



# INTERNATIONAL

## TAFT-HARTLEY PROXY VOTING GUIDELINES UPDATES

2020 Policy Recommendations

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## Board of Directors

### Director and Supervisory Board Member Elections

#### Attendance

Current Taft-Hartley Advisory Services Policy, incorporating changes:	New Taft-Hartley 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>▪ Attendance of director nominees at board and <b>key committee</b> meetings of less than 75 percent without valid reason or explanation;</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>▪ Attendance of director nominees at board and key committee meetings of less than 75 percent without valid reason or explanation;</li> </ul> <p>...</p>

#### Rationale for Change:

This update clarifies that Taft-Hartley Advisory Services Policy will be tracking both board and committee meeting attendance records.

## Director Accountability – Governance Failures

Current Taft-Hartley Advisory Services Policy, incorporating changes:	New Taft-Hartley 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>▪ Egregious actions including:                             <ul style="list-style-type: none"> <li>▪ Material failures of governance, stewardship, risk oversight<sup>3</sup>, or fiduciary responsibilities at <del>the</del> any company on whose board a director serves (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 or directors 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>...</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>▪ Egregious actions including:                             <ul style="list-style-type: none"> <li>▪ Material failures of governance, stewardship, risk oversight<sup>4</sup>, or fiduciary responsibilities at any company on whose board a director serves (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 or directors 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>...</p>

### Rationale for Change:

Some institutional investors have indicated their interest in tracking the boards of directors who have been indicted or convicted of felony-level offenses directly related to their corporate role (such as bribery or embezzlement) but either continue to serve on the board, or return to the board after being pardoned by the government or serving their prison sentence.

<sup>3</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.

For example, according to ISS' 2019 Global Policy Survey for companies in Korea, a majority of investor respondents indicated that either an indictment or a conviction would be considered material and relevant to assessment of the suitability of a director to serve on the board of any company. Further, regarding an executive director who has been indicted or convicted of criminal behavior, the plurality of investor and non-investor respondents indicated that a failure of a director nominee to act to remove the director is considered material to the suitability of the director nominee to serve on the board in the case of a conviction, not just an indictment.

The policy update would expand the policy application to the boards of companies on which the individual serves, reflecting investors' feedback and the changing corporate governance environment in general. The update is also intended to keep track of such directors (both the wrongdoers themselves and directors who failed to remove them) at other companies where they serve on boards.

## Overboarding

Current Taft-Hartley Advisory Services Policy, incorporating changes:	New Taft-Hartley 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:           <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 their outside boards<sup>5</sup>.</li> </ul> </li> </ul> <p><b>Transitioning directors:</b> It is preferable for a director to step down from a board at the annual meeting to ensure orderly transitions, which may result in a director being temporarily overboarded (e.g. joining a new board in March but stepping off another board in June). Taft-Hartley Advisory Services will generally</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 their outside boards<sup>4</sup>.</li> </ul> </li> </ul> <p><b>Transitioning directors:</b> It is preferable for a director to step down from a board at the annual meeting to ensure orderly transitions, which may result in a director being temporarily overboarded (e.g. joining a new board in March but stepping off another board in June). Taft-Hartley Advisory Services will generally</p>

<sup>5</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.

<p>not count a board for policy application purposes when it is publicly-disclosed that the director will be stepping off that board at its next annual meeting. This disclosure must be included within the company's proxy circular to be taken into consideration. Conversely, Taft-Hartley Advisory Services will include the new boards that the director is joining even if the shareholder meeting with his or her election has not yet taken place.</p> <p>...</p>	<p>not count a board for policy application purposes when it is publicly-disclosed that the director will be stepping off that board at its next annual meeting. This disclosure must be included within the company's proxy circular to be taken into consideration. Conversely, Taft-Hartley Advisory Services will include the new boards that the director is joining even if the shareholder meeting with his or her election has not yet taken place.</p> <p>...</p>
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**Rationale for Change:**

It is preferable for a director to step down from a board at the annual meeting to ensure orderly transitions. Therefore, flexibility is needed to address cases where directors have committed to step down from one or more outside boards and have disclosed this information leading up to the shareholder meeting.

**Gender Diversity**

Current Taft-Hartley Advisory Services Policy, incorporating changes:	New Taft-Hartley 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>▪ In continental Europe, United Kingdom, and Ireland, 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:                             <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 female director to the board within a year; or</li> <li>▪ Other relevant factors as applicable.</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>▪ In continental Europe, United Kingdom, and Ireland, 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:                             <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 female director to the board within a year; or</li> <li>▪ Other relevant factors as applicable.</li> </ul> </li> </ul> <p>...</p>

### Rationale for Change:

#### **For UK companies:**

Gender diversity at the board level has become the norm at companies traditionally associated with having better governance practices in Europe and the UK. The norms differ by country, but overall, there has been an increase in gender diversity on boards, initially spurred by different forms of requirements from market regulators or legislators. Despite the fact that the European Commission's plan to introduce a minimum 40 percent female quota did not pass in 2012, in the following years individual countries have implemented various levels of guidance (as best practice provision or hard law requirement) to ensure boards would become more diverse in terms of gender. In countries like Austria, Belgium, France, Germany, Italy, Netherlands, Norway, Portugal, Spain, and the UK, such guidance already exists. Although in countries like Denmark, Finland, Sweden, and Switzerland there are no specific guidelines on gender diverse board composition, the local code of best practice recommends that the board is sufficiently diverse and consists of male and female directors.

According to the results of ISS' 2019 Global Policy Survey, responses to a question about the importance of gender diversity on boards showed that majorities of both investors and non-investors agreed with the view that board gender diversity is an essential attribute of effective board governance regardless of the company or its market.

Based on the foregoing, having a gender diverse board has become the norm and in a large number of countries even legally required. When looking at the current average gender diversity on European boards, it is clear that increased gender diversity is the norm. Female representation on the board averages approximately 30 percent in Europe. Moreover, the number of companies with a board with no female representation is now a small minority at six percent.

## Compensation

### Executive Compensation

#### Remuneration Committee Responsiveness

Current Taft-Hartley Advisory Services Policy, incorporating changes:	New Taft-Hartley Services Policy:
<p><b>Taft-Hartley Advisory Services Recommendation:</b></p> <ul style="list-style-type: none"> <li><del>▪ Vote against other appropriate resolutions as a measure of discontent against egregious remuneration practices (as a result of one or a combination of several factors highlighted above) or where a company has not followed market practice by submitting a resolution on executive compensation.</del></li> <li>▪ Should a company be deemed: <ul style="list-style-type: none"> <li>▪ To have egregious remuneration practices;</li> <li>▪ To have failed to follow market practice by not submitting expected resolutions on executive compensation; or</li> <li>▪ To have failed to respond to significant shareholder dissent on remuneration-related proposals;</li> </ul> </li> <li><del>▪ A negative vote could be applied to any of the following resolutions on a case-by-case basis:</del></li> </ul> <p>An adverse vote recommendation could be applied to any of the following on a case-by case basis:</p> <ul style="list-style-type: none"> <li>▪ The (re)election of the chair of the remuneration committee or, where relevant, any other members of the remuneration committee;</li> <li>▪ The reelection of the board chair;</li> <li>▪ The discharge of directors; or</li> <li>▪ The annual report and accounts.</li> </ul>	<p><b>Taft-Hartley Advisory Services Recommendation:</b></p> <ul style="list-style-type: none"> <li>▪ Should a company be deemed: <ul style="list-style-type: none"> <li>▪ To have egregious remuneration practices;</li> <li>▪ To have failed to follow market practice by not submitting expected resolutions on executive compensation; or</li> <li>▪ To have failed to respond to significant shareholder dissent on remuneration-related proposals;</li> </ul> </li> </ul> <p>An adverse vote recommendation could be applied to any of the following on a case-by case basis:</p> <ul style="list-style-type: none"> <li>▪ The election of the chair of the remuneration committee or, where relevant, any other members of the remuneration committee;</li> <li>▪ The reelection of the board chair;</li> <li>▪ The discharge of directors; or</li> <li>▪ The annual report and accounts.</li> </ul> <p>This recommendation could be made in addition to other adverse recommendations under existing remuneration proposals (if any).</p>



<p><del>Failure to propose a resolution on executive compensation to shareholders in a market where this is routine practice may, by itself, lead to one of the above adverse votes regardless of the companies' remuneration practices.</del></p> <p>This recommendation could be made in addition to other adverse recommendations under existing remuneration proposals (if any).</p> <p>...</p>	
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**Rationale for Change:**

The EU 2017/828 directive on shareholder rights requires companies in all European markets to submit the executives' remuneration policy and the remuneration report to shareholder vote. It also introduces mandatory board responsiveness by requiring companies to disclose how the vote on the remuneration report was taken into account. Considering that say-on-pay votes will now be consistently submitted throughout the markets of the European Union, and that the revised directive extended board responsiveness to any vote (vs. previously: only in cases of "against" votes), it is now deemed market practice to consider shareholders' views on remuneration proposals.

This policy update addresses instances where a significant percentage of shareholders are systematically expressing dissent on pay issues with no reaction from the company or no visible change in the company's practices. It allows Taft-Hartley Advisory Services to ultimately hold the remuneration committee chair (or members, as the case may be) accountable for a lack of responsiveness on controversial pay issues when the shareholder vote has not been considered.

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