Overview & Respondent Information

ISS' Annual Policy Survey is being undertaken in two parts, with the below, high-level survey covering certain fundamental and high-profile topics including auditors and audit committees, director accountability, board gender diversity and the "one-share, one-vote" principle. This part of the survey will close on August 24, 2018, at 5pm ET.

A follow-on and more expansive portion of the survey, broken down by region, can be accessed at the end of this initial short set of questions, allowing respondents to discretely drill down into key issues across the Americas, EMEA, and Asia-Pacific. This more in-depth part of the survey will remain open until Sep. 21, 2018, at 5pm ET.

We appreciate your taking the time to provide input to this brief, 10 question survey. Your answers will help inform ISS policy development on a variety of different governance topics across global markets. Please feel free to pass on a link to this survey — ISS Governance Principles Survey— to others to whom it could be relevant, such as your colleagues operating around the globe.

For your convenience, you can download a copy of the survey for reference.

Respondents must provide verifiable information pertaining to name, title, email, and organization. However, your individual survey responses will not be shared with anyone outside of ISS and will be used only by ISS for policy formulation purposes.

If you have questions or would like to submit any further responses to any of the survey questions, please send these to policy@issgovernance.com.

* 1. Please provide contact information so we can send you a copy of the survey results.

Name	
Title	
Organization	
Valid e-mail address	
Country of domicile	

* 2. Which category best describes the organization on whose behalf you are responding?

- ○ Institutional investor (asset manager)
- ○ Institutional investor (asset owner)
- ○ Corporate issuer
- ○ Corporate director/boardmember
- ○ Consultant/advisor to corporate issuers
- ○ Other (please specify)

If you are a mutual fund, bank, or insurance company responding as a corporate issuer, please select the "corporate issuer" category in the question above.

* 3. If you are an institutional investor, what is the size of your organization's equity assets under management or assets owned (in U.S. dollars) or what is the size of your organization's market capitalization (in U.S. dollars) if you are a corporate issuer?

- Under $100 million
- $100 million - $500 million
- $500 million - $1 billion
- $1 billion - $10 billion
- $10 billion - $100 billion
- Over $100 billion
- Not applicable

* 4. What is your primary geographic area of focus in answering the survey questions?

- Global (most or all of the below)
- U.S.
- Canada
- Latin America
- Continental Europe
- U.K.
- Asia-Pacific
- Developing/emerging markets generally
- Other (please specify)

Auditors and Audit Committees

A periodic vote on auditor ratification allows shareholders to assess and express their views on a number of audit-related topics – for example, whether they consider the auditors have been responsibly examining the company's financial statements, that their reports have adequately expressed any legitimate concerns, and whether the auditor is considered sufficiently independent of the company's management. In a number of developed markets around the world, investors and regulatory bodies have started to focus on additional indicators of audit quality and auditor independence. Auditor ratification, appointment, disclosure and rotation requirements differ widely by market, but nonetheless ISS would like to assess investor and other market participants' views in this area.

5. ISS voting guidelines often consider non-audit services and fees as one factor when assessing the independence of the external auditor. In principle, what other audit-related factors could be considered in evaluation of the independence and performance of the external auditor? (Check all that apply)

- [ ] Identity of audit partner and any links to the company or its management
- [ ] Audit firm tenure
- [ ] Audit partner tenure
- [ ] Significant audit controversies
- [ ] Regulatory fines or other penalties on the company related to financial disclosure practices or weaknesses not identified in the audit report
- [ ] Regulatory fines or other penalties on the auditor for weaknesses or errors in audit practices
- [ ] Other (please specify)

6. What information should be considered by shareholders in evaluating the company's Audit Committee? (Check all that apply)

- [ ] Skills and experience of audit committee members (including number of financial experts, if applicable)
- [ ] Quality of the company's financial reporting (e.g., number of restatements; nature of restatements)
- [ ] Significant financial reporting or audit controversies
- [ ] The level of disclosure of factors used in the audit committee's assessment of the external auditor's independence, tenure, qualifications and work quality
- [ ] Frequency of audit committee meetings
- [ ] Frequency of audit committee refreshment
- [ ] Other (please specify)

Director Accountability and Track Records

Some institutional investors are interested in tracking individual directors who have been involved in controversies with respect to one or more of their past or present directorships, particularly where concerns have been raised about shortfalls in oversight. Where identified, such concerns about oversight shortfalls may trigger negative recommendations under current ISS policy for directors who held boardroom leadership roles or served on committees with direct responsibility for overseeing the activities that triggered the controversy.

7. If ISS assesses that an individual director has failed in his or her oversight responsibilities at one company and this has resulted in a negative ISS vote recommendation, do you consider it appropriate and useful for shareholders for ISS to note this in the proxy research of other companies where that director serves on the board?

- ◯ Yes, my organization would like to consider any identified oversight shortfalls by the director on other boards where he or she serves
- ◯ No, my organization considers a director's service on each board on which he or she serves on a standalone basis
- ◯ It depends (please specify)

8. What types of oversight shortfalls would you consider to be relevant to the assessment in such a situation? (Check all that apply)

- ☐ Risk oversight failures relating to fraud or other forms of corporate malfeasance
- ☐ Risk oversight failures related to business operations (such as cybersecurity)
- ☐ Oversight failures regarding protection of shareholder rights or shareholder value
- ☐ Pattern of poor stewardship of compensation practices
- ☐ Other (please specify)

9. What do you consider is an appropriate look-back period for such oversight shortfalls?

- ◯ One year
- ◯ Three years
- ◯ Five years
- ◯ No time limit
- ◯ Other (please specify)

Gender Diversity on Boards

The focus on increasing gender diversity in corporate boardrooms has increased globally in recent years. Many markets have implemented enhanced disclosure requirements, best practice recommendations and/or regulatory quotas to drive increased female representation on public company boards, and many institutional investors have publicly supported initiatives to increase board gender diversity. However, there has been limited progress in increasing the number of female directors on boards in some markets, and many institutional investors continue to express frustration with a perceived lack of progress in increasing gender diversity on individual boards, in certain markets or in certain industry sectors. ISS asked respondents in last year's policy survey if they considered it problematic if there are zero female directors on a public company board. More than two-thirds (69 percent) of investor respondents said "yes". A significant proportion of investor respondents (43 percent) said they considered that the absence of female directors could indicate problems in the board recruitment process, while 26 percent of investor respondents said that although a lack of female directors would be problematic, their concerns may be mitigated if the company had a disclosed policy/approach that describes the considerations taken into account by the board or the nominating committee to increase gender diversity on the board.

As of June 30, 2018, 16 percent of Russell 3000 companies in the U.S. had no female board directors, compared to 21 percent at the end of 2017. In each of Canada, the UK and Australia, the number of mid-to-large public companies with no female directors dropped to under four percent this year. In Japan, the number of companies with no female representation is considerably higher at 34 percent this year, but has been improving rapidly over the past few years.

ISS is revisiting the same questions we asked in last year's policy survey with respect to gender diversity on boards to identify changes, if any, in investor and non-investor views on this topic.

10. Does your organization consider it to be problematic if there are zero female directors on a public company board?

- ◯ Yes, the absence of at least one female director may indicate problems in the board recruitment process
- ◯ Yes, but concerns may be mitigated if there is a disclosed policy/approach that describes the considerations taken into account by the board or the nominating committee to increase gender diversity on the board
- ◯ Maybe, but the level of concern is based on a case-by-case determination (e.g., it depends on the country; type of company; industry sector or other factors) (Please specify below)
- ◯ No, directors are best-suited to determining the composition of the board

Other (please specify)

[ ]

11. If your organization answered "Yes" or "Maybe" to the preceding question, what actions do you consider may be appropriate for shareholders to take at a company that lacks any gender diversity on the board, and/or has not disclosed a policy on the issue? (Check all that apply)

- [ ] Engage with the board and/or management
- [ ] Consider supporting a shareholder proposal aimed at increasing diversity
- [ ] Consider supporting a shareholder-nominated candidate to the board
- [ ] Consider voting against all members of the nominating/governance committee
- [ ] Consider voting against the chair of the nominating/governance committee
- [ ] Consider voting against the chair of the board or lead director
- [ ] Consider voting against Discharge of Directors or the Report & Accounts (in markets where this is an option) reflecting poor disclosure of gender diversity
- [ ] Other (please specify)

One-Share, One-Vote Principle

***Adjusted Vote Results*. The "one-share, one-vote principle" – the idea that shareholders and long-term shareholder value is best protected by a capital structure in which voting power corresponds to each shareholder's ownership stake and at-risk capital commitment – has been challenged as some companies have accessed public capital markets with significant differential voting rights. In such cases, and for the purposes of determining board responsiveness to shareholder vote results, ISS is considering whether to provide in the future an adjusted analysis of shareholder vote results to show what the results would have been if all votes had been counted under the one-share, one-vote principle. For example, in 2018, Facebook received a shareholder proposal asking it to issue a report on the risks posed by content management controversies. The company reported that the proposal received 10.2 percent shareholder support. If the Class B shares (which are currently entitled to ten votes for each share held) were counted only as one vote each (and assuming all the Class B shareholders voted against the proposal), the proposal would have received 31 percent shareholder support.**

12. At companies with multi-class capital structures with unequal voting rights, should ISS in the future provide such adjusted vote results where possible to do so?

- ○ Yes
- ○ No
- ○ It depends (please specify)

13. Does your organization consider that ISS should use such adjusted vote results to determine the need for board responsiveness to shareholder vote results in the following year?

- ○ Yes
- ○ No
- ○ It depends (please specify)

One-Share, One-Vote Principle (Cont.)

***Sunset Provisions*: A significant minority of investors (43 percent) who responded to ISS's 2017 policy survey said that unequal voting rights structures may be appropriate in limited circumstances if they are subject to automatic sunset requirements.**

Triggers to sunset multi-class capital structures are usually either based on:

-- (i) the passage of a set amount of time, or

-- (ii) aggregate ownership level of insiders and/or the superclass falling below a certain threshold.

Alternatively, some sunset provisions utilize a combination of time and ownership triggers, usually based on whichever occurs earliest.

14. What does your organization consider is an appropriate timeframe for sunset provisions for multi-class capital structures with unequal voting rights?

- ◯ One to three years
- ◯ Four to six years
- ◯ Seven to ten years
- ◯ More than ten years
- ◯ It depends/other (please specify)

Thank you!

We appreciate you taking the the time to respond to ISS' 2019 Governance Principles Survey. For our regionally focused policy application, please click the links below:

Americas
EMEA
Asia-Pacific