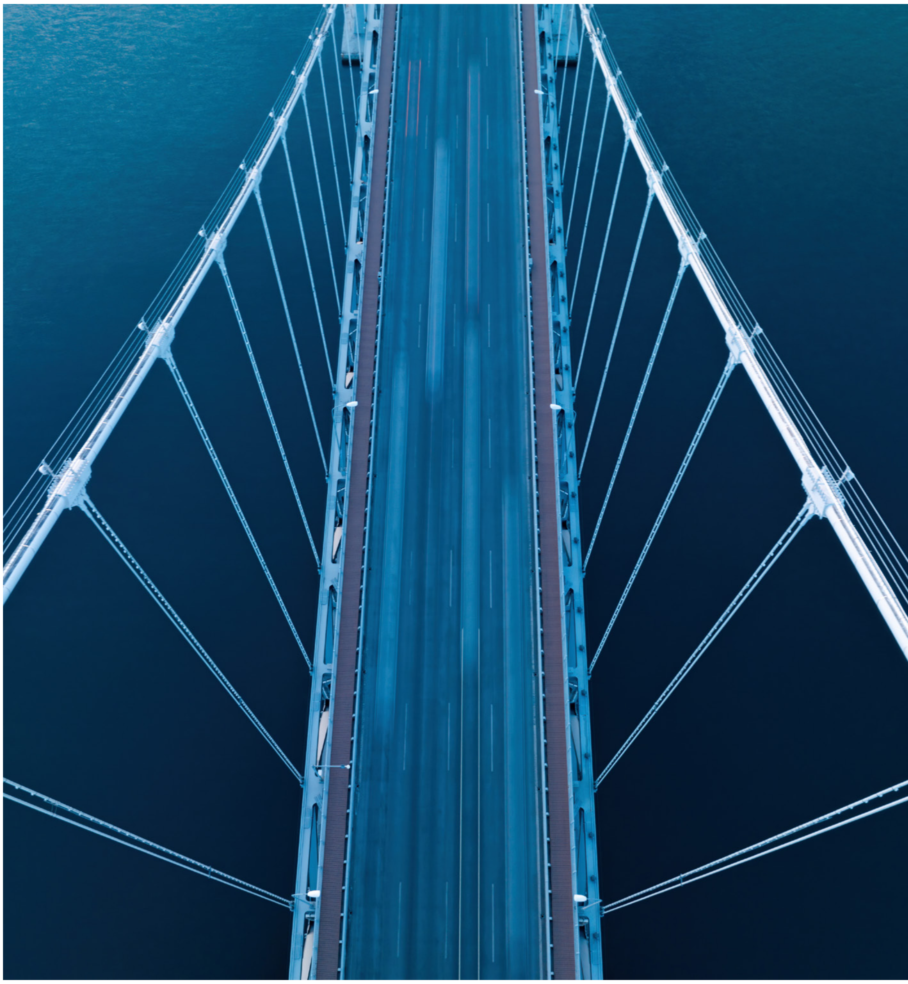
S&P Global
Market Intelligence

December 2024

2025 Proxy Advisors' Policy Updates – Europe

As the 2025 proxy season approaches, issuers across Europe must navigate meeting expectation from proxy advisors such as ISS, Glass Lewis, and IVOX to secure wide investor support at their annual general meetings. Proxy advisors have implemented tougher standards for virtual general meeting authorities, ramped up expectations surrounding AI risks and compensation, and clarified other procedural and editorial aspects of their policy.



ISS – Continental Europe & UK / Ireland

ISS has not yet published its final 2025 continental European guideline updates. This analysis is based on their proposed updates published for an open comment period. So far, the scope of changes appears limited.

Virtual general meetings (VGMs)

ISS has, in general, tightened the wording in its guidelines surrounding virtual general meetings.

It has largely retained its VGM evaluation approach but has added two factors that it will consider in 2025:

- Assurances that virtual-only meetings will **only be convened in the case of extraordinary circumstances** (and clarity on what circumstances would lead to a company choosing to hold a VGM).
- The use of past authorizations to hold virtual-only meetings and the accompanying rationale for doing so.

It appears that companies that have historically held virtual general meetings without strong reasons for doing so are at risk of receiving a negative recommendation from ISS when they submit their renewals this coming year without providing a compelling rationale.

A notable omission in the guidelines thus far is a reference to length of authorization. This is of particular interest in Germany, where issuers have submitted authorizations to hold VGMs for periods of up to five years. We expect ISS to likely be tough on companies that have held VGMs without strong reasons for doing so. However, companies that have held physical meetings in the past and clearly explain the circumstances for holding a VGM may see more leniency, both with respect to the authorization generally as well as the allowable length. This is likely because ISS has seen that these companies are operating in "good faith" and is willing to extend them additional flexibility.

Principles of remuneration by the Investment Association in the UK and Ireland

The Investment Association (IA) released updates to its principles of remuneration in October of 2024. Since ISS is informed by market best practice when assessing remuneration resolutions, it has updated its guidelines to reference the changes made in the guidelines. While the wording of some clauses has changed, such as guidance on benchmarking and encouraging "simple" remuneration systems, the main text of ISS guidelines for UK and Ireland remuneration analysis remains the same.

Issuers looking to understand how the changing IA guidelines may inform ISS' remuneration analysis can read ISS' reaction to the publication here. In general, the IA received feedback from issuers that attracting talent on an international playing field (particularly in competition with the US) was proving difficult and has changed its approach. Some key elements include softening the language around non-performance based RSPs, bonus deferral guidance, and total remuneration quantum. Given that ISS states that these principles "inform [their] approach to reviewing executive remuneration proposals for listed companies in the UK and Ireland" we expect some additional leniency in 2025, particularly around RSPs.

Miscellaneous changes – Auditor tenure in Europe and priority rights in France

ISS has also expanded its rule surrounding mandatory 10-year (or 20-year following a public tender after 10 years) auditor rotation, which was previously only applied in the European Union, to European countries. There will be a one-year grace period and this rule will formally apply in 2026.

The final change is a minor one regarding share issuances with binding priority rights in France. It's updating its classification of these issuances to be clearly "issuances with preemptive rights" in the policy guidelines. This is in effect only an editorial change as ISS policy application is not impacted.

Glass Lewis – Continental Europe & UK / Ireland

Board oversight of Artificial Intelligence

In line with our own survey of investors that highlighted it was a concern, there is now a formalized evaluation approach of board oversight of artificial intelligence in the Glass Lewis guidelines. For now, it looks like no actual voting sanctions will be applied based on these rules unless there have been material oversight-related issues during the year under review. Nevertheless, Glass Lewis is looking for boards to:

- Adopt strong internal AI risk management frameworks that include ethical considerations.
- Educate themselves through additional training.
- Assign key oversight competencies to specific directors or committees.
- Recruit directors with AI expertise.

Virtual general meetings

Glass Lewis has also changed its approach regarding virtual general meetings. At a minimum, they expect companies to disclose:

- When, where and how shareholders will ask questions during the meeting. GL also expects a timeline for submitting questions, details of types of admissible questions, and rules for how these will be disclosed to shareholders.
- Details about how these questions will be addressed by the board.
- Procedure and requirements to participate in the VGM.
- Technical support availability.
- How issuers have engaged with their shareholders to understand their meeting preferences.

Where companies do not provide this disclosure or hold virtual general meetings in a way detrimental to shareholder rights, Glass Lewis has announced it may target the re-election of members of the responsible committee (usually the governance committee), the board chair, or other item where dissent can be expressed, such as board discharge if the aforementioned factors are not disclosed.

While Glass Lewis still appears to support hybrid and in-person AGMs as their preferred mode of shareholder gathering, their guidelines overall appear to be less strict than ISS, requiring no commitment to only holding VGMs under "extraordinary circumstances."

Restricted shares and hybrid plans

Some companies, particularly in the UK, have transitioned from traditional performance share plans to restricted share plan. These plans are often, however, subject to a performance underpin. Glass Lewis has formalized its approach for how it assesses an issuer's decision to do so. They are generally skeptical of reducing links to performance but will evaluate these changes on a case-by-case basis taking into account the rationale provided by the board, structural elements, and, crucially, the discount on the previous award target value. They require that these plans have:

- A minimum vesting period of three years
- A part of the award allocated in equity or equity-based instruments subject to time-vesting restrictions.
- Quantitative underpin/gateway conditions for the deferred portion of the award.
- A strategic rationale.

Miscellaneous changes

Glass Lewis has noted they will generally support a company's auditor nomination for sustainability-based reporting provided there is sufficient information surrounding the identity, fees, performance, and independence of the proposed auditor.

There was also a change in policy targeting for nondisclosed audit fees. Previously Glass Lewis would recommend voting against the audit nomination item, they are now expanding their vote targeting to include the appointment of the chair or most senior member of the audit committee up for re-election.

Finally, a few other clarifying changes were included. Some key examples include mandating a clear rationale for increases to non-executive remuneration and recommend voting against a remuneration report where a large replacement award in cash / that is not subject to vesting conditions. It's important to note that these don't represent an actual change in policy application, merely a codification of what was already being applied in the guidelines.

IVOX - Germany

IVOX uses guidelines from the German Investment Funds Association (BVI) to execute its voting policy. The BVI updated its guidelines for 2025 in September 2024.

Stricter declaration of compliance criteria

German companies must disclose a statement of compliance with the German corporate governance code. IVOX has tightened its guidelines for this declaration. Previously, it was sufficient for companies to simply produce an error-free declaration of their compliance. IVOX now wants to be able to independently verify that these declarations are true, which means that the supporting documentation must be clearly available on the website.

New discharge sanctions

IVOX now requires joint long-term succession planning by the supervisory board and the management board. No specific form of disclosure is mandated in the guidelines.

It is merely stated that no disclosure will likely result in IVOX targeting the discharge of the relevant board.

IVOX also requires that supervisory boards larger than six members maintain nomination and compensation committees. Failure to do so will result in the targeting of the supervisory board discharge. Additionally, supervisory boards should ensure diversity in the management board.

Dividends

IVOX has removed mention of 20-100% of EPS from its policy and now simply requires companies to justify their dividend payouts. In practice, IVOX has already been applying their dividend policy in this way—it was rare for them to recommend voting against companies that didn't meet their formulaic dividend payout ratios as long as they explained why.

Compensation

There were some key changes for IVOX compensation evaluation. IVOX will now expect that key performance indicators across executives to be different based on their responsibility area; not all executives should share the same performance conditions.

To aid in their understanding of remuneration reports, they also expect, rather than encourage, that remuneration report disclosure is presented in the form of the sample tables included in the German Corporate Governance Code from February 2017. Germany is a market with comparatively little standardization of remuneration report disclosure, so in this sense it appears IVOX is trying to use its market position to encourage broader pushes towards standardization where it can.

Finally, IVOX expects companies to disclose a clear and transparently displayed peer group to aid in comparability between remuneration systems of differing issuers.

Virtual general meetings

IVOX has retained its (mostly tough) stance on companies looking to hold virtual general meetings. They will still target authorizations of longer than two years and that don't meet their significant disclosure requirements. This year, they've added one additional factor that they'll consider when assessing these authorization proposals: amendments must clearly state that management board cannot convene virtual general meetings without the consent of the supervisory board.

Say-On-Climate

While Say-On-Climate proposals have still only found limited resonance in Germany, the BVI has included criteria for its evaluation of them in its guidelines, nonetheless. Critical negative factors of a say-on-climate proposal are:

- Failure to disclose all relevant greenhouse gas emissions.
- Lack of dedicated and intermediate targets for reducing these emissions.
- Failure to report on any progress made on the climate action strategy.

CONTACTS

Email: corporategovernance@spglobal.com

Americas: +1 800 447 2273
Japan: +81 3 6262 1887
Asia-Pacific: +60 4 291 3600
Europe, Middle East, Africa: +44 (0) 134 432 8300

www.spglobal.com/marketintelligence
www.spglobal.com/en/enterprise/about/contact-us.html