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Glass Lewis Issues Policy Updates for 2022

Glass Lewis recently issued its policy updates for 2022 on board diversity and selected compensation and environmental and social issues.

Glass Lewis has updated its proxy voting policies for U.S.-listed companies with regard to: (i) board diversity, and (ii) board oversight of environmental and social (E&S) risks. Glass Lewis has also clarified its policies on the following compensation matters: (i) linking executive pay to E&S metrics, and (ii) adjustments to financial results in determining incentive compensation.

Board Diversity

Glass Lewis has adopted the following policies related to board diversity requirements.

- **Board gender diversit**y. Glass Lewis will generally recommend voting **AGAINST** (i) the chair of the nominating committee of a board that has fewer than two woman directors and (ii) the entire nominating committee of a board that has no women directors at a Russell 3000 constituent company.

- **State laws on gender/underrepresented community diversity**. Glass Lewis will assess whether a company has complied with applicable state laws on board diversity.

  — *Mandatory board compensation requirement*s. Glass Lewis will recommend voting **AGAINST** directors serving on the nominating committee if a company fails to conform to mandatory board compensation requirements included in applicable state laws when they come into effect.[1]

  — *Non-binding board composition or board reporting requirements*. Glass Lewis ***will not*** recommend **AGAINST** directors on the basis of non-compliance with applicable state laws that: (i) do not mandate board composition requirements, or (ii) solely impose disclosure or reporting requirements in state annual filings.[2]

- **Stock exchange diversity disclosure requirements**. Glass Lewis will recommend voting **AGAINST** the chair of the governance committee of any company that does not disclose board diversity statistics prescribed under applicable stock exchange listing rules. The foregoing policy will be applicable for Nasdaq-listed companies holding annual meetings held after August 8, 2022.[3]

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[1] California mandates boards of foreign and domestic public corporations whose principal executive offices are located in California to include a specified number of woman members (effective 12/31/2019) and a specified number of individuals from underrepresented communities (effective 12/31/2021).

[2] Illinois, Maryland and New York have enacted state laws imposing board composition reporting requirements in state annual filings.

[3] Starting in 2022, companies listed on the Nasdaq stock exchange will be required to disclose certain board diversity statistics annually in a standardized format in the proxy statement or on the company's website. Nasdaq-listed companies are required to provide this disclosure by the later of: (i) August 8, 2022, or (ii) the date the company files its proxy statement for its 2022 annual meeting.

- **Disclosure of board diversity and director skill**s. As described below, Glass Lewis will evaluate the quality of an S&P 500 constituent company's disclosure related to board diversity and director skills.

  — Glass Lewis will rate how a company's proxy statement presents: (i) the board's current percentage of racial/ethnic diversity, (ii) whether the board's definition of diversity explicitly includes gender and/or race/ethnicity, (iii) whether the board has adopted a policy requiring women and minorities to be included in the initial pool of candidates when selecting new director nominees, and (iv) board skills disclosure. Such ratings will inform Glass Lewis's assessment of a company's overall governance and may be a contributing factor in its recommendations when Glass Lewis has identified additional board-related concerns.

  — Starting in 2022, Glass Lewis may recommend voting **AGAINST** the chair of the nominating and/or governance committee if a company exhibits particularly poor disclosure.

  — Starting in 2023, Glass Lewis will generally recommend voting **AGAINST** the chair of the nominating and/or governance committee if a company does not provide any disclosure of individual or aggregate racial/ethnic minority board demographic information.

Director Accountability for Risk Oversight Failures Related to Environmental and Social Issues

As described below, Glass Lewis will assess whether a company discloses board-level oversight of E&S issues.

- Glass Lewis will generally recommend voting **AGAINST** the governance committee chair of a company that fails to provide explicit disclosure regarding the board's role in overseeing E&S issues. This policy applies to only S&P 500 constituent companies.
- Glass Lewis will note as a concern in its proxy voting reports a company in the Russell 1000 index that does not provide clear disclosure concerning the board-level oversight of E&S issues.

Glass Lewis believes that companies should determine the best structure for the board-level oversight of E&S issues, which could be discharged by specific directors, the entire board, a separate committee or combined with the responsibilities of a key committee.

Compensation Matters

Glass Lewis clarified its policies on the following compensation matters.

- **Linking executive pay to E&S metrics**. Glass Lewis ***does not*** have a policy on whether a company should include E&S metrics in executive incentive plans. However, Glass Lewis expects any company that includes E&S metrics in an executive incentive plan to disclose the E&S metrics, performance targets and payout determinations.
- **Adjustments to financial results in determining incentive compensation**. Glass Lewis will consider adjustments to financial results in its assessment of the incentive's effectiveness at linking executive pay to company performance, and will assess the rationale for any such adjustments.

Meridian Comment. The Glass Lewis policy updates align with investor expectations on enhanced disclosures regarding board diversity and board oversight of E&S risks. We expect that investor concerns and investor engagement on board diversity will lead to: (i) changes in board composition to be more inclusive, and (ii) enhancements in company disclosure practices on demographic characteristics of individual directors. Glass Lewis's policy updates also largely codify how it has analyzed certain compensation matters.

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