

Please see below Legal & General Investment Management's feedback on the 2019 Benchmark policy consultation:

## **Board**

- **Board Gender Diversity (US)**

1. **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)?**

When the nomination committee chair is not up for re-election. Or as an escalation policy where improvements to boardroom diversity have not been illustrated over 1 year and therefore all members of the nomination committee should be voted against as all are responsible for this issue.

2. **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?**

Exceptional circumstances may include where a female has stepped down from the board just before the AGM, or where, due to personal issues, the only female board member has to unexpectedly step down from the board. Exceptional factors should be considered as just that – exceptional – rather than the norm. Therefore such circumstances should be considered carefully in light of broader company commitment to this issue.

3. **What should be considered to be an appropriate time commitment to appoint a female director to an all-male board? Why?**

We believe that a year is sufficient time for a company to appoint a female director to an all-male board as companies should already have in place a robust nomination and succession policy that incorporates diversity, ensuring that they have the widest pool of talent available.

4. **Does your organization agree with the one-year transition period to implement the proposed policy? If not, please explain**

Yes, once ISS' revised policy has been released, we believe that a year is sufficient time for a transition period to vote action being taken. As above, we believe that companies should already have a well-established nomination and succession policy that takes into account diversity.

- **Board Gender Diversity (Canada)**

1. **Does your organization support the proposed expansion of the policy beyond Composite Index issuers for the 2019 proxy season?**

Yes, due to the large number of non-composite companies without women on the board.

2. **Are there any additional policy exemptions that should be considered? If so, please detail.**

No, although we do not agree with the current exemption that newly listed companies or companies that have moved from the TSX Venture exchange should not be included. Having

a robust diversity policy and strategy and female representation on the board can lead to value creation and therefore should not be applicable only to larger or listed companies. We believe that companies considering their IPO should be in an ideal position to create the best board of directors ahead of listing and that smaller companies should also be responding to this critical issue.

**3 Should the disclosure (or lack of disclosure) of a timeframe for the implementation of stated goals/targets be considered when evaluating a company's formal gender diversity policy? If so, what would you consider as a reasonable timeframe for the implementation of such goals/targets?**

We are in favour of companies setting and disclosing aspirational targets for their gender diversity progress, and targets work best when there is also a time-frame implemented, as what gets measured, gets managed. We would not suggest a time-frame for a company, as it is up to the company to set an appropriate time frame and targets based on their current levels. We would expect a company to explain why specific targets and time-frames have been set and why this is appropriate for them.

**4 Are there any additional issues, other than those mentioned above, that should be considered when evaluating a company's formal gender diversity policy?**

We also encourage companies to be as transparent as possible about the initiatives they have implemented to illustrate how they are tackling the development of the pipeline which is critical to getting more women into senior leadership positions.

- **Board independence & disclosure (Taiwan)**

- LGIM welcomes ISS' new policy language.

**1. Does your organization agree that ISS should consider the level of board independence in evaluating director elections at Taiwanese companies? If yes, should the proposed policy be implemented after a one-year transition period?**

- Yes ISS should consider the level of board independence in evaluating director elections at Taiwanese companies.
- We do not believe a transition period is necessary– ISS' new policy will help to effectively push companies to adopt global best practice independence standards.

**2. Should ISS issue negative vote recommendations on the statutory director and/or supervisor candidates when the identities of their representatives are not disclosed at the moment of election beginning with the 2019 proxy season or after a transition period (please specify the beginning year)?**

- Yes.
- LGIM believes the individual appointment of directors is an essential shareholder right. We are therefore generally not in favour of resolutions on the appointment of legal entities instead of named individuals.
- No transition period should be put in place. This new policy should signal companies that investors want to see the identity of the individuals appointed by these legal entities or their representatives disclosed. LGIM considers disclosure of this information a minimum best practice standard.

- **Director independence – tenure (Latin America)**
  - LGIM welcomes the inclusion of director tenure in ISS' definition of independence for the Latin America market. We would encourage ISS to include tenure in its definition of independence globally.
- 1. **Does your organization favor the implementation of a director tenure policy determining a threshold above which all directors would be classified as non-independent?**
  - Yes as we believe a director's tenure may impair their independence.
- 2. **If you answered yes to the previous question, is 12 years a reasonable tenure limit for such proposed policy?**
  - Yes. Whilst different regions have different best practice guidance on this issue, LGIM expects all companies globally to put in place an individual director term limit of a maximum of 12 years.
- 3. **Are there any additional factors that should be considered when evaluating a director's tenure as a determining factor for a director's classification?**
  - No additional comment.
- **Director independence (Japan)**
  - 1. **Does your organization consider it appropriate to regard directors and statutory auditors associated with companies whose shares are held for reasons other than pure investment purposes (for instance, in order to strengthen business relationships) as affiliated outsiders?**
    - Yes.
  - 2. **Under current Japanese disclosure rules, all cross-shareholding shares whose book value on the balance sheet exceeds one percent of capital must be disclosed. If a company holds such shares in fewer than 30 other companies, then 30 companies, including companies whose shares held do not exceed the one-percent threshold, need to be disclosed in the order of book value on the balance sheet. Do you consider it appropriate to use this definition of cross-shareholding under the current disclosure rules in implementing the proposed policy? If not, what definition do you consider appropriate?**
    - Yes. LGIM already includes cross shareholdings in its definition of independence on a global scale. We believe the proposed definition is appropriate.
  - 3. **Do you consider it appropriate to give a grace period (or moratorium) of one year before the implementation of the new independence criteria, in order to give companies time, if they wish, to revisit the rationale of cross-shareholding practices? If not considered appropriate, when should the new policy be implemented?**
    - No. We believe this is a pressing issue. Implementation of this new policy from 2019 will help push companies to strengthen the independence of their boards.

## **Audit related**

- **Auditor Ratification (UK/Ireland and Europe)**

- We would welcome alignment of the European policy with the UK/Ireland policy

1. **Would your organization consider the lead audit partner's involvement in a significant accounting controversy – even if this occurred at another company – to be a potential area of concern?**

- This is an issue which should be flagged to investors.
- We would like to emphasise the importance of differentiating between the situation where the lead partner identifies an accounting issue and therefore reveals an accounting controversy; and the scenario where there is a direct causal link between the lead audit partner's activities and the significant accounting controversy.
- We agree with ISS' approach that *"A negative recommendation on auditor ratification may be applied in the most severe cases, e.g. where the lead audit partner has previously been linked with a corporate failure scenario or other material destruction of shareholder value arising from fraud or other accounting issues."*

2. **Would your organization support ISS adopting in future a similar approach in other markets (outside the U.K. and Europe) where disclosure of the lead engagement partner is available?**

- Yes, a unified global approach is preferable as this is an important issue regardless of the region where the company is based.

- **Audit Committee Independence (Europe)**

- We welcome the extension of the current ISS European Voting Guidelines on majority audit committee independence to all countries in Continental Europe covered under the European Voting Guidelines.
- We welcome the strengthening of the policy by requiring the chair of the audit committee to be independent.

1. **Would your organization consider a non-majority independent audit committee to be of sufficient concern to warrant votes against non-independent members of the audit committee?**

- Yes.
- We would encourage ISS to go further going forward. As the audit committee plays a vital role in safeguarding investors' interests, LGIM expects all companies to have an audit committee comprised entirely of independent non-executive directors.

2. **Would your organization consider a non-independent chairman of the audit committee to be of sufficient concern to warrant a vote against the non-independent chairman of the audit committee?**

- Yes.

**3. What counterbalancing mechanisms or exceptions, if any, would your organization consider sufficient to make the presence of a non-independent chairman of the audit committee acceptable?**

- In the case where the chair is deemed non independent because of tenure only but it has been announced that a succession plan is in place and the company is looking for a successor.

**4. The future composition of an audit committee can often not be determined in cases where current committee members step down at an AGM and potential new committee members have not been disclosed by the company. Would your organization consider audit committee independence in such cases? If yes, please explain how you would evaluate audit committee independence.**

- It would not be possible to apply ISS' rule in the event where new committee members have not been disclosed.
- We encourage ISS to sanction all non- independent members of the audit committee. Where the new composition of the audit committee has not been announced, the remaining non-independent directors on this committee should be sanctioned.

- **Auditor Fees / Audit Committee (India & Asia-Pacific Regional)**

- LGIM welcomes the strengthening of ISS' policy on audit fees, however LGIM would encourage ISS to adopt a different approach and not systematically vote against all members of the audit committee (see answer to question 2.)

**1. Does your organization agree with the proposed approach to identifying excessive non-audit fees? If not, please explain.**

- Yes.

**2. If a company paid excessive non-audit fees to the auditors or if the company has not provided sufficient disclosure on the details of the auditor remuneration, should all audit committee members be held accountable? If no, please explain.**

- LGIM would suggest the following approach:
  - Where the company has paid excessive non-audit fees (more than 50% of total audit fees), we would sanction by voting **against the resolution on auditor remuneration**.
  - Where there is no resolution on ratification of auditors' fees, if there is a resolution on the ratification of auditors, we would vote against this resolution.
  - Where there is no resolution on ratification of auditors and/or ratification of auditors' fees, we would direct our vote against the **chair of the audit committee** if it can be identified. If it cannot be identified or is in his first year of appointment, we would then sanction the members of the audit committee who have been on the committee for at least a year.

3. For Bangladesh, Malaysia, Philippines, Pakistan, Thailand, and Sri Lanka, the proposed policy update is not driven by any particular change in regulation for these markets. Should ISS consider applying a transition period for implementation of its proposal? If yes, please specify the beginning year of when ISS's proposal should take effect?
- No. This is an important issue and implementation from 2019 will help press companies to align with best practice on auditor independence and enhance their disclosures on the topic.

### **Compensation**

- **Financial Performance Assessment Methodology (US and Canada)**
  1. **Under this proposed update, the framework of the primary ISS pay-for-performance model methodology is unchanged and will continue to use TSR as its main performance metric. Does your organization agree with that approach? If not, please explain.**
    - LGIM has concerns around the use of EVA for some sectors and in particular anything with intangibles. This is because the weighted average cost of capital can be tricky to calculate (and very theoretical) and it requires a large number of adjustments to be made to the reporting numbers – small differences can result in wildly different EVA numbers.
  2. **If the existing FPA screen performance measures are replaced with EVA-based measures, would you prefer that ISS continue to display GAAP performance data for informational purposes?**
    - Yes as we believe this will provide investors a more complete picture.

Kind regards,

**Marion Plouhinec**

Corporate Governance Analyst

Legal & General Investment Management, One Coleman Street, London EC2R 5AA

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