

# U.S. Policy – Director Elections – Board Gender Diversity

## Background and Overview

Many shareholders are increasingly voicing their concerns about U.S. companies that have no female representation on their boards. According to ISS' 2018 Governance Principles policy survey results, only three percent of the investor respondents answered that they did not consider the lack of board gender diversity to be problematic. Furthermore, some studies have found that board gender diversity is positively correlated to better company performance. The presence of at least one female director on a board has become the market norm. In 2017 and at the time of their annual meetings, 87 percent of the companies in the S&P 1500 and 84 percent of the Russell 3000 Index had at least one woman on the board.

Beginning in 2018, ISS proxy research reports began noting where a company's board lacked gender diversity. However, no adverse recommendations were issued on directors' elections for this reason. ISS now proposes a new voting policy on directors for companies with no female directors serving on their boards.

## Key Changes Under Consideration

The proposed policy would be effective for meetings on or after Feb. 1, 2020 and would be applicable for companies in either the Russell 3000 or S&P 1500 Indices. After the 2019 grace period, adverse voting recommendations may be issued against nominating committee chairs at boards with no gender diversity. ISS will generally issue recommendations against the election of the chair of the nominating committee, but on a case-by-case basis, the elections of other directors who are responsible for the board nomination process may be impacted (for example, at companies with no formal nominating committee). As proposed, in special circumstances, the policy would allow the absence of board gender diversity to be temporarily explained and excused.

The proposed new policy would read as follows:

For companies in the Russell 3000/S&P1500, effective for meetings on or after Feb. 1, 2020, generally vote against or withhold from the chair of the nominating committee (or other directors who are responsible for the board nomination process on a case-by-case basis) at companies when there are no female directors on the board. Mitigating factors that may be considered include:

- a firm commitment, as stated in the proxy statement and/or other SEC filings to appoint at least one female director to the board in the near term (before the next annual general meeting);
- the presence of at least one female director on the board at the immediately preceding annual meeting; and/or
- any other compelling factors considered relevant on a case-by-case basis.

## Intent and Impact

The proposed policy update would reflect investors' strong support for increasing the gender diversity of the membership of corporate boards.

If gender diversity trends continue at the same pace that they have for the past few years, approximately 10 percent of the companies in the Russell 3000 are estimated to be impacted at the time of implementation of the proposed policy. Fewer than 20 companies are in the S&P 1500 but not in the Russell 3000. Of those, only a small number has no board gender diversity currently.

## Request for Comment

While we will appreciate any comments on this topic, ISS specifically seeks feedback on the following:

- Under what circumstances should ISS consider recommending against directors other than the chair of the nominating committee (e.g., full nominating committee; full board; board chair, controlling shareholder)?
- What mitigating factors other than those specified in the proposed policy would temporarily excuse the absence of a female director on a company's board? What weight would your organization give to those factors?
- What should be considered to be an appropriate time commitment to appoint a female director to an all-male board? Why?
- Does your organization agree with the one-year transition period to implement the proposed policy? If not, please explain.