



An MSCI Brand

2011-2012 Policy Survey Summary of Results

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Institutional Shareholder Services Inc.

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About the Survey

For the past eight years, ISS has sought feedback on emerging corporate governance issues as a critical component of its annual policy formulation process. ISS seeks input from both its institutional investor clients and the corporate issuer community, in order to get a better understanding of the breadth of financial market views on a range of topics including boards of directors, shareholder rights, and executive compensation/remuneration.

This year's survey was conducted from July 6, 2011, through Aug. 26, 2011. ISS' institutional investor clients, as well as a broad global contact list of corporate issuers, were invited to participate in an online survey covering corporate governance developments worldwide. Issuers and investors completed the same survey.

More than 335 total responses were received. A total of 138 institutions responded. Approximately 63 percent of investor respondents were located in the United States, with the remainder divided between U.K., Europe, Canada, and Asia-Pacific. 197 corporate issuers responded, with 81 percent of them located in the United States and the remainder divided between U.K., Europe, and Canada.

Institutions-Category	
Alternative asset management	1%
Commercial or investment bank	1%
Custodian bank	2%
Foundation/endowment	3%
Government- or state-sponsored pension fund	12%
Insurance company	5%
Investment manager or asset manager	59%
Investor industry group	1%
Labor union-sponsored pension fund	3%
Mutual fund or mutual fund company	9%
Private bank/wealth management/brokerage	3%

Size of Organization*		
	Institutions	Issuers
Over \$10 billion	64%	34%
\$5 billion - \$10 billion	7%	12%
\$1 billion - \$5 billion	18%	30%
\$500 million - 1 billion	4%	11%
Under \$500 million	7%	14%

*For institutions, size is measured by equity assets under management or assets owned (in U.S. dollars); For issuers, size is measured by market cap (in U.S. Dollars)

Key Findings

Top Governance Issues

Executive compensation continues to be an American issue for a second straight year. Only for North America, a majority of both investor (60 percent) and issuer respondents (61 percent) cite the perennial issue of executive compensation as one of the top three governance topics for the coming year, similar to last year's survey results.

On a global basis, investor respondents focused on board independence. Across every region, board independence was identified among the three most important governance topics by approximately 40 percent of investor respondents.

Issuers focus on risk oversight in North America and Europe. For issuers, the second most commonly cited topic in North America was risk oversight. In Europe, risk oversight was commonly cited along with board competence.

Engagement

Engagement between issuers and investors remains strong. A majority of investor respondents (57 percent) indicated more engagement activity with issuers in 2011. Regarding engagement activity with institutional shareholders, issuer respondents almost equally cited "about the same as in 2010" and "more engagement in 2011."

Director Qualifications

Director's recent experience a key issue when evaluating board nominees. When evaluating director nominees, a director's recent industry/sector experience was cited as either "relevant" or "very relevant" by most investor respondents. For issuer respondents, this was the only category of information that received a strong majority (61 percent) for "very relevant."

Other categories that strongly appeared relevant to both investor and issuer respondents include director biographic information; performance of companies where director serves (or served) on boards; and governance track record for firms where directors serves (or served) on boards.

As indicated by both issuer and investor respondents, ISS recommendations at other public companies where the director serves and whether directors were subject to continuing boardroom education were least relevant when evaluating director nominees.

ES&G Issues

Environmental, social, and governance issues are significant for a second straight year. Similar to last year's survey results, a strong majority of both investor and issuer respondents indicated that a company's performance regarding ES&G factors can have a significant impact on long-term shareholder value.

U.S. Compensation Practices

Pay levels relative to peers and a company performance's trend are relevant for both investor and issuer respondents when determining pay for performance alignment. When determining whether executive pay is aligned with company performance, an overwhelming majority of investor respondents considered both pay that is significantly higher than peer pay levels and pay levels that have increased disproportionately to the company's performance trend to be very relevant. Most issuer respondents, on the other hand, shared a similar sentiment with that of investors, but appeared to tone down the response by indicating both of these factors to be "somewhat relevant."

Discretionary annual bonus awards can sometimes be problematic: investor and issuer respondents agree. A majority of investor respondents (57 percent) and 46 percent of issuer respondents agreed that discretionary annual bonus awards (i.e., those not based on attainment of pre-set goals) to be sometimes problematic if the awards are not aligned with company performance.

Investor and issuer respondents diverge on opposition levels to a say-on-pay vote that should trigger a board response to improve pay practices. The most commonly cited level of opposition on a say-on-pay proposal that should trigger an explicit response from the board regarding improvements to pay practices is "more than 20 percent" for investor respondents (36 percent) and "more than 50 percent" for issuer respondents (48 percent). However, on a cumulative basis, 72 percent of investor respondents and 52 percent of issuer respondents indicate that an explicit response from the board regarding improvement to pay practices should be made at opposition levels at "more than 30 percent" and "more than 40 percent," respectively.

Less appetite from investor respondents in taking into account positive factors to mitigate cost of an equity plan. Responses from investor and issuer respondents varied as to whether positive factors (above median long-term shareholder return; low average burn rate relative to peers; double-trigger CIC equity vesting; reasonable plan duration; robust vesting requirements) mitigate an equity plan where shareholder value transfer (SVT) cost is excessive relative to peers. Most investor respondents were reluctant to indicate that any of those factors would "very much" mitigate the cost. For certain factors, e.g., above median long-term shareholder return and low average burn rate relative to peers, there was a strong showing from issuer respondents that these factors should "very much" be taken into account to mitigate the cost.

On the flip side, where SVT cost is not excessive and whether negative factors (liberal CIC definition with automatic award vesting; excessive potential share dilution relative to peers; high CEO or NEO "concentration ratio"; automatic replenishment; prolonged poor financial performance; prolonged poor shareholder returns) weigh against the plan, a majority of investor respondents indicated all of the factors, with the exception of high CEO/NEO "concentration ratio," should "very much" weigh against the plan. Of all of these factors, a vast majority of investor respondents (73 percent) cited prolonged poor financial performance and prolonged poor shareholder returns.

While it did not appear that issuer respondents were emphatic about these factors weighing against the plan, a majority of the issuer respondents indicated that liberal CIC definition with automatic award vesting, excessive potential share dilution relative to peers, and automatic replenishment ("evergreen funding") should "somewhat" weigh against the plan.

Investors indicate post-IPO equity plans seeking Section 162(m) tax deductibility should be evaluated under same guidelines as a standard equity plan. According to a vast majority of investor respondents (80 percent), equity plans coming to a shareholder vote for the first time after an IPO (in order to qualify for Section 162(m) tax deductibility) should be evaluated under the same guidelines as a "standard" equity plan, even if no new shares are requested. While 59 percent of issuer respondents disagreed, a substantial minority (41 percent) shared the same view with investor respondents.

"Single-trigger" equity vesting in the context of equity plans elicits differing views from issuer and investor respondents. An overwhelming majority of investor respondents do not consider automatic accelerated vesting of outstanding grants upon a change in control or accelerated vesting at the board's discretion after a change in control to be appropriate. The vast majority of issuer respondents disagree, and consider both scenarios appropriate. However, both issuer and investor respondents agree that accelerated vesting in certain circumstances after a change in control (e.g., if awards are not converted or replaced by a surviving entity) are appropriate.

U.S. Board Issues

Pressure from investor respondents for independent board leadership remains strong. Seventy percent of investor respondents indicated that companies should adopt a policy of appointing an independent chair *after* the current (combined) CEO/chair leaves the position. A substantial majority of issuer respondents disagree, with 73 percent indicating that companies should not commit themselves to an independent chair.

Certain restrictions on shareholders' ability to call special meetings and act by written consent may be acceptable for shareholders. Regarding the question on whether various types of restrictions (notice, inclusiveness, timing, content, and ownership) on shareholders' ability to act by written consent are appropriate for an issuer to adopt in response to a majority-supported shareholder proposal on this topic, 57 percent (includes response percentage for "all of the above") of investor respondents indicated that notice restrictions were appropriate. In the same scenario, a vast majority (89 percent) of issuer respondents agreed. Relative to the other types of restrictions, content restrictions was least chosen as appropriate from both issuer and investor respondents.

Regarding a "net-long" restriction on the right to call special meetings (whereby a shareholder or group of shareholders must hold the requisite ownership threshold in a net-long position), a vast majority of both investor and issuer respondents indicated that this type of restriction would not raise board responsiveness concerns.

U.S. ES&G Issues

Investor respondents focus on corporate political spending. More than half of the investor respondents consider the various types of contributions of corporate funds for political purposes including direct contributions, contributions to trade associations, or payments made for grassroots lobbying as either "critical" or "important" to their organization. Furthermore, more than half of investor respondents also indicated that political spending-related disclosure, policies, and practices are either "critical" or "important."

U.S. Shareholder Rights and M&A

Governance provisions carry weight for shareholders when evaluating reincorporation proposals. A substantial minority of investor respondents indicated that a company classifying its board and raising vote requirements for amending charter/bylaws and approving mergers could potentially outweigh the economic benefits, as a result of changing its state of incorporation.

Shareholders want the right to vote on stock-based transactions. Three-quarters of investor respondents indicated that it is not acceptable for a board to circumvent a shareholder vote on the merits of a stock-based transaction. This refers to a scenario whereby a board declines to put a +20-percent acquisition up for shareholder vote, and instead, unilaterally grants convertible instruments to the target and subsequently puts the conversion of the instruments to a shareholder vote, with severe risks of non-approval attached.

Europe

Remuneration disclosure practices a focal point. Overall responses from both investor and issuer respondents suggest that practices in disclosing remuneration for individual members of management broken down by category, performance criteria, and potential payout levels for CEO/senior executive bonuses, relative weighting of bonus performance targets for CEO/senior management, performance targets for long-term equity awards, and severance/change in control terms in executive contracts are all important in understanding and assessing a company's remuneration practices.

Moreover, a majority of investor respondents cited disclosure practices in the areas of remuneration of the individual members of group management, broken down by category (e.g., base, fixed, LTIP, pension); performance criteria for CEO/senior executive bonuses; and performance targets for long-term equity awards as "critically" important in their ability to assess a company's remuneration practices. A significant minority of issuer respondents consider these disclosure practices to be important.

Support for a limit on average annual burn rate that assesses a company's use of equity remuneration over time gains some interest from investors. While a specific definition of an appropriate limit on average annual burn rate is unclear (41 percent indicated no opinion), the concept of such limit appears to be supported by a majority of investor respondents (58 percent). Only one percent of investor respondents do not support a burn rate. When excluding the percentage of respondents indicating "no opinion," 58 percent of investor respondents indicated that a limit should be based on a combined assessment of practices in the same local market and of European companies in the same sector. For issuer respondents, only 22 percent indicated that they did not support a burn

rate, and none of the issuer respondents selected a limit based on a combined assessment of practices in the same local market and of European companies in the same sector.

Disclosure of specific use of proceeds and benefit to shareholders in connection with general-purpose share issuance requests may support the waiver of preemptive rights. An overwhelming majority (77 percent) of both investor and issuer respondents, indicated that a specific statement on use of proceeds and benefits to shareholders (including qualifying value add) by management, relative to the other factors, would be most significant whereby a waiver of preemptive rights for issuances in excess of the accepted thresholds would be acceptable. On the other hand, having no inside shareholders with more than 25 percent ownership would be least significant as a contributing factor, as indicated by a majority of both investors and issuers.

France

Voting on ongoing RPTs is important to investors, but does not necessarily lead to automatically voting against directors for omitting the voting item. As a result of a company omitting a voting item regarding the auditor's report on related-party transactions, most investor responses indicated that an adverse vote should be applied, but varied among voting against re-election of any incumbent director's re-election, the approval of annual accounts, or all other related-party transactions, if any.

The role of censor (defined as an administrative role that amounts to an adviser to the board without voting powers) raises questions for investors. Only seven percent of investor respondents indicated that the nomination of a censor, or modification of company bylaws to set up the role of a censor, to be always appropriate. The remainder of the investor responses reflected a majority (61 percent) indicating a case-by-case approach ("it depends" or "if the appointment is temporary") on this subject matter.

Japan

Investors have split views on taking into account the overall board independence level when voting on CEOs. Where boards are composed entirely of insiders, 45 percent of investor respondents indicated that they would not vote against reelection of CEOs across the board. However, 34 percent indicated that they would vote against CEOs, with the remaining 21 percent citing "it depends."

Australia

Investors focus on merits of remuneration practices irrespective of potentially triggering "spill resolutions" and take a case-by-case approach to "no vacancy resolutions." As a result of Australia's newly approved legislation, a company that encounters more than a 25 percent "against" vote on its non-binding remuneration report (say on pay) two years in succession must give shareholders a vote at the next annual meeting on whether to convene a general meeting at which all incumbent directors must seek reelection (the "spill resolution"). An overwhelming majority (73 percent) of investor respondents indicated that if a company receives a 25 percent vote against its remuneration report in the first year, an appropriate response on the remuneration report in the second year would be to continue to evaluate the company's remuneration practices on their merits without regard to whether it would result in a 25 percent vote against the remuneration report which would trigger the spill resolution.

As part of the same legislation regarding "no vacancy resolutions" (a resolution seeking shareholder approval to fix the size of the board with a simple majority vote requirement) in response to a dissident nomination, 73 percent of investor respondents indicated that the particular company's circumstances and the identity of both the board-endorsed and dissident candidates should be considered in determining a vote.

Hong Kong

Investors do not support executive directors serving on key board committees. A substantial majority (72 percent) of investor respondents indicated that it is not appropriate for an executive director to serve on audit, remuneration, or nominating committees.

Use of proceeds (raising cash versus other purposes) from share issuance requests not a determining factor for investors for mitigating excessive dilution. Regarding general share issuance and share reissuance mandate requests, the vast majority (72 percent) of investor respondents indicated that there should be no distinction made between share issuance requests intended for raising cash versus requests that are intended for other purposes.

Appendix: Detailed Survey Responses

Survey results are based on 153 institutional shareholder responses and 205 issuer responses reflecting more than one response from the same organization.

Except as otherwise noted, percentages exclude non-responses and any “not applicable” responses.

For questions that allowed multiple answers, the percentages will not equal 100 percent. Percentages for certain questions may also not equal 100 percent due to rounding.

U.K. Stewardship Code

If your organization complies with the U.K. Stewardship Code, has it impacted your overall corporate governance program (policy development, proxy voting, and engagement with issuers)?

	Investors	Issuers
Yes-significantly impacted	1%	0%
Yes-somewhat impacted	13%	0%
No impact at all	11%	0%
Not applicable	75%	100%

U.N. Principles for Responsible investment (PRI)

If your organization complies with the U.N. Principles for Responsible investment (PRI), has it impacted your overall corporate governance program (policy development, proxy voting, and engagement with issuers)?

	Investors	Issuers
Yes-significantly impacted	7%	0%
Yes-somewhat impacted	21%	0%
No impact at all	11%	0%
Not applicable	61%	100%

Critical Governance Principles

Which governance topics are most important to your organization this year?

North America	Investors	Issuers
Board independence	41%	19%
Board competence	29%	26%
Executive compensation	60%	61%
Audit-related practices	7%	17%
Risk oversight	30%	50%
Shareholder rights (special meetings, written consents, amend bylaws)	35%	18%
Takeover defenses	20%	8%
M&A and proxy fights	9%	8%
Environmental/social shareholder proposals	27%	11%

Europe	Investors	Issuers
Board independence	39%	5%
Board competence	19%	10%
Executive compensation	42%	8%
Audit-related practices	5%	6%
Risk oversight	20%	15%
Shareholder rights (special meetings, written consents, amend bylaws)	25%	3%
Takeover defenses	11%	1%
M&A and proxy fights	5%	3%
Environmental/social shareholder proposals	15%	6%

Asia-Pacific	Investors	Issuers
Board independence	39%	2%
Board competence	14%	3%
Executive compensation	22%	3%
Audit-related practices	14%	4%
Risk oversight	14%	7%
Shareholder rights (special meetings, written consents, amend bylaws)	26%	1%
Takeover defenses	12%	1%
M&A and proxy fights	5%	0%
Environmental/social shareholder proposals	12%	4%

Developing Markets	Investors	Issuers
Board independence	35%	2%
Board competence	17%	3%
Executive compensation	16%	3%
Audit-related practices	11%	4%
Risk oversight	13%	6%
Shareholder rights (special meetings, written consents, amend bylaws)	26%	1%
Takeover defenses	6%	1%
M&A and proxy fights	4%	1%
Environmental/social shareholder proposals	10%	3%

Engagement

Relative to 2010, how would your organization rate your engagement activities with issuers (if you are an institutional shareholder) or institutional shareholders (if you are an issuer), in 2011?

	Investors	Issuers
About the same as in 2010	39%	52%
Less engagement than in 2010	4%	3%
More engagement in 2011	57%	45%

Director Qualifications

How relevant are the following categories of information in evaluating the nominations of directors to boards?

Director's recent industry/sector experience

	Investors	Issuers
Not relevant	8%	1%
Somewhat relevant	16%	7%
Relevant	36%	31%
Very Relevant	40%	61%

Director biographic information and general director detail

	Investors	Issuers
Not relevant	8%	1%
Somewhat relevant	21%	11%
Relevant	43%	47%
Very Relevant	28%	40%

Performance of companies where director serves (or served) on board(s)

	Investors	Issuers
Not relevant	10%	8%
Somewhat relevant	32%	39%
Relevant	41%	44%
Very Relevant	17%	8%

Governance track record(s) for firms where director serves (or served) on board(s)

	Investors	Issuers
Not relevant	8%	9%
Somewhat relevant	20%	38%
Relevant	46%	46%
Very Relevant	27%	7%

ISS recommendations at other public companies where director serves (or served) on board(s)

	Investors	Issuers
Not relevant	24%	50%
Somewhat relevant	33%	39%
Relevant	32%	10%
Very Relevant	11%	1%

Continuing Boardroom Education

	Investors	Issuers
Not relevant	26%	21%
Somewhat relevant	42%	45%
Relevant	26%	29%
Very Relevant	7%	5%

Environmental, Social, and Governance Issues

Does your organization believe that a company's performance regarding environmental and social issues can have significant impact on long-term shareholder value?

	Investors	Issuers
Yes	81%	76%
No	19%	24%

% of respondents answering yes or no

United States – Compensation – Pay for Performance/Say on Pay

Most shareholders consider the linkage between executive pay and company performance to be critically important. ISS' current Pay-for-Performance (P4P) analysis focuses primarily on companies with prolonged TSRs below the median of their GICS industry sector, which triggers an extensive review of the CEO's pay trend, pay composition, and pay relative to a peer group of 8-12 companies in a similar industry and size range.

When determining whether executive pay is aligned with company performance, how relevant are the following factors?

Pay that is significantly higher than peer pay levels

	Investors	Issuers
Not relevant	6%	13%
Somewhat relevant	32%	51%
Very Relevant	62%	35%

Pay levels that have increased disproportionately to the company's performance trend

	Investors	Issuers
Not relevant	1%	4%
Somewhat relevant	11%	48%
Very Relevant	88%	49%

Some companies base annual incentive awards to top executives on a discretionary year-end review of performance, rather than by establishing specific goals that must be met in order to generate specific awards.

Does your organization consider discretionary annual bonus awards (i.e., not based primarily on attainment of pre-set goals) to be problematic in the following circumstances?

	Investors	Issuers
Always - annual incentives should always be tied mainly to attainment of specific goals related to the company's business and/or strategic plan.	34%	19%
Never - companies should have flexibility to design incentive plans according to their culture and the board's determination.	5%	22%
Sometimes - if the awards are not aligned with company performance.	57%	46%
Other	3%	13%

At what level of opposition on a say-on-pay proposal should there be an explicit response from the board regarding improvements to pay practices?

	Investors	Issuers
More than 10%	12%	2%
More than 20%	36%	11%
More than 30%	24%	27%
More than 40%	14%	12%
More than 50%	14%	48%

As required by the Dodd-Frank Act, companies seeking shareholder approval of a change-in-control transaction will generally also provide an advisory vote on the golden parachute packages arising from the transaction. Note that the consummation of the transaction is not contingent on whether the golden parachute proposal passes.

How does your organization view the new Advisory Votes on Golden Parachutes that are on ballot at meetings where shareholders are voting on a change-in-control transaction?

	Investors	Issuers
Always vote for the Golden Parachute proposal if you vote for the transaction	8%	50%
Vote against the Golden Parachute proposal, to express concerns about the nature and/or amount of executives' parachute arrangements, even if you support the transaction	60%	17%
Other	32%	33%

United States – Compensation-Equity Plans

Some market participants advocate taking a holistic approach to equity plan evaluation. For example, the estimated plan cost (shareholder value transfer) might be considered in terms of a range rather than a single industry cap. Also, both positive and negative factors could be considered in the overall analysis.

In cases where the Shareholder Value Transfer cost of an equity plan proposal is excessive relative to peers, to what extent should the following positive factors mitigate the cost to shareholders?

Above median long-term shareholder return

	Investors	Issuers
Not at all	11%	3%
Somewhat	42%	24%
Very much	47%	72%

Low average burn rate relative to peers

	Investors	Issuers
Not at all	14%	2%
Somewhat	55%	40%
Very much	30%	59%

Double-trigger CIC equity vesting

	Investors	Issuers
Not at all	18%	25%
Somewhat	61%	40%
Very much	21%	35%

Reasonable plan duration based on historical share usage

	Investors	Issuers
Not at all	20%	4%
Somewhat	53%	43%
Very much	27%	53%

Robust vesting requirements (>5 years)

	Investors	Issuers
Not at all	11%	24%
Somewhat	46%	45%
Very much	43%	31%

In cases where the Shareholder Value Transfer cost of an equity plan proposal is not excessive relative to peers, to what extent should the following negative factors weigh against the plan?

Liberal CIC definition with automatic award vesting

	Investors	Issuers
Not at all	8%	32%
Somewhat	38%	54%
Very much	55%	14%

Excessive potential share dilution relative to peers

	Investors	Issuers
Not at all	0%	15%
Somewhat	41%	59%
Very much	59%	26%

High CEO or NEO "concentration ratio"

	Investors	Issuers
Not at all	8%	39%
Somewhat	54%	45%
Very much	38%	16%

Automatic replenishment ("Evergreen funding")

	Investors	Issuers
Not at all	4%	22%
Somewhat	38%	51%
Very much	57%	27%

Prolonged poor financial performance

	Investors	Issuers
Not at all	3%	26%
Somewhat	24%	34%
Very much	73%	41%

Prolonged poor shareholder returns

	Investors	Issuers
Not at all	3%	22%
Somewhat	24%	42%
Very much	73%	36%

Under single-trigger equity vesting, a change of control (CIC) by itself triggers accelerated vesting of all outstanding awards. Under what circumstances is “single-trigger” vesting appropriate?

Automatic accelerated vesting of outstanding grants upon a CIC

	Investors	Issuers
Appropriate	21%	61%
Not appropriate	79%	39%

Accelerated vesting at the board's discretion after a CIC

	Investors	Issuers
Appropriate	29%	76%
Not appropriate	71%	24%

Accelerated vesting in certain circumstances after a CIC (e.g., if awards are not converted or replaced by a surviving entity)

	Investors	Issuers
Appropriate	68%	92%
Not appropriate	32%	8%

Should equity plans coming to a shareholder vote for the first time after an IPO (in order to qualify for Section 162(m) tax deductibility) be evaluated under the same guidelines as a “standard” equity plan, even if no new shares are requested?

	Investors	Issuers
Yes	80%	41%
No	20%	59%

United States – Board

Shareholders may submit proposals for boards to adopt a policy of splitting the CEO/chair roles and appointing an independent chair after the current (combined) CEO/chair leaves his or her position. Should companies commit themselves to an independent chair?

	Investors	Issuers
Yes	70%	11%
No	17%	73%
No opinion	12%	16%

Which of the following types of restrictions on shareholders' ability to act by written consent are appropriate for an issuer to adopt in response to a majority-supported shareholder proposal on this topic? (Please check all that apply)

	Investors	Issuers
Notice restrictions (e.g., must notify the company X days prior to mailing a solicitation)	36%	24%
Inclusiveness restrictions (e.g., must send consent solicitation to all shareholders)	28%	10%
Timing restrictions (e.g., written consent not allowed X days before or after a meeting)	27%	19%
Content restrictions (e.g., no solicitation on issues addressed at meetings w/in last year)	4%	9%
Ownership restrictions (e.g., only holders of X percent of shares may solicit by written consent)	22%	18%
None of the above	24%	4%
All of the above	21%	65%
Other	9%	12%

In 2011, a handful of issuers required that, in order to call a special meeting, a shareholder or group of shareholders must hold the requisite ownership threshold in a net-long position. This requirement prevents shareholders seeking to call a special meeting from, for example, borrowing shares from another shareholder to satisfy the ownership criterion.

Does your organization find this restriction to be sufficiently onerous to raise board responsiveness concerns?

	Investors	Issuers
Yes	37%	19%
No	63%	81%

United States – Environmental, Social, and Governance

Accident Risk Shareholder Proposals

During the 2011 proxy season, a number of companies received new shareholder proposals requesting a report on the measures they had taken to reduce the risk of accidents.

Which of the following best describes your organization's view on such shareholder proposals? (Please check all that apply)

	Investors	Issuers
Generally not supportable	23%	65%
Generally supportable	48%	19%
Supportable under certain circumstances	30%	16%

Political Contributions/Lobbying

Shareholder proponents have submitted proposals addressing corporate political spending for a number of years. In the wake of the 2010 Citizens United Supreme Court decision and the 2010 mid-term congressional elections, the 2011 proxy season saw an increase in the variety of such proposals addressing a number of proponent concerns.

Please indicate the importance of the following corporate political spending-related issues for your organization:

Direct contributions of corporate funds for political purposes

	Investors	Issuers
Critical	27%	3%
Important	37%	15%
Somewhat Important	13%	18%
Not Important	5%	34%
No Opinion	18%	30%

Contributions or payments to trade associations or other organizations that could be used for political purposes

	Investors	Issuers
Critical	24%	7%
Important	34%	18%
Somewhat Important	18%	19%
Not Important	8%	30%
No Opinion	16%	26%

Payments made for grassroots lobbying or regarding ballot measures

	Investors	Issuers
Critical	23%	5%
Important	33%	15%
Somewhat Important	19%	12%
Not Important	6%	35%
No Opinion	18%	32%

Please indicate the importance of the following types of corporate political spending-related disclosure, policies, and practices for your organization:

Board-level oversight of political spending

	Investors	Issuers
Critical	38%	5%
Important	31%	39%
Somewhat Important	12%	14%
Not Important	5%	17%
No Opinion	14%	25%

Management-level oversight of political spending

	Investors	Issuers
Critical	31%	20%
Important	36%	41%
Somewhat Important	14%	3%
Not Important	4%	11%
No Opinion	15%	25%

Policies regarding political spending

	Investors	Issuers
Critical	42%	23%
Important	38%	34%
Somewhat Important	2%	8%
Not Important	4%	13%
No Opinion	14%	22%

Disclosure of company's trade association memberships

	Investors	Issuers
Critical	28%	3%
Important	33%	15%
Somewhat Important	16%	13%
Not Important	9%	41%
No Opinion	14%	29%

Annual disclosure of the amount of company's political spending

	Investors	Issuers
Critical	38%	3%
Important	29%	15%
Somewhat Important	11%	18%
Not Important	9%	35%
No Opinion	14%	29%

United States – Shareholder Rights

When evaluating a management or shareholder proposal to change a company's state of incorporation, ISS applies a case-by-case approach giving consideration to corporate governance concerns including the comparison of a company's governance practices and provisions prior to and following the reincorporation, among other factors.

To what extent would the following changes to a company's governance practices potentially outweigh the potential economic benefits of changing its state of incorporation?

Classification of board

	Investors	Issuers
Not much	9%	48%
Somewhat	27%	14%
Very much	46%	13%
No opinion	18%	25%

Raising vote requirements for amending charter/bylaws

	Investors	Issuers
Not much	9%	38%
Somewhat	23%	25%
Very much	50%	11%
No Opinion	18%	25%

Raising vote requirements for approving mergers

	Investors	Issuers
Not much	9%	35%
Somewhat	26%	27%
Very much	47%	13%
No Opinion	18%	25%

Higher ownership thresholds to call a special meeting

	Investors	Issuers
Not much	12%	36%
Somewhat	38%	27%
Very much	34%	12%
No Opinion	15%	26%

During the 2011 proxy season, a number of companies submitted new bylaw proposals to adopt a company's jurisdiction of incorporation as the exclusive forum for certain legal disputes (i.e., apply Delaware law to Delaware companies). ISS' approach to these proposals is to generally vote against these proposals taking into consideration whether the board has proven to be a good steward of the company's governance generally.

What factors would your organization favor in evaluating proposals to make the state of incorporation the exclusive venue for shareholder litigation? (Please check all that apply)

	Investors	Issuers
Company's governance provisions	67%	63%
Company's litigation history	42%	50%
Quality of state corporate law	74%	93%
None of the above-always vote against an exclusive venue litigation proposal	49%	20%
Other	12%	17%

United States – Mergers and Acquisitions

U.S. mergers are increasingly being effected through tender offers as a result of changes in the margin rules. ISS currently does not provide research on tender offers.

Given the increasing number of tender offers, what is your organization's view regarding a premium research offering?

	Investors	Issuers
A premium research offering would add value to my organization	22%	4%
A premium research offering would not add value to my organization	28%	28%
NA/No opinion	50%	68%

Ordinarily, a company that uses more than 20 percent of its shares to acquire another company must put that transaction to a shareholder vote. Every year, however, some companies circumvent this requirement by issuing convertible instruments instead of common shares to the shareholders of the target company, and putting conversion of those instruments to a vote of the acquiring company's shareholders, with a warning that failure to approve conversion would result in a large dividend or other payment being payable to holders of the convertible instruments.

Is it acceptable for a board to circumvent shareholder approval of a stock-based transaction in this fashion?

	Investors	Issuers
Yes	4%	19%
No	75%	28%
NA/No opinion	21%	53%

Canada

The voluntary adoption of a majority voting standard with director resignation policy continues to increase in the Canadian market. The widely accepted form of policy statement has been drafted by the Canadian Coalition for Good Governance (amended in February 2011) and has been the form substantially adopted so far by issuers. The Canadian Securities Administrators are currently reviewing and discussing the possibility of mandating majority voting in the Canadian market.

Under which of the following scenarios would your organization consider withholding from director nominees where majority voting has been adopted and which may potentially lead to removal of the director from the board (Please check all that apply)?

	Investors	Issuers
Absence of independent director representation as indicated by all of the following: less than majority independent board; less than majority independent key committees; and no independent chairman or full-time independent lead director	80%	31%
Poor director attendance defined as a three-year trend of less than 75 percent attendance at board and committee meetings	78%	54%
Board failure to address the issues that caused majority opposition on director(s) or majority opposition to advisory vote on executive compensation; and/or failure to respond to a majority-supported shareholder proposal	84%	31%
Board failure to address multiyear pay-for-performance concerns, or significant problematic pay practices.	80%	31%
All of the above in aggregate must be necessary to warrant a withhold vote	16%	23%
None of the above-withhold ONLY if there is an egregious action by directors (defined as (i) material failure of governance, stewardship, or fiduciary responsibilities at the company; (ii) failure to replace management as appropriate; or (iii) egregious actions related to the director(s)' service on other boards that raises substantial doubts about his/her ability to effectively oversee management and serve the best interests of shareholders at any company)	6%	15%
Other	14%	15%

Europe – Remuneration

Burn Rate

The average annual burn rate, measured as the historical three-year average transfer of equity to employees, is an indicator that focuses on the companies' recent use of equity for remuneration. Based on recent ISS data sampling 250+ companies of European main indices across all sectors, the average unadjusted three-year burn rate among companies granting equity compensation reaches 0.51% (median: 0.34%). Approximately 38% of these companies had a three-year burn rate in excess of 0.5%, 15% in excess of 1%, and 2.3% in excess of 2%.

Regarding the definition of an appropriate limit on the average annual burn rate, which of the following best describes your organization's view?

	Investors	Issuers
A limit based on a combined assessment of practices in the same local market AND of European companies in the same sector	34%	0%
A limit based on practices of companies in the same local market	6%	14%
A limit based on practices of European companies in the same sector	4%	14%
A uniform limit of X percent per year (Responses varied with 1 percent most common)	14%	6%
My organization does not support a burn rate that assesses a company's use of equity remuneration over time	1%	22%
NA/No Opinion	41%	44%

If your organization supports the introduction of a burn rate that assesses a company's use of equity remuneration, would you consider a 10 percent (of share capital) limit in terms of total volume under outstanding and proposed plans acceptable?

	Investors	Issuers
Yes	49%	53%
No (Regarding alternative limits, responses varied, with 5 percent common among institutions)	51%	47%

Disclosure

The ability to independently assess a company's compensation practices is dependent upon the quality of disclosure provided. ISS takes market practice into consideration when assessing the quality of a company's disclosure practices in order to avoid penalizing lower disclosure markets. Some investors have voiced concern that this could lead to accepting disclosure practices that do not provide enough insight into a company's remuneration system to make an informed voting decision.

In your organization's view, how important are the following disclosure practices in your ability to understand and assess a company's remuneration practices?

Remuneration of the individual members of group management, broken down by category (e.g. base, fixed, LTIP, pension)

	Investors	Issuers
Critical	56%	26%
Important	33%	41%
Somewhat Important	3%	12%
Not Important	0%	3%
NA/No opinion	8%	18%

Performance criteria for CEO/senior executive bonuses

	Investors	Issuers
Critical	61%	26%
Important	29%	37%
Somewhat Important	3%	20%
Not Important	1%	0%
NA/No opinion	6%	17%

Potential payout levels for CEO/senior executive bonuses (e.g. bonus cap, pay level for on-target performance, etc.)

	Investors	Issuers
Critical	48%	18%
Important	40%	44%
Somewhat Important	5%	15%
Not Important	1%	6%
NA/No opinion	5%	18%

Relative weighting of bonus performance targets for CEO/senior management

	Investors	Issuers
Critical	40%	11%
Important	37%	34%
Somewhat Important	12%	29%
Not Important	4%	9%
NA/No opinion	7%	17%

Performance targets for long-term equity awards

	Investors	Issuers
Critical	58%	26%
Important	34%	40%
Somewhat Important	1%	9%
Not Important	1%	6%
NA/No opinion	5%	20%

Severance/change in control terms in executive contracts

	Investors	Issuers
Critical	48%	14%
Important	42%	40%
Somewhat Important	3%	17%
Not Important	1%	9%
NA/No opinion	5%	20%

Europe – Share Issuances For General Corporate Purposes-Preemptive Rights

In several markets, such as the United Kingdom and France, issuers are required to seek shareholder approval for issuances of equity or equity-linked securities without preemptive rights. These are the rights of shareholders to be offered any new issue of shares before the shares are offered to non-shareholders, usually pro-rata to their existing shareholding, to ensure that shareholders have an opportunity to prevent their stake from being diluted by new issues.

ISS policy is to support general-purpose issuance requests without preemptive rights to a maximum of 20 percent of currently issued capital (5 percent for the U.K.) taking into account best market practice.

Preemptive rights have long been held as a fundamental shareholder right by institutional investors in the jurisdictions mentioned above but during the financial crisis and more recently in a white paper focused on the REIT sector, concerns have been expressed over approval thresholds on issuances as they impact a corporation's flexibility to raise capital quickly and efficiently and thereby impair shareholder value.

What is an acceptable level of dilution for an issuance of equity without preemptive rights (for General Corporate Purposes) in the following markets?

U.K.

	Investors	Issuers
<5 percent	14%	14%
5 percent	44%	14%
10 percent	19%	14%
20 percent	12%	43%
50 percent	0%	14%
>50 percent	2%	0%
Preemption is not a valuable shareholder right to my organization	9%	0%

European markets (excluding U.K.)

	Investors	Issuers
<5 percent	12%	6%
5 percent	21%	0%
10 percent	28%	17%
20 percent	28%	44%
50 percent	0%	28%
>50 percent	2%	0%
Preemption is not a valuable shareholder right to my organization	9%	6%

In your organizations's view, please rank the contribution of each of the factors below whereby a waiver of preemptive rights for issuances in excess of the accepted thresholds would be acceptable (1 being the most significant, 5 being the least significant)?

*Significant= % of respondents choosing 1 or 2; Not significant= % of respondents choosing 4 or 5; Neutral=% of respondents choosing 3

At request of waiver, management provides statement on general use of proceeds and why the company believes waiver is beneficial to shareholders

	Investors	Issuers
Significant	49%	50%
Not significant	28%	14%
Neutral	23%	36%

At time of share issuance, management provides specific statement on use of proceeds and benefit of use to shareholders (including qualifying value add)

	Investors	Issuers
Significant	77%	77%
Not significant	12%	12%
Neutral	11%	12%

Limit potential discount to buyers of up to 5% to last price (exclusive of banker underwriting spread)

	Investors	Issuers
Significant	30%	19%
Not significant	33%	75%
Neutral	37%	6%

Management has history of disciplined and accretive capital allocation

	Investors	Issuers
Significant	40%	54%
Not significant	40%	20%
Neutral	20%	27%

There are no insider shareholders with more than 25% ownership

	Investors	Issuers
Significant	8%	20%
Not significant	78%	53%
Neutral	13%	27%

France

Related-Party Transactions

During the past proxy season, ISS noticed an emerging trend among large French issuers to omit the annual shareholder vote on the auditors' report on related-party transactions if no new transactions had been concluded and no ongoing transactions had been amended during the year. This can be attributed to a decision taken by French companies to follow an opinion issued in March 2011 by the CNCC (French Business Association of External Auditors). Not all French companies have followed this new trend, however, and it is the current position of ISS to consider this new practice to be shareholder unfriendly, mainly because it deprives shareholders from having a say on ongoing transactions that remain in force and which may potentially not be in shareholders' interests.

What are appropriate voting sanctions as a result of a company's omission of a voting item regarding the auditor's report on related-party transactions (check all that apply)?

	Investors	Issuers*
Qualified support for incumbent director's reelection	28%	NM
Qualified support for approval of annual accounts	26%	NM
Vote against reelection of any incumbent directors	28%	NM
Vote against reelection of non-independent incumbent directors ONLY	12%	NM
Vote against approval of annual accounts	47%	NM
Vote against all other related-party transactions, if any	33%	NM
Other	30%	NM

*NM=results not meaningful given that less than five respondents answered the question

Censors

The role of censor is seen at French companies; it is an administrative role that amounts to an adviser to the board without voting powers. The precise scope of the role is not uniform and is therefore defined by the relevant company's bylaws. In most cases, the role is unclear. Company bylaws define the duration of the mandate, and some provide a generalized definition of the role. In practice, the censors are often former directors/executives, and ISS identified this new role as a possible way to avoid a certain number of situations, such as overboarding, a decrease of director independence on the board, and conflicts of interests / related-party transactions. Moreover, in most of the cases, censors receive remuneration in line with those of directors without sharing directors' responsibilities. For reference, the AFEP-MEDEF recommendations state that the fees granted to directors should reflect their responsibilities, and the variable part should be based on the level of attendance.

Under what conditions is the nomination of a censor, or modification of company bylaws to set up the role of a censor, appropriate?

	Investors	Issuers*
Always appropriate	7%	NM
If the appointment is temporary	32%	NM
It depends	29%	NM
Never Appropriate	32%	NM

**NM=results not meaningful given that less than five respondents answered the question*

Japan

Director Elections

Japanese companies can choose either a traditional statutory auditor board system, or a U.S.-style board with a three-committee structure. Although companies with three committees are required by Japan's Corporate Law to appoint at least two outside directors, those with a statutory auditor board system, accounting for 98 percent of listed companies, have no obligation to appoint outsiders. Therefore, at companies with a statutory auditor board system, even if the board is composed entirely of insiders, ISS currently does not oppose the reelection of the CEO for the sole purpose of protesting against the board composition. If the CEO of a strongly performing company is voted down, that event will disrupt management, which will not be in the interests of shareholders.

Meanwhile, global shareholder pressure to improve Japanese companies' board independence has been increasing. Moreover, votes in favor of CEOs at companies with all-insider boards may be misinterpreted by those companies as shareholders' endorsement of the status quo. On the other hand, applying an across-the-board policy opposing CEOs of companies with all-insider boards could be counterproductive, discouraging companies from taking actions friendly to shareholders. Fundamentally, opposing the CEO should be the last resort of proxy voting, and playing this card will leave no other effective means of communication for shareholders, in the event they want to raise objections on issues other than board independence. With this background, ISS is considering factoring in the overall board independence level when recommending on a CEO's reappointment.

Would your organization vote against the reelection of CEOs across the board at Japanese companies whose boards are composed entirely of insiders?

	Investors	Issuers*
Yes	34%	NM
No	45%	NM
It depends	21%	NM

**NM=results not meaningful given that less than five respondents answered the question*

Australia

Australia's Government approved new legislation which was officially published on June 27 and is effective for annual meetings beginning July 1, 2011. The new legislation requires a company that encounters more than a 25 percent 'against' vote on its non-binding remuneration report (say on pay) two years in succession to give shareholders a vote at the next annual meeting on whether or not to convene a general meeting at which all incumbent directors must seek reelection (the 'spill resolution'). Thus, directors could be subject to a spill resolution if there is more than 25 percent opposition to the company's remuneration practices for two consecutive years.

If a company receives a 25 percent vote against its remuneration report in the first year, what is an appropriate response on the remuneration report in the second year?

	Investors	Issuers*
Continue to evaluate the company's remuneration practices on their merits without regard to whether or not it would result in a 25 percent vote against the remuneration report which would trigger the spill resolution	73%	NM
Do not support the remuneration report if there are concerns with board and/or company performance thus warranting the opportunity to vote on the spill resolution	20%	NM
Other	7%	NM

*NM=results not meaningful given that less than five respondents answered the question

As part of the same legislation above, Australia's Government will prevent directors from fixing the size of the board at the number of continuing directors in response to a dissident nomination without a shareholder vote. Under Australian law, a declaration of 'no vacancy' means a dissident needs to receive not only a majority of votes cast on his/her election but to receive more votes than one of the board endorsed directors seeking election. In order to declare no vacancy on the board in response to a dissident nominee at a shareholder meeting, the board will be required to put a resolution to shareholders seeking their approval to fix the size of the board with a simple majority vote requirement.

What is an appropriate response to "no-vacancy resolutions"?

	Investors	Issuers*
Always oppose an attempt to fix the board's size at the number of continuing directors in the absence of exceptional circumstances	20%	NM
Always support the board, in the absence of exceptional circumstances, in trying to fix the board's size at the number of continuing directors	2%	NM
Consider the particular company's circumstances and the identity of both the board-endorsed and dissident candidates in determining your vote	73%	NM
Other	5%	NM

*NM=results not meaningful given that less than five respondents answered the question

Hong Kong/Singapore

Hong Kong

Historically, companies did not have nominating committees in Hong Kong and remuneration committees were not widespread. ISS does not currently recommend against an executive director serving on a company's audit, remuneration or nominating committees.

Given that the key board committees mentioned above are now more prevalent and widespread in Hong Kong, is it appropriate for an executive director to serve on any of the key committees in the Hong Kong market?"

	Investors	Issuers*
Yes	28%	NM
No	72%	NM

**NM=results not meaningful given that less than five respondents answered the question*

For the Hong Kong market, ISS currently recommends a vote against general share issuance mandate and share reissuance mandate requests where aggregate requests result in dilution of greater than 10 percent of issued share capital. ISS' policy makes no distinction between requests for cash or for other purposes. A number of companies in Hong Kong are specifying a proportion of this request for purposes of raising cash (e.g., a general mandate to issue shares up to 20 percent, but only 5 percent when issued for cash).

As such, should there be a distinction between share issuance requests intended for raising cash versus requests that are intended for other purposes in the Hong Kong market?

	Investors	Issuers*
Yes	28%	NM
No	72%	NM

**NM=results not meaningful given that less than five respondents answered the question*

Singapore

For the Singapore market, ISS does not typically recommend against requests for general mandates to issue shares without preemptive rights (with these requests typically equating to 20 percent of issued share capital).

What is an appropriate dilution level in the Singapore market with respect to general share issuance mandate requests?

	Investors	Issuers*
10 percent	30%	NM
20 percent	35%	NM
5 percent	19%	NM
Other	16%	NM

**NM=results not meaningful given that less than five respondents answered the question*

Emerging Markets

Russia

Related-party transactions ("RPTs") are common on the Russian shareholder meeting agendas and most often involve loan and guarantee agreements and asset swaps. Disclosure is usually limited to the parties and the beneficiary of the transaction, its value and subject matter, and some basic terms, which is in accordance with the disclosure requirements of the Russian law. According to Russian law, an RPT valued at 2 percent or more of a company's net asset value must be approved by shareholders.

Considering the limited disclosure and absent any problematic issues, what percentage of an RPT's value relative to a company's net asset value would your organization consider to be excessive?

	Investors	Issuers*
More than 20%	33%	NM
More than 40%	3%	NM
More than 50%	7%	NM
None of the above - my organization does not consider the value of the RPT	20%	NM
Other	37%	NM

*NM=results not meaningful given that less than five respondents answered the question

Russian law also permits companies to ask for shareholder approval of potential future related-party transactions (in one agenda item) which may or may not take place. Disclosure is limited to the potential parties to the transactions, the subject matter of the transactions, and the maximum aggregate value of all the transactions, which is in line with Russian legislation.

Considering the limited disclosure and absent any problematic issues, what percentage of a potential RPT's value relative to a company's net asset value would your organization consider to be excessive?

	Investors	Issuers*
More than 20%	38%	NM
More than 40%	0%	NM
More than 50%	7%	NM
None of the above - my organization does not support an undefined future RPT	24%	NM
Other	31%	NM

*NM=results not meaningful given that less than five respondents answered the question

Brazil

In Brazil's governance-differentiated listing segment (Novo Mercado), the minimum board independence requirement remains at just 20 percent despite BM&F Bovespa's recent attempt to raise the bar to 30 percent. ISS' current policy is to recommend against the slate of directors if board independence is less than 20 percent.

What is an appropriate board independence level for companies in the Novo Mercado, where institutional ownership often exceeds 20%?

	Investors	Issuers*
10%	3%	NM
20%	8%	NM
30%	38%	NM
None - our organization does not consider board independence level	5%	NM
Other percentage	46%	NM

*NM=results not meaningful given that less than five respondents answered the question

Israel

High-tech Israeli companies tend to have an inordinately high level of overall dilution, averaging 15 percent. ISS' policy is to recommend against option plans when overall dilution exceeds 5 percent for mature companies, or 10 percent for growth companies.

Would your organization support an option plan that results in an aggregate dilution level of approximately 15 percent?

	Investors	Issuers*
No - at neither growth nor mature companies	55%	NM
Yes - at both growth and mature companies	13%	NM
Yes - at only growth companies	32%	NM

*NM=results not meaningful given that less than five respondents answered the question

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