

## 2016 ISS Benchmark Policy Consultation

### UNITED STATES

#### Unilateral Board Actions

1. Are there any unilateral board actions other than board classification or implementation of supermajority vote requirements to amend the bylaws or charter that you consider equally problematic in negatively impacting shareholder rights?
  - a. *We agree that board classification and implementation of supermajority vote requirements are the most problematic in negatively impacting shareholder rights.*
2. When, prior to or in connection with an initial public offering (IPO), the board classifies and implements supermajority vote requirements to amend the bylaws or charter, do you consider it appropriate to hold the directors accountable through continuing adverse vote recommendations at annual meetings following the initial public offering?
  1. *We would agree to only hold directors accountable at the first annual meetings for having implemented these most problematic features. But at subsequent meetings, it could be appropriate to consider the cumulative effect of any other unilateral bylaw/charter amendments diminishing shareholder rights such as diminishing shareholder rights to call special meetings/act by written consent, increasing authorized capital, adopting fee-shifting provisions, restricting third-party compensation liabilities for directors or director candidate, or increasing advance notice requirements. Any other unilateral amendments post-IPO should trigger adverse vote recommendations.*

#### Director Overboarding

1. Do you consider that lowering the limit for CEOs to be considered overboarded as proposed is appropriate? If not, please explain.
  - a. *Yes. We also withhold from outside CEOs but additionally withhold from the chair of the nominating/governance committee as we believe the committee chair is responsible for the company's CEO being overboarded.*
2. Do you consider that lowering the limit for non-CEOs to be considered overboarded as proposed is appropriate? If so, would you favour a limit of either five total directorships (option a.) or four total directorships (option b.)? If not, please explain.
  - a. *We support option b (four).*

#### Compensation at Externally-Managed Issuers

1. Does your organization agree that an "Against" vote recommendation for an externally-managed company's say-on-pay proposal is appropriate when the company does not provide sufficient disclosure on executives' compensation arrangements with the external manager? Please explain your answer.

- a. *Yes. We believe that lack of compensation disclosure is unacceptable, so we vote against such plans.*
2. What factors should ISS consider in gauging potential conflicts of interest underpinning executives' compensation arrangements with the external manager?
  - a. *No comment*
3. Do you see any unintended consequences that may result from the proposed policy update?
  - a. *No comment*

## **CANADA**

### Director Overboarding

*General comment: We believe the double-trigger linking overboarding with attendance below 75% should be removed, especially in light of the survey data that suggests Canadian directors are putting in over 300 hours per directorship per year. We are concerned that the quality of service could drop long before it is manifested in poor attendance.*

1. Do you consider that lowering the limit for CEOs to be considered overboarded as proposed is appropriate? If not, please explain.
  - a. *Yes but it would be more meaningful if the linkage to attendance is removed.*
2. Do you consider that lowering the limit for non-CEOs to be considered overboarded as proposed is appropriate? If not, please explain.
  - a. *We would prefer ISS remove the attendance linkage and retain the "more than six directorships" policy. But, if ISS retains the double-trigger, we would support the new policy.*
3. Do you consider that the proposed policy approach should apply to all TSX reporting issuers, or should it only apply to Composite Index companies? Please explain.
  - a. *We believe this should be applied to all TSX issuers to avoid creating two-tiered governance standards.*
4. Do you consider that the proposed implementation of the new policy approach as of 2017 proxy season is reasonable? If not, please explain.
  - a. *Given the very modest impact expected from these changes under the attendance-linked policy, we believe the new guidelines should be implemented in 2016.*

### Equity Plan Scorecard

1. Are there certain factors outlined above in our proposed scorecard approach that should be more heavily weighted when evaluating equity plan proposals? Please specify and explain.
  - a. *ISS should more heavily weight plan features and grant practices over plan costs.*
2. Do you see any unintended consequences from shifting to a scorecard approach for TSX equity plans? If yes, please specify.
  - a. *One possible consequence of a scorecard approach is that certain features are obscured by others. In addition, we do not agree with looking at dilution and burn rate on a relative basis. An expensive plan that translates into high dilution is expensive to current shareholders no matter the industry in which they operate. Looking at relative figures might accommodate an industry that might have actually relied too heavily on equity in the past. Finally, we would expect that ISS would provide clear disclosure of the scorecard methodology and assessment so that investors can still come up with their own vote recommendation based on provided information.*

### Compensation at Externally Managed Issuers

1. Does your organization support the view that the above proposed policy approach to review a range of factors is appropriate for both director elections and say on pay resolutions at externally managed companies? If not, please explain.
  - a. *Yes. We believe that lack of compensation disclosure is unacceptable, so we will generally withhold support for chairs of compensation committees.*
2. What factors should ISS also consider or perhaps remove when reviewing an EMI's compensation arrangements?
  - a. *The proposed compensation comparison to peers or similarly structured issuers should not include US peers.*
  - b. *ISS should also look for other risk mitigating factors in the services agreement such as anti-hedging/anti-pledging policies and share ownership guidelines.*

## **JAPAN**

### Board Composition

1. As thousands of Japanese companies add outsiders to their boards in a relatively short time, what is the best way to balance the need for independent oversight of management with the need for well-qualified directors with corporate management experience?
  - a. *We welcome ISS new policy to vote against top executive(s) where the board will not include at least two outside directors. bcIMC implemented in 2015 a voting policy holding top executive(s) accountable for the board not being one third independent. While we agree that director effectiveness should be considered based on relevant skill set and experience, at a*

*minimum boards should have one independent director. ISS's policy should call for a minimum of one independent director out of at least two outside directors. The qualifications of outside director, no matter their independence status, should also be addressed by investor-issuer dialogue in line with the Corporate Governance Code and the Stewardship Code.*

### Poison Pills

1. Does your organization consider the proposed policy changes appropriate? If not, why not?  
*Yes. Board independence is critical to implement poison pill and to assess takeover offers.*
2. Does your organization consider statutory auditors (who are responsible mainly for compliance and not for business judgment) qualified to be members of special committees charged with evaluating takeover offers?  
*No*

### **HONG KONG & SINGAPORE**

#### Non-Independent Chairman of Key Committee

1. Should ISS introduce the new policy to assess the independence of the chairman of the audit committee, remuneration committee and nomination committee?  
*a. Yes*
2. If the policy is introduced, should votes against non-independent director nominees be recommended due to their present chairmanship of a key committee?  
*a. Yes. As a universal practice, we do not support any non-independent directors serving on key board committees. While we recognize that the Hong Kong Corporate Governance Code provides for an exception whereby the nomination committee may be chaired by a non-independent director who also serves as the chairman of the board, we adhere to principle that all chair and members of board committees should be independent, with no exceptions. Corporate governance codes establish minimum requirements, while in our view others standard-settings bodies should set the bar for best practice.*
3. If the policy is introduced but the issue of non-independent chairmanship of key committees should not result in negative recommendations on board elections, how should the issue be addressed?  
*a. Should a non-independent director chairs a board committee such as the Audit or the Remuneration committee while not being on the ballot due to a classified board structure, a vote against the chair of the Nomination Committee should be recommended.*