November 9, 2015

Ms. Georgina Marshall
Global Head of Research
ISS Global Policy Board
702 King Farm Blvd., Ste. 400
Rockville, MD 20850

Dear Ms. Marshall:

Thank you for the opportunity to comment on your proposed 2016 voting policy updates. NACD's nearly 17,000 members closely watch the policy shifts proposed by ISS because changes in governance guidelines will in many cases directly affect them and their organizations. On their behalf, we would like to address your update on "Director Overboarding."

The ISS's current proxy voting guidelines advise boards to

> Vote against or withhold from individual directors who:
> - Sit on more than six public company boards; or
> - Are CEOs of public companies who sit on the boards of more than two public companies besides their own—withhold only at their outside boards.[1]

The ISS is now recommending a lower threshold for acceptable numbers of board appointments for both CEOs and non-CEOs:

> 1. For CEOs with outside directorships, a limit of one outside public company directorship besides their own—still to withhold only at their outside boards.
> 2. For directors who are not the CEO, we are evaluating two options:
>
>   To lower the acceptable number of total public boards from the current six (the board under consideration plus five others) to a total of either:
>
>   a. Five (the board under consideration plus four others), or
>
>   b. Four (the board under consideration plus three others).[2]

[1] Institutional Shareholder Services (ISS), *United States Summary Proxy Voting Guidelines: 2015 Benchmark Policy Recommendations* (Rockville, MD: ISS, 2015), p. 15.
[2] ISS, "Director Overboarding (US)," one of several draft policy proposals published on ISS's 2016 Benchmark Policy Consultation webpage.

NACD believes that boards know best how much time they require of their directors, and that directors are in the best position to know how much time they have to give their boards. Clear communication between boards and their members, supplemented by governance policies as needed, will always offer a better solution than arbitrary limits can provide.

A number of companies already have such policies. Consider the potentially "overboarded" CEO as a case in point. The *2015–2016 NACD Public Company Governance Survey* reports that the boards of 42% of all respondents limit the number of additional boards on which their CEOs may serve. In more than half of these cases (22% of all respondents), the number of allowable external boards for CEOs was one. Most others with such a policy report a limit of two additional boards.[3] Such policies typically set maximums and wisely allow for exceptions made at the discretion of the nominating committee. The ability to make exceptions can be very useful when boards are working through CEO and director succession issues.

NACD does not believe that imposing a numeric restriction on individual director candidates is the optimal approach. Even assuming that a director is "overboarded," it would be better to have the director decide voluntarily which outside board to resign from, rather than be summarily voted off outside boards through a mechanistic process. In NACD's view, ISS can have a more positive impact by focusing on *boards themselves and their published guidelines*, rather than on board service limits for individual director nominees.

NACD's *Key Agreed Principles*, developed in accordance with the Business Roundtable and the Council of Institutional Investors, note the importance of board candidates having adequate time to serve responsibly:

> The board may wish to articulate guidelines that encourage directors to limit their other commitments. Such guidelines assist in communicating expectations about the commitment that is expected. Given the considerable variation in individual capacity, boards should apply their judgment and assess directors' commitment through their actions, rather than through reliance on rigid standards.[4]

The *CalPERS Global Governance Principles* likewise seek to ensure that "The board adopts and discloses guidelines in the company's proxy statement to address competing time commitments that are faced when directors, especially acting CEOs, serve on multiple boards."[5] We note that the CalPERS guidelines do not prescribe particular limits, although they do cite past guidance from NACD that echoes ISS's current guidelines. At NACD we no longer publish numbers for overboarding, as this practice could have the unintended consequence of becoming a benchmark. There are certainly some cases in which even one outside board might be too much for a given director at a particular time.

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[3] National Association of Corporate Directors (NACD), *2015–2016 NACD Public Company Governance Survey* (Washington, DC: NACD, 2015), p. 40.
[4] See NACD, *Key Agreed Principles to Strengthen Corporate Governance for U.S. Publicly Traded Companies* (Washington, DC: NACD, 2009), p. 6.
[5] California Public Employees' Retirement System (CalPERS), *Global Governance Principles* (Sacramento, CA: CalPERS, Mar. 2015), p. 17.

In conclusion, we urge you to consider revising this update in such a way as to challenge boards to address this issue in their own governance guidelines. Doing so will discourage director overboarding much more effectively than implementing a one-size-fits-all voting policy.

Thank you for the opportunity to comment on this important issue. We hope our views will be used to craft a proposal that meets your clients' needs but addresses the concerns of the community of directors dedicated to building sustainable corporations on behalf of shareholders and other stakeholders.

Sincerely,

Peter R. Gleason
President

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