



2015 U.S. Independent Chair Policy

Frequently Asked Questions

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INDEPENDENT CHAIR SHAREHOLDER PROPOSALS

1. How does the new approach differ from the previous approach?

Under the previous approach, ISS generally recommended for independent chair shareholder proposals unless the company satisfied all the criteria listed in the policy. Under the new approach, any single factor that may have previously resulted in a "For" or "Against" recommendation may be mitigated by other positive or negative aspects, respectively. Thus, a holistic review of all of the factors related to company's board leadership structure, governance practices, and performance will be conducted under the new approach.

For example, under ISS' previous approach, if the lead director of the company did not meet each one of the duties listed under the policy, ISS would have recommended For, regardless of the company's board independence, performance, or otherwise good governance practices.

Under the new approach, in the example listed above, the company's performance and other governance factors could mitigate concerns about the less-than-robust lead director role. Conversely, a robust lead director role may not mitigate concerns raised by other factors.

2. What additional factors will ISS assess under the new Independent Chair policy?

ISS will consider: the presence of an executive or non-independent chair in addition to the CEO; a recent recombination of the role of CEO and chair; and/or departure from a structure with an independent chair. ISS will also consider any recent transitions in board leadership and the effect such transitions may have on independent board leadership as well as the designation of a lead director role.

3. What does ISS consider a strong lead director role?

ISS will generally consider a lead director role to be robust if the lead independent director is elected by and from the independent members of the board (the role may alternatively reside with a presiding director, vice chairman, or rotating lead director; however, the director must serve a minimum of one year in order to qualify as a lead director). The lead director should also have clearly delineated and comprehensive duties, which should include, but are not limited to the following:

- › serves as liaison between the chairman and the independent directors;
- › approves information sent to the board;
- › approves meeting agendas for the board;
- › approves meeting schedules to assure that there is sufficient time for discussion of all agenda items;
- › has the authority to call meetings of the independent directors;
- › if requested by major shareholders, ensures that he or she is available for consultation and direct communication.

4. How will ISS consider board tenure?

Board tenure may be a contributing factor in determining a vote recommendation for independent chair shareholder proposals, but will be considered in aggregate with other factors. Concurrence of director/CEO tenure, lengthy directorships, or high average director tenure, may be considered. These concerns will be considered in the context of the overall leadership structure in determining whether the proposal presents the best leadership structure at the company.

5. How does ISS consider company performance?

ISS will consider one-, three-, and five-year TSR when evaluating company performance. Performance over the long-term will be weighed more heavily than short-term performance. Performance will be considered a significant factor in the holistic analysis of independent chair proposals.

6. How will the scope of a proposal have an effect on ISS' analysis?

ISS will consider the scope of the request as presented in the resolved clause of the proposal. In general, proposals crafted so as not to violate any existing agreements or seeking implementation of the policy at the next leadership transition may be viewed more favorably than a prescriptive proposal seeking immediate separation for the CEO and chairman roles.

7. What problematic governance practices could be considered as reasons to support a proposal?

Governance practices that will be viewed negatively in the holistic review for independent chair proposals may include, but are not limited to:

- › problematic compensation practices;
- › multiple related-party transactions or other issues putting director independence at risk;
- › failures of risk oversight;
- › adoption of shareholder-unfriendly bylaws without seeking shareholder approval;
- › failure of a board to adequately respond to majority-supported shareholder proposals or directors who do not receive majority support; and
- › flagrant actions by management or the board with potential or realized negative impacts on shareholders.

8. Will ISS consider a company's rationale for maintaining a non-independent chair?

Yes. ISS will consider the company's rationale as a factor that may be applicable in the holistic review. A "compelling" rationale will be subject to a case-by-case evaluation. For example, ISS will consider how the board's current leadership structure benefits shareholders and/or specific factors that may preclude the company from appointing an independent chair, if such disclosure by the company is provided.

9. Is there any action short of appointing an independent chair that would be considered a sufficient response to a majority-supported independent chair proposal?

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/Chair would also be considered responsive.

Partial responses will be evaluated on a case-by-case basis, depending on the disclosure of shareholder input obtained through the company's outreach, the board's disclosed rationale, 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 immediately. For example, through their outreach, a company may learn that shareholders are concerned about the lack of a lead director, weaknesses in the lead director's responsibilities, or the choice of lead director. 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 majority vote and subsequent actions to address the issue will be reviewed accordingly.

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