ISS Responses

1. US Policy – Director Elections – Board Gender Diversity

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)?

- If after a vote against the chair of the nominating committee, no change has taken place the following year, then a vote against the entire nominating committee or against the chairperson may be warranted

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?

- None of the stated factors are valid mitigating factors for not having at least one female director by Feb 2020.
- Moreover, in our view having one female director is a necessary but not sufficient condition to vote in favour of the nominating committee; we would also like to see a short-medium term target of reaching a better gender and overall diversity balance where this is not already in place.

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

- An appropriate time commitment would be within no more than one year.
- In addition, we believe that a medium term goal towards better gender balance (i.e. min. 30% and aspiring to 50%) would seem appropriate.

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

- While we believe companies should have been thinking about this already and therefore be in a position to have at least one female director currently in place, we understand that a one year transition period may be appropriate where this has not yet been achieved in order to identify and vet candidates.

2. US And Canada Policies – ISS Pay-For-Performance Model – Financial Performance Assessment Methodology

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.

- Not entirely. TSR is not an optimal metric; we think a 5-yr rolling free cash flow/ share would be a preferred primary metric.
- EVA is a useful metric, assuming the data on which it is calculated is transparent and freely distributed
- TSR is dependent on overall stock-market performance (mitigated if you consider relative TSR and not absolute TSR) and is not fully in the control of managers.
- EVA is a useful metric and much better than metrics such as EBITDA or Adj. EBITDA (see question below)

- Ideally we would prefer the use of a Balanced Scorecard including non-financial metrics such as sustainability performance, client net promoter score, employee engagement scores etc.
- Moreover, we think there are other important factors to consider, including:
    - Metrics should be transparent and easily verifiable;
    - Alignment to long-term performance should be preferred to short-term;
    - A significant component of compensation should be paid in shares (particularly for large packages) to be held by executives for long period of time, in order to improve alignment;
    - There should be firm caps on total amounts paid, and;
    - There should be performance thresholds below which the bonus paid is zero.

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, with the exception of EBITDA which is not relevant as, as implied in the name, it excludes a host of relevant costs.
- EBITDA (and even more so Adjusted EBITDA) is not a good metric for performance measurement for a number of reasons:
    - It does not say anything about the quality of earnings, different accounting policies being used, or industry-specific attributes.
    - It creates misalignment by potentially incentivizing management to acquire businesses to earn outsized rewards, regardless of whether these acquisitions create value for shareholders.
    - Being a P&L metric, it does not correlate with long-term shareholder value creation as it does not consider relevant cash flow elements such as working capital changes and reinvestment needs.
    - In addition, adjustments leave room for considerable discretion, for example by excluding stock-compensation from the cost base, by capitalising more costs or by using frequent restructuring programs.

3. Canada Policy – Director Elections – Board Gender Diversity (TSX-Listed Issuers)

Does your organization support the proposed expansion of the policy beyond composite index Issuers for the 2019 proxy season?

- Yes

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

- No

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?

- For basic targets such as having one female director or adopting diversity policy, no more than one year should be allowed and longer term targets would not be considered a mitigating factor.

- For more significant targets (i.e. aiming towards full gender balance) a three years target would seem appropriate

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

- Yes, issues around the actual number of female directors and targeting a more meaningful move towards true gender balance in boards should be included, as opposed to limiting to the existence of policies or minimum level of one director.

4. Taiwan Policy – director and supervisor elections – Board independence & disclosure

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. Companies need to be given fair warning of upcoming change so one year transition makes sense.

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, absolutely. Identity and CVs of candidates should always be available in advance. 2019 proxy season is reasonable.

5. India policy and Asia-pacific regional policy – Director Elections –Auditor fees

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

- We do not agree with this definition of excessive non-audit fees. Audit fees can be very low in these countries and anchoring the excessive non-audit fee definition strictly to the audit fees amount can be too restrictive.
- In our view companies should be allowed more flexibility to choose their preferred advisors in each situation.
- Audit and consultancy are also reasonably consolidated markets and so limiting the company's choices excessively could be counterproductive.

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.

- We do not agree with the proposal of issuing negative voting recommendations in all cases of excessive non-audit fees as defined in the proposal; however we do agree with the requirement for additional disclosure on this.
- We think it would be important to know, when high non-audit fees are paid to auditors, what are the reasons for it, as well as what other providers have been used (i.e. the total consulting fees paid).

6. UK/Ireland policy and European policy – auditor ratification – lead engagement partner

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?

- Yes

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

- Yes

7. European policy – director elections – audit committee independence

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

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

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?

- N/A