



# International

## Taft-Hartley Proxy Voting Guidelines Updates

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2019 Policy Recommendations

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## OPERATIONAL ITEMS

### Appointment of Auditors and Auditor Compensation

Current Taft-Hartley Advisory Services Policy, incorporating changes:	New Taft-Hartley Advisory Services Policy:
<p><b>Taft-Hartley Advisory Services Recommendation:</b> Vote for the reelection of auditors and proposals authorizing the board to fix auditor fees, unless:</p> <ul style="list-style-type: none"> <li>› The name of the proposed auditors has not been published;</li> <li>› There are serious concerns about the <del>procedures used by effectiveness of</del> the auditors;</li> <li>› The lead audit partner(s) has been linked with a significant auditing controversy;</li> <li>› There is reason to believe that the auditor has rendered an opinion, which is neither accurate nor indicative of the company's financial position;</li> <li>› <del>External auditors</del> The lead audit partner(s) <del>has</del>ve have previously served the company in an executive capacity or can otherwise be considered affiliated with the company;</li> <li>› <del>Name of the proposed auditors has not been published;</del></li> <li>› The breakdown of audit or non-audit fees is not disclosed or provided in a timely manner (in markets where such information is routinely available);</li> <li>› The auditors have been changed without explanation; or</li> <li>› Fees for non-audit/consulting services exceed a quarter of total fees paid to the auditor or any stricter limit set in local best practice recommendations or law.</li> </ul>	<p><b>Taft-Hartley Advisory Services Recommendation:</b> Vote for the reelection of auditors and proposals authorizing the board to fix auditor fees, unless:</p> <ul style="list-style-type: none"> <li>› The name of the proposed auditors has not been published;</li> <li>› There are serious concerns about the effectiveness of the auditors;</li> <li>› The lead audit partner(s) has been linked with a significant auditing controversy;</li> <li>› There is reason to believe that the auditor has rendered an opinion, which is neither accurate nor indicative of the company's financial position;</li> <li>› The lead audit partner(s) has previously served the company in an executive capacity or can otherwise be considered affiliated with the company;</li> <li>› The breakdown of audit or non-audit fees is not disclosed or provided in a timely manner (in markets where such information is routinely available);</li> <li>› The auditors have been changed without explanation; or</li> <li>› Fees for non-audit/consulting services exceed a quarter of total fees paid to the auditor or any stricter limit set in local best practice recommendations or law.</li> </ul>

#### Rationale for Change:

In the aftermath of several recent high-profile corporate failures, the role of auditors has come under significant scrutiny from a number of stakeholder groups – included among these are institutional investors and market regulators. In the UK, the most notorious example occurred in January 2018, when a FTSE 250 company declared bankruptcy only months after its previous annual report had asserted that the group had sufficient capital to continue as a going concern for at least three years. Separately, a resolution to reappoint an auditor at another publicly listed firm was overwhelmingly defeated (c. 78 percent of the votes cast were against) after accounting irregularities came to light. Similarly for Continental Europe, several corporate scandals hit blue-chip companies that were undetected by the external auditor. These incidences brought into sharper focus the need for better audit quality on publicly listed companies.

Taft-Hartley Advisory Services will note lead audit partners who have been linked with significant auditing controversies and, where they are engaged in the audit for other public companies, this track record will be raised for investor attention – even if no issues of concern have been identified at the subject company.

## BOARD OF DIRECTORS

### Director and Supervisory Board Member Elections

#### Overboarding

Current Taft-Hartley Advisory Services Policy, incorporating changes:	New Taft-Hartley Advisory Services Policy:
<p><b>Taft-Hartley Advisory Services Recommendation:</b></p> <p>In markets where detailed information is generally provided, votes against or withhold votes on individual nominees, key committee members or the entire board can be triggered by one or more of the following concerns:</p> <p>...</p> <ul style="list-style-type: none"> <li>› For TSX issuers within the Canadian market, "overboarded" will be defined as: <del>a CEO of a public company who sits on more than one outside public company board in addition to the company of which he/she is CEO (withholds would only apply on outside boards these directors sit on), OR the director is not a CEO of a public company and sits on more than four public company boards in total. However, for meetings on or after February 1, 2019, Taft-Hartley Advisory Services will vote withhold for individual director nominees who:</del> <ul style="list-style-type: none"> <li>› <del>Are n</del>Non-CEO directors and serve on more than five public company boards; or</li> <li>› <del>Are</del> CEOs of public companies who serve on the board of more than two public company besides their own – withhold only at their outside boards<sup>1</sup>.</li> </ul> </li> </ul> <p>...</p>	<p><b>Taft-Hartley Advisory Services Recommendation:</b></p> <p>In markets where detailed information is generally provided, votes against or withhold votes on individual nominees, key committee members or the entire board can be triggered by one or more of the following concerns:</p> <p>...</p> <ul style="list-style-type: none"> <li>› For TSX issuers within the Canadian market, "overboarded" will be defined as:           <ul style="list-style-type: none"> <li>› Non-CEO directors and serve on more than five public company boards; or</li> <li>› CEOs of public companies who serve on the board of more than two public company besides their own – withhold only at their outside boards<sup>1</sup>.</li> </ul> </li> </ul> <p>...</p>

<sup>1</sup> Although a CEO's subsidiary boards with publicly-traded common stock will be counted as separate boards, Taft-Hartley Advisory Services will not recommend a withhold vote for the CEO of a parent company board or any of the controlled (>50 percent ownership) subsidiaries of that parent, but may do so at subsidiaries that are less than 50 percent controlled and boards outside the parent/subsidiary relationship.

### Rationale for Change:

Given the large number of Canadian issuers that are dual-listed in both Canada and the US, the Canadian and US overboarding thresholds have been harmonized. The updated thresholds are also aligned with those [recommended](#) by the Canadian Coalition for Good Governance (CCGG). Given the significant change in policy and the potential impact on companies, a one-year grace period was provided to allow TSX reporting issuers additional time to remediate overboarding instances. As such, the new policy will be in effect commencing February 2019.

### Gender Diversity

Current Taft-Hartley Advisory Services Policy, incorporating changes:	New Taft-Hartley Advisory Services Policy:
<p><b>Taft-Hartley Advisory Services Recommendation:</b></p> <p>...</p> <ul style="list-style-type: none"> <li>› For <del>S&amp;P/TSX Composite Index</del> <b>widely-held<sup>2</sup></b> Canadian companies, generally vote withhold for the chair of the nominating committee or chair of the committee designated with the responsibility of a nominating committee, or chair of the board of directors if no nominating committee has been identified or no chair of such committee has been identified, where:                             <ul style="list-style-type: none"> <li>› The company has not disclosed a formal written gender diversity policy<sup>3</sup>; and</li> <li>› There are no female directors on the board of directors.</li> </ul> </li> </ul> <p><del>This policy will be applied to all TSX Companies starting in Feb 2019.</del></p>	<p><b>Taft-Hartley Advisory Services Recommendation:</b></p> <p>...</p> <ul style="list-style-type: none"> <li>› For widely-held<sup>2</sup> Canadian companies, generally vote withhold for the chair of the nominating committee or chair of the committee designated with the responsibility of a nominating committee, or chair of the board of directors if no nominating committee has been identified or no chair of such committee has been identified, where:                             <ul style="list-style-type: none"> <li>› The company has not disclosed a formal written gender diversity policy<sup>3</sup>; and</li> <li>› There are no female directors on the board of directors.</li> </ul> </li> </ul>

### Rationale for Change:

In [2017](#), Taft-Hartley Advisory Services introduced the board gender diversity policy for the Canadian market. That policy was applicable to TSX Composite Index companies only (approximately 244 companies), and was implemented for meetings held by Composite Index companies on or after Feb. 1, 2018. It was also announced that the policy would be expanded to a broader universe of TSX-listed issuers for 2019.

<sup>2</sup> "Widely-held" refers to S&P/TSX Composite Index companies as well as other companies that Taft-Hartley Advisory Services designates as such based on the number of clients holding securities of the company.

<sup>3</sup> Per NI 58-101 and Form 58-101F1, the issuer should disclose whether it has adopted a written policy relating to the identification and nomination of women directors. The policy, if adopted, should provide a short summary of its objectives and key provisions; describe the measures taken to ensure that the policy has been effectively implemented; disclose annual and cumulative progress by the issuer in achieving the objectives of the policy, and whether and, if so, how the board or its nominating committee measures the effectiveness of the policy.

The universe of widely-held TSX-listed companies was selected as the appropriate segment of companies listed on the Toronto Stock Exchange for the expanded application of the Canadian Board Gender Diversity Policy because these companies are widely institutionally-held, and their corporate governance practices are the subject of heightened scrutiny by institutional investors. These companies are more likely to have a formal gender diversity policy disclosed and/or at least one female director. According to ISS Analytics data, approximately 12 percent of widely-held TSX-listed companies do not have either a policy or woman on the board.

## Governance Failures

Current Taft-Hartley Advisory Services Policy, incorporating changes:	New Taft-Hartley Advisory Services Policy:
<p><b>Taft-Hartley Advisory Services Recommendation:</b></p> <p>...</p> <ul style="list-style-type: none"> <li>› Egregious actions including:                             <ul style="list-style-type: none"> <li>› Material failures of governance, stewardship, risk oversight<sup>4</sup>, or fiduciary responsibilities at the company (objectively coming to light in legal proceedings, regulatory investigation or enforcement, or other manner which takes place in relation to the company, directors or management);</li> <li>› Failure to replace management as appropriate; or</li> <li>› Egregious actions related to the director(s)' service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.</li> </ul> </li> </ul>	<p><b>Taft-Hartley Advisory Services Recommendation:</b></p> <p>...</p> <ul style="list-style-type: none"> <li>› Egregious actions including:                             <ul style="list-style-type: none"> <li>› Material failures of governance, stewardship, audit and risk oversight<sup>4</sup>, or fiduciary responsibilities at the company (objectively coming to light in legal proceedings, regulatory investigation or enforcement, or other manner which takes place in relation to the company, directors or management);</li> <li>› Failure to replace management as appropriate; or</li> <li>› Egregious actions related to the director(s)' service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.</li> </ul> </li> </ul>

### Rationale for Change:

In Australia, the Royal Commission has been uncovering governance breaches amongst directors and executives in the banks, investment/superannuation firms, life insurance companies and some smaller financial institutions. Amongst the offensive acts are the directors': distancing themselves from not having asked questions, not having fulfilled their responsibilities, covering up poor/criminal behavior when their company is investigated by a regulator, allowing their companies to charge fees to dead peoples' accounts, charging advice fees for no advice, and having been conflicted. The policies on risk and governance failures are therefore being updated to take into account audit and risk committee failures at banks where directors appear to be denying any responsibility for failures ranging from simple risk and audit systems breaches, all the way up to criminal charges against officers, breaches of anti-money laundering and terrorism funding systems.

<sup>4</sup> Examples of failure of risk oversight include but are not limited to: bribery; criminal conduct; large or serial fines or sanctions from regulatory bodies; significant adverse legal judgments or settlements against the company, directors, or management; hedging of company stock; or significant pledging of company stock.

## SHAREHOLDER PROPOSALS

### Social and Environmental Proposals

Current Taft-Hartley Advisory Services Policy, incorporating policy changes:	New Taft-Hartley Advisory Services Policy:
<p><b>Taft-Hartley Advisory Services Recommendation:</b> In determining votes on shareholder social and environmental proposals, the following factors are considered:</p> <ul style="list-style-type: none"> <li>› Whether the proposal itself is well framed and reasonable;</li> <li>› Whether adoption of the proposal would have either a positive or negative impact on the company's short-term or long-term share value;</li> <li>› Whether the company's analysis and voting recommendation to shareholders is persuasive;</li> <li>› The degree to which the company's stated position on the issues could affect its reputation or sales, or leave it vulnerable to boycott or selective purchasing;</li> <li>› Whether the subject of the proposal is best left to the discretion of the board;</li> <li>› Whether the issues presented in the proposal are best dealt with through legislation, government regulation, or company-specific action;</li> <li>› The company's approach compared with its peers or any industry standard practices for addressing the issue(s) raised by the proposal;</li> <li>› Whether the company has already responded in an appropriate or sufficient manner to the issue(s) raised in the proposal;</li> <li>› <b>Whether there are significant controversies, fines, penalties, or litigation associated with the company's environmental or social practices;</b></li> <li>› If the proposal requests increased disclosure or greater transparency, whether or not sufficient information is publicly available to shareholders and whether it would be unduly burdensome for the company to compile and avail the requested information to shareholders in a more comprehensive or amalgamated fashion; and</li> <li>› Whether implementation of the proposal would achieve the objectives sought in the proposal.</li> </ul>	<p><b>Taft-Hartley Advisory Services Recommendation:</b> In determining votes on shareholder social and environmental proposals, the following factors are considered:</p> <ul style="list-style-type: none"> <li>› Whether the proposal itself is well framed and reasonable;</li> <li>› Whether adoption of the proposal would have either a positive or negative impact on the company's short-term or long-term share value;</li> <li>› Whether the company's analysis and voting recommendation to shareholders is persuasive;</li> <li>› The degree to which the company's stated position on the issues could affect its reputation or sales, or leave it vulnerable to boycott or selective purchasing;</li> <li>› Whether the subject of the proposal is best left to the discretion of the board;</li> <li>› Whether the issues presented in the proposal are best dealt with through legislation, government regulation, or company-specific action;</li> <li>› The company's approach compared with its peers or any industry standard practices for addressing the issue(s) raised by the proposal;</li> <li>› Whether the company has already responded in an appropriate or sufficient manner to the issue(s) raised in the proposal;</li> <li>› Whether there are significant controversies, fines, penalties, or litigation associated with the company's environmental or social practices;</li> <li>› If the proposal requests increased disclosure or greater transparency, whether or not sufficient information is publicly available to shareholders and whether it would be unduly burdensome for the company to compile and avail the requested information to shareholders in a more comprehensive or amalgamated fashion; and</li> <li>› Whether implementation of the proposal would achieve the objectives sought in the proposal.</li> </ul>

**Rationale for Change:**

The update is being made to codify the factors that are already taken into consideration in Taft-Hartley Advisory Services' case-by-case analyses of environmental and social (E&S) shareholder proposals. The update makes it more explicit that significant controversies, fines, penalties, or litigation are considered when evaluating E&S shareholder proposals.

## OTHER ITEMS

### Charitable Donations

<b>Current Taft-Hartley Advisory Services Policy, incorporating changes:</b>	<b>New Taft-Hartley Advisory Services Policy:</b>
<p><b>Taft-Hartley Advisory Services Recommendation:</b></p> <p>Vote proposals seeking the approval of donations on a case-by-case basis, considering factors including, but not limited to, the following:</p> <ul style="list-style-type: none"> <li>› Size of the proposed donation request;</li> <li>› The destination of the proposed allocation of funds; and</li> <li>› The company's historical donations practices, including allocations approved at prior shareholder meetings.</li> </ul>	<p><b>Taft-Hartley Advisory Services Recommendation:</b></p> <p>Vote proposals seeking the approval of donations on a case-by-case basis, considering factors including, but not limited to, the following:</p> <ul style="list-style-type: none"> <li>› Size of the proposed donation request;</li> <li>› The destination of the proposed allocation of funds; and</li> <li>› The company's historical donations practices, including allocations approved at prior shareholder meetings.</li> </ul>

**Rationale for Change:**

Currently, the Taft-Hartley Advisory Services International policy does not provide a framework for the analysis and vote recommendation on approval of corporate donations. This inclusion will make the current policy approach more transparent and consistent.



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