



INDUSTRY INSIGHT

Policy Updates for Brazil in 2023: ISS and Glass Lewis

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Proxy advisors, Institutional Shareholder Services (ISS) and Glass Lewis, recently released their 2023 proxy voting policy updates for the Americas region. Consistent with the approach taken in other global markets, there is an increased emphasis on board accountability and greater willingness to oppose director elections for perceived failures in ESG risk oversight.

Below we summarize key policy updates specific to the Brazilian market.

ISS Policy Changes – Brazil

Board Climate Accountability

ISS is extending its climate board accountability policy globally after being adopted in 2022 for selected markets. The policy will continue to apply to high emitting companies, defined as the Climate Action 100+ Focus Group. There are currently only three Brazilian firms on this list: Petrobras, Suzano, and Vale. However, ISS is considering developing its own target group of high-emitting companies, so the list of applicable companies could be expanded in the future. ISS has sought comments on the criteria it should use and if certain industry sectors should be prioritized.

Under the policy, ISS will recommend against the board chair, or the entire board in the case of bundled director elections, if the company is not taking minimum steps to understand and mitigate climate-related risks. This includes adequately disclosing climate risk in alignment with the Task Force on Climate-related Financial Disclosures (TCFD) framework and having either medium-term or Net-Zero-by-2050 GHG emissions reduction targets for at least the company's operations (Scope 1) and electricity use (Scope 2).

Chair Accountability

ISS is removing its legacy carve-out for the board chair under its policy related to board independence. As such, in unbundled director elections, ISS may recommend against the election of the chair when the proposed board falls below the minimum independence level under its policy.

Combined Chair/ CEO

The ISS policy to recommend against the board chair when the nominee is also the CEO (against all directors in case of bundled elections) is now extending beyond companies on the differentiated corporate governance segments of the Sao Paulo Stock Exchange (B3) (Novo Mercado, Nivel 2, and Nivel 1) to those on all listing segments across the Brazilian market. In cases where (1) the company has been trading on the differentiated corporate governance segment for less than three years; and 2) the chair/ CEO was appointed on a temporary basis to fill a vacancy, ISS will take a case-by-case approach.



Management Compensation

For companies that report a non-executive director as its highest-paid administrator (i.e. larger than the highest executive compensation disclosed), ISS will recommend against the annual binding say-on-pay proposal. The policy has built in a one-year grace period and will apply for meetings taking place after Feb. 1, 2024.

The policy update also codifies ISS's existing practice of recommending against annual say-on-pay when there are governance concerns related to the company's compensation practices.

Glass Lewis Policy Changes – Brazil

Glass Lewis recently updated its voting policies for Brazil, which will apply to meetings taking place from January 1, 2023.

External Commitments

Glass Lewis updated its policy on director overboarding to indicate that directors will be considered overextended when: (1) serving as executive officers if they serve on more than one additional external public company board; (2) directors serving as “full-time” or executive member of the board while serving on more than two additional external public company boards; and (3) serving as non-executive director on more than five total public company boards. Glass Lewis will continue to count non-executive board chair positions as two board seats due to the time commitment associated with this role.



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