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## 2013 U.S. Proxy Voting Policies and Procedures

### Frequently Asked Questions

(Excluding Compensation-related Questions)

**December 20, 2012**

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## 2011 U.S. Policy, Procedures, and Proxy Voting Frequently Asked Questions (Excluding Compensation-related Questions) December 20, 2012

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## U.S. Research Procedures

### 1. Which U.S. companies does ISS cover?

The U.S. research team generally provides proxy analyses and voting recommendations for common shareholder meetings of publicly traded U.S. companies that are held in our institutional investor clients' portfolios. This generally includes corporate actions for common equity holders, such as written consents and bankruptcies. We cover investment companies (including open-end funds, closed-end funds, exchange-traded funds, and unit investment trusts), and business development companies. ISS reviews its universe of coverage on an annual basis, and the coverage is subject to change based on client need and industry trends.

The US research team also produces, for subscribing clients, research and recommendations for fixed income meetings, limited partnerships (“LPs”), master limited partnerships (“MLPs”), limited liability companies (“LLCs”), and certain preferred securities, including Auction Rate Preferred Securities (“ARPS”) and Variable Rate Municipal Term Preferred securities (“VMTPs”).

The U.S. research team also covers companies incorporated in non-U.S. countries if they file Def14As, 10-Qs, and 10-Ks, and are thus considered domestic filers by the SEC.

## **2. When are proxy analyses issued?**

U.S. proxy analyses are generally issued 13-25 calendar days before the shareholder meeting. The timing will depend on: the volume of meetings requiring coverage (e.g., during the U.S. proxy season of February to early June, delivery is closer to 13 days); complexity of the proxy and agenda items; contentiousness of the issues; engagement required; and how close to the meeting the proxy materials were issued. Proxy contest or contested merger analyses are often issued closer to the meeting than these general guidelines.

## **3. How can a company get a copy of its proxy analysis?**

All issuers can access the proxy analyses published by ISS on their companies without charge by accessing the Governance Analytics platform at <http://ga.isscorporateservices.com>. This platform also enables them without charge to verify the governance data collected for ISS' governance rating/scoring products. This is the best way to ensure timely receipt of the analysis, as an email notification is sent as soon as a new proxy analysis on the company is published. To obtain a login and password to Governance Analytics, please call 301-556-0570 or email [support@isscorporateservices.com](mailto:support@isscorporateservices.com). All requests for logins or login assistance will typically be responded to within one business day.

Significant time and resources were spent in creating the reports available on the platform and these reports are provided to issuers as a courtesy, subject to the following conditions: (i) the reports are only for the company's internal use by employees of the company, and (ii) the company is expressly prohibited from sharing the reports, profiles or login credentials with any external parties (including but not limited to any external advisors retained by the company such as a law firm, proxy solicitor or compensation consultant) or sharing the user id and password to the platform with any external parties.

For other parties who wish to purchase a proxy analysis, please contact our [Sales](#) group.

## **4. Can a company send the ISS proxy analysis to its shareholders or other parties?**

No. The information contained in any ISS Proxy Analysis or Proxy Alert may not be republished, broadcast, or redistributed without the prior written consent of ISS.

## **5. What happens if the proxy analysis contains a factual error?**

ISS strives to be as accurate as possible in our research and publications. Please check our Policy Guidelines and the FAQs concerning the issue; it generally is a matter of policy application rather than an error. If you do believe a report contains an error, please notify us as soon as possible at the [Research Helpdesk](#) (301-556-0576). If we agree that there is a material change required, we issue a "Proxy Alert" to our clients.

## **6. ISS has issued a negative vote recommendation on an agenda item. What can the company do to reverse it?**

See the FAQs related to the agenda item. (Please note that compensation-related agenda items are covered in a separate FAQ document than this one.) In them, ISS is providing the minimum disclosures needed to address issues raised in an analysis. ISS will not negotiate these minimum requirements needed to meet our voting policies.

This additional information must be publicly disclosed for ISS to respond: either in a filing with the SEC, or, if the company is not an SEC filer, a press release will substitute. The language filed does not need to follow the examples exactly; however, these examples specify the points that need to be covered in the disclosure, which may be phrased as each issuer sees fit. Although these "cures" have generally been accepted by ISS as sufficient solutions to the underlying issues, there may be circumstances, such as egregious actions, in which the indicated cures would not result in a vote recommendation change. Therefore, these are not guarantees of positive vote recommendations or reversals of negative vote recommendations.

ISS will, in its sole discretion, determine if new or materially changed publicly available information warrants an update to our analysis consistent with our policy. We do not proactively contact issuers seeking remediation of problematic governance practices; the onus is on issuers to take action in the best interests of their shareholders.

Please note that ISS does not review all documents as they are filed on Edgar. Companies should notify us when they have filed additional information if it is prior to the meeting date – please send a link to the filing to the [Research Helpdesk](#).

### ***7. How are corrections/changes to proxy analyses communicated and distributed to ISS clients?***

ISS sends "Proxy Alerts" to communicate corrections, updates, and vote recommendation changes to our clients. A proxy alert is structured as an overlay on top of the original analysis; the first few pages show the updated information and any related vote recommendation change, but the original analysis lies underneath, and will continue to reflect the original information. This allows our clients to see the original report and the changes in one document. Any subsequent alerts will be layered on top of the previous alert(s).

Proxy alerts are distributed to our institutional clients the same way our regular proxy analyses are distributed – through our ProxyExchange platform. Most of our clients give us their portfolio holdings so we can "attach" them to the company meeting. They will then receive through this platform all analyses and alerts on companies that are in their portfolios or that they have requested. Thus, the same clients who received the original analysis will receive the proxy alert.

### ***8. How close to the meeting can ISS issue a proxy alert and vote recommendation change?***

To ensure that all our institutional clients are able to review a change in our vote recommendation and act upon this information if they so choose, we generally will not issue a change to a vote recommendation closer than 5 business days before the meeting. This means that if a company is filing additional information with the SEC (or issuing a press release for non-SEC filers), ISS must be informed of this filing at least 5 business days before the meeting. For example, for a Thursday meeting, we will need to know of the filing no closer to the meeting than 5 p.m. Eastern the Thursday before (assuming no national holiday during that week.) Please send the link to the filing to the [Research Helpdesk](#). A voicemail left concerning the filing is not sufficient.

Any new information received closer than 5 business days before the meeting will be discussed in an informational alert if we deem it material to the analysis, but will not result in revised voting recommendations.

Under highly extraordinary circumstances, we may issue an alert to change a vote recommendation closer than 5 business days before the meeting.

## **Engagement with U.S. Research**

Please see the general [Engagement Section](#) of our website for more details.

### ***1. With whom does U.S. Research engage?***

ISS analysts engage with shareholders, corporate issuers, dissident shareholders, solicitors, sponsors of shareholder proposals, and other external parties when we believe that doing so will result in a higher quality research report for our clients. The purpose of such engagement is for ISS to obtain, or communicate, clarification about governance and voting issues, in order to ensure that our research and policy-driven recommendations are based on the most comprehensive and accurate information available. Sometimes these conversations are initiated by ISS, and sometimes they are initiated by the issuer or shareholder.

In contested situations, we consider it an important step in our research process to engage with both sides. (Occasionally, one side is unable or unwilling to speak with us.) Conversations may be held in person or via teleconference. Please contact [Marc Goldstein](#) (301-556-0447) if your company is facing a contentious situation (such as a proxy contest, or a "Vote-no" campaign), or you are a third party representing a company in a contentious situation, so conversations can be set up as soon as possible.

ISS will not engage for the purpose of lobbying for a favorable vote recommendation by the issuer.

## ***2. Can a company discuss its proxy, once filed, with the analyst?***

For non-contentious situations, it is the analysts' discretion whether they want to engage further with the company, and generally only do so to clarify points on which they have questions. So, we cannot guarantee that such a conversation will result. ISS analyses are based only on publicly disclosed information, and all the information needed for shareholders and analysts to make their decisions should be in the proxy.

Providing the Research Helpdesk with company contact information is very useful, so that, if the analysts have questions, they can quickly contact the company.

If there are particular points you want to be sure the analysts are aware of (for example, information relevant to a equity compensation plan that may be buried in a footnote, or corporate governance changes the company has undertaken), please send an email to the [Research Helpdesk](#) with the points outlined and the proxy page or other source noted – it will be put in the appropriate meeting folder so the analysts can review it when they are ready to do so.

Please note that any information presented as factual must be public, in the proxy statement or other filing, in order to be included in our research reports. To maintain the integrity of our [firewall](#), the Research Helpdesk staff will remove all references to the purchase of Corporate Services (ICS) products and services before forwarding emails to the Research analysts.

## **Drafts of Proxy Analyses**

### ***1. Can my company review the ISS analysis prior to publication?***

In the United States, only companies in the S&P 500 index will receive a draft report for fact-checking; however, within this group, ISS does not normally allow preliminary reviews of any analysis relating to any special meeting or any meeting where the agenda includes a merger or acquisition proposal, proxy fight, or any item that ISS, in its sole discretion, considers to be of a controversial nature (for example, a "vote no" campaign). This policy is intended to ensure the independence of our process and recommendations.

Drafts are sent only to S&P500 companies who elect to receive them, and sign up to do so in advance of proxy season. Please sign up using our [online form](http://www.issgovernance.com/USDraftReviewConfirmation2013) (<http://www.issgovernance.com/USDraftReviewConfirmation2013>).

### ***2. My company was recently added to the S&P 500. Are we eligible for the draft review process?***

For annual meetings occurring during U.S. proxy season (February through June), ISS uses the S&P 500 component list as of January 31. Following June 30 of each year, ISS updates its list to reflect changes to the index in real time. Companies added to the index after January 31 that hold their meetings prior to June 30 will be eligible for a draft review beginning the following year.

## Questions on ISS Proxy Voting Guidelines-General

### **1. *Whom should I contact with questions on U.S. policies?***

Please contact the Research Helpdesk: [USResearch@issgovernance.com](mailto:USResearch@issgovernance.com), 301-556-0576, with your questions.

### **2. *What can ISS tell us and not tell us about policies?***

ISS will try to clarify policy questions as much as possible. We cannot answer questions on hypothetical scenarios, and we cannot give definitive answers on how we will recommend on proxy items before we analyze the situation as presented in the proxy. If it is a question we cannot answer, we will let you know. If the question is of widespread interest, we will add it to these FAQs.

## Questions on Specific ISS Proxy Voting Guidelines/Policies

### Audit-Related

#### **1. *Why did ISS put the "Tax Fees" under "Other Fees"?***

ISS recognizes that certain tax-related services, e.g. tax compliance and preparation, are most economically provided by the audit firm. Tax compliance and preparation include the preparation of original and amended tax returns, refund claims, and tax payment planning. However, other services in the tax category, e.g. tax advice, planning, or consulting fall more into a consulting category. Therefore, these fees are separated from the tax compliance/preparation category and are added to the Non-audit fees. If the breakout of tax compliance/preparation fees cannot be determined, all tax fees are added to "Other" fees.

#### **2. *What disclosure is needed so that ISS will not add Tax Fees to Other Fees?***

Provide as a footnote to the audit fees table a breakout of the tax fees: those related to tax compliance and preparation fees, i.e. the preparation of original and amended tax returns, refund claims, and tax payment planning, vs. those related to all other services in the tax category, such as tax advice, planning, or consulting.

## Board of Directors

### Voting on Director Nominees in Uncontested Elections

#### **Board Accountability**

##### **1. *When does ISS apply the classified board structure policy?***

The classified board structure policy is: if a director responsible for a governance problem is not up for election due to a classified board, ISS will recommend withhold on all appropriate nominees. This policy is generally not applied if the director in question has a governance issue related only to him or herself, (e.g., poor attendance, overboarded, or is an Affiliated Outside Director serving on a key committee), unless the issue is considered egregious. It is applied when ISS would normally recommend withhold on all the members of a committee – e.g., the compensation committee for problematic pay practices or a pay for performance disconnect, or the audit committee for continued material weaknesses



in internal controls – and no one on the committee is a nominee on the ballot. The reason for this is that a classified board further entrenches management and prevents shareholders from holding the responsible individuals accountable.

***2. What modification must be made to a pill that has a dead hand provision to address an ISS withhold recommendation against all nominees for this issue?***

The amendment would need to eliminate all requirements in the Rights Agreement that actions, approvals, and determinations taken or made by the company's board of directors be taken or made by a majority of the "Continuing Directors" (sometimes also referred to as the disinterested directors).

***3. What modification must be made to a pill that has a slow hand (modified dead hand) provision?***

Sample language:

"The Agreement is hereby amended to remove the following sentence from the [ # of paragraph]: The Rights generally may not be redeemed for one hundred eighty (180) days following a change in a majority of the Board as a result of a proxy contest."

***4. What if the pill with a dead hand or slow-hand was approved by the public shareholders?***

Even if a pill has features that cause ISS to recommend against the adoption of the pill, if the pill is approved by shareholders (with a broad shareholder base, not a controlled company, not prior to IPO, etc.), then ISS will not recommend against the board. For example: Marina Biotech (MRNA) adopted a poison pill in 2010 that has a slow-hand, but it was approved by their broad shareholder base. ISS is not recommending against the board, as the pill was approved by shareholders.

***5. After what date does the policy regarding adoption or renewal of non-shareholder pills apply?***

ISS' current policy on pill adoptions applies to pills adopted/renewed after the date the policy was announced, which was Nov 19, 2009. The previous policy, for pills adopted after Dec 7, 2004, was to only recommend against the board only once for not putting it to a vote.

***6. Why does ISS review annually-elected boards and classified boards differently when they have adopted and continue to hold a poison pill without shareholder approval?***

There are 3 principles at work in this policy: 1) All poison pills should be put to a shareholder vote; 2) the term of a poison pill should be no longer than 3 years, so shareholders should be voting on a pill every 3 years; and 3) all board members should be held accountable for the adoption of the pill and for not putting the pill to a shareholder vote. So, for an annually-elected board, where all members can be held accountable at once; over the life of the pill, ISS recommends withhold every 3 years based upon the frequency we would have expected the pill to be brought to a shareholder vote and it wasn't. For a classified board, it takes 3 years just to hold all board members accountable, and then the 3- year cycle at which the pill should have been put to a vote starts again, thus, the recommendations against all nominees each year.

***7. What if a company adopts a poison pill before it is public?***

In the case of a newly public company, ISS will recommend withhold on the entire board if the pill is not put to a vote at the first annual meeting of public shareholders or if the company does not commit to putting the pill to a shareholder vote within 12 months following the IPO. In the following years, as long as the pill exists and is not put to a shareholder vote, the withholds recommendations will continue as described in the FAQ above depending on whether the board is annually elected or classified.

***8. What commitment language is ISS looking for concerning putting the poison pill to a binding shareholder vote?***

Sample language:

"On [date] the Board of Directors determined that it will either (i) include in its proxy statement for the Company's [next year's] Annual Meeting of Stockholders a proposal (the "Rights Plan Proposal") soliciting stockholder approval of the Company's existing stockholder rights plan, or (ii) repeal the stockholder rights plan prior to the [next year's] Annual Meeting. In the event that the Company elects to include the Rights Plan Proposal in the proxy statement, and the Company does not receive the affirmative vote of the holders of [voting requirement], then the Company will promptly take action to repeal the stockholder rights plan."

#### **9. How does ISS calculate "majority of votes cast"?**

For policies that utilize "shares cast" as the measurement (e.g. management say-on-pay proposals, majority-supported shareholder proposals, and majority withholds on directors), ISS uses: For/ (For + Against). Abstentions are not counted. The base the issuer uses to determine if a proposal passed is not used, as doing so would result in an inconsistent basis for looking at voting outcomes across companies.

#### **10. Why does ISS now consider hedging and pledging of company stock under its policy framework for the election of directors, rather than under the problematic pay practices policy?**

In considering new policy related to the significant pledging of company stock, ISS obtained market feedback from our policy survey, roundtables, comment letters, and other means. While shares that are used by executives or directors who engage in hedging or pledging transactions often have been acquired via compensation programs, many investors expressed the view that the board is specifically responsible for setting policies related to risks to shareholder value. Since both hedging and pledging raise such risks, ISS decided to move this aspect of the policy to the appropriate section, election of directors, where it will be evaluated under the Governance Failures framework.

#### **11. An executive has hedged company stock. How does ISS view such practice?**

Hedging is a strategy to offset or reduce the risk of price fluctuations for an asset or equity. Stock-based compensation or open market purchases of company stock should serve to align executives' or directors' interests with shareholders. Therefore, hedging of company stock through covered call, collar or other derivative transactions sever the ultimate alignment with shareholders' interests. Any amount of hedging will be considered a problematic practice warranting a negative vote recommendation against appropriate board members.

#### **12. How does ISS define a significant level of pledging of company stock?**

ISS' view is that any amount of pledged stock is not a responsible use of company equity. A sudden forced sale of significant company stock may negatively impact the company's stock price, and may also violate insider trading policies. In addition, share pledging may be utilized as part of hedging or monetization strategies that would potentially immunize an executive against economic exposure to the company's stock, even while maintaining voting rights. A significant level of pledged company stock is determined on a case-by-case basis by measuring the aggregate pledged shares in terms of common shares outstanding or market value or trading volume.

#### **13. An executive has pledged significant amount company stock as collateral. What is the potential impact on election of directors?**

In determining vote recommendations for the election of directors of companies who currently have executives or directors with pledged company stock, the following factors will be considered:

- Presence of anti-pledging policy that prohibits future pledging activity in the companies' proxy statement;
- Magnitude of aggregate pledged shares in terms of total common shares outstanding or market value or trading volume;
- Disclosure of progress or lack thereof in reducing the magnitude of aggregate pledged shares over time;
- Disclosure in the proxy statement that shares subject to stock ownership and holding requirements do not include pledged company stock; and

- Any other relevant factors.

#### ***14. Should an executive or director who has pledged a significant amount of company stock immediately dispose or unwind the position in order to potentially mitigate a negative vote recommendation?***

An executive or director who has pledged a significant amount of company stock should act responsibly and not jeopardize shareholders' interests. The aggregate pledged shares should be reduced over time, and the company should adopt a policy that prohibits future pledging activity, and disclose that in its proxy statement. Note that if the individual's aggregate pledged shares were to increase over time, a negative vote recommendation may be warranted despite the company's adoption of an anti-pledging policy.

### **Board Responsiveness**

#### **Majority-supported Shareholder Proposals**

##### ***1. What does ISS consider as "responsive" to majority-supported shareholder proposals?***

Responding to the shareholder proposal will generally mean either full implementation of the proposal or, if the matter requires a vote by shareholders, a management proposal on the next annual ballot to implement the proposal. Responses that involve less than full implementation will be considered on a case-by-case basis, taking into account:

- The subject matter of the proposal;
- The level of support and opposition provided to the resolution in past meetings;
- Disclosed outreach efforts by the board to shareholders in the wake of the vote;
- Actions taken by the board in response to its engagement with shareholders;
- The continuation of the underlying issue as a voting item on the ballot (as either shareholder or management proposals); and
- Other factors as appropriate.

For responsiveness based on the subject matter of the proposal, please see the specific subjects in the FAQs below.

##### ***2. When will ISS start applying the new policy of looking for a response to a shareholder proposal that received only 1 year of majority of share cast?***

ISS will start the application of this new policy of a one year of share cast standard on proposals received in 2013 (and thus look for the company's response in 2014). It will not be applied on proposals that received only one year of shares cast in 2012.

##### ***3. What is the policy that ISS will be applying on proposals received in 2012?***

The current policy will apply: Vote AGAINST or WITHHOLD from the entire board of directors (except new nominees, who should be considered CASE-BY-CASE) if:

- The board failed to act on a shareholder proposal that received the support of a majority of the shares outstanding the previous year; or
- The board failed to act on a shareholder proposal that received the support of a majority of shares cast in the last year and one of the two previous years.

##### ***4. Does the management recommendation on a management proposal in response to a majority-supported shareholder proposal matter?***

In general, the proposal should have a management recommendation of FOR. A recommendation other than a FOR, (e.g. "None" or "Against") will generally not be considered as sufficient action taken.

**5. *How does ISS treat the policy for ignoring majority supported shareholder proposals in the case where the proponent of a shareholder proposal is satisfied?***

ISS looks to the actions of the company in relation to the proposal that has been submitted. Shareholders are voting on the demands placed on the company pursuant to the language of the proposal. Therefore, if a proposal receives majority support from shareholders, then, in the absence of action taken on the proposal, the company would receive withhold/against recommendations from ISS regardless of whether or not the proponent is satisfied.

**6. *Declassify the Board Proposals: If the shareholder proposal specifies declassification in one year, is a phased-in transition over the next three years sufficient implementation?***

Although it is preferable to declassify as quickly as possible, in our [2010 policy survey](#), 64 percent of our institutional clients said that declassification over a phased-in term should be considered a sufficient response to the shareholder proposal, so ISS considers this a sufficient response. This approach allows current directors to serve their full elected terms. No action other than declassification is considered responsive to declassification proposals.

**7. *Independent Chair Proposals: is there any action short of appointing an independent chair that would be considered sufficient?***

Full implementation would consist of separating the chair and CEO positions, with an independent director filling the role of chair. A policy that the company will adopt this structure upon the resignation of the current CEO would also be highly responsive.

Lesser responses will be evaluated on a case-by-case basis, depending on the responses of shareholders obtained by the company's outreach, company's disclosure of the responses, and the facts and circumstances of the case. There are many factors that can cause investors to support such proposals, without necessarily demanding an independent chair. For example, through their outreach, a company may learn that shareholders are concerned about the lack of a lead director, or weaknesses in the lead director's responsibilities. In such a case, creating or strengthening a robust lead director position may be considered a sufficient response, assuming no other factors are involved. If the company already has a robust lead director position, then the company's outreach to shareholders to discover the causes of the votes and subsequent actions to address the issue will be reviewed accordingly.

**8. *Shareholder proposals on Majority Vote Standards: Is adoption of a "majority vote policy" considered sufficient?***

In general, adoption of a director resignation policy (sometimes called a majority vote policy) in lieu of a true majority vote standard is not considered a sufficient response. The "vote standard" is the standard which determines whether the director is an elected director: under a plurality vote standard, a director need only receive 1 vote to be "elected". Under a majority vote standard, a director needs a majority of the shares cast to be elected: if not achieved, and he is a new nominee, he does not join the board; if a continuing director, his legal status is a "holdover" director, not an elected director. The vote standard is usually in the company's charter or bylaws, and is included in the proxy statement. A "majority vote policy" is a confusing term sometimes used to describe a director resignation policy, which is the post-election process to be followed if a director does not receive a majority of votes cast. Such resignation policies are usually found in a company's corporate governance guidelines, and can accompany either a majority or a plurality vote standard. Such a policy alone is not the same as a true majority vote standard.

**9. *Right for shareholders to call special meetings: If the shareholder proposal specifies a threshold of 10 percent, but the company implements a higher threshold, or requires that only one shareholder must hold that amount, is that sufficient?***

In general: no. According to our [2010 policy survey](#), 56 percent of our institutional clients did not accept a higher threshold as a sufficient response. However, if the company includes disclosure of its outreach efforts to shareholders on the issue, and has an equity structure that indicates that a higher threshold is reasonable, a case-by-case approach will be taken.

**Case study:** Symantec received 2 years of a majority of shares cast on a proposal that called for 10 percent threshold (2011 and 2009). It previously had a 25 percent threshold, and in 2012, in response to the shareholder proposals, reduced the threshold to 15 percent. Given the equity structure of the company (one shareholder alone owned over 8 percent), the action taken was a sufficient response.

**10. *Right for shareholders to call special meetings: If the company gives shareholders the ability to call special meetings, but restricts the allowable agenda items, is that sufficient?***

In general: no. Restrictions on agenda items are the least palatable of restrictions placed on the right to call special meetings (71 percent of our institutional clients in our [2010 policy survey](#) said this was not sufficient implementation). The more common type of agenda restriction seen is to exclude any agenda items that were on the previous annual meeting agenda, or will be on the upcoming annual meeting agenda. Such a prohibition would prevent shareholders from calling a special meeting to elect a dissident slate, as the annual meeting agendas would include election of directors on the ballot.

**11. *Right for shareholders to act by written consent: Are there any restrictions on the right that are acceptable?***

Reasonable restrictions to ensure that the right to act by written consent could not potentially be abused are acceptable. In general, restrictions considered reasonable include:

- An ownership threshold of no greater than 10 percent;
- No restrictions on agenda items;
- A total review and solicitation period of no more than 90 days (to include the period of time for the company to set a record date after receiving a shareholder request to do so, and no more than 60 days from the record date for the solicitation process);
- Limits on when written consent may be used of no more than 30 days after a meeting already held or 90 days before a meeting already scheduled to occur; and
- A solicitation requirement that the solicitor must use best efforts to solicit consents from all shareholders.

Restrictions that go beyond these levels are examined in light of the disclosure by the company on its outreach to shareholders on what they consider reasonable, equity structure of the company, etc.

**Case study:** Amgen received 2 years (2010 and 2011) of a majority of shares cast of proposals calling for the right to act by written consent. It sought feedback from its shareholders, and in 2012 put on the ballot a management proposal discussing the shareholder feedback obtained and the procedural safeguards implemented in response to the feedback. Among these was a 15 percent ownership threshold, the same as their threshold to call special meetings. Although this threshold is higher than our preference, ISS considered these as actions taken in good faith by the board and as a sufficient response to the shareholder proposal. If any shareholders are unsatisfied with the actions by the company, they can always put forth another proposal calling for lower restrictions and thus gauge overall shareholder satisfaction.

**12. Reducing super-majority vote requirements on charter/bylaw amendments: If the proposal calls for reducing the vote requirement on charter/bylaw amendments to a majority of shares cast, and the company reduces it for most provisions, but not all, is that considered sufficient?**

In general, sufficient implementation would require that all provisions be reduced to the majority of shares cast. However, exceptions may occur. An example is where the supermajority applies only to a provision that would be antithetical to shareholders' rights, such as the ability to reclassify the board. Disclosure on which items were not reduced, and why, is key.

**13. Reducing super-majority vote requirements: If a shareholder proposal calls for reducing requirement to a majority of shares cast, and the company reduces the level to majority of shares outstanding rather than shares cast, is that considered sufficient?**

In general, reducing to the majority of cast is preferable: according to our 2010 policy survey, 55 percent of our institutional clients considered that a majority of shares outstanding in lieu of majority of shares cast would not be considered a sufficient response. However, ISS will take a case-by-case approach to this response; for example, if the company consistently uses a majority of outstanding standard for all voting items, including the implementation of both management and shareholder proposals, ISS will consider this sufficient. If state law does not allow a reduction to a majority of shares cast standard, with the lowest allowed a majority of shares outstanding, then of course that would suffice. Company disclosure on why a different standard than the one in the shareholder proposal was chosen is key.

Reducing the supermajority to a lower supermajority (e.g. 75 percent to 66.7 percent), would not be considered a sufficient response according to 71 percent our institutional clients surveyed.

**14. What if a shareholder proposal is antithetical to the rights of shareholders?**

Arguing that a proposal that received a majority of shareholder votes is antithetical to shareholders' interests, particularly at a widely held company, is a difficult proposition – it implies that shareholders are not acting in their own best interests. However, there are cases where majority-supported proposals go against the interests of minority shareholders, e.g. at controlled company AMERCO (2007, 2009-2012, subject to Nevada Court decisions on the matters). ISS obviously does not expect that companies will “act” on proposals contrary to the interest of all shareholders, particularly minority shareholders.

Likewise, ISS does not expect a company to act on a proposal invalidated by court rulings or state law. For example, there were majority-supported shareholder proposals on certain bylaw changes at Airgas in 2010 during their proxy fight with Air Products. The Delaware Supreme Court invalidated the bylaw changes; ISS would expect the company to act in accordance with the court rulings.

**Director(s) receives less than 50 percent of shares cast:**

**15. What happens if a director received less than a majority (50 percent) of votes cast in the previous year?**

If any director receives a majority of votes withhold/against him or her, ISS will recommend withhold/against the entire board the following year if all the underlying issue(s) causing the high level of opposition are not fixed.

**Director Independence**

**1. In the proxy analysis, why did ISS classify a director as an "affiliated outsider"?**

Please look at the "Affiliation Notes" under the Board Profile section of the proxy analysis. This will tell you the nature of the affiliation, and whether it is material under ISS' definitions. The material affiliations are shown in our Proxy Voting Guidelines under the Categorization of Directors table.

**2. *When ISS looks at whether a board is “majority independent,” whose definition of independence are you using?***

ISS is using our definition of “independent outside director” to determine if the board is majority independent.

**3. *What if the board is 50 percent independent outsiders and 50 percent insiders/affiliated outsiders?***

50 percent is not a majority. ISS would not consider this board majority independent.

**4. *What public commitment can a company make concerning adding an independent director (and thus making the board majority independent)?***

Sample language:

“We are conducting a director search in the exercise of due care for a candidate as soon as practicable following our Annual Meeting of Stockholders. Our new director will not only satisfy the independence requirements under the listing requirements, but will have no material connection to our Company (that is, no material financial, personal, business, or other relationship that a reasonable person could conclude could potentially influence boardroom objectivity) prior to being appointed to the Board. We commit to having this new director in place within no more than six months after the upcoming shareholder meeting.”

**5. *What steps can a company take to change a vote recommendation on an affiliated outside director serving on a key committee?***

For ISS to change its vote recommendation, either the director needs to step off the committee, or the material relationship causing the affiliation (e.g. professional relations with a firm associated with the director) would need to be terminated.

**6. *What disclosure can a company make concerning a non-independent director stepping off a committee?***

Sample language:

“As of [date no later than the upcoming annual meeting date], [Director Name] will resign as a member of the [Committee].”

**7. *What disclosure can a company make concerning the discontinuation of the purchase of services from an affiliated director’s firm, thus making the director independent?***

Sample language:

“Effective [today], the Company will no longer purchase services from the [service provider] as long as [affiliated Director] serves on the Company’s Board of Directors.”

Please note this disclosure will not change the classification of the director if the fees are sufficient to trigger the look-back period under the company’s listing standards. (ISS is not going to classify a director as independent when the board is unable to do so.)

**8. *How does the definition of affiliation differ in ISS’ standards for professional vs. transactional relationships?***

Both are derived from the definition of affiliation in NASDAQ Rule 5605—but the affiliation under professional services is more strict: a director (or immediate family member) only has to be an employee of the organization providing the professional service, as opposed to an executive officer in the case of a transactional relationship for him to be considered affiliated.

#### ***9. Are insurance services considered professional or transactional?***

Insurance services are considered professional services unless the company explains why such services are not advisory. These services are frequently advisory in nature, involve access to sensitive company information, and have a payment structure that could create a conflict of interest. Commissions or fees paid to a director (or to an immediate family member or an entity affiliated with either the director or the immediate family member) are an indication that the relationship is a professional service. The case where a company has an insurance policy with and pays premiums to an entity with which one of the company's directors is affiliated will be considered a transactional relationship. However, the burden will be on the company to explain why the service is not advisory.

#### ***10. Are information technology services considered professional or transactional?***

Information technology (IT) services are generally considered professional services unless such services are tech support. Although tech support could be considered advisory in nature, generally the provision of such services is tied to a previous transactional relationship, typically a purchase of hardware or software. The provision of tech support does not involve strategic decision-making or a payment structure which could create a conflict of interest.

#### ***11. Are marketing services considered professional or transactional?***

Marketing services are considered professional services unless the company explains why such services are not advisory. Certain types of marketing services could reasonably be considered advisory in nature, involving access to sensitive company information or to strategic decision-making, such as: market research, market strategy, branding strategy, and advertising strategy. Other marketing services, such as the sale of promotional materials, sponsorships, or the purchase of advertising, are transactional in nature. However, the burden will be on the company to make the distinction.

#### ***12. Are educational services considered professional or transactional?***

Educational services are generally considered to be transactional in nature. Educational services are typically not advisory and do not generally involve access to sensitive company information or to strategic decision-making.

#### ***13. Are lobbying services considered professional or transactional?***

Lobbying services are considered professional services. These services are advisory in nature and have a payment structure that could create a conflict of interest.

#### ***14. Are executive search services considered professional or transactional?***

Executive search services are generally considered professional services. These services are advisory in nature and have a payment structure that could create a conflict of interest. Lower level employment services may be considered transactional, depending on the disclosure.

#### ***15. Are property management and real estate services considered professional or transactional?***

Property management and real estate services will generally be considered professional services. These services are advisory in nature and have a payment structure that could create a conflict of interest.

#### ***16. What happens when the company provides professional services to the director or an entity associated with the director?***

In the case of a company providing a professional service to one of its directors or to an entity with which one of its directors is affiliated, the relationship is considered transactional rather than professional. Since neither the director nor the entity with which the director is affiliated is receiving fees for the service, there is no direct financial tie which could compromise that director's independence.



### **17. How does ISS assess the terms of voting agreements or "standstill" agreements that arise from issuers' settlements with dissenting shareholders?**

In addition to the classification of any directors that the dissident shareholder may have placed on the board pursuant to our Director Independence policy and section 2.15 of our Categorization of Directors table, ISS will examine the terms of the standstill agreement and any other conflicting relationships or related-party transactions and, pursuant to our Board Accountability policy, may issue negative recommendations affecting the reelection of Nominating Committee members if we deem any terms of or circumstances surrounding the agreement to be egregious.

## **Director Competence**

### **1. What are the disclosure requirements on director attendance?**

For exchange-listed companies, the SEC requires the following disclosure:

Item 407(b) *Board meetings and committees; annual meeting attendance*. (1) State the total number of meetings of the board of directors (including regularly scheduled and special meetings) which were held during the last full fiscal year. Name each incumbent director who during the last full fiscal year attended fewer than 75 percent of the aggregate of:

- i. The total number of meetings of the board of directors (held during the period for which he has been a director); and
- ii. The total number of meetings held by all committees of the board on which he served (during the periods that he served).

<http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=dff06bb8466f3e795de4ae8e3255ceb6&rgn=div8&view=text&node=17:2.0.1.1.11.5.31.7&idno=17>

### **2. What if the company is not listed on an exchange – what attendance disclosure is needed?**

Institutional investors expect similar attendance disclosure for non-listed companies as for listed companies.

### **3. What if there is no attendance disclosure?**

Under the regulations, disclosure is only needed if a director attended less than 75 percent of the aggregate of his/her board and committee meetings for the period he/she served. Therefore, no disclosure would mean that all directors met the attendance threshold. Many companies will include in their proxies a positive statement that all directors met the threshold, but it is not required.

### **4. What boards does ISS count when looking to see if a director is overboarded?**

We include: publicly-traded companies (including non-U.S. companies) and mutual fund families. We do not include: non-profit organizations, universities, advisory boards, and private companies. Mutual funds are rolled up to mutual fund families, with one family counting as one board. Also, if service on another board is a required duty of the officer (e.g., as part of a joint marketing agreement), that board will not be counted.

### **5. How are subsidiaries of a publicly-traded company counted?**

Starting in 2013, ISS is no longer going to count publicly traded subsidiaries owned 20 percent or more by the parent as one board with the parent company. Rather, all subsidiaries with publicly-traded stock will be counted as boards in their own rights. (Subsidiaries that only issue debt are not counted.)

### **6. At which boards will an overboarded CEO receive a withhold recommendation from ISS?**

ISS will not recommend against a CEO at his own board, only at his outside boards. CEOs of companies with subsidiary companies will not receive a withhold recommendation at the parent company nor at any subsidiary controlled by the company (with control meaning 50 percent ownership in the subsidiary), but will at subsidiaries with ownership below this threshold.

### **7. Is the CEO of a private company subject to the policy on overboarded CEOs?**

No. This policy is only applied to public-company CEOs.

### **8. Does the overboarded CEO policy apply to an interim CEO?**

No. There is no expectation that a director who steps in as interim CEO to fill the gap should drop his or her other boards for this short-term obligation.

### **9. Does ISS take into account if a director is transitioning off one board soon?**

Yes. If the information is publicly disclosed that a director will be stepping off another board at the next annual meeting of that company to accommodate taking a place on a new board, ISS will not consider that board in determining if the director is overboarded.

## **Shareholder Rights & Defenses**

### **1. Poison pills: What features of a qualifying offer clause are considered to strengthen its effectiveness and what features are considered to weaken its effectiveness?**

Attributes of a qualifying offer clause that strengthen its effectiveness as a tool for shareholders include:

- Provision of a material adverse effect/condition ("MAE") clause;
- Reasonable requirements with respect to the length of time an offer is outstanding:
  - Offeror is not required to keep the offer open longer than 60 business days in the absence of an MAE clause or 90 business days if there is an MAE clause, and
  - No more than 15 business days following a price increase or an alternative bid or tender offer);
- Reasonable overall timing requirements with respect to the mechanics of calling a special meeting to vote on redemption of the pill (no longer than 150 business days from the time an offer is made until the time a special meeting is held).

Attributes of a qualifying offer clause that weaken its effectiveness and potentially discourage offers from being made include:

- A requirement that the offer be cash only;
- A provision allowing the company to declare an offer to not be a qualifying offer if the company procures an inadequacy opinion;
- A reverse due diligence requirement; and
- A requirement specifying the level of premium.

## **Capital/Restructuring**

### **1. Under the Capital Structure Framework, what are ISS' allowable increases?**

ISS will apply the relevant allowable increase below to requests to increase common stock that are for general corporate purposes (or to the general corporate purposes portion of a request that also includes a specific need):

- Most companies: **100 percent** of existing authorized shares

- Companies with less than 50 percent of existing authorized shares either outstanding or reserved for issuance: **50 percent** of existing authorized shares
- Companies with one- and three-year total shareholder returns (TSRs) in the bottom 10 percent of the U.S. market as of the end of the calendar quarter that is closest to their most recent fiscal year end: **50 percent** of existing authorized shares
- Companies at which both conditions (B and C) above are both present: **25 percent** of existing authorized shares

If there is an acquisition, private placement, or similar transaction on the ballot (not to include equity incentive plans), the allowable increase will be the greater of (i) twice the amount needed to support the transactions on the ballot, and (ii) the allowable increase as calculated above.

## 2. *Are my company's one- and three-year TSRs in the bottom 10 percent of the U.S. market?*

The reduced allowable increase applies to companies whose one- and three-year TSRs are both below the applicable thresholds below:

<b>Most Recent Fiscal Year End</b>	<b>One-Year TSR</b>	<b>Three-Year TSR</b>
Feb. 15, 2011—May 14, 2011	-56.10%	-58.10%
May 15, 2011—Aug. 14, 2011	-53.70%	-55.70%
Aug. 15, 2011—Nov. 14, 2011	-64.70%	-55.30%
Nov. 15, 2011—Feb. 14, 2012	-71.40%	-48.10%
Feb 15, 2012—May 14, 2012	-67.50%	-41.80%
May 15, 2012—Aug. 14, 2012	-68.90%	-48.90%

The universe used for the "U.S. market" is the \$C set in Standard & Poor's Research Insight product. To calculate these thresholds, we remove from the set any companies that do not have both one- and three-year TSRs.

## 3. *When does ISS deem a risk of non-approval to be "specific and severe"?*

Issuers should disclose any risks associated with shareholders' failure to approve a capitalization proposal in the proxy statement. The types of risks that may influence vote recommendations by virtue of being "specific and severe," if disclosed in the proxy statement, are as follows:

- In or subsequent to the company's most recent 10-K filing, the company's auditor raised substantial doubts about the company's ability to continue as a going concern;
- The company states that there is a risk of imminent bankruptcy or imminent liquidation if shareholders do not approve the increase in authorized capital; or
- A government body has in the past year required the company to increase its capital ratios.

## 4. *When will an issuer's past use of shares drive vote recommendations?*

If, within the past three years, the board adopted a poison pill without shareholder approval, repriced or exchanged underwater stock options without shareholder approval, or placed a substantial amount of stock with insiders at prices substantially below market value without shareholder approval, ISS will typically recommend that shareholders vote against the requested increase in authorized capital on the basis of imprudent past use of shares.

## 5. *What disclosure is required to "declaw" preferred stock?*

Sample Language:

"The board represents that it will not, without prior stockholder approval, issue or use the preferred stock for any defensive or anti-takeover purpose or for the purpose of implementing any stockholder rights plan."

Note: The questions and answers in this FAQ document are intended to provide high-level guidance regarding the way in which ISS' Global Research Department will generally analyze certain issues in the context of preparing proxy analyses and vote recommendations for U.S. companies. However, these responses should not be construed as a guarantee as to how ISS' Global Research Department will apply its benchmark policy in any particular situation.