to support an efficient and effective capital market process. Audit committees play a vital role in providing this disclosure to shareholders.[41]

When assessing an audit committee's performance, investors should be aware that an audit committee does not prepare financial statements, is not responsible for making the key judgments and assumptions that affect the financial statements and does not audit the numbers or the disclosure provided to investors. Rather, an audit committee monitors and oversees the process and procedures that management and auditors perform. The European Commission recommends that the audit committee should, among other responsibilities, assist the board to at least monitor the integrity of the financial information provided by the company, review at least annually the internal control and risk management systems, with a view to ensuring that the main risks are properly identified, managed and disclosed, ensure the effectiveness of the internal audit function, monitor the external auditor's independence and objectivity, and review the effectiveness of the external audit process.[42]

Standards for Assessing the Audit Committee

Expertise of Members

For an audit committee to function effectively on investors' behalf, it must include members with sufficient knowledge to diligently carry out their responsibilities.[43] The European Commission recommends that "the

[41] Directive 2006/43/EC.

[42] EU Commission Recommendation of 15 February 2005, Annex 1, Article 4.2.

[43] ICGN Global Principles, 8.3.

members of the audit committee should, collectively, have a recent and relevant background in and experience of finance and accounting for listed companies appropriate to the company's activities."[44]

Accordingly, companies should clearly outline the skills and experience of the members of the audit committee, and shareholders should be wary of audit committees that include members who lack expertise in finance and accounting or in any other equivalent or similar areas of expertise. In markets where local best practice recommendations call for the representation of financial/auditing expertise on the audit committee, the Benchmark Policy may recommend that shareholders vote against the re-election of the audit committee chair and/or other committee members standing for re-election when the director biographies and disclosure provided by a company do not allow for the determination of such expertise. Further, where there are indications of poor accounting oversight at a company, the lack of clear disclosure on relevant skills and experience among audit committee members may contribute to a recommendation to vote against the chair and/or other members of the audit committee.

Committee Performance

The Benchmark Policy generally assesses audit committees against the decisions they make with respect to their oversight and monitoring roles. The quality and integrity of the financial statements and earnings reports, the completeness of disclosures necessary for investors to make informed decisions, and the effectiveness of the internal controls should provide reasonable assurance that the financial statements are free from material errors. The independence of the external auditors and the results of their work all provide useful information by which to assess the audit committee.

When assessing the decisions and actions of the audit committee, the Benchmark Policy typically defers to the judgment of the committee members and generally recommends voting in favour of its members. However, the Benchmark Policy will consider recommending that shareholders vote against the following:

- The audit committee chair when: (i) non-audit fees exceed the total of audit and audit-related fees billed by the auditor for two consecutive years; (ii) the company fails to disclose the fees, or breakdown of fees, paid to the auditor; (iii) the committee did not hold a sufficient number of meetings considering the company's financial situation and reporting requirements (at least once per quarter, when a company releases quarterly financial statements); and/or (iv) where there are reasonable concerns regarding the independence or tenure of the auditor and the auditor is not up for re-election at the meeting.
- All members of an audit committee in office when: (i) material accounting fraud occurred at the company; (ii) financial statements had to be restated due to serious material fraud; (iii) the company repeatedly fails to file its financial reports in a timely fashion in successive years; (iv) the company has aggressive accounting policies and/or poor disclosure or lack of sufficient transparency in its financial statements; and/or (v) the committee presided over a significant failure to oversee material environmental and social risks, in the absence of a separate committee with dedicated environmental, social and/or risk oversight functions.

[44] EU Commission Recommendation of 15 February 2005, Section III, Article 11.2.

Remuneration Committee Performance

Remuneration committees have the primary role in determining the remuneration of executives. This includes deciding the basis on which remuneration is determined, as well as the amounts and types of remuneration to be paid. This process begins with the hiring and initial establishment of employment agreements, including the terms for items such as fixed pay, pensions and severance agreements. The remuneration committee is also generally responsible for approving variable, performance-based remuneration, including annual cash bonuses and awards granted under long-term equity-based incentive plans. It is important in establishing remuneration arrangements that remuneration be consistent with, and based on, the business's long-term economic performance and shareholder returns.

Remuneration committees are also responsible for the oversight of the transparency of remuneration. This oversight includes disclosure of remuneration arrangements, the matrix used in assessing pay for performance, and the use of remuneration consultants. In order to ensure the independence of the board's remuneration consultant, market best practice indicates a preference that the remuneration committee only engage a consultant that is not also providing any services to the company or management apart from their contract with the remuneration committee. It is important to provide investors with clear and complete disclosure of all significant terms of remuneration arrangements in order to allow them to make informed decisions with respect to the oversight and decisions of the remuneration committee.

Finally, remuneration committees are responsible for oversight of internal controls over the executive remuneration process. This includes controls over gathering information used to determine remuneration, establishing equity award plans, and granting equity awards. Lax controls contribute to allowing conflicted consultants providing potentially biased information to boards. Lax controls can also contribute to improper awards of remuneration such as through granting of backdated or spring-loaded options, or granting of bonuses when triggers for bonus payments have not been met.

Standards for Assessing the Remuneration Committee

When assessing the decisions and actions of the remuneration committee, the Benchmark Policy typically defers to its judgment and recommends voting in favour of its members, but recommendations to vote against the following members may be issued under the following circumstances:

- The remuneration committee chair when: (i) the remuneration committee did not meet during the year, but should have (e.g., because executive remuneration was restructured or a new executive was hired); (ii) there are substantial concerns with the remuneration policy presented for shareholder approval and/or the pay practices outlined in the remuneration report; (iii) the company has consistently had poorly structured and disclosed remuneration programmes and has not made any changes; and/or (iv) the company has bundled the approval of a remuneration policy or report with other governance proposals.
- All members of the remuneration committee (that served during the relevant time period) when: (i) the company entered into excessive employment agreements and/or severance agreements; (ii) performance goals were lowered when employees failed or were unlikely to meet original goals, or performance-based remuneration was paid despite goals not being attained; (iii) excessive employee perquisites and benefits were allowed; (iv) other egregious policies or practices, particularly when these

are ongoing; (v) the committee failed to address shareholder concerns following majority shareholder opposition to the say-on-pay proposal in the previous year; and/or (vi) the say-on-pay proposal was approved but there was a significant shareholder opposition (i.e., greater than 20% of votes cast) in the prior year, and there is no evidence that the board responded accordingly to the vote, including a failure to actively engage with shareholders on this issue.

Nominating Committee Performance

The nominating committee, as an agent for the shareholders, is responsible and accountable for selection of objective and competent directors. Many investors take the view that boards should have diverse backgrounds and members with a breadth and depth of relevant experience and that nominating and governance committees should consider diversity when making director nominations within the context of each specific company and its industry. Shareholders are generally best served when boards make an effort to ensure a constituency that is not only reasonably diverse on the basis of age, race, gender and ethnicity, but also on the basis of geographic knowledge, industry experience, board tenure and culture. For further information on board diversity, please see *In-Depth Report: Board Gender Diversity*.

When assessing the decisions and actions of the nominating committee, the Benchmark Policy typically defers to its judgment and recommends voting in favour of its members, but recommendations to vote against the following members may be provided under the following circumstances:

- The nominating committee chair when: (i)the nominating committee did not meet during the year, but should have (i.e., because new directors were nominated); (ii) there are ongoing concerns regarding the independence of the board; (iii) there are fewer than three members on key board committees;[45] and/or (iv) there are other issues related to board size and diversity or director terms, as further detailed throughout these guidelines.
- All members of the nominating committee (that served during the relevant time period) when: (i) the committee nominated or renominated an individual who had significant conflicts of interest or whose past actions demonstrated a lack of integrity or inability to represent shareholder interests; and/or (ii) the board fails to respond to a significant shareholder vote against a nominee previously elected.[46]

Election Procedures

In Europe, shareholders may be asked to vote on a variety of procedures related to elections. These procedures often have a significant effect on shareholders' ability to hold the board accountable for its actions.

[45] This will not apply to companies with small, sufficiently independent boards. EU Commission Recommendation of 15 February 2005, Section II, Article 7.2 and Annex 1.

[46] A vote of 20% against or more is generally considered to be significant, although a company's ownership structure and any mitigating circumstances around the specific vote are taken into account when making this determination.

Classified/Staggered Boards and Term Limits

Although classified boards and staggered board elections are common practice in most of Europe, many investors favour the annual election of directors.[47] Directors on staggered boards or with lengthy terms of office are less accountable to shareholders than directors, whereas annual elections can encourage directors to be more responsive to shareholder interests. Moreover, empirical studies have shown: (i) companies with staggered boards reduce a firm's value; and (ii) in the context of hostile takeovers, staggered boards operate as a takeover defence, which entrenches management, discourages potential acquirers and delivers a lower return to target shareholders.[48]

In light of the empirical evidence suggesting staggered boards reduce a company's value and the increasing shareholder opposition to such a structure, the Benchmark Policy generally recommends the support of proposals to declassify boards or reduce elections terms. However, given the existence of varying market practices, the Benchmark Policy only generally recommends voting against the chair of the nominating committee when director terms exceed those advocated by best practice codes in a market without sufficient justification.

In some cases, companies may propose amending their articles to explicitly establish staggered or classified board elections. If there is no current provision in the company's articles regarding the schedule for the election of directors and directors are not elected annually in practice, the Benchmark Policy will generally recommend that shareholders support the amendment if it is in line with market practice and if it introduces more regular elections than existing election cycles. However, when a proposed amendment to an existing election schedule would cause a board to become classified, the Benchmark Policy will generally only recommend shareholder support if the amendment also reduces the term lengths for directors or introduces more regular elections than the previous election schedule.

Election of Directors as a Slate

Electing directors as a slate rather than individually is contrary to principles of good corporate governance, as slate elections make it more difficult for shareholders to hold individual members of the board accountable for their actions. The European Commission recommends that directors of companies in the European Union should be subject to individual election,[49] and individual election is required by local regulations or encouraged by local best practice recommendations in many European countries. However, slate elections continue to be a prevailing market practice in some European countries. As such, the Benchmark Policy generally only recommends voting against proposals in instances where a company clearly states that it intends to elect the board as a slate in markets where individual elections are common or accepted best practice.

In some cases, shareholders voting in person at general meetings vote on board nominees individually; however, shareholders voting by proxy may only be given the choice of electing directors as a slate. In such cases, the Benchmark Policy will typically recommend that shareholders voting by proxy vote for the slate of nominees,

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[47] CII Policies on Corporate Governance, 2.7; ICGN Global Principles, 3.7.
[48] Lucian Bebchuk, Alma Cohen, "The Costs of Entrenched Boards" (2004) and 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.
[49] EU Commission Recommendation of 15 February 2005, Section III, Article 10.

unless serious concerns about the composition or acts of the board have been identified, in which case it will recommend voting against the entire slate. Irrespective of whether directors are elected as a slate or individually, concerns with individual directors will be noted in the board analysis.

Ratification of the Co-option of Directors

In certain instances, directors are appointed directly by the board to serve as directors. Shareholders are then asked to ratify the co-opted director and formally appoint them for a new term. The Benchmark Policy applies the same standards for evaluating co-options as it does for evaluating regular board elections.

Board Evaluation and Refreshment

Many investors support routine director evaluation, including independent external reviews, and periodic board refreshment to foster the sharing of diverse perspectives in the boardroom and the generation of new ideas and business strategies.[50] The board should evaluate the need for changes to board composition based on an analysis of skills and experience necessary for the company, as well as the results of the director evaluations, as opposed to relying solely on age or tenure limits. When necessary, shareholders can address concerns regarding proper board composition through director elections.

A director's experience can be a valuable asset to shareholders because of the complex, critical issues that boards face. However, in certain circumstances, a lack of refreshment may contribute to inadequate board responsiveness to poor company performance.

Some shareholders support age or term limits as a means to ensure ongoing board refreshment, and such limits are recommended best practice or prevailing market practice in some European countries. However, age or term limits may restrict experienced and potentially valuable directors from service through an arbitrary means and should not be required to ensure board refreshment when a board has effective evaluation processes.

Given that it has become common and accepted practice for the boards of European companies to include director age or term limits in their board composition profiles, the Benchmark Policy will generally not recommend voting against proposals that seek to introduce or amend director age or term limits in a company's articles of association. Nevertheless, boards that have adopted age/term limits should apply these equally for all members of the board. If a board waives its age/term limits, the Benchmark Policy will consider recommending shareholders vote against the chair of the nominating committee or equivalent, unless compelling rationale is provided for why the board is proposing to waive this rule for an election/re-election.

Lack of Adequate Director Disclosure

Market practice for disclosure of information regarding board nominees varies widely across Europe. When shareholders have not been provided with sufficient information in order to make an informed decision regarding the election of a director, the Benchmark Policy may recommend that shareholders vote against the candidate, particularly when any of the following applies: (i) the name of the nominee has not been disclosed;

[50] CII Policies on Corporate Governance, 2.8; ICGN Global Principles, 1.1 l) and 3.3.

(ii) no biographical details for the nominee have been disclosed; or (iii) the name of a natural person representing a legal person or entity, which is otherwise entitled to serve on the board, has not been disclosed.

In addition, the Benchmark Policy generally recommends that shareholders vote against a board nominee when a company's disclosure of biographical information for the nominee falls below market practice. The following information is considered particularly critical for shareholder review when evaluating a candidate for election: (i) the independence of the nominee; (ii) the nature of any relationships between the nominee and the company, its directors and executives, major shareholders and any other related parties; (iii) the current occupation and outside directorships held by a nominee; and (iv) the relevant experience and skills possessed by a nominee.[51]

[51] ICGN Global Principles, 3.7.

Transparency and Integrity in Financial Reporting

Accounts and Reports

As a routine matter, shareholders of European companies are asked either to approve a company's accounts and reports or to acknowledge receipt of the accounts and reports that had previously been approved by the board and management.

A company's consolidated financial statements combine the activities of the company with the activities of its subsidiaries. Some companies may seek separate approval of the consolidated and standalone accounts and reports. In some markets and for some companies, the approval of accounts and reports also includes the company's non-financial reporting.

The Benchmark Policy generally recommends that shareholders vote for proposals to approve or acknowledge receipt of a company's accounts and reports. However, in cases where a company's statutory auditor has refused to provide an opinion, has provided a qualified or adverse opinion on the financial or non-financial statements,[52] or there are other legitimate concerns regarding the integrity of the financial or non-financial statements or reports, it may, on a case-by-case basis, recommend that shareholders oppose such proposals.

In the event that a company's audited financial or non-financial statements have not been made available, shareholders may reasonably conclude that they have insufficient information to make an informed judgment regarding these matters. As such, the Benchmark Policy may recommend that shareholders abstain from voting on the relevant agenda items.

Application of these policies will take into account local reporting and assurance requirements, as well as which documents are being proposed for shareholder approval.

[52] The reasoning provided by the statutory auditor as well as any relevant public disclosure from the company will be considered in the assessment. In cases where the auditor has included an emphasis of matter or raised concerns regarding the going concern basis of a company in its report on the financial or non-financial statements, this will be noted in the analysis but will not result in a recommendation to vote against the proposal unless there are other legitimate concerns regarding the integrity of the financial or non-financial statements and reports.

Non-Financial Reporting

Pursuant to the Non-Financial Reporting Directive[53] (NFRD), large public companies in the European Union have been required to report on "non-financial" material environmental, social, and governance issues since 2017.[54] In 2024, the Corporate Sustainability Reporting Directive[55] (CSRD) came into effect, which is intended to lead to an increased number of European publicly-listed companies being required to report on non-financial information.[56]

The CSRD is intended to increase the quality, completeness, and comparability of non-financial reporting in Europe. In particular, companies will be required to report in accordance with the European Sustainability Reporting Standards and undergo limited assurance on their reporting. Additionally, the CSRD is expected to lead to increased meaningfulness of reporting by introducing double materiality and requiring companies to report on their principal adverse impacts.

Shareholders may reasonably expect companies to identify relevant material risks, which might not otherwise be adequately described in financial reports, in a consistent and coherent manner. While most investors do not take a prescriptive approach to how companies should comply with requirements set out by national regulatory authorities, companies may reasonably be expected to make every effort to clarify how they have adapted reporting to reflect these requirements. In instances where companies have failed to provide shareholders with meaningful reporting on environmental, social and governance risks, the Benchmark Policy may, on a case-by-case basis, recommend voting against the chair of the committee responsible for reviewing sustainability or non-financial issues. If no committee is explicitly tasked with oversight of this function, it may, instead, recommend voting against the chair of the audit committee.

Vote on Non-Financial Reporting

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. Large Swiss public companies are also obliged to prepare a report on non-financial matters, which must be submitted to an annual shareholder vote.[57]

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[53] EU Directive 2014/95/EU.

[54] The report should contain information "relating to at least environmental matters, social and employee-related matters, respect for human rights, anti-corruption, and bribery matters". The directive specifies that Member States ensure that the obligations apply at least to public-interest entities with at least 500 employees and that SMEs should be exempted, although Member States are not prevented from requiring disclosure of non-financial information from a wider group of undertakings.

[55] EU Directive 2022/2464.

[56] Since 2024, the CSRD has applied to publicly-listed companies currently subject to the NFRD. It was originally intended to become applicable to listed SMEs and certain non-EU companies with European subsidiaries in a phased introduction through 2028. However, in February 2025, the Commission proposed a so-called "Omnibus" package intended to reduce the scope and administrative burden of EU sustainable finance legislation, including CSRD. As of November 2025, the package is still subject to potential amendments and final approval by the Parliament. In the meantime, the "Stop the Clock" Directive (2025/794) has postponed the implementation date of CSRD for companies that originally would have been required to produce sustainability reporting by 2026 or 2027.

[57] Article 49 of the Spanish Commercial Code and Article 964a-c of the Swiss Code of Obligations.

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;[58] (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;[59] 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.[60]

In addition, for large-cap companies and in instances where material ESG oversight concerns have been identified, an additional review will be conducted of 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 the company's non-financial reporting in addition to, or instead of, a recommendation to vote against accountable directors.[61]

In cases where shareholders are requested to approve a company's climate reporting in a proposal that is not required by applicable law, such proposals will generally be assessed in accordance with Glass Lewis' "Say on Climate" policy. For more information, please refer to the *Benchmark Policy Guidelines for Shareholder Proposals & ESG-Related Issues*, available at www.glasslewis.com/voting-policies-current/.

Allocation of Profits/Dividends

In many European markets, companies must submit the allocation of annual profits or losses for shareholder approval. The Benchmark Policy will generally recommend voting for such a proposal.

In most cases, companies have defined dividend policies and shareholders may reasonably consider the board to be in the best position to determine whether a company has sufficient resources to distribute a dividend to shareholders.[62] As such, the Benchmark Policy will only recommend that shareholders refrain from supporting dividend proposals in exceptional cases. However, it may recommend that shareholders vote against a proposed dividend in cases where a company's dividend payout ratio, based on consolidated earnings, has decreased from a more reasonable payout ratio and for which no rationale or corresponding change in dividend policy has been provided by the company. In cases where a company has eliminated dividend payments altogether without explanation, the Benchmark Policy may recommend shareholders vote against the proposal. Dividend payout

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[58] In consideration of common voting deadlines faced by international investors, relevant disclosures are expected to 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, the Benchmark Policy will generally recommend that shareholders abstain from voting on the report.

[59] E.g. in cases where the independent auditor refuses to provide an opinion, or provides a qualified or adverse opinion, on the non-financial reporting.

[60] 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_2 emissions. Article 47, and the new Article 29b to be inserted into Directive 2013/34, of Directive 2022/2464 (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 applies to companies listed on the Swiss SMI or SMIM indices, or the Spanish IBEX 35 or IBEX Medium Cap indices.

[61] Please refer to the "Environmental and Social Risk Oversight" section of these guidelines.

[62] In cases where a company is distributing capital to shareholders by other means than a dividend payment, the total effect of all such distributions will be considered.

ratios that are consistently excessively high (e.g., over 100%) may also be assessed relative to the company's peers, its own financial position or its level of maturity.

Capital Repayments

In several European markets, capital repayments are increasingly used as substitutes for a traditional cash dividend due to more favourable taxation rules for such payments to shareholders. In order to effect a capital repayment, a company typically lowers the par value of its shares—shareholders then redeem the difference between the pre-reduction and post-reduction par value of each share as a "repayment." Such proposals are analysed in the same manner as dividend proposals, as described above. Unless material concerns are identified, the Benchmark Policy will generally recommend that shareholders support all related proposals to amend the par value of shares.

Bonus Share Issuance/Dividends-in-Kind

Companies may propose to issue new shares to shareholders on a pro rata basis in lieu of, or in addition to, a cash dividend. Shareholders may prefer to be provided with the option to receive dividends in cash or in the form of shares (also referred to as "scrip dividends"), since shareholders may thereby receive the dividend in a manner that suits them (e.g., to avoid negative tax consequences). Unless material concerns are identified, the Benchmark Policy will generally recommend that shareholders support bonus share issuances and scrip dividends.

Allocations to Reserves/Transfer of Reserves

The Benchmark Policy is of the view that the board is generally in the best position to determine a company's capital structure, particularly when such decisions are unlikely to have a material impact on shareholders' interests. Accordingly, when a company proposes to allocate net profits or losses to reserves, or to transfer reserves between accounts, the Benchmark Policy will generally recommend that shareholders vote for the proposed allocation or transfer.

Appointment of Auditor

The auditor's role as gatekeeper is crucial in ensuring the integrity and transparency of the financial information necessary for protecting shareholder value. Shareholders rely on the auditor to ask tough questions and to do a thorough analysis of a company's books to ensure that the information provided to shareholders is complete, accurate, fair, and that it is a reasonable representation of a company's financial position. The only way shareholders can make rational investment decisions is if the market is equipped with accurate information about a company's fiscal health.

As such, shareholders should demand an objective, competent and diligent auditor who performs at or above professional standards at every company in which the investors hold an interest. Like directors, auditors should be free from conflicts of interest and should avoid situations requiring a choice between the auditor's interests and those of the shareholders they serve.

Appointment of Financial Auditor

The Benchmark Policy generally recommends shareholders support a company's choice of financial auditor except when there are credible indications that the auditor's independence or audit integrity may have been compromised. When non-audit fees exceed the total of audit and audit-related fees billed by the auditor,[63] the Benchmark Policy generally recommends voting against the authority to set the auditor's fees, where such a vote is offered, or against the re-appointment of the auditor, if there is no separate vote on the auditor's fees, unless a specific, compelling justification is provided for a non-recurring payment.[64]

Other reasons why the Benchmark Policy may recommend a vote against the appointment of an auditor include:

- Recent material restatements of annual financial statements, including those resulting in the reporting of material weaknesses in internal controls and including late filings by the company where the auditor bears some responsibility for the restatement or late filing.[65]
- When the company has aggressive accounting policies evidenced by restatements or other financial reporting problems.
- When the company has poor disclosure or lacks transparency in its financial statements.
- Presence of other relationships or concerns with the auditor that might suggest a conflict between the auditor's interests and shareholder interests.
- There is other compelling evidence that the independence of the auditor may have been compromised.

Many investors expect companies to periodically conduct a competitive tender process and disclose the details of this process to shareholders.[66] The Benchmark Policy may take the tenure of the audit firm into consideration when assessing the performance of, and potential conflicts of interest in relation to, the statutory auditor.

Where a company does not disclose sufficient information regarding the fees paid to the auditor for the past fiscal year, the Benchmark Policy will generally recommend shareholders vote against the authority to set the auditor's fees, where such a vote is offered, or abstain on the re-appointment of the auditor, if there is no separate vote on the auditor's fees.[67] The Benchmark Policy will also recommend abstaining from voting in cases where the company does not disclose the name of the audit firm up for ratification or appointment.

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[63] In accordance with EU Regulation 537/2014, non-audit fees to the statutory financial auditor are limited to 70% of the audit fees billed by the auditor over a three-year period. Many investors expect that any non-audit services that do not need to be conducted by the statutory auditor should be assigned to another audit firm and/or that non-audit fees should not exceed audit fees (CII Policies on Corporate Governance, 2.13c; ICGN Global Principles, 8.3f.)

[64] In particular, investors may be cognisant of the general rationale for the statutory financial auditor providing non-audit services in relation to one-time corporate finance transactions and due diligence work related to mergers, acquisitions, and disposals, so long as their provision of such services does not persist.

[65] An auditor does not audit all interim financial statements. Thus, the Benchmark Policy generally does not recommend a vote against an auditor's appointment due to a restatement of interim financial statements unless the nature of the misstatement is clear from a reading of the incorrect financial statements.

[66] CII Policies on Corporate Governance, 2.13b; ICGN Global Principles, 8.8. In accordance with EU Regulation 537/2014, auditors of companies in the European Union may serve for a maximum of ten years, with an additional term of up to ten years when the audit is tendered, or 14 years when a joint audit is adopted.

[67] As outlined in "Standards for Assessing the Audit Committee", when a company fails to disclose the fees, or the breakdown of the fees, paid to the auditor, the Benchmark Policy will generally also recommend that shareholders vote against the election of the audit committee chair.

Appointment of Auditor for Sustainability Reporting

The CSRD sets out obligations for companies in the European Union regarding sustainability reporting. Among other requirements, companies subject to the CSRD are required to receive assurance on their sustainability reporting. Some European Union Member States have elected[68] to make the appointment of the auditor for sustainability reporting subject to shareholder approval.

The Benchmark Policy will generally recommend that shareholders support a company's choice of auditor for sustainability reporting, subject to the company providing sufficient information on the identity of and fees paid to the auditor, as well as the independence and performance of the auditor, as outlined above.

[68] This is not explicitly required under CSRD. The transposition of CSRD into local national law will lead to some differences in requirements between Member States.

The Link Between Pay and Performance

The remuneration awarded to senior executives is an important area in which the board's priorities are revealed. Executive remuneration should be linked directly with the performance of the business the executive is charged with managing. Market best practice indicates that the most effective remuneration arrangements provide for an appropriate mix of performance-based short- and long-term incentives in addition to fixed pay elements[69] while promoting a prudent and sustainable level of risk-taking.

Comprehensive, timely and transparent disclosure of executive pay is critical to allowing shareholders to evaluate the extent to which pay is aligned with company performance. The disclosure of performance metrics and goals is an important component in assessing executive remuneration. Performance metrics must vary depending on the company and industry, among other factors, and may include a wide variety of financial measures as well as industry-specific performance indicators. However, companies should disclose why the specific performance metrics were selected and how the actions they are designed to incentivise will lead to better corporate performance.

Votes on Executive Remuneration (Say-on-Pay)

The European Union has taken a leading role in advancing executive remuneration reform in Member States. As early as 2004, the European Commission recommended that Member States provide for the possibility of a shareholder vote on companies' remuneration policies and reporting at the annual meeting.[70] While a number of European states have included requirements for a shareholder vote on pay from 2004 onwards, as a result of the 2017 amendments to the Shareholder Rights Directive all companies in the EU have been required to offer an annual advisory vote on the remuneration report as well as a vote on the remuneration policy at least every four years.[71] Depending on a Member State's implementation of the directive, the policy vote may be either advisory or binding. Some countries may also provide for multiple votes on remuneration, generally encompassing components of the votes described above. Although the approach to evaluating remuneration proposals is necessarily tailored to the specific legal requirements of the votes offered to shareholders in each market, the Benchmark Policy guidelines across Europe generally refer to any vote relating to the approval of executive remuneration, other than individual equity or incentive plans, as a "say-on-pay" vote.

Given the complexity of most companies' remuneration programs, the Benchmark Policy applies a highly nuanced approach when analysing say on pay proposals. Each company's remuneration is reviewed on a case-by-case basis, recognising that each company must be examined in the context of industry, size, maturity, performance, financial condition, its historic pay for performance practices, and any other relevant internal or external factors.

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[69] See CII Policies on Corporate Governance, Section 5; ICGN Global Principles, Principle 5.

[70] EU Commission Recommendation of 14 December 2004, Article 4.1.

[71] The vote must be held every time material changes are made to the policy, or at least every four years. Some Member States have chosen not to apply the requirement for an annual vote on remuneration reports to smaller companies, so long as the remuneration report is subject to discussion at the annual meeting of shareholders.

Companies should design and apply specific compensation policies and practices that are appropriate to the circumstances of the company and, in particular, will attract and retain competent executives and other staff, while motivating them to grow the company's long-term shareholder value.

Where specific policies and practices serve to reasonably align remuneration with performance, and such practices are adequately disclosed, support for the company's approach may be reasonable. If, however, those specific policies and practices fail to demonstrably link remuneration with performance, additional scrutiny is applied and the Benchmark Policy may recommend a vote against the say-on-pay proposal.

Say-on-pay proposals are reviewed on both a qualitative and quantitative basis, with a focus on several main areas:

- The overall design and structure of the company's executive remuneration programs including selection and challenging nature of performance metrics;
- The implementation and effectiveness of the company's executive remuneration programs, including pay mix and use of performance metrics in determining pay levels;
- The quality and content of the company's disclosure;
- The quantum paid to executives; and
- The link between remuneration and performance, as indicated by the company's current and past pay-for-performance scores.

Except for particularly egregious pay decisions and practices, no one factor would ordinarily lead to a negative voting recommendation pursuant to the Benchmark Policy without a review of the company's rationale and/or the influence of such decisions or practices on other aspects of the pay programme, most notably the company's ability to align executive pay with performance and the shareholder experience.

Vote on Remuneration Policy

Investors generally expect that remuneration policies should provide clear disclosure of an appropriate framework for managing executive remuneration.[72] While this framework will vary by company, it should generally provide an explicit link to the company's strategy, set appropriate quantum limits[73] along with structural safeguards to prevent excessive or inappropriate payments and reward for failure. Remuneration policies should also provide sufficient flexibility to allow boards to manage matters of recruitment and professional development as they arise.

Some of the potentially troubling issues that are considered and that may factor into a negative vote recommendation on related proposals when analysing remuneration policies, and when weighing a vote against related proposals, are as follows:

- The policy allows for high pay (as compared to the company's benchmark);
- The overall balance of the remuneration structure between fixed and variable elements and between short- and long-term incentive opportunity is assessed to be appropriate;

[72] CII Policies on Corporate Governance, 5.3; ICGN Global Principles, 5.5.
[73] EU Commission Recommendation of 30 April 2009, Article 3.1.

- Pay levels (base salary or variable pay opportunity) are benchmarked above median without sufficient justification;[74]
- Significant increases in pay levels are proposed without a compelling rationale;[75]
- Performance metrics are not aligned with the company's business strategy and key strategic priorities;[76]
- The performance metric set is largely reliant on qualitative and/or non-financial metrics, with no financial underpins or gateways;
- Non-executive directors are eligible for cash and/or equity awards on similar terms as those granted to executives[77];
- Discretion retained by the board is not limited to clearly-defined extraordinary circumstances;[78]
- No portion of variable remuneration is linked to multi-year, forward-looking vesting conditions;[79]
- The policy does not include structural safeguards and risk mitigating features, such as bonus deferral provisions,[80] post-vesting holding periods, post-employment shareholding requirements,[81] and clawback/ malus provisions whereby any bonus awarded may be recouped by the company in the event of misstatement,[82] fraud, or misconduct by the recipient of a bonus award;[83]
- The company has failed to sufficiently disclose the key terms of its policy;[84]
- Substantial changes to the existing policy have been proposed and have not been adequately explained or justified;[85]
- The proposed changes to the existing policy represent, on aggregate, a worsening of the overall structure; and
- Material shareholder dissent on the remuneration system is not sufficiently addressed.[86]

The Benchmark Policy closely reviews changes to companies' remuneration policies in order to determine whether such changes will benefit shareholders and therefore whether shareholders should support the proposals. Where a proposed policy represents a significant improvement over the existing policy, the Benchmark Policy may recommend voting for the proposal, even when the proposed policy contains some deficiencies.

Vote on Remuneration Report

When analysing a company's remuneration report, the Benchmark Policy focuses on the board's implementation and administration of the company's remuneration policy. However, many investors believe

[74] CII Policies on Corporate Governance, 5.4; ICGN Guidance on Executive Director Remuneration, 2.1.
[75] *Ibid.*
[76] Article 9a(6) of EU Directive 2017/828 (SRD II).
[77] This only applies in instances in which the vote on the remuneration policy explicitly includes the policy to remunerate non-executive directors.
[78] Article 9a(4) of EU Directive 2017/828 (SRD II).
[79] EU Commission Recommendation of 30 April 2009, Articles 3.2 and 3.3.
[80] *Ibid.*
[81] EU Commission Recommendation of 30 April 2009, Article 4.3.
[82] EU Commission Recommendation of 30 April 2009, Articles 3.4.
[83] CII Policies on Corporate Governance, 5.7; ICGN Guidance on Executive Director Remuneration 2016, 2.5.
[84] Article 9a(6) of EU Directive 2017/828 (SRD II).
[85] *Ibid.* EU Commission Recommendation of 14 December 2009, Articles 3.2, 4.1 and 6.4.
[86] Article 9b(4) of EU Directive 2017/828 (SRD II). See the "Board Responsiveness" section of these guidelines.

that this annual vote provides an important opportunity to express concern with a company's remuneration policies and practices that are not explicitly limited to the year under review. As such, the Benchmark Policy voting recommendations may reflect substantial ongoing concerns with a company's remuneration policy, in addition to the remuneration decisions and outcomes during the past fiscal year.

Regarding disclosure, SRD II states that, where applicable, the remuneration report shall contain the following information regarding each individual director's remuneration:[87]

- The total remuneration split out by component, the relative proportion of fixed and variable remuneration, an explanation of how the total remuneration complies with the adopted remuneration policy, including how it contributes to the long-term performance of the company, and information on how the performance criteria were applied;
- The annual change in individual director remuneration, company performance, and average remuneration of employees other than directors on a full-time equivalent basis over at least the five most recent financial years, presented together in a manner which permits comparison;
- Any remuneration from any undertaking belonging to the same group;
- The number of shares and share options granted or offered, and the main conditions for the exercise of the rights including the exercise price and date and any change thereof;
- Information on the use of the possibility to reclaim variable remuneration; and
- Information on any deviations from the procedure for the implementation of the remuneration policy, including the explanation of the nature of the exceptional circumstances and the indication of the specific elements derogated from.

In assessing policy implementation during the year under review, particular attention is paid to the alignment between performance and pay outcomes, and the remuneration committee's level of disclosure regarding any application of discretion.[88] In cases where an analysis reveals remuneration practices or disclosure are in significant need of reform, the Benchmark Policy will generally recommend that shareholders vote against the remuneration report. Generally, such instances include evidence of a pattern of poor pay-for-performance practices, unclear or questionable disclosure regarding the overall remuneration structure (e.g. limited information regarding benchmarking processes, limited rationale for the determination of performance metrics and targets, etc.), questionable adjustments to certain aspects of policy implementation and/or outcomes (e.g. limited rationale for significant changes to performance targets or metrics,[89] the payout of guaranteed bonuses or sizeable retention grants, etc.) and/or other egregious remuneration practices.

While not an exhaustive list, the following elements are commonly considered by investors to be indications of problematic pay practices and may contribute to a Benchmark Policy recommendation to vote against the remuneration report:

[87] Article 9b(1) of EU Directive 2017/828 (SRD II).
[88] ICGN Guidance on Executive Director Remuneration 2016, 2.1.
[89] ICGN Guidance on Executive Director Remuneration 2016, 2.3.

- Egregious or excessive bonuses, equity awards, sign-on awards[90] or severance payments, including golden handshakes and golden parachutes;
- Large replacement awards ('buy-out' or 'make-whole' awards) in cash and/or not subject to continued employment over a multi-year vesting period, absent compelling justification;
- Guaranteed bonuses;[91]
- Incentive plan targets set at performance levels well below actual past performance or strategic targets provided in guidance to shareholders, absent compelling rationale;
- Lowered performance targets without justification;[92]
- Incentive plans that pay out for performance below lower middle quartile peer performance levels;[93]
- Lack of disclosure regarding performance metrics and targets;[94]
- Insufficiently challenging performance targets providing for unreasonably high payouts or payout opportunities;
- High levels of vesting occurring even if the threshold or target hurdle for one or more of the financial metrics was missed, resulting in a clear pay-for-performance disconnect;
- Performance conditions do not adequately measure a company's performance or align with strategy over the long term;[95]
- Discretionary bonuses paid outside of short- and long-term incentive plans;
- Executive pay that is high compared to the company's peers and is not subject to relevant and challenging performance targets over the period in question and/or has not otherwise been merited by outstanding company performance over the period;
- The terms of a long-term incentive plan are inappropriate and a separate vote on the plan is not provided (please see "Long-Term Incentives" section);
- Material shareholder dissent on the remuneration system or the prior year's remuneration report is not sufficiently addressed.[96]

Accountability of the Remuneration Committee

In cases where the analysis has revealed substantial concerns with the performance of the remuneration committee, the Benchmark Policy may recommend that shareholders vote against the re-election of the chair and/or other members of the committee. For example, it may recommend a vote against the re-election of the committee chair where there are substantial concerns with the remuneration policy presented for shareholder approval and/or the pay practices outlined in the remuneration report. It may also recommend against the re-election of all members for particularly egregious remuneration practices -- particularly where these are ongoing. Such instances may include cases in which a company maintains poor remuneration practices year after year without any apparent steps to address the issues. In addition, the Benchmark Policy may recommend

[90] 'Sign-on awards' differ from 'replacement awards' as they relate to extraordinary remuneration granted to an individual upon their appointment that does not correspond (in size and vesting terms) to remuneration forfeited upon departure from the individual's previous role.
[91] ICGN Guidance on Executive Director Remuneration 2016, 2.3.
[92] CII Policies on Corporate Governance, 5.3 and 5.5c.
[93] *Ibid.*
[94] EU Commission Recommendation of 14 December 2004, Article 3.3(b).
[95] EU Commission Recommendation of 30 April 2009, Articles 3.2 and 5.2(a, b).
[96] Article 31 of EU Directive 2017/828 (SRD II). See also the "Board Responsiveness" section of these guidelines.

voting against the entire committee based on the practices or actions of its members, such as approving large one-off payments, the inappropriate use of discretion in determining variable remuneration, or sustained poor pay-for-performance practices.

Please refer to the "Standards for Assessing the Remuneration Committee" section of these guidelines for further information.

Variable Remuneration

Short-Term Incentives

A short-term bonus or incentive (STI) should be demonstrably tied to performance that supports a company's strategy. This alignment is generally clearest when awards are based on quantifiable performance measured against pre-defined disclosed targets.[97] Where a discretionary approach is used when evaluating individual metrics or the overall assessment, the committee should explain its methodology and rationale for individual allocations.

Many investors believe that performance conditions for STIs should encompass a mix of corporate and individual performance measures, including internal financial metrics such as net profit after tax, EPS growth and divisional profitability as well as non-financial factors such as those related to employee turnover, safety, environmental issues, and customer satisfaction.[98] However, since performance metrics vary depending on company, industry and strategy, among other factors, metrics tied to the company's business drivers are generally considered to be acceptable. Where the financial metrics used to determine payouts have been adjusted, such as to exclude exceptional items or other costs, the report should disclose how the calculation differs from reported accounting figures and provide a rationale for these adjustments.[99]

Where possible, companies should disclose the specific targets utilised as well as actual performance against the targets. While boards may be reluctant to disclose certain target data on the basis that it is commercially sensitive, given investor expectations on remuneration transparency,[100] companies should justify such non-disclosure and commit to providing this information retrospectively. Moreover, investors may reasonably expect companies to disclose the relative level of achievement with respect to target for each metric even if the targets themselves are not disclosed. Where targets are not disclosed or award levels are determined on a discretionary basis, or where performance over the previous year appears to be poor or negative, the company should provide a clear explanation for why the payments were made.

The target and potential maximum payouts that can be achieved under STI awards should also be disclosed. Shareholders should expect stretching performance targets for the maximum award to be achieved. Any increase in the potential maximum award should be clearly justified to shareholders.

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[97] ICGN Global Principles, 5.3.
[98] *Ibid.* EU Commission Recommendation of 30 April 2009, Article 3.2.
[99] CII Policies on Corporate Governance, 5.5c. ICGN Guidance on Executive Director Remuneration 2016, 2.5.
[100] CII Policies on Corporate Governance, 5.3; ICGN Global Principles, 5.3 and 5.5.

Furthermore, as set out by the European Parliament, a portion of significant bonus payments should be subject to a deferral period. For financial institutions, a portion of awards should be deferred for at least four years.[101]

Long-Term Incentives

Many investors recognise the value of long-term incentive programmes.[102] When used appropriately, they can provide a vehicle for linking an executive's pay to company performance, thereby aligning their interests with those of shareholders. In addition, equity-based compensation can be an effective way to attract, retain and motivate key employees.

There are certain elements that are common to most well-structured long-term incentive (LTI) plans. These include:

- No re-testing or lowering of performance conditions after the grant;[103]
- Two or more performance metrics -- measuring a company's performance with multiple metrics serves to provide a more complete picture of the company's performance than a single metric, and multiple metrics are less easily manipulated;
- At least one relative performance metric that compares the company's performance to a relevant peer group or index;
- Performance periods of at least three years;[104]
- Performance metrics that cannot be easily manipulated by management;[105]
- Stretching targets that incentivise executives to strive for outstanding performance;
- Individual limits expressed as a percentage of base salary; and
- Holding requirements for executives, preferably extending through the duration of their tenure.

Performance measures should be carefully selected and should relate to the specific business/industry in which the company operates and, especially, the key value drivers of the company's business. Metrics may be financial and non-financial; however, there should be a strong emphasis on overall financial performance. Where the financial metrics used to determine payouts have been adjusted, such as to exclude exceptionals or other costs, the report should disclose how the calculation differs from reported accounting figures, a rationale for these adjustments, and, if applicable, an explanation of how industry peers and financial analysts implemented the same adjustments.

When utilised for relative measurements, external benchmarks, such as a sector, index or peer group should be disclosed and transparent. Internal benchmarks (e.g., earnings per share growth) should also be disclosed and transparent, unless a cogent case for confidentiality is made and fully explained.

[101] Article 24 of the European Parliament Resolution of July 7, 2010 on Remuneration of Listed Companies and Remuneration Policies in the Financial Sector outlines that at least 40% of variable remuneration, or at least 60% of a particularly high amount, should be deferred.
[102] CII Policies on Corporate Governance, 5.5; ICGN Global Principles, 5.2.
[103] ICGN Guidance on Executive Director Remuneration 2016, 2.4 and 2.5.
[104] EU Commission Recommendation of 30 April 2009, Article 4.1.
[105] ICGN Guidance on Executive Director Remuneration 2016, 2.1.

Combined, Hybrid, or Restricted Share Incentive Plans

Combined incentive plans, or omnibus plans, are incentive schemes where performance is assessed for the full grant in an initial short-term period (typically one year) immediately following the grant, after which a portion of the award is paid out and the remaining portion is deferred, subject to time-vesting restrictions or other non-stretching performance criteria.

Investors often closely assess a company's decision to move from a traditional incentive structure, consisting of a short- and long-term incentive plan, to a structure consisting of a single incentive scheme, as this generally leads to a reduction of the portion of variable pay linked to performance. Specifically, the shift to a combined incentive plan typically entails the removal of long-term performance conditions, with the deferred portion of the award effectively becoming a guaranteed payment once the initial performance period has ended.

For this reason, the Benchmark Policy will generally recommend that shareholders vote against a remuneration policy[106] that includes a combined incentive plan, unless:

- The plan has a minimum vesting period of three years;[107]
- At least part of the award is allocated in equity or equity-based instruments, subject to time-vesting restrictions;[108]
- Quantitative underpin/gateway conditions are in place for the deferred portion of the award; and
- The company has provided a strategic rationale for the plan.

Similarly, investors may find cause to be sceptical of a company's decision to either remove in full or reduce the performance-based portion of long-term incentive awards, moving to a restricted share plan or a 'hybrid' plan (i.e. a plan consisting of both performance-based and time-restricted awards). However, in certain cases, such plans may be well suited for a company's particular needs. The Benchmark Policy's assessment of a board's decision to implement such plans is, therefore, made on a case-by-case basis, taking into account the specific rationale provided by the board. The presence of safeguards aimed at strengthening the long-term alignment between executives' and shareholders' interests is also positively factored into the assessment. These safeguards include:

- A vesting period of at least three years and an additional post-vesting holding period;
- Significant shareholding requirements; and
- Underpins on the portions of the grant not based on performance.

Furthermore, where a company is amending its incentive structure to adopt a combined incentive, hybrid, or restricted share plan (while removing existing variable incentive plans or reducing the performance-based

[106] Concerns regarding the structure of a combined incentive plan will generally be addressed in the analysis of remuneration policy proposals, or standalone proposals to approve the incentive plan. In countries that do not have a vote on the remuneration policy (e.g. Switzerland), concerns with the structure of a combined incentive plan may instead lead to a negative recommendation on another relevant say-on-pay proposal (e.g. remuneration report).
[107] The inclusion of an additional post-vesting holding period (of typically 1-2 years) will be viewed favourably in the analysis.
[108] CII Policies on Corporate Governance, 5.5b.

portion of the plan), many investors expect a substantial reduction in the total target and maximum award opportunity, appropriately reflecting the reduction in the risk profile of the plan.[109]

Shareholding Requirements

Mechanisms that promote the alignment between the interests of shareholders and those of executives represent an important assurance for disinterested shareholders that executives are acting in their long-term interests. Companies can facilitate this alignment of interests through the adoption and maintenance of minimum executive share ownership requirements, pursuant to which executives must accumulate an amount of shares equal to a pre-defined multiple of base salary over a limited number of years from their initial appointment and hold these shares for the duration of their tenure.[110] To ensure transparency and effective alignment of interests, unvested share awards should not be counted towards the achievement of the requirement.

Additional post-vesting and/or post-termination holding requirements may also serve to further align executives' interests with those of long-term, free float shareholders.

Pay for Performance

An integral part of a well-structured remuneration package is a successful link between pay and performance. Glass Lewis' proprietary pay-for-performance model, which serves as the primary quantitative analysis, was developed to better evaluate the link between pay and performance. Generally, remuneration and performance are measured against a peer group of appropriate companies that may overlap, to a certain extent, with a company's self-disclosed peers. This quantitative analysis provides a consistent framework and historical context for clients to determine how well companies link executive remuneration to relative performance. The methodology underscoring this model takes a scorecard-based approach in evaluating pay-and-performance alignment. Final alignment scores are determined by the weighted sum of up to five tests, each with their own severity rating. Overall scores and ratings range as follows:

- Severe Concern: 0 to 20 points;
- High Concern: 21 to 40 points;
- Medium Concern; 41 to 60 points;
- Low Concern: 61 to 80 points;
- Negligible Concern: 81 to 100 points.

The individual tests are as follows:

- Total vested CEO pay vs. TSR:
- Total vested CEO pay vs. financial performance;

[109] ICGN Global Principles, 5.2. The reduction in total award opportunity should be proportional to the reduction in the risk profile of the pay package, e.g., if the previous three-year long-term incentive plan represented half of the total target-level variable pay opportunity and the new plan will be based solely on a one-year performance assessment (and malus), then the total target-level variable pay opportunity under the new combined plan will be reduced by at least one-third. However, proposed reductions will be assessed on a case-by-case basis, accounting for disclosure detailing the determination process of the new total variable pay opportunity.
[110] CII Policies on Corporate Governance, 5.6; ICGN Global Principles, 5.5.

- CEO STI payouts (in relation to maximum opportunity) vs. TSR;
- CEO LTI payouts (in relation to maximum opportunity) vs. TSR;
    - Alternative test for STI and LTI payout: Total vested CEO pay vs. company size measures as multiple of median;
- Qualitative downward modifier.

Separately, a specific comparison between the company's executive pay and its peers' executive pay levels may be discussed in the analysis of the remuneration report proposals for additional insight into the score. Likewise, a specific comparison between the company's performance and its peers' performance may be reflected in the analysis for further context.

Companies that demonstrate a weaker link (an overall rating of "Severe Concern" or "High Concern") are more likely to receive a negative recommendation under the Benchmark Policy; however, other factors are considered in developing recommendations as each company is reviewed on a case-by-case basis. These additional factors include, but are not limited to, the consideration of competitors based in other regions (and therefore excluded from the peer group utilised by the model), overall incentive structure, trajectory of the programme and disclosed future changes, the operational, economic and business context for the year in review, reasonable payout levels, or the presence of compelling disclosure explaining any deviation from best practice. These factors may provide a sufficient rationale to recommend in favour of a proposal even there is an identified disconnect between pay and performance.

In determining the peer groups used in our pay-for-performance scores, a proprietary methodology is utilised that considers both market and industry peers. Each component is considered on a weighted basis and is subject to size-based ranking and screening. Peers for companies based in Continental Europe are derived from a pool that comprises blue-chip and mid-cap companies from the largest European markets[111] and the UK. Since the peer group used is based on an independent, proprietary technique, it will often differ from the one used by the company which, in turn, could affect the resulting analyses. While the independent, rigorous methodology used provides a valuable perspective on the company's remuneration programme, the company's self-selected peer group, when disclosed, will also be presented in the Proxy Paper for comparative purposes and for supplemental analyses.

Linking Executive Pay to Environmental and Social Criteria

Explicit environmental and/or social (E&S) criteria in executive incentive plans, when used appropriately, can serve to provide both executives and shareholders a clear line of sight into a company's ESG strategy, ambitions, and targets.[112] The inclusion of E&S metrics in remuneration programmes should be predicated on each company's unique circumstances. In order to establish a meaningful link between pay and performance,

[111] Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, and Switzerland.

[112] Article 29 of EU Directive 2017/828 (SRD II) states that a company's remuneration policy "should contribute to the business strategy, long-term interests and sustainability of the company and should not be linked entirely or mainly to short-term objectives. Directors' performance should be assessed using both financial and non-financial performance criteria, including, where appropriate, environmental, social and governance factors." ICGN Guidance on Executive Director Remuneration 2016, 2.5.

companies must consider factors including their industry, size, risk profile, maturity, performance, financial condition, and any other relevant internal or external factors.

When a company is introducing E&S criteria into executive incentive plans, it is important that shareholders are provided with sufficient disclosure to allow them to understand how these criteria align with their strategies. Additionally, there may be situations where certain E&S performance criteria are reasonably viewed as prerequisites for executive performance, as opposed to behaviours and conditions that need to be incentivised, such as the use of metrics that award executives for ethical behaviour or compliance with policies and regulations. Companies should generally provide shareholders with disclosures that clearly lay out the rationale for selecting specific E&S metrics, the target-setting process, and corresponding payout opportunities. Particularly in the case of qualitative metrics, shareholders should be provided with a clear understanding of the basis on which the criteria will be assessed. Where quantitative targets have been set, shareholders are best served when these are disclosed on an ex-ante basis, or the board should outline why it believes it is unable to do so.

The Benchmark Policy is mindful that not all remuneration schemes lend themselves to the inclusion of E&S metrics and is of the view that companies should retain flexibility in not only choosing to incorporate E&S metrics in their remuneration plans, but also in the placement of these metrics. For example, some companies may determine that including E&S criteria in the annual bonus may help to incentivise the achievement of short-term milestones and allow for more manoeuvrability in strategic adjustments to long-term goals. Other companies may determine that their long-term sustainability targets are best achieved by incentivising executives through metrics included in their long-term incentive plans.

The transposition of SRD II has led to EU Member States adopting legislation outlining that a company's remuneration policy should contribute to its long-term interests and sustainability. As such, the vast majority of European large- and mid-cap companies have now included specific E&S indicators in at least one of their incentive plans. Accordingly, shareholders of European companies that have not included explicit E&S indicators in their incentive plans can reasonably expect additional disclosure on how the company's executive pay strategy is otherwise aligned with its sustainability strategy.

Remuneration Committee Discretion

Remuneration committees should retain a reasonable level of discretion to ensure that pay outcomes are justified and linked to performance,[113] and that the implementation of the remuneration policy remains appropriate, including with reference to performance metrics and specific targets. The scope of potential discretionary powers, and any exercise of such discretion made during the year, should be clearly disclosed and justified.

It is important for the remuneration committee to conduct judicious and responsible exercise of discretion over incentive pay outcomes to account for significant, material events that would otherwise be excluded from performance results of selected metrics of incentive programmes. For instance, major litigation settlement charges may be removed from non-IFRS results before the determination of formulaic incentive payouts, or health and safety failures may not be reflected in performance results where companies do not expressly

[113] ICGN Guidance on Executive Director Remuneration 2016, 2.5.

include health and safety metrics in incentive plans; such events may nevertheless be consequential to corporate performance results, impact the shareholder experience, and, in some cases, may present material risks. Conversely, certain events may adversely impact formulaic payout results despite being outside executives' control. Accordingly, companies should provide thorough discussion of how such events were considered in the committee's decisions to exercise discretion or refrain from applying discretion over incentive pay outcomes. The inclusion of this disclosure assists shareholders in analysing the exercise or absence of committee discretion.

Remuneration Relative to Stakeholder Experience

Remuneration outcomes should remain appropriate to a company's specific situation and the experiences of its shareholders and employees, even where formulaic targets have been met. More specifically, remuneration committees should consider exercising downward discretion where:

- A company has suffered an exceptional event that has had a material negative impact on shareholder value;
    - For example, the remuneration committee should consider reducing an annual bonus payout and/or the size of an LTI grant following a significant decline in share price. Further, downward adjustments to the outcomes of awards linked to share price performance should be considered where windfall gains have been received.
- A company's decisions regarding working conditions have had a material negative impact on employees;
    - For example, the remuneration committee should consider how substantial workforce layoffs, furloughs, short-time working arrangements, salary freezes etc. will be reflected in executives' remuneration outcomes.

In cases of substantial misalignment between executive pay outcomes and the experience of shareholders or employees in the last fiscal year, the Benchmark Policy may recommend that shareholders vote against a company's remuneration report solely on this basis.

Furthermore, forward-looking decisions regarding executive remuneration should also take into account a company's shareholders and employees. For example, a concern may be included in the analysis of a company's remuneration policy where there is evidence that executive fixed pay and/or total opportunity increases are substantially outpacing employee salary increases.[114]

Remuneration Relative to Peers

The analysis of remuneration policies examines a company's remuneration disclosure and structure as compared to peer practices, based on relevant stock market indices, market capitalisation, industry and/or liquidity. As a result, higher standards are generally applied to the remuneration policies and disclosure provided by the largest companies in a given market, as these multinational companies compete with international companies in similar industries for talented executives. In particular, shareholders may reasonably expect companies on blue-chip indices to provide better remuneration-related disclosure than smaller companies in that country. These companies should also apply remuneration practices that meet at least a majority of local,

[114] ICGN Guidance on Executive Director Remuneration 2016, 2.2.

key best practice recommendations, and align with international best practices. In contrast, shareholders may be more inclined to support a say-on-pay vote at a smaller company where the remuneration policy generally aligns with key best practice recommendations in the relevant market and with the policy and disclosure of its peers, but does not meet more stringent standards for international best practice.

When assessing the level of granted and realised executive pay, the Benchmark Policy reviews the pay practices of a company's local and regional industry peers, as well as the composition of the company's own pay benchmark. Many investors expect companies to disclose the individual peers selected by the remuneration committee when setting executive pay levels, as well as the criteria utilised in the selection process.[115] Given the generally higher pay levels in the United States, the inclusion of U.S.-based peers should be accompanied by disclosure detailing what elements of the company's business or of the individual executive's situation (or any other relevant circumstance) motivated the inclusion of such peers in the chosen proportion against local European, or other global peers.

Some companies may benchmark – or be expected to benchmark – their executive remuneration system and/or the total remuneration opportunity under the system against multiple markets due to unique individual circumstances, such as multiple stock exchange listings, the geographical distribution of the company's operations, sales or employees, or clear industry-specific pressures in terms of talent attraction and retention.

Further, some investors believe the disclosure of pay ratios between the CEO and median or average employee may be useful in contextualising levels of executive remuneration both within a business and within industries. Companies should also consider including a description of the methodology for their calculation.

Companies are generally expected to provide supporting disclosure to clarify the board's decision-making process behind the implementation/non-implementation of elements that deviate from prevailing market practice in the main country of reference.[116]

Remuneration Relative to Ownership Structure

Differences in the ownership structure of listed firms can affect the incentive structure for executives. Boards should account for the natural alignment between shareholders' and an executive's interests whenever the executive directly or indirectly owns a significant portion of the company's shares. Conversely, investors may reasonably expect companies with a more dispersed ownership structure to demonstrate a more precise and linear pay-performance link.

In particular, where an executive owns or directly controls more than 10%-20%[117] of a company's shares or voting rights, the Benchmark Policy would not expect an individual to participate in equity incentive schemes unless a cogent rationale is provided by the company. Investors may also reasonably be sceptical of any large grant, either in equity instruments or cash, that would allow the executive to further consolidate their

[115] EU Recommendation of 30 April 2009, Article 5.2(g). CII Policies on Corporate Governance, 6.2c.
[116] Elements in relation to which local best practices may substantially diverge typically include, but are not limited to, the presence and disclosure of performance conditions on long-term awards, the size of salaries or long-term award grants, and the implementation of safeguards such as recovery provisions or shareholding requirements.
[117] Depending on overall ownership structure, growth stage, and available liquidity of the company.

ownership level; in such cases, the board should implement anti-dilutive safeguards and disclose the terms thereof.

Similarly, where a company is controlled and managed by a family, the use of equity incentives for representatives of the family could lead to further entrenchment of the controlling shareholders' stake. When such grants are made or proposed, the Benchmark Policy will analyse the individual stake of the family representative that is awarded equity incentives and the overall size of the grant.

Where a significant award is granted to a shareholder executive, the appropriateness of the vesting terms and conditions of such award will also be closely scrutinised. Elements that may mitigate concerns when assessing such grants (or remuneration policies allowing for such grants) include: challenging targets attached to an adequately diverse performance metric set; disclosure of feedback by free-float shareholders on this specific topic; a policy specifying that the major shareholder will not vote, or will abstain from voting,[118] on the relevant proposal; or a commitment that dissent expressed on the proposal by free-float shareholders will be taken into account.

Severance Payments and Pension Contributions

In accordance with EU recommendations and the expectations of many investors, severance payments should be limited to two years fixed salary[119] and should not be paid in the event of inadequate performance or voluntary departure.[120]

In addition to the allocation of a severance, some companies allow for the full vesting of outstanding long-term awards after an executive's termination. In line with international best practice, the size of long-term awards granted prior to termination and not yet vested should be reduced proportionately to the time served until termination. Post-vesting or post-termination holding periods imposed on the remaining portion of a grant may serve to ensure the executive's interests remain aligned with those of the company's shareholders for a time following their termination.

While local best practice standards are applied when analysing severance payments and provisions, substantial deviations from the above elements should generally be justified by companies' supporting disclosure.

The Benchmark Policy also closely reviews pension contributions, for which local regulations and best practice vary significantly across continental Europe. Given the variety and complexity of pension schemes in Europe, companies should provide clear and individualised disclosure of executives' annual pension contributions. In the assessment of the appropriateness of the level of the 'at risk' portion of executive incentive plans, pension contributions are generally treated as a fixed element of executive pay.

[118] As applicable, depending on rules on the validity of abstain votes and quorum in the market or for a specific company.
[119] EU Commission Recommendation 2009/385/EC, Section III, Art. 3.5., where the definition of severance payments includes payments related to notice periods and non-competition clauses.
[120] CII Policies on Corporate Governance, 5.8b. ICGN Guidance on Executive Director Remuneration 2016, 3.1.

Executive Remuneration at Financial Institutions

Following the global financial crisis, the European Union directed significant attention to the reform of remuneration policies at financial institutions in order to mitigate risk to relevant stakeholders. Notably, the EU introduced directives amending the existing Capital Requirements Directive in 2010 (CRDIII), 2013 (CRD IV), 2019 (CRD V), and 2024 (CRD VI) in order to harmonise the supervision of remuneration practices at financial institutions across the EU.[121] The amendments introduced with CRDIII established a requirement that national supervisory authorities directly oversee financial institutions' remuneration policies and practices in order to "promote sound and effective risk management."[122] The more notable provisions from the Capital Requirements Directives that apply to executive remuneration policies of affected firms[123] are the following: [124]

- Performance-related remuneration must take into account the overall company results as well as financial and non-financial criteria;
- The institution's risk appetite in relation to ESG should be part of its remuneration policies and practices;[125]
- Fixed pay should be high enough relative to variable pay to adequately compensate individuals and avoid excessive risk-taking;
- Variable remuneration plans should allow the possibility of receiving no payment in case of poor company performance;
- Variable remuneration cannot exceed 100% of fixed remuneration (or 200%, with shareholder approval);[126]
- At least 50% of variable remuneration must be granted in the form of equity-linked or derivative instruments, which may include cash-settled phantom equity awards;
- At least 40% of variable remuneration must be deferred over at least four years, or five years for senior management and other material risk takers;[127]
- Up to 100% of variable remuneration, including equity deferral, must be subject to clawback or malus provisions;
- Make-whole payments related to previous employment packages must also include retention, deferral, performance and clawback elements; and

[121] EU Directives 2010/76/EU, 2013/36/EU, 2019/878, and 2024/1619 respectively, amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies.
[122] Article 22(1) of Directive 2006/48/EC (CRDIII).
[123] While all financial and credit institutions are affected by the Capital Requirements Directives, a "proportionality rule" prevents all requirements from being strictly applied to smaller companies or to companies or individuals with less direct risk exposure. CRD V defines such institutions as having a value of assets of which is on average and on an individual basis equal to or less than €5 billion over the previous four years, and staff members whose annual variable remuneration does not exceed €50,000 and does not represent more than one third of the staff member's total annual remuneration.
[124] Annex V. Article 11(23.1) of CRDIII.
[125] Article 41 of CRD IV.
[126] Member States may set lower thresholds in national implementation laws. Shareholders must approve any increase in variable remuneration over the threshold of 100% of base salary by a 75% supermajority, or by a 66% supermajority if at least 50% of outstanding shares are represented.
[127] For variable remuneration that is "particularly high," at least 60% must be deferred. Material risk takers are defined as staff members whose remuneration is equal to or greater than €500,000 and equal to or greater than the average remuneration awarded to senior management.

- The remuneration policy must be gender-neutral.

Further, the Capital Requirements Directives provide the European Banking Authority (EBA) broad authority to set and enforce Guidelines on Remuneration Policies and Practices (Guidelines) for financial institutions that should be applied by supervisory authorities in each EU Member State.[128] These Guidelines provide specific guidance[129] on the implementation of the principles and regulations in CRDIII. Among other recommendations, the Guidelines state that performance metrics should incorporate risk adjustment and economic efficiency measures.[130] The Guidelines provide examples of quantitative company performance metrics that adequately measure risk[131] and cautions against the sole use of performance metrics that measure profitability or share price.

In line with the approach advocated by European regulatory authorities, remuneration structures at financial institutions often require unique consideration due to the heightened potential for shareholder value to be put at risk by poorly designed incentive programmes. As such, financial institutions are generally expected to provide more robust justifications for any deviations from key best practice recommendations.

Authorities to Increase Variable Remuneration

As described above, in accordance with CRDIV, significant financial institutions are required to seek shareholder approval in order to grant variable pay that exceeds 100% of base salary. Such proposals may request the authority to issue payments not exceeding 200% of base salary, although Member States may stipulate lower maximums. In general, the Benchmark Policy will recommend that shareholders support such requests where a company has provided adequate rationale and demonstrated a close alignment between pay and performance.

While larger EU financial institutions remain subject to the above Capital Requirement Directives, smaller and less complex European investment firms[132] have been subject to the framework defined in the Investment Firms Regulation ("IFR") and Investment Firms Directive ("IFD") since June 2021.[133]

With regard to executive remuneration, investment firms subject to IFD/IFR have the following special requirements:

[128] The Guidelines were developed and published by the predecessor to the EBA — the Committee of European Banking Supervisors (CEBS) — and were updated in December 2015 with final guidance on the calculation of bonus caps, which applies from January 2017.
[129] The Guidelines provide more specific guidance regarding which regulations apply to which individuals and companies based on the proportionality rule. For example, companies may be exempted from the aforementioned deferral requirements. Where a company or individual is exempted from more stringent requirements and chooses not to apply them, we expect the company to provide sufficient rationale for the chosen alternative remuneration structure.
[130] Section 4.2.4 of the CEBS Guidelines on Remuneration Policies and Practices.
[131] These include risk-adjusted return on capital (RAROC), return on risk-adjusted capital (RORAC), economic profit, internal economic risk capital, net economic contribution, risk-adjusted cost of funding or pure accounting adjustments.
[132] "Class 2" and "Class 3" firms as defined in Art. 10 of the Markets in Financial Instruments Directive 2014/65/EU ("MiFID II") and Art. 15 of IFR, on the basis of: (i) a fixed overhead requirement equal to a quarter of the annual fixed overheads; (ii) a permanent minimum capital requirement of €75,000, €150,000 or €750,000, depending on the activities of the company; and (iii) three new risk factors. However, "Class 3" companies are excluded from remuneration requirements.
[133] EU Regulation 2019/2033 and EU Directive 2019/2034.

- Variable remuneration must be capped at an "appropriate" ratio to fixed remuneration, but is not subject to the fixed caps outlined under CRD;[134] and
- The portion of variable remuneration to be deferred (40% to 60%, as described above) must be deferred for at least three to five years.[135]

Executive remuneration provisions contained in CRD/CRR and IFD/IFR significantly overlap; as such, investment firms falling within this framework also remain subject to all other CRR/CRD requirements listed above.

Equity-Based Remuneration Plan Proposals

Many investors believe that equity remuneration awards are useful, when not abused, for retaining employees and providing them with an incentive to act in a way that will improve company performance.

Equity-based remuneration programmes have important differences from cash remuneration plans and bonus programmes. Accordingly, the Benchmark Policy analysis of these plans takes into account factors such as plan administration, the method and terms of exercise, and explicit or implied rights to re-price.

The analysis is both quantitative and qualitative. In particular, the potential dilution to shareholders,[136] the company's grant history and compliance with best practice recommendations are examined.

Equity-based incentive plans are evaluated on the following principles:

- Total potential dilution to current shareholders should be reasonable and in line with a company's peers.[137] Any annual grant limits to all plan participants and individual senior executives will be considered when making this assessment;
- Awards to executives should be conditional on stretching, forward-looking financial and/or nonfinancial performance targets;
- Awards should vest over several years;
- Companies should have a demonstrated history of making reasonable equity incentive grants over the past three fiscal years;
- Stock options should be granted at fair market value, unless a discount is sufficiently justified and explained; and
- Plans should not permit re-pricing of stock options without shareholder approval.[138]

In addition to the aforementioned quantitative criteria, prevailing European marker practice and relevant local market criteria are also taken into account. To this end, the analysis will assess whether the award and/or exercise of equity are conditional on the achievement of detailed and challenging performance targets to adequately align the interests of management with those of shareholders. Successful plans will generally include long-term (at least three-year) performance targets that aim to reward executives who foster company growth while limiting excessive risk-taking. While there is an incentivising value of a share price premium (particularly

[134] Art. 30(2) of IFD.
[135] Art. 32(1)(l) of IFD.
[136] ICGN Guidance on Executive Director Remuneration 2016, 2.5.
[137] Please refer to the "Servicing Equity Programmes" section of these guidelines for further information.
[138] CII Policies on Corporate Governance, 5.5d; ICGN Guidance on Executive Director Remuneration 2016, 2.4 and 2.5

on the exercise price of options), a diversified set of metrics is generally considered preferable to a pure share price hurdle.

The Benchmark Policy will generally recommend voting against equity-based incentive plans that do not demonstrate a link to company performance, taking into account the company's overall remuneration structure and any other long-term incentive plans used or proposed by the company for senior executives. However, the analysis also considers pay practices relative to a company's peers when assessing the appropriateness of performance metrics. This policy will generally not be applied to incentive plans in which there are no senior executive participants.

Option Repricing

The Benchmark Policy generally opposes the repricing of employee and director options regardless of how it is accomplished.[139] Employees should have some downside risk in their equity-based remuneration programme and repricing eliminates any such risk. As shareholders have substantial risk in owning stock, the equity remuneration of employees and directors should be similarly situated to align their interests with those of shareholders. This will facilitate appropriate risk- and opportunity-taking for the company by employees.

Option grantees who believe they will be "rescued" from underwater options may be more inclined to take unjustifiable risks. Moreover, a predictable pattern of repricing or exchanges substantially alters a stock option's value because options that will practically never expire deeply out of the money are worth far more than options that carry a risk of expiration.

In short, repricings and option exchange programmes change the bargain between shareholders and employees after the bargain has been struck.

There is one circumstance in which a repricing or option exchange programme may be acceptable: if macroeconomic or industry trends, rather than specific company issues, cause a stock's value to decline dramatically and the repricing is necessary to motivate and retain employees. In viewing the company's stock decline as part of a larger trend, it is generally expected that the impact approximately reflects the market or industry price decline in terms of timing and magnitude. In this circumstance, it is fair to conclude that option grantees may be suffering from a risk that was not foreseeable when the original "bargain" was struck. In such a scenario, the Benchmark Policy may recommend support for a repricing or option exchange programme only if sufficient conditions are met.

The following features are viewed positively when assessing a repricing or exchange proposal:

- Officers and board members are not able to participate in the programme; and
- The exchange is value-neutral or value-creative to shareholders using very conservative assumptions.

In evaluating the appropriateness of the programme design, the Benchmark Policy considers the inclusion of the following features:

- The vesting requirements on exchanged or repriced options are extended beyond one year;

[139] CII Policies on Corporate Governance, 5.5d.

- Shares reserved for options that are reacquired in an option exchange will permanently retire (i.e., will not be available for future grants) so as to prevent additional shareholder dilution in the future; and
- Management and the board make a cogent case for needing to motivate and retain existing employees, such as being in a competitive employment market.

Remuneration of Non-Executive Directors

In accordance with SRD II, the remuneration of non-executive directors should be included in the remuneration policies and reports that are presented for a shareholder vote. In some European countries, companies may elect to seek approval of the remuneration policy for non-executive directors separately from the policy for executive directors. Further, in some European countries, the remuneration policy for non-executive directors is commonly outlined in a company's statutes and any amendments require shareholder approval.

The quantum of non-executive fees is generally expected to be broadly comparable to a company's country and industry peers and is expected to take into account the time commitment required for a director to satisfactorily discharge their duties to shareholders.[140] Accordingly, the board should provide rationale for any substantial proposed increases to the fees of non-executive directors. Absent disclosure of a compelling rationale, the Benchmark Policy may recommend voting against the proposed increase, particularly when the current or proposed fees exceed those paid to market peers.

Many investors believe that non-executive directors receive fixed remuneration only -- payable solely in cash, or partially in equity awards that are not subject to any performance conditions or a director's continued service on the board.[141]

Accordingly, the Benchmark Policy generally recommends voting against plans or proposals that include stock option grants or performance-based equity grants for non-executive directors. Performance-related awards for non-executive directors -- particularly those granted on the same terms as awards to executive directors -- may threaten to compromise the objectivity and independence of directors.[142] To the extent that the payment of variable remuneration continues to be a generally accepted market practice in a country, the Benchmark Policy will generally not recommend a vote against the plan or proposal on this basis alone, so long as such awards are based on clearly-defined, multi-year performance criteria and geared toward the long-term sustainable development of the company. The granting of stock options to the non-executive directors of companies in a development phase with limited cash resources also generally does not lead to a negative voting recommendation.

[140] CII Policies on Corporate Governance, 6.1.
[141] *Ibid.*; ICGN Global Principles, 5.9.
[142] EU Commission Recommendation of 15 February 2005, Annex II, Article 1(c).

Governance Structure and the Shareholder Franchise

Amendments to the Articles of Association

The Benchmark Policy evaluates proposed amendments to a company's articles of association on a case-by-case basis. In general, it will recommend voting for article amendments that are unlikely to have a material negative impact on shareholders' interests. Accordingly, it generally recommends voting for proposed technical amendments to a company's articles of association, such as editorial amendments or the necessary reflection of changes to corporate law.

Many investors are opposed to the practice of bundling several amendments under a single proposal because it prevents them from reviewing each amendment on its own merit.[143] In such cases, each proposed change is analysed on an individual basis and the Benchmark Policy will recommend voting for the proposal only when, on balance, it is assessed that the amendments are in the best interests of shareholders. Material concerns with a single proposed amendment may lead to a Benchmark Policy recommendation that shareholders oppose all proposed amendments if they are bundled into a single proposal.

Ratification of Board, Management and Auditors' Acts

Shareholder ratification of board, management and/or auditors' acts during the previous fiscal year is required in many European markets. The legal consequences of the ratification vary by market, and the analysis and Benchmark Policy recommendations take this into account, including in particular potential prejudice to shareholder recourse from ratification.

Though the various ratification proposals are evaluated on a case-by-case basis, the Benchmark Policy will generally recommend shareholders vote against these proposals when material concerns are identified with the actions of the board, management or auditors' acts, as relevant, and/or with the integrity and performance of the individuals whose acts are subject to ratification. While a ratification vote concerns the actions of a corporate body or individual in the previous fiscal year, the analysis will also consider the management and oversight of material, ongoing issues. The Benchmark Policy will recommend abstaining from voting on the ratification of board, management and auditors' acts when the audited financial statements are not made available in sufficient time for shareholders to review prior to submitting votes, or when shareholders otherwise do not have enough information to make an informed decision regarding the board's, management's or the auditor's actions in the prior year. The Benchmark Policy may recommend that shareholders vote against, or abstain from voting on, a ratification proposal under the following conditions:

[143] CII Policies on Corporate Governance, 3.8.

- Where there has been a finding or conviction of fraud or other illegal activities, or credible, pending accusation of such, by members of the board, management or auditing firm that may be damaging to shareholders' interests;
- When there are serious, credible allegations or pending investigations of claims of fraud, illegal activities, or other actions resulting in, or with the likely potential to result in, material damage to shareholder value;
- The report of the independent auditor on the financial and/or non-financial reporting notes a material weakness, serious restatement, or failure to comply with accounting norms;
- In cases where there is ongoing legal action against or concerning members of the board, management or auditing firm and it is assessed that the postponement of ratification or the individual ratification of directors (if possible) would better serve the interests of shareholders;
- The board has failed to address material shareholder concerns in the past year, such as providing an adequate response to the dissent of minority shareholders to a proposal at the previous general meeting, as outlined in the "Board Responsiveness" section of these guidelines;
- When the actions of the board or management (or their failure to act) have resulted in a material negative impact on shareholders' interests;
- Where other substantial oversight, governance, remuneration, human capital management or ESG concerns exist for which shareholders could reasonably hold the board or management accountable; or
- When serious concerns have been identified regarding the actions of the board and none of its members is up for election, the Benchmark Policy may recommend voting against the ratification of board acts, depending on the materiality of the concerns.

There are cases where ongoing investigations or proceedings may cast significant doubt on the performance of a corporate body in the past fiscal year. When the potential outcome of such investigations or proceedings is unclear at the time of convocation of the general meeting, there is a reasonable expectation that companies propose that a decision on ratification be postponed until a future general meeting. If companies do not postpone the ratification vote in such situations, the Benchmark Policy will generally recommend that shareholders abstain from voting on such ratification proposals; in cases where abstentions are neither counted as valid votes cast nor displayed in the minutes of general meetings, the Benchmark Policy will generally recommend that shareholders vote against ratification proposals under the aforementioned circumstances. In all other cases outlined above, the Benchmark Policy will typically recommend that shareholders vote against the ratification proposal.

In cases where there are known shareholder concerns regarding the performance of (an) individual director(s) in the fiscal year under review, shareholders could reasonably expect to be provided with the opportunity to vote on the ratification of directors on an individual basis, when this is possible in the market. Where substantial concerns regarding the performance of (an) individual director(s) exist and shareholders are not provided with individual ratification votes, the Benchmark Policy will generally recommend that shareholders vote against or that they abstain from voting on the *en bloc* ratification proposal.

Related Party Transactions

In some markets, shareholders are given the opportunity to approve material related party transactions;[144] such transactions are evaluated on a case-by-case basis. The Benchmark Policy generally recommends approval of any transaction that falls within the company's regular course of business, so long as the terms of the transaction have been verified to be fair and reasonable by an independent auditor or independent board committee, in accordance with prevailing market practice.

Director Insurance and Indemnification

Except in egregious cases, the Benchmark Policy generally recommends that shareholders approve a company's proposals to indemnify, and/or enter into insurance policies on behalf of, its directors.

Exclusive Forum Provisions

In some European markets, companies may request shareholder approval of amendments to the articles of association to specify that the exclusive place of jurisdiction for all proceedings against the company (and affiliated entities) is at the registered office of the company and that local laws shall apply.

Companies may be subject to frivolous and opportunistic lawsuits that may prove expensive and distracting, particularly in conjunction with a merger or acquisition. As such, establishing an exclusive forum could reasonably be viewed as a method of reducing legal risk. Further, company law in some jurisdictions may already impose some limitations on a plaintiff's choice of legal venue, and proposed amendments may in some instances be intended to clarify applicable law rather than materially amend a company's policies and practices.

Nevertheless, many shareholders believe that proposals to amend the articles of association that could serve to limit a shareholder's choice of legal venue are generally not in their best interests.[145] Such provisions may effectively discourage the use of shareholder claims by increasing their associated costs and making them more difficult to pursue.

For this reason, the Benchmark Policy will generally recommend that shareholders vote against proposals that seek to establish an exclusive forum for legal disputes unless the company provides a compelling argument on why the provision would directly benefit shareholders.

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[144] EU Directive 2017/828 amending the Shareholder Rights Directive sets minimum standards for the independent review and disclosure and approval of material related party transactions. Some EU Member States require shareholders to approve such transactions, absent another satisfactory means of approval by an independent supervisory body.
[145] CII Policies on Corporate Governance, 1.9.

Anti-Takeover Devices (Poison Pills)

Many investors believe that provisions that are intended to prevent or thwart a potential takeover of a company are not conducive to good corporate governance and can reduce management accountability by substantially limiting returns for shareholders.[146] See specific examples below.

Issuance of Shares/Warrants

In some markets, shareholders must explicitly approve any authority to issue shares or warrants that may be used as a takeover defence. While the Benchmark Policy will generally recommend that shareholders vote against these proposals in extraordinary circumstances, it may recommend shareholders vote for proposals that are limited in timing and scope in order to accomplish a particular objective, such as the closing of an important merger. The analysis will also take into account any exceptional justification provided by the board, including contextual factors such as a severe drop in stock price due to a widespread industry or market downturn.

Share Repurchase Plans

In some cases, companies may specify that share repurchase plans may be used as a takeover defence. The Benchmark Policy will generally recommend that shareholders vote against these proposals. Please refer to the "Authority to Repurchase Shares" section of these guidelines for further information on the general Benchmark Policy approach to share repurchase proposals.

Caps on Voting Rights

In several European markets, companies retain the right to impose absolute caps on the number of voting rights that may be exercised by a single shareholder or group of shareholders. Many investors believe that voting rights should be directly linked to economic stake and that companies should not adopt structures or mechanisms that misalign this.[147] Accordingly, the Benchmark Policy will generally recommend that shareholders vote to remove or increase any existing cap on voting rights that is posed in a proxy. The Benchmark Policy will also generally recommend that shareholders vote against the introduction of any cap or restriction on shareholder voting rights or the lowering of any existing cap on voting rights.

Restrictions on Share Registration

In several European markets, companies may seek to impose restrictions, including limited or suspended voting rights, on share registration for shareholders who own shares through an intermediary and fail to fulfil certain reporting requirements. Such proposals are analysed on a case-by-case basis, and the Benchmark Policy will generally recommend voting against any proposed restrictions that are overly punitive or arbitrary in nature, and not required by national law.

[146] G20/OECD Principles of Corporate Governance, II.H.2.
[147] CII Policies on Corporate Governance, 3.3; ICGN Global Principles, Principle 9.

Ownership Reporting Requirements

European shareholders whose percentage ownership of outstanding shares or voting rights in a company rises above or falls below the thresholds of 5%, 10%, 15%, 20%, 25%, 30%, 50%, or 75% are required to notify the company, specifying the number of shares held and corresponding number of voting rights.[148] However, in several European markets, companies retain the right to set lower reporting thresholds in their articles of association. The Benchmark Policy generally recommends voting against any share ownership reporting threshold lower than the legal mandate given that lower reporting thresholds may create unnecessary administrative burdens for shareholders and are unlikely to meaningfully benefit shareholders.

Supermajority Vote Requirements

Many investors believe that supermajority vote requirements act as impediments to shareholder action on ballot items that are critical to shareholder interests.[149] One key example is in the takeover context, where supermajority vote requirements can strongly limit the voice of shareholders in making decisions on such crucial matters as selling the business. While supermajority voting requirements are imposed by national law for approval of certain proposals in most European markets, the Benchmark Policy will generally recommend voting against any proposal seeking to extend supermajority voting requirements to decisions where a supermajority requirement is not stipulated by law and such provisions are not clearly designed to protect the interests of minority shareholders.

In cases where a company seeks to abolish supermajority voting requirements, this will be evaluated on a case-by-case basis. In many instances, amendments to voting requirements may have a deleterious effect on shareholders rights where a company has a large or controlling shareholder. Therefore, the analysis will take into account additional factors including: shareholder structure; quorum requirements; impending transactions – involving the company or a major shareholder – and any internal conflicts within the company.

Shareholder Meeting Format

Prior to the COVID-19 pandemic, almost all European companies held in-person shareholder meetings. Due to broad restrictions on physical gatherings during the pandemic, temporary legislation enabled companies to hold their meetings without the physical presence of shareholders. This accelerated the legislative process in this area, and nearly all European countries have now adopted legislation that permits companies to convene their shareholder meetings in different formats, although shareholder permission to do so is typically required.

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[148] Directive 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC. Member States may allow companies to set additional ownership reporting thresholds other than those required by the Directive. Further, in accordance with the revised Shareholder Rights Directive 2017/828, Member States must provide companies with the right to identify shareholders owning 0.5% of shares or voting rights, although lower thresholds may be set in national law.
[149] CII Policies on Corporate Governance, 3.6.

Meeting Administration

Many investors believe that virtual meeting technology can be a useful complement to a traditional, in-person shareholder meeting by expanding participation of shareholders who are unable to attend a shareholder meeting in person. However, meetings at which shareholders are not permitted to attend in person can curb the ability of a company's shareholders to participate in the meeting and meaningfully communicate with company management and directors.[150]

As such, the Benchmark Policy may recommend that shareholders vote against accountable directors at companies that hold shareholder meetings that do not allow for in-person attendance unless certain safeguards are in place. Given the concerns raised by some shareholders on virtual and closed-door shareholder meetings, shareholders can reasonably expect companies to disclose the reasons for which the board has elected to hold the meeting in this manner, particularly in cases where the board has legitimate concerns with convening an in-person meeting and/or has received relevant advice from local authorities.

In addition, companies should actively engage with their shareholders on the topic of shareholder meeting format. In egregious cases where a board has failed to address legitimate, publicly disclosed shareholder concerns regarding the manner in which the company is holding its shareholder meetings, the Benchmark Policy may recommend that shareholders vote against the re-election of accountable directors, or other matters up for a shareholder vote, as appropriate.

The following is a summary of different common types of shareholder meetings and the Benchmark Policy expectations when companies convene their meetings in these formats.

Closed Door Shareholder Meetings

Many investors believe that closed-door shareholder meetings – at which shareholders are neither permitted to attend the meeting in person nor exercise their shareholder rights virtually – should be avoided in all but exceptional circumstances. Preventing in-person attendance or active virtual participation leads to a substantial reduction in the ability of shareholders to exercise their rights and enter into dialogue with company directors and other stakeholders.[151]

From 2025, Italian companies are permitted to hold closed-door shareholder meetings, subject to shareholders approving a corresponding amendment to their articles of association.[152] While mindful of evolving market practice and local regulations in Italy, investors may reasonably expect Italian companies to utilise shareholder meeting formats that allow for the live participation of shareholders in all but exceptional circumstances. Given

[150] CII Policies on Corporate Governance, 4.1; ICGN Global Principles, 10.2.
[151] *Ibid.*
[152] This meeting format has been broadly utilised in Italy pursuant to temporary legislation following the outbreak of the COVID-19 pandemic. The Capital Markets Law (Legge Capitali), introduced in March 2024, stipulates that Italian companies may only continue to hold closed-door shareholder meetings if this is stipulated in their articles of association. A proposed reform of the Consolidated Law of Finance, expected to be effective in early 2026, will allow a company's board to determine the format of shareholder meetings, including closed door and virtual shareholder meetings, provided that this is stipulated in board-approved regulations that are published on a company's website. Amendments to board regulations are not subject to shareholder approval.

the ongoing legal process in this area, an update to the Benchmark Policy regarding closed-door shareholder meetings will be made at a future time.

Virtual Shareholder Meetings

Many investors believe that companies that elect to hold virtual shareholder meetings should aim to replicate in-person shareholder meetings to the best extent possible and ensure shareholder rights are appropriately safeguarded.[153] Accordingly, at a minimum, the Benchmark Policy expects companies to set and disclose clear procedures at the time of convocation regarding:

- When, where, and how shareholders will have an opportunity to ask questions during the meeting, including a timeline for submitting questions, types of admissible questions, and rules for how questions and comments will be recognised and disclosed to shareholders;
- The manner in which appropriate questions received during the meeting will be addressed by the board; this should include a commitment that questions which meet the board's guidelines are answered in a format that is accessible by all shareholders, such as on the company's AGM or investor relations website;
- The procedure and requirements to participate in the meeting and access the meeting platform; and
- Technical support that is available to shareholders prior to and during the meeting.

When assessing the above, consideration will be made of local legal requirements for virtual shareholder meetings.

In egregious cases where inadequate disclosure of the aforementioned provisions has been provided to shareholders at the time of convocation, the Benchmark Policy will generally recommend that shareholders vote against members of the governance committee (or equivalent) or the chair of the board. In instances where appropriate directors are not standing for election, it may instead recommend that shareholders vote against other matters that are up for a vote, such as the ratification of board acts, or the accounts and reports proposal.

In-Person Shareholder Meetings

Many investors believe that shareholder meetings that allow for in-person attendance are generally the best means of safeguarding shareholders' ability to exercise their rights and interact with the board.

Nevertheless, boards of companies that hold in-person shareholder meetings should consider ways in which to support the involvement of shareholders who are unable to attend in person, such as providing a livestream of the meeting and setting a formal process for the submission of questions to the board in advance of the meeting.

Hybrid Shareholder Meetings

Many investors believe that the hybrid shareholder meeting – which allows shareholders to participate in the meeting either in-person or virtually – is the optimal shareholder meeting format.[154]

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[153] CII Policies on Corporate Governance, 4.1; ICGN Global Principles, 10.2.
[154] ICGN Global Principles, 10.2.

To support the virtual participation of shareholders, companies that are holding hybrid shareholder meetings should set and disclose clear procedures regarding the participation of virtual attendees, as outlined in the 'Virtual Shareholder Meetings' section above.

Amendments to Articles

In some jurisdictions, companies are required to seek prior shareholder approval and amend their statutes in order to hold a meeting other than an in-person shareholder meeting, or to allow directors and executives to attend shareholder meetings virtually.

The following is a summary of common proposed amendments and the conditions under which the Benchmark Policy generally recommends that shareholders support such amendments.

Amendments to Allow for Closed-Door Shareholder Meetings

As outlined above, many investors believe that closed-door shareholder meetings should be avoided in all but exceptional circumstances. Accordingly, the Benchmark Policy will generally recommend that shareholders vote against proposals that allow for companies to hold closed-door shareholder meetings, unless the proposed amendments specify that the closed-door meeting format would only be used in exceptional circumstances, such as a public health crisis. Further, investors may reasonably expect such amendments to include a commitment to publicly disclose the exceptional circumstance that warrants holding the meeting in a closed-door format as part of the meeting notice.

Amendments to Allow for Virtual Shareholder Meetings

As outlined above, many investors believe that virtual shareholder meetings can lead to a reduction in shareholder rights unless clear procedures regarding the ability for shareholders to participate in the meeting are disclosed at the time of convocation. As such, at a minimum, the Benchmark Policy sets the expectation for companies proposing to amend their statutes to allow for virtual shareholder meetings to include the following commitments in the proposed amendments or in the supporting documents:

- The procedure and requirements to participate in a virtual-only meeting will be disclosed at the time of convocation; and
- There will be a formal process in place for shareholders to submit questions to the board, which will be answered in a format that is accessible to all shareholders.

When assessing the above, consideration will be made of local legal requirements for virtual shareholder meetings.

The Benchmark Policy will generally recommend that shareholders support amendments that allow for virtual shareholder meetings only in exceptional circumstances, provided that the proposed amendments include a commitment to publicly disclose the exceptional circumstance that warrants holding the meeting in a virtual format as part of the meeting notice.

Amendments to Allow for Hybrid Shareholder Meetings

The Benchmark Policy will generally support proposed amendments that allow companies to hold hybrid meetings. Nevertheless, shareholders would benefit from the inclusion of commitments regarding the participation of virtual attendees, as outlined above.

Amendments to Allow for Virtual Attendance of Directors and Executives

Under normal circumstances, the virtual attendance of directors and top-tier executives at traditional in-person or hybrid general meetings may serve to reduce accountability to shareholders and risks perpetuating the perception that companies are utilising emerging technologies to avoid uncomfortable conversations. Many investors expect all directors to attend general meetings, absent extraordinary circumstances.[155]

As such, the Benchmark Policy will generally recommend that shareholders oppose amendments to statutes that would allow for the virtual participation of directors and executives in general meetings of shareholders unless:

- Virtual participation of directors and executives is explicitly limited to virtual or closed-door shareholder meetings; or
- The amendment permits virtual participation of directors and executives in in-person or hybrid shareholder meetings only in exceptional circumstances and subject to prior approval of the board or meeting chair.

Voting Structure

Multi-Class Share Structures

In line with CII's Policies on Corporate Governance, ICGN's Global Governance Principles and broad investor sentiment, each share of a company's common stock should have one vote, companies should not have share classes with unequal voting rights, and certain shareholders should not have power or control disproportionate to their economic interests.[156] 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.

Furthermore, many investors agree that the economic stake of each shareholder should match their voting power and that no small group of shareholders, family or otherwise, should have voting rights different from those of other shareholders. On matters of governance and shareholder rights, shareholders should have the power to speak and the opportunity to effect change. That power should not be concentrated in the hands of a few for reasons other than economic stake.

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[155] CII Policies on Corporate Governance, 4.7.

[156] CII Policies on Corporate Governance, 3.3; ICGN Global Principles, Principle 9.

Nevertheless, multi-class share structures[157] are a longstanding feature of European capital markets. As such, so long as the share class with superior voting rights is publicly-listed or there is no evidence to suggest that the share structure is contributing to poor governance or the suppression of minority shareholder concerns, existing multi-class share structures are likely to be understood and accepted by most shareholders of European companies.

Adoption of a Multi-Class Share Structure

In the case that a board adopts a multi-class share structure, where the share class with superior rights is unlisted, in connection with an IPO, spin-off, or direct listing within the past year, the Benchmark Policy will generally recommend voting against the chair of the governance committee (or equivalent) or a representative of the major shareholder up for election if the board: (i) did not also commit to submitting the multi-class structure to a shareholder vote at the company's first shareholder meeting following the IPO; or (ii) did not provide for a reasonable sunset of the multi-class structure (generally seven years or less).[158] In cases where there are no board elections at the first general meeting following the listing, the Benchmark Policy may instead recommend that shareholders vote against another relevant proposal on the agenda (e.g. ratification of board acts).

Companies with an Existing Multi-Class Share Structure

Absent additional concerns, the Benchmark Policy will not recommend shareholder action solely on the basis of the existence of an established multi-class share structure. Nevertheless, where evidence exists that a company with a multi-class share structure is unresponsive to the concerns of minority shareholders, and the share class with superior rights is unlisted, the Benchmark Policy may recommend that shareholders vote against the re-election of the governance committee chair (or equivalent). This would include cases where a company with a multi-class share structure maintains poor governance practices relative to peers, or fails to respond to significant dissent from minority shareholders.[159]

Proposals to Unwind Multi-Class Share Structures

Because many investors believe that companies should have share capital structures that protect the interests of non-controlling shareholders as well as any controlling entity, the Benchmark Policy typically recommends that shareholders vote in favour of proposals to eliminate multi-class share structures. As part of its review of proposals to unwind multi-class share structures, the Benchmark Policy will analyse the impact on all equity holders of any financial compensation being offered to holders of shares with superior rights.

Shareholder Loyalty Initiatives

Many investors are opposed to measures that create different classes of shareholders or treat shareholders unequally. Some measures, such as granting loyalty dividends, bonus shares or warrants, or extra voting rights exclusively to long-term shareholders, are increasingly studied as acceptable methods of encouraging

[157] i.e., multiple classes of shares that have the same economic stake in a company but with different voting rights, or multiple classes of shares that have the same voting rights but differing economic stakes in a company. For the purposes of this policy, this does not apply to companies that have adopted shareholder loyalty initiatives in which all shareholders, having fulfilled certain conditions, are entitled to participate.
[158] ICGN Global Principles, 9.1 and 9.2.
[159] See the "Board Responsiveness" section of these guidelines.

shareholders to remain invested in a company for an extended period of time. While such loyalty incentives for shareholders may accomplish the intended effect of maintaining a stable shareholder structure and decreasing volatility, the benefit to shareholders of such measures has not been sufficiently proven by academic literature nor have the consequences been fully studied. As a result, the Benchmark Policy will generally recommend that shareholders oppose proposals to implement loyalty programmes for certain shareholders, since they unnecessarily create different classes of shareholders with disparate treatment.

Disclosure of General Meeting Vote Results

Many investors believe that companies should broadly and publicly disclose in a timely manner the vote results from general meetings.[160] Access to detailed vote results from general meetings is important for shareholders in conducting their stewardship duties. Specifically, the disclosure of vote results assists shareholders in gaining a better understanding of the outcome of general meetings, establishing engagement priorities, and tracking companies' responses to material (minority) shareholder dissent on any of the agenda items. The non-disclosure of vote results can serve to disenfranchise minority shareholders, particularly at companies with a multi-class share structure or a controlling shareholder.

In some European countries, listing regulations mandate the disclosure of vote results from general meetings. However, this disclosure has also become common market practice in other countries across the continent where disclosure is currently voluntary.

Accordingly, the Benchmark Policy will raise a concern in its board analysis at companies that do not disclose vote results from their previous annual meeting. In instances where companies listed on a major European blue-chip or mid-cap index did not disclose vote results from their previous annual meeting, the Benchmark Policy will generally recommend that shareholders vote against the re-election of the chair of the governance committee or equivalent (i.e. board chair or LID).

Rights of Shareholders to Call a Special Meeting

Many investors believe that they should have the right to call special meetings,[161] and this is protected by company law across Europe with a minimum legal share ownership threshold to exercise this right. In some European countries, a lower minimum share ownership to call a special meeting may be specified in a company's articles of association.

In reviewing proposals to set or amend the ownership threshold to call a special meeting, the Benchmark Policy will take into account local market practice and the recommendation of a company's management.

[160] CII Policies on Corporate Governance, 4.4.

[161] CII Policies on Corporate Governance, 4.2; ICGN Global Principles, 10.1.

Routine Items

In certain European countries, shareholders may be requested to vote on certain items at general meetings on a routine basis.

Transaction of Other Business

The Benchmark Policy typically recommends that shareholders not give their proxy to the board or management to vote on any other business items that may properly come before the annual meeting. Accordingly, the Benchmark Policy generally recommends that, where available, shareholders provide instructions to vote against any proposals that are not included in the meeting invitation.

Authority to Carry Out Formalities

As a routine matter, shareholders may be asked to grant management the authority to complete any and all formalities, such as required filings and registrations, needed to carry out decisions made at the meeting. Often, shareholders are also asked to approve the minutes. In general, the Benchmark Policy recommends voting for this proposal in order to help management complete the formalities necessary to validate the decisions made at the annual meeting, regardless of the voting recommendations pursuant to the Benchmark Policy on the proposals presented at the meeting.

Meeting Procedures

In many European markets, companies ask that shareholders approve the opening of the meeting, the appointment of a presiding chair and/or meeting delegates, the agenda, the voting list, the presentation of reports, management speeches, the closing of the meeting, and the meeting minutes, etc. These items are generally routine and do not have an impact on shareholders. In most cases, shareholder votes serve as an acknowledgment that the meeting was properly conducted, and all meeting procedures were met. As such, the Benchmark Policy always recommends voting for these items.

Shareholder Proposals

The Benchmark Policy seeks to promote governance structures that protect shareholders, support effective ESG oversight and reporting, and encourage director accountability. Accordingly, it places a significant emphasis on promoting transparency, robust governance structures and companies' responsiveness to and engagement with shareholders. As such it generally supports proposals that encourage transparency in how companies are mitigating material ESG risks, including those related to climate change, human capital management, and stakeholder relations. To that end, the Benchmark Policy evaluates all shareholder proposals on a case-by-case basis with a view to protecting long-term shareholder value. While it is generally supportive of those that promote board accountability, shareholder rights, and transparency, it considers all proposals in the context of a company's unique operations and risk profile.

For a detailed review of the Benchmark Policy approach to compensation, environmental, social, and governance shareholder proposals, please refer to the *Benchmark Policy Guidelines for Shareholder Proposals & ESG-Related Issues*, available at www.glasslewis.com/voting-policies-current/.

Capital Management

Increases in Capital

Adequate capital stock is important to a company's operation. European companies are authorised to increase share capital through several methods, which may or may not involve new share issues. In most jurisdictions, companies may request pre-authorisation from shareholders to issue new shares, or securities convertible into shares, under certain predefined conditions for a certain period of time. Companies may also seek approval of a share issue intended for a specific purpose.

General Authorities to Issue Shares and/or Convertible Securities

A general authority to issue shares, or to issue securities convertible into shares, is the most common way for European companies to seek shareholder approval for capital increases. Such authorities provide companies with the flexibility to issue equity at short notice without having to convene an extraordinary general meeting. Under this form of authorisation, companies are not required to detail a specific purpose or transaction for which the authority would be used, but are generally required to set and disclose at least i) the maximum amount of shares that may be issued; ii) the expiry date of the authority; iii) general conditions under which the authority may be utilised (including whether new shares may be issued during an actual or perceived takeover event); and iv) the extent to which new shares/convertible securities may be issued without preemptive rights.

While adequate authorisation to allow management to make quick decisions and effectively operate the business is critical, companies should not be provided with a blank cheque in the form of a large pool of unallocated shares available for any purpose.

With or Without Preemptive Rights[162]

In line with prevailing market practice in Europe, a company's general authorisations to issue shares and/or convertible securities should not cumulatively exceed 100% of its total issued share capital, of which the ability to issue shares and/or convertible securities without preemptive rights should not cumulatively exceed 10-20% of its total issued share capital, depending on established market best practice.

Where a company is seeking approval of multiple authorities at the same meeting, or has outstanding general issuance authorities that are not expiring or being replaced by the proposed authority, shareholders can reasonably expect a company to clearly disclose the extent to which all current and proposed authorities may be cumulatively utilised to issue new shares and/or convertible securities with and/or without preemptive rights. Where multiple authorities exist, best practice in Europe foresees the inclusion by a company of an explicit cap on maximum potential issuances with and without preemptive rights that applies across all current and proposed authorities.

[162] Please note that this policy does not apply to France, Italy, or the Netherlands. Please refer to the respective local market Benchmark Policy Guidelines for further information.

Where sufficient information is available, the analysis of proposed capital authorities will exclude outstanding authorities from the recommended limits outlined above to the extent that they have expired or already been utilised, or where an explicit cap limits their potential future usage. Further, where sufficient information is available, existing or proposed authorities to issue new shares for a specific purpose (e.g. a capital authority to service a specific disclosed transaction) or which are reserved for servicing equity programmes will also be excluded from the calculation.

On a case-by-case basis, the Benchmark Policy may recommend that shareholders support a general authority to issue shares or convertible debt in excess of the limits outlined above. Such exceptions are generally limited to companies with a clear and defined inorganic growth strategy and/or which are in a pre-revenue stage and highly dependent upon sources of external financing. In such cases, shareholders may reasonably expect companies that are requesting a general authority to issue shares or convertible debt in excess of generally accepted limits to provide clear strategic rationale.

Usage as a Takeover Defence

Provisions that are intended to prevent or thwart a potential takeover of a company are not conducive to good corporate governance and can reduce management accountability by substantially limiting returns for shareholders. As such, the Benchmark Policy generally recommends that shareholders vote against general authorities to issue shares and/or convertible securities where this authority may be used as a takeover defence.

In the case of companies that have a provision in their articles of association to allow for the usage of a capital authority during an actual or perceived takeover event, shareholders can reasonably expect clear disclosure on the existence of this provision in the terms of any proposed capital authorities.

Servicing Equity Programmes

In general, the Benchmark Policy recommends voting for authorities intended to conditionally service potential future obligations under existing director/employee equity or share purchase programmes. Where a company is seeking to renew an authority to issue new shares under a specific plan that is itself also being renewed, the proposal will be evaluated in line with the specified plan terms; please refer to the “Equity-Based Remuneration Plan Proposals” section of these guidelines for further information.

General authorities intended to service potential obligations under a variety of equity programmes, where a plan has not been specified, are reviewed on a case-by-case basis. In line with prevailing international practice, the Benchmark Policy generally recommends that shareholders vote against authorities that exceed 5% of a company’s total issued share capital for executive directors, and under 10% of issued share capital for all participants (if other employees are included). Exceptions may be provided to companies in a growth or pre-revenue stage when compelling rationale is presented.

Specific Authorities to Issue Shares and/or Convertible Securities

While not as common as general authorities, companies incorporated in most European jurisdictions may also seek shareholder approval of a direct issuance of shares and/or convertible securities for a specific purpose or transaction.

Mergers, Acquisitions, Refinancing, and Recapitalisation

Proposed capital authorities to finance a merger or specific acquisition, or those that seek to refinance or recapitalise a company, often exceed the recommended limits on maximum issuances with and/or without preemptive rights.

When a company seeks shareholder approval of a specific plan to issue shares with preemptive rights, the plan will be evaluated on a case-by-case basis. The Benchmark Policy will generally recommend that shareholders approve rights issues, even in excess of applicable recommended limits on issuances with preemptive rights,[163] when the following conditions are met: (i) the total number of shares to be issued, or intended proceeds of the issue, is reasonable; (ii) the price at which the shares will be issued is reasonable; and (iii) the intended uses of the proceeds from the issuance are sufficiently justified in light of the company's financial position and business strategy.

When a company seeks shareholder approval of a specific issuance of shares without preemptive rights that exceeds applicable recommended limits,[164] the proposal will be examined on a case-by-case basis in order to weigh the merits of the proposed plan against the dilutive effect to shareholders from the proposed share issuance.

Private Placements

The Benchmark Policy evaluates these proposals on a case-by-case basis. Shareholders can reasonably expect companies to provide a specific and detailed rationale for such proposals.

Capitalisation of Reserves, Profits, or Issue Premiums

The successive or simultaneous capitalisation (i.e., incorporation) of reserves, retained earnings or paid-in capital, resulting in the free allotment of shares and/or an increase in the par value of shares, is another method European companies may elect in order to increase their paid-in capital. In these cases, there is no risk of shareholder dilution. Decisions regarding such changes to a company's capital structure are best left up to management and the board, absent evidence of egregious conduct, and the Benchmark Policy will generally recommend that shareholders support related proposals.

Preference Shares and Additional Share Classes

Authorities that seek to implement, or would allow for, issuances of preference shares, the creation of a new class of shares, or the disproportionate increase of one class of shares vis-a-vis other share classes, are reviewed on a case-by-case basis with a focus on the rights of current shareholders.

The Benchmark Policy generally recommends voting against proposals where a new class of shares creates unequal or superior voting rights. When a company proposes to introduce or increase non-voting preference shares, the size of the potential issuance relative to current share capital and the rationale provided by the company for the proposal will be taken into account.

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[163] 100% of issued share capital, except for France (50%) and the Netherlands (20%).

[164] 20% of issued share capital, except for France (10% without a binding priority subscription period), Italy (10%), and the Netherlands (10%).

Where companies with multiple share classes are seeking approval of a general authority to issue shares, shareholders can reasonably expect clear disclosure regarding the proportionality in which new shares may be issued across these share classes.

Authorities to Meet Capital Adequacy Requirements

Exceptions to the thresholds for general or specific authorities to issue shares with or without preemptive rights outlined above are generally provided when a company explains that the capital increase is intended to meet capital adequacy requirements applicable to financial institutions established at international,[165] regional,[166] and/or national level.

European regulations note that contingent convertible instruments (CoCos) may be used to meet these capital requirements in certain instances.[167] The Benchmark Policy will generally recommend that shareholders support proposals to issue contingent convertible securities in cases where a company explains that the proposed issuance is motivated by consideration of these capital requirements.

Stock Split

When evaluating whether a proposed stock split is reasonable, the following is typically taken into account: (i) the historical pre-split stock price; and (ii) the current price relative to the company's average trading price over the past 52 weeks. In general, the Benchmark Policy recommends voting for these proposals when a company's historical share price is in a range where a stock split could facilitate trading, assuming the board has provided adequate justification for the proposed split.

Issuance of Debt Instruments

When companies seek shareholder approval to issue debt, the terms of the issuance, the requested amount and any convertible features, among other aspects, are taken into account. If the requested authority to issue debt is reasonable and there are no credible indications that the increase in debt will weaken the company's financial position, the Benchmark Policy will usually recommend in favour of such proposals.

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[165] The Basel Committee on Banking Supervision establishes minimum standards regarding bank capital adequacy under Basel III which apply to all "internationally active banks" in G20 countries

[166] In Europe, the European Commission incorporates Basel III recommendations into binding EU law through the Capital Requirements Directive (CRD IV) and its associated Regulation, which went into effect on January 1, 2014. The European Banking Authority (EBA) is tasked by CRD IV with overseeing implementation.

[167] CRD IV allows CoCos to be counted toward Additional Tier 1 capital, which must be written down or converted into Common Equity Tier 1 capital when the Common Equity Tier 1 capital ratio falls below a minimum level. The EBA further states that CoCos may be counted toward satisfying a company's Core Tier 1 ratio if they were issued before June 30, 2012 and they meet the specifications in the EBA's common termsheet for buffer convertible capital securities (BCCS). The EBA also notes that existing CoCos other than BCCS will not be counted toward the established target unless they were converted into Core Tier 1 capital by October 2012.

Authority to Repurchase Shares

A company may want to repurchase or trade in its own shares for a variety of reasons. A repurchase plan is often used to increase the company's stock price, to distribute excess cash to shareholders or to provide shares for equity-based remuneration plans for employees. In addition, a company might repurchase shares in order to offset dilution of earnings caused by the exercise of stock options.

The Benchmark Policy will generally recommend voting in favour of a proposal to repurchase company stock when the following conditions are met: (i) a maximum of 20% of the company's total shares may be repurchased, unless the company explicitly states that any shares repurchased above this 20% threshold will be held in treasury and cancelled; (ii) a maximum price which may be paid for each share (as a percentage of the market price) is set; and (iii) the share buyback may not be used as a takeover defence.

Authority to Cancel Shares and Reduce Capital

In conjunction with a share repurchase programme, companies often proceed to cancel the repurchased shares. When a company requires specific authorisation to cancel treasury shares, the Benchmark Policy generally recommends that shareholders vote for such proposals.

Overall Approach to Environmental, Social & Governance

The Benchmark Policy evaluates all environmental and social issues through the lens of long-term shareholder value. Shareholders are best served when companies consider material environmental and social factors in all aspects of their operations and when they are provided with disclosures that allow them to understand how these factors are being considered and how attendant risks are being mitigated. Governance is a critical factor in how companies manage environmental and social risks and opportunities and the Benchmark Policy is of the view that a well-governed company will be generally managing these issues better than one without a governance structure that promotes board independence and accountability.

Part of the board's role is to ensure that management conducts a complete risk analysis of company operations, including those that have financially material environmental and social implications. Companies can 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, the Benchmark Policy promotes companies taking necessary actions in order to effect changes that will safeguard shareholders' financial interests.

Given the importance of the role of the board in executing a sustainable business strategy that allows for the realisation of environmental and social opportunities and the mitigation of related risks, relating to environmental risks and opportunities, the Benchmark Policy seeks to promote 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 consider holding directors accountable. In such instances, it will generally recommend against responsible members of the board that are specifically charged with oversight of the issue in question.

When evaluating environmental and social factors that may be relevant to a given company, the Benchmark Policy does so in the context of the financial materiality of the issue to the company's operations. Companies in all industries face risks associated with environmental and social issues. However, these risks manifest themselves differently at each company as a result of its operations, workforce, structure, and geography, among other factors. Accordingly, the Benchmark Policy places a significant emphasis on the financial implications of a company's actions with regard to impacts on its stakeholders and the environment.

When evaluating environmental and social issues, the Benchmark Policy examines companies':

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 looks closely at relevant and proposed legislation and evaluates 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 companies to carefully evaluate the potential impacts of the public perception of their impacts on stakeholders and the environment. When considering investigations and lawsuits, the Benchmark Policy is mindful that such matters may involve unadjudicated allegations or other charges that have not been resolved. The Benchmark Policy will not assume the truth of such allegations or charges or that the law has been violated. Instead, it focuses more broadly on whether, under the particular facts and circumstances presented, the nature and number of such concerns, lawsuits or investigations reflects on the risk profile of the company or suggests that appropriate risk mitigation measures may be warranted.

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.

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