

Auditor Ratification (U.S.)

Background

In light of regulatory changes mandated by the U.S. Congress in the Sarbanes-Oxley Act and enhanced investor scrutiny, ISS rarely recommends against the ratification of auditors. Shareholders rarely vote against ratification. Average shareholder support for auditor ratification proposals at Russell 3000 companies (as of September 2013) was approximately 99 percent of votes cast FOR and AGAINST.

In recent years, investors and regulatory bodies (both in the U.S. and other developed markets) have started to focus on a number of other potential indicators of audit quality and auditor independence. Notably, some shareholders, the Public Company Accounting Oversight Board, and other audit industry observers have raised concerns about excessive tenure potentially compromising the independence of auditors. Based on ISS data, the average auditor tenure is approximately 12 years for U.S. companies in the Russell 3000 Index. For the companies in the S&P 500 index, the average auditor tenure is approximately 26 years.

Current ISS Benchmark Policy

Vote for proposals to ratify auditors unless any of the following apply:

- An auditor has a financial interest in or association with the company, and is therefore not independent;
- There is reason to believe that the independent auditor has rendered an opinion that is neither accurate nor indicative of the company's financial position;
- Poor accounting practices are identified that rise to a serious level of concern, such as fraud; or
- Fees for non-audit services ("Other" fees) are excessive.

Non-audit fees are excessive if non-audit ("other") fees > audit fees + audit-related fees + tax compliance/preparation fees.

Policy Directions

ISS is exploring potential approaches to its policy on auditor ratification for 2015 or beyond:

- A. Update the policy to consider auditor tenure as a factor in determining the vote recommendation on proposals to ratify auditors.
- B. Maintain the status quo – do not change the current policy.

Request for comment/feedback

Please feel free to add any additional information or comments on this policy. In addition, ISS is specifically seeking feedback on the following:

1. Please specify which policy direction (A or B, above) best reflects the views of your organization.
2. If you believe that auditor tenure is a critical factor to consider when evaluating the proposal to ratify auditors, at what tenure (in number of years) would you consider service to be excessive, i.e., whereby the auditor is no longer independent? (5, 10, 15, 25, other-please specify).

3. Are there factors other than auditor tenure that you would urge ISS to consider in making recommendations on auditor ratification? If so, please specify.

To submit a comment, please send via email to policy@issgovernance.com. Please indicate your name and organization.