

## Kathy Belyeu

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**From:** Arnaud, C. (Christelle) <christelle.arnaud@akzonobel.com>  
**Sent:** Monday, October 21, 2019 8:02 AM  
**To:** Policy  
**Cc:** Steinmetz, C. (Caroline)  
**Subject:** Comments to ISS' Proposed Policy Changes 2020

To whom it may concern,

Akzo Nobel N.V. thanks ISS to be provided the opportunity to respond to the proposed policy changes for 2020. After having reviewed the proposed policy changes, particularly those with respect to Continental Europe, it has the following comments:

- **Diversity in cases of non-contested director elections**

### Board Gender Diversity

Current ISS Policy, incorporating proposed changes:	Proposed ISS Policy:
<p><b>2. BOARD OF DIRECTORS</b></p> <p><b>Non-Contested Director Elections</b></p> <p><b>XIII. Diversity</b></p> <p><b>Diversity:</b> In terms of gender diversity, [supervisory] boards should adhere to domestic legal requirements or local best market practices or, in the absence thereof, be in line with European established practice.</p> <p>Generally vote against the chair of the nomination committee (or other directors on a case-by-case basis) when there are no female directors on the board of a widely-held company. Mitigating factors may be:</p> <ul style="list-style-type: none"><li>▪ The presence of a female director on the board at the preceding annual meeting and a firm commitment, publicly available, to appoint at least one woman director to the board within a year; or</li><li>▪ Other relevant factors as applicable.</li></ul>	<p><b>2. BOARD OF DIRECTORS</b></p> <p><b>Non-Contested Director Elections</b></p> <p><b>XIII. Diversity</b></p> <p><b>Diversity:</b> In terms of gender diversity, [super domestic legal requirements or local best ma thereof, be in line with European established</p> <p>Generally vote against the chair of the nomin on a case-by-case basis) when there are no fe widely-held company. Mitigating factors may</p> <ul style="list-style-type: none"><li>▪ The presence of a female director or meeting and a firm commitment, pu one woman director to the board wi</li><li>▪ Other relevant factors as applicable.</li></ul>

**AkzoNobel Suggestion:** The inclusion of the existence of an Executive Committee and its composition, in conjunction with the size of the BoM within the relevant mitigating factors.

To illustrate the suggestion above, AkzoNobel currently diverges from the gender target of at least 30% female and 30% male board of management members, due to the size and scale of the board of management (being only two members). AkzoNobel believes in the strength of diversity and it is believed that, due to the size and scale of the board of management, this divergence is justified as it has ensured the best candidates for the role were nominated by the Supervisory Board and appointed by shareholders. At Executive Committee level, AkzoNobel has a gender diversity with 14.29% female representative. Consequently, AkzoNobel believes that the suggestion should be taken into account in the ISS policy changes for 2020.

- Use of discretion by Remuneration Committee

### Use of Discretion by Remuneration Committees

Current ISS Policy, incorporating proposed changes:	Proposed ISS Policy:
<p><b>General Recommendation:</b> ISS will evaluate management proposals seeking ratification of a company's executive compensation-related items on a case-by-case basis, and where relevant, will take into account the European Pay for Performance Model outcomes within a qualitative review of a company's remuneration practices. ISS will generally recommend a vote against a company's compensation-related proposal if such proposal fails to comply with one or a combination of several of the global principles and their corresponding rules:</p> <p>.....</p> <p>4. Maintain an independent and effective compensation committee:</p> <p>4.1. No executives may serve on the compensation committee.</p> <p>4.2. In certain markets the compensation committee shall be composed of a majority of independent members, as per ISS policies on director election and board or committee composition.</p> <p>4.3. Compensation committees should use the discretion afforded them by shareholders to ensure that rewards properly reflect business performance<sup>1</sup>.</p> <p>---</p> <p><sup>1</sup> In cases where a remuneration committee uses its discretion to determine payments, it should provide a clear explanation of its reasons, which are expected to be clearly justified by the financial results and the underlying performance of the company.</p> <p>The remuneration committee should disclose how it has taken into account any relevant environmental, social, and governance (ESG) matters when determining remuneration outcomes. Such factors may include (but are not limited to): workplace fatalities and injuries, significant environmental incidents, large or serial fines or sanctions from regulatory bodies and/or significant adverse legal judgments or settlements.</p>	<p><b>General Recommendation:</b> ISS will evaluate ratification of a company's executive compensation-related items on a case-by-case basis, and where relevant, will take into account the European Pay for Performance Model outcomes within a qualitative review of a company's remuneration practices. ISS will generally recommend a vote against a company's compensation-related proposal if such proposal fails to comply with one or a combination of several of the global principles and their corresponding rules:</p> <p>.....</p> <p>4. Maintain an independent and effective compensation committee:</p> <p>4.1. No executives may serve on the compensation committee.</p> <p>4.2. In certain markets the compensation committee shall be composed of a majority of independent members, as per ISS policies on director election and board or committee composition.</p> <p>4.3. Compensation committees should use the discretion afforded them by shareholders to ensure that rewards properly reflect business performance<sup>1</sup>.</p> <p>---</p> <p><sup>1</sup> In cases where a remuneration committee uses its discretion to determine payments, it should provide a clear explanation of its reasons, which are expected to be clearly justified by the financial results and the underlying performance of the company.</p> <p>The remuneration committee should disclose how it has taken into account any relevant environmental, social, and governance (ESG) matters when determining remuneration outcomes. Such factors may include (but are not limited to): workplace fatalities and injuries, significant environmental incidents, large or serial fines or sanctions from regulatory bodies and/or significant adverse legal judgments or settlements.</p>

**AkzoNobel Suggestion:** The removal of the requirement that the remuneration committee should disclose how ESG has been taken into account in its discretion.

AkzoNobel believes in the importance of transparency regarding the determination of remuneration. It also believes that discretion should be used in a limited amount, to respond to unforeseen circumstances which, if not addressed, would lead to an unfair remuneration outcome. However, such discretion should not be limited to a specific set of factors, and while AkzoNobel agrees that the reasoning behind the remuneration committee's use of discretion should be clear, the scope of factors justifying the use of that discretion may not always include ESG. Consequently, AkzoNobel believes that the following paragraph should be removed from the ISS policy changes for 2020:

*"The remuneration committee should disclose how it has taken into account any relevant environmental, social, and governance (ESG) matters when determining remuneration outcomes. Such factors may include (but are not limited to): workplace fatalities and injuries, significant environmental incidents, large or serial fines or sanctions from regulatory bodies and/or significant adverse legal judgements or settlements."*

We thank you for taking into account our proposals.

Kind regards,

Christelle

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