2017-2018 ISS Global Policy Survey

Summary of Results

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Introduction

A key part of ISS' annual global benchmark policy formulation process is a survey which is open to institutional investors, corporate executives, board members and any other interested constituencies. For the 2017-2018 policy cycle, the survey was in two parts: (1) a short, high-level Governance Principles Survey covering a limited number of topical corporate governance areas and (2) a longer, more detailed supplemental survey allowing respondents to drill down into a wider set of key issues at market and regional levels. This document summarizes the findings of the Governance Principles Survey, which closed on August 31. The supplemental survey will remain open until October 6, 2017, at 5 PM (ET).

The response to the Governance Principles Survey was strong. In total, ISS received 602 responses to the survey, from a total of 571 different organizations. Responses were received from 121 institutional investors, representing 116 organizations, including 103 asset managers and 18 asset owners. An additional 10 responses were received from organizations that represent or provide services to institutional investors; these results were aggregated with the investor responses, bringing the total investor responses to 131. Two investors provided responses to ISS after the survey's deadline, which were not aggregated in the results. For purposes of this report, survey results are based on 129 “investor” responses.

Responses were also received from 382 corporate issuers, several of whom submitted multiple responses. Additional non-investor survey responses were received from 46 consultants/advisors to companies; 28 corporate directors; and 13 organizations that represent or provide services to issuers. Responses from these corporate constituents were aggregated with the issuer responses, bringing the total "non-investor" responses to 469.

As in past years, the largest number of respondents – more than 400 in all – were from organizations based in the United States, with 51 from groups based in Canada, and 84 from groups based in Europe and/or the U.K. Responses were also received from organizations in, but not limited to, Australia, Hong Kong, Singapore, India, Brazil, Russia and Bermuda. Many respondents have a focus that goes beyond their own home country.

Primary Market of Focus	Investor	Non-Investor
Global (most or all of the below)	49%	19%
U.S.	28%	62%
Continental Europe	7%	4%
Asia-Pacific	5%	3%
U.K.	4%	2%
Canada	3%	6%
Developing/emerging markets generally	2%	0%
Other (includes Australia, Switzerland, or combination of two other markets)	2%	1%
Latin America	0%	1%

The breakdown of investors by the size of their assets owned or assets under management was as follows:

Asset Size	% of Investor Respondents
Under $100 million	2%
$100 million - $500 million	9%
$500 million - $1 billion	4%
$1 billion - $10 billion	19%
$10 billion - $100 billion	26%
Over $100 billion	35%
Not applicable	6%

Some of the respondents answered every survey question; others skipped one or more questions. Throughout this report, response rates are calculated as percentages of the valid responses received on each particular question from investors and from non-investor respondents, excluding blank responses. Survey participants who filled out the "Respondent Information" but did not answer any of the policy questions were excluded from the analysis and are not part of the breakdown of respondents above.

Key Findings

One-Share One-Vote Principle

The global debate over shareholders' voting rights and multi-class share schemes has exploded in recent years thanks to a series of high-profile share issuances that deviated from one-share, one-vote. The recent initial public offering of Snap Inc. in the U.S., which offered only non-voting shares to the public, raised the stakes.

ISS solicited respondents' views on multi-class capital structures that carry unequal voting rights.

Among investors, a large minority (43 percent) indicated that they considered unequal voting rights are never appropriate for a public company in any circumstances. An equal proportion of investors (43 percent) said unequal voting rights structures may be appropriate in the limited circumstances of newly-public companies if they are subject to automatic sunset requirements or at firms more broadly if the capital structure is put up for periodic reapproval by the holders of the low-vote shares. Only five percent of investor respondents agreed with the opinion that companies should be allowed to choose whatever capital structure they see fit.

Among non-investors, 50 percent responded that companies should be allowed to choose whatever capital structure they see fit, while 27 percent responded that a multi-class structure may be appropriate at a newly public company if subject to an automatic sunset provision or more broadly if reapproved on a periodic basis by the low-vote shareholders. Only 11 percent responded that multi-class structures with unequal voting rights are never appropriate for a public company in any circumstances.

Among investors, one respondent commented that "where the existence of multiple share classes creates a ‘controlling entity’ as a minimum the board must be able to demonstrate how it can operate independently of that entity." Several non-investor respondents indicated that companies should be allowed to choose their own corporate structure given that shareholders can choose not to invest in the issuer's shares if they dislike the structure.

Gender Diversity on Boards

The global focus on increasing gender diversity in corporate boardrooms has grown in recent years. ISS asked respondents if they would consider it problematic if there are zero female directors on a public company board. More than two-thirds (69 percent) of investor respondents said "yes." The lion's share of these respondents (43 percent) said that the absence of women directors could indicate problems in the board recruitment process, while 26 percent of investor respondents said that although a lack of female directors would be problematic, their concerns may be mitigated if there is a disclosed policy/approach that describes the considerations taken into account by the board or the nominating committee to increase gender diversity on the board. Fewer than one in ten (8 percent) of investor respondents agreed with the statement that directors are best suited to determine the board composition and that a lack of women directors is not necessarily problematic.

Slightly less than one-quarter (23 percent) of the investor respondents indicated that they may find the lack of female directors on a board to be problematic based on a case-by-case analysis. Among the factors cited by investor respondents in making such a case-by-case determination were: the appropriateness of the existing directors based on their experience and skill sets; whether the board is composed of people who are capable of representing shareholders; company size; and turn-around situations.

Of the investor respondents who indicated that the lack of female directors on a public board is or could be problematic, the highest number cited engagement with the board and/or management as the most appropriate response. The second most popular response was to consider supporting a shareholder proposal aimed at increasing diversity. The investor respondents' third-highest favored action was supporting a shareholder-nominated candidate.

A majority (54 percent) of the non-investor respondents answered "yes" when asked if the absence of a single woman director on a board is problematic, although more than half of these respondents said their concerns might be mitigated by a company's disclosed policy or approach. Only around one of every five (19 percent) of non-investor respondents said that a lack of diversity was not a concern given that sitting directors are best suited to determine board composition. Of those non-investor respondents who indicated that the absence of female directors on the board may be problematic based on a case-by-case determination, comments often mirrored those of the investor respondents with respect to taking directors' experience and skill sets into consideration. Other non-investor commenters expressed concern about adopting "quotas," or a one-size-fits-all policy applicable to all industries and all types of companies.

Like the investor respondents, non-investors' most commonly preferred investor action in response to a lack of gender diversity was engagement with the board and management. Unlike the investor respondents, however, the non-investors favored votes against members of the nominating committee rather than support for a shareholder nominee to the board.

Share Issuance and Buyback Proposals

Cross-market companies (i.e. incorporated in one country, listed in one or more others) can create unique corporate governance challenges given differences in legal requirements, listing standards and market norms. Voting on share issuances and buybacks at cross-market companies can be particularly complex given significant market-specific differences in shareholders' rights to approve or ratify such capital allocation issues.

ISS asked survey respondents to provide their views on share issuances and buybacks as a general matter.

Among the investor respondents, 13 percent indicated that both share issuances and buybacks are matters for the board to decide. Forty-four percent of the investor respondents said that both share issuances and buybacks should generally be voted upon by shareholders. More than one-quarter (27 percent) of the investor respondents indicated their preference for shareholder votes on share issuances, but they favored leaving share buybacks to the board's discretion. Combining these results, more than seven out of ten of the investor respondents favored votes on share issuances while less than half of them called for votes on buybacks.

Among non-investor respondents, a significant majority (61 percent) supported the view that both share issuances and buybacks are matters for the board to decide.

As a follow-up question, respondents were asked to provide their views specifically on share issuance and buyback proposals at U.S.-listed, but non-U.S.-incorporated companies.

Investors' responses were split. More than one-third (36 percent) of the investors agreed that since the proposals are on the ballot due to the laws of the market of incorporation, the company should follow the customary practices of that market. At the other end of the spectrum, 26 percent of the respondents indicated that as long as the company follows customary U.S. capital market practices, the proposal should be treated as routine, so as not to disadvantage a cross-market firm vis-à-vis its US-domiciled peers. One-quarter of the investors supported a hybrid approach that is less restrictive than many European markets' best practices but that protects shareholders from excessive dilution in situations not covered by NYSE and NASDAQ listing rules.

On the other hand, a majority of the non-investor respondents (55 percent) supported the view that as long as the company follows customary U.S. capital market practices, the proposal should be treated as routine, so as not to disadvantage a cross-market firm vis-à-vis its U.S.-domiciled peers.

Virtual/Hybrid Meetings

In the U.S., UK and some other markets worldwide, companies are permitted to use electronic means of communication to facilitate the participation of shareholders at general meetings. While there are benefits to allowing shareholders to participate remotely, some investors have raised concerns that replacing physical meetings with virtual-only meetings may hinder meaningful exchanges between board members and shareholders.

Survey respondents were asked to provide their view on the use of remote means of communication for facilitating shareholder participation at general meetings, i.e., "hybrid" or "virtual-only" shareholder meetings.

About one out of every five (19 percent) of the investors said that they would generally consider the practice of holding either "virtual-only" or "hybrid" shareholder meetings to be acceptable, without reservation. At the opposite extreme, 8 percent of the investors did not support *either* "hybrid" or "virtual-only" meetings. More than one-third (36 percent) of the investor respondents indicated that they generally consider the practice of holding "hybrid" shareholder meetings to be acceptable, but not "virtual-only" shareholder meetings. Another 32 percent of the investor respondents indicated that the practice of holding "hybrid" shareholder meetings is acceptable, and that they would also be comfortable with "virtual-only" shareholder meetings if they provided the same shareholder rights as a physical meeting.

Among non-investor respondents, a plurality (42 percent) indicated that "virtual-only" or "hybrid" shareholder meetings are acceptable without reservation. However, among the majority of non-investor respondents who did not support that view, 22 percent indicated that, generally, the practice of holding "hybrid" meetings is acceptable, and they would also be comfortable with "virtual-only" meetings if they provided the same shareholder rights as a physical meeting, while 15 percent did not support the practice of holding either "hybrid" or "virtual" meetings.

Pay Ratio Between Senior Executives and Employees

Barring some last minute legislative roadblock, U.S. issuers will be required to disclose the ratio of CEO pay to the pay of the median company employee in their proxy statements for the 2018 season. Similar pay ratio information will also be required of UK companies from 2018. In anticipation of these new disclosures, ISS asked respondents how they intend to analyze data on pay ratios.

Somewhat surprisingly, only 16 percent indicated that they are not planning to make use of this new information. Nearly three-quarters of the investor respondents indicated that they intend to either compare the ratios across companies/industry sectors, or assess year-on-year changes in the ratio at an individual company or use both of these methodologies. Of the 12 percent of investors who selected "other" as their response, some of them indicated a wait-and-see approach while other comments indicated uncertainty or concerns regarding the usefulness of the pay ratio data.

Among non-investor respondents, a plurality (44 percent) expressed doubt about the usefulness of such pay ratio data. Many of them expressed skepticism that the data would be meaningful, with one non-investor respondent commenting: "For a company having a widespread international exposure, the pay ratio is considered irrelevant." Other commenters cited a variety of factors that would complicate peer comparisons, including demographic and geographic disparities and the use of part-time or contract workers. Notably, however, 21 percent of the non-investor respondents indicated that they intend both to compare the ratios across companies/industry sectors and assess year-on-year changes in the ratio at an individual company.

Respondents were also asked how shareholders should use disclosed data on pay ratios. Among investor respondents, the most frequent response was to use it as one data point in determining votes on compensation-related resolutions, followed by using it as background material for engagement with the company. Among non-investor respondents, the most frequent response was that the information as disclosed will not be meaningful to shareholders.

Appendix: Detailed Survey Responses

Survey results are based on 129 investor responses (primarily asset managers and asset owners) and 469 responses from non-investors (primarily companies and their advisers), reflecting more than one response from some organizations.

For questions that allowed multiple answers, rankings are based on the number of responses for each answer choice. Percentages for other questions may not equal 100 percent due to rounding.

1. One-Share, One-Vote Principle

The "one-share, one-vote principle" – the idea that long-term shareholder value is best protected by a capital structure in which voting power corresponds to each shareholder's ownership stake and at-risk capital commitment – is increasingly under attack as some companies have sought to access public capital markets while insulating themselves and their management teams from perceived short-term pressures through differential voting rights. The recent IPO of Snap Inc. in the U.S. pushed the envelope by offering shares to the public with no voting rights at all. A number of other companies, such as Alphabet, Facebook and Blue Apron, utilize capital structures where public shareholders may only purchase low or zero voting rights shares. As stock markets increasingly find themselves in global competition for high-profile listings (e.g. Alibaba Group Holding, Saudi Aramco), they may feel pressure to relax or eliminate long-standing rules designed to protect investors. Short-term demand for a "hot" stock can potentially make it appear as if shareholders, as a group, do not place a high priority on voting rights. Some investors who purchase shares in an IPO may not prioritize good corporate governance and shareholder rights if they do not plan to hold their shares for the long term. Meanwhile, long-term shareholders who may normally prioritize good governance may nevertheless be forced to buy shares of companies with substandard shareholder rights as soon as those firms are included in a major stock index.

Which of the following represents your organization's view of multi-class capital structures with unequal voting rights?

	Investor	Non-Investor
Companies should be allowed to choose whatever capital structure they see fit.	5%	50%
They are never appropriate for a public company in any circumstances.	43%	11%
They may be appropriate for certain newly-public companies, but should be subject to an automatic sunset provision based on time elapsed since the IPO.	18%	9%
They may be appropriate for certain newly-public companies, but should be subject to an automatic sunset provision based on the market capitalization of the company.	7%	5%
They may be appropriate for certain public companies, but should be subject to periodic reapproval by the holders of the low-vote shares.	18%	13%
Other	9%	12%

2. Gender Diversity on Boards

The focus on gender diversity in corporate boardrooms has increased in numerous markets in recent years. Many of these markets have implemented enhanced disclosure requirements, best practice recommendations or regulatory quotas to drive increased female representation on public company boards. Despite this heightened attention, there have been varying levels of progress amongst companies in increasing the number of female directors on boards and some institutional investors continue to express frustration with a perceived lack of progress in boosting gender diversity in certain markets or industry sectors.

Does your organization consider it to be problematic if there are zero female directors on a public company board?

	Investor	Non-Investor
Yes, the absence of at least one female director may indicate problems in the board recruitment process.	43%	25%
Yes, but concerns may be mitigated if there is a disclosed policy/approach that describes the considerations taken into account by the board or the nominating committee to increase gender diversity on the board.	26%	29%
No, directors are best-suited to determining the composition of the board.	8%	19%
Maybe, but the level of concern is based on a case-by-case determination (e.g., it depends on the country; type of company; industry sector or other factors) (Please specify below)	23%	27%

If your organization answered "Yes" or "Maybe" to the preceding question, what actions do you consider may be appropriate for shareholders to take at a company that lacks any gender diversity on the board, and/or has not disclosed a policy on the issue? (Check all that apply)

	Investors' Rank*	Non-Investors' Rank*
Engage with the board and/or management	1 (92)	1 (312)
Consider supporting a shareholder proposal aimed at increasing diversity	2 (83)	2 (82)
Consider supporting a shareholder-nominated candidate to the board	3 (60)	5 (39)
Consider voting against all members of the nominating/governance committee	5 (45)	4 (46)
Consider voting against the chair of the nominating/governance committee	4 (53)	3 (50)
Consider voting against the chair of the board or lead director	6 (42)	6 (35)
Consider voting against the Report & Accounts (in markets where this is an option) reflecting poor disclosure of gender diversity	7 (18)	8 (4)
Other	8 (3)	7 (21)

*Rankings are based on number of responses for each answer choice.

3. Share Issuance and Buyback Proposals

Rules regarding shareholder approval of share issuances and buybacks vary by market. US listing rules do not require shareholder approval for share repurchases, and only require shareholder approval for share issuances in excess of 20 percent of issued capital where such issuances are private placements at a price below book value or market value, or where the issuances will result in a change of control or are in connection with an acquisition. Any other share issuances, up to the number of shares authorized in the charter, do not require a shareholder vote. By contrast, many European markets in principle require shareholder approval of all share issuances and share buybacks, but allow companies to seek approval for annual mandates covering share issuances during the coming year, up to a specified percentage of issued capital, or share buybacks during the coming year.

These differing approaches to shareholder approval of share issuances and buybacks create challenges at cross-market companies. US-listed companies incorporated in markets such as the UK, Ireland and the Netherlands may, for example, be required by the laws of their country of legal domicile to seek shareholder approval for share issuances or share repurchases that would not otherwise be required under the rules of their stock market listing. In such a situation, ISS currently evaluates such proposals under the policy of the country of incorporation. However, such policies are generally aligned with local listing rules or codes of best practice, which may not strictly apply to companies not listed in those markets. Also under consideration however is that companies that are incorporated in markets requiring shareholder votes on issuances and repurchases often have a relatively large number of authorized but unissued shares, compared to their US-domiciled counterparts, and therefore the potential for dilution is correspondingly greater. Moreover, regulations and best practice codes, particularly in the UK and Ireland, distinguish between share issuances with and without preemptive rights, while preemptive rights have all but disappeared from the US market.

In light of these issues, ISS is currently reviewing its policies applicable to share issuances and buybacks at such cross-market companies.

As a general matter, which of the following best matches your organization's views?

	Investor	Non-Investor
Share issuances and buybacks are matters for the board of directors to decide	13%	61%
Share issuances and buybacks should generally be voted upon by shareholders	44%	8%
Share issuances should be voted upon by shareholders, but share buybacks should be left to the board's discretion	27%	14%
It depends on the market	13%	9%
Other	4%	9%

Which of the following best describes your organization's view of share issuance and buyback proposals at US-listed, but non-US- incorporated companies?

	Investor	Non-Investor
As long as the company follows customary US capital market practices, the proposal should be treated as routine, so as not to disadvantage a cross-market firm vis-à-vis its US-domiciled peers.	26%	55%
As the proposals are on the ballot due to the laws of the market of incorporation, the company should follow the customary practices of that market.	36%	18%
A hybrid approach is called for, to protect shareholders from excessive dilution in situations not covered by NYSE and NASDAQ listing rules, while being less restrictive than European best practices.	25%	11%
Other (please specify)	14%	16%

4. Virtual/Hybrid Meetings

In the US, UK and some other markets worldwide, companies are permitted to use electronic means of communication to facilitate the participation of shareholders at general meetings. In some cases, companies may employ technological means to allow such participation as a supplement to the physical meeting (these are known as "hybrid meetings"), while in other cases the "virtual shareholder meeting" entirely supplants the physical meeting. In the UK, a number of companies have sought or are seeking shareholder approval to amend their articles of association in order to be able to hold hybrid or virtual-only shareholder meetings. In the US, companies have generally made the switch to a hybrid or virtual-only meeting without a shareholder vote, following changes in state laws on the matter.

Currently, the practice of holding virtual shareholder meetings is rare in the UK: only one company held a virtual meeting in 2016 and 2017. In the US, the practice is more widespread: over 160 companies held virtual-only meetings in the first half of 2017, and an additional 16 companies held hybrid meetings. Allowing shareholders to take part remotely can increase participation, and eliminating the physical meeting can reduce costs. However, some investors have raised concerns about the trend toward abandoning physical meetings, arguing that virtual-only meetings may hinder meaningful exchanges between management and shareholders, or allow management to avoid uncomfortable questions.

Please describe your organization's view on the use of remote means of communication for facilitating shareholder participation at general meetings, i.e., "hybrid" or "virtual-only" shareholder meetings.

	Investor	Non-Investor
My organization generally considers the practice of holding "virtual-only" or "hybrid" shareholder meetings to be acceptable.	19%	42%
My organization generally considers the practice of holding "hybrid" shareholder meetings to be acceptable, but not "virtual-only" shareholder meetings.	36%	9%
My organization generally considers the practice of holding "hybrid" shareholder meetings to be acceptable, and would also be comfortable with "virtual-only" shareholder meetings if they provided the same shareholder rights as a physical meeting.	32%	22%
My organization does not support the practice of holding "hybrid" or "virtual" shareholder meetings.	8%	15%
Other	5%	12%

5. Pay Ratio Between Senior Executives and Employees

Beginning in 2018 (unless the rule is repealed prior to implementation), U.S. issuers will be required to report in their proxy statement the ratio of CEO pay to the pay of the median company employee. Similar rules have been proposed in the UK, where companies are already required to compare the year-on-year percentage change in compensation between the CEO and other employees (though long-term incentives are excluded). The EU Shareholder Rights Directive, which member states will have to incorporate into their local laws by 2019, requires disclosure of the annual change in each executive's pay over five years, along with company performance and the change in average employee pay.

How does your organization intend to analyze data on pay ratios?

	Investor	Non-Investor
Compare the ratios across companies/industry sectors	6%	12%
Assess year-on-year changes in the ratio at an individual company	3%	8%
Both of the above	63%	21%
My organization is not planning to use this information	16%	44%
Other	12%	16%

In your organization's view, how should shareholders use disclosed data on pay ratios? (Check all that apply)

	Investors' Rank*	Non-Investors' Rank*
As one data point in determining votes on compensation-related resolutions	1 (81)	3 (86)
As one data point in determining votes on directors	3 (49)	4 (29)
As background material for engagement with the company	2 (71)	2 (97)
As a risk factor to be weighed in making investment decisions	4 (46)	5 (28)
The information as disclosed will not be meaningful to shareholders	5 (16)	1 (248)
Other	6 (11)	4 (29)

*Rankings are based on number of responses for each answer choice.

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