

Director Overboarding (UK & Ireland)

Background and Overview

Directors need sufficient time and energy in order to be effective representatives of shareholders' interests. Directors' responsibilities are increasingly complex as board and key committee memberships demand greater time commitments. Investors globally are increasingly keen to ensure that directors of companies have sufficient time to devote to their board roles, and concerns can be raised if a director has a significant number of directorships and therefore competing time pressures.

To address this issue, ISS has an "overboarding" policy in many markets which includes a recommended maximum number of directorships which an individual should hold in various circumstances. Such an approach is also followed in many voting policies of individual institutional investors.

The UK Corporate Governance Code – the UK's best practice code – specifies a recommended limit for executive directors of no more than one FTSE 100 non-executive directorship. Although there is no stated limit in the Code for board chairmen or for other non-executive directors, the Code emphasises that "all directors should be able to allocate sufficient time to the company to discharge their responsibilities."

Key Changes Under Consideration

The current ISS UK & Ireland policy includes a reference to directors' time commitments but does not refer to a recommended maximum number of board seats which directors should hold.

The change under consideration is for the policy to make explicit reference to a recommended maximum number of board positions, and indicate that ISS may recommend against directors considered overboarded. This approach is consistent with ISS European policy, and the proposed policy limits for UK and Ireland are as follows:

- Executive directors are not expected to hold other executive or chairmanship positions. They may, however, hold up to two other non-executive directorships.
- A board chairman is not expected to hold an executive position elsewhere, or more than one other chairmanship position. The chairman may, however, hold up to three other non-executive directorships.
- A non-executive director who does not hold executive or chairmanship positions may hold up to four other non-executive directorships.

In assessing outside directorships and board positions, only publicly-listed companies will be counted.

The proposed policy also states that a stricter view may apply (case by case) for directors who serve on the boards of complex companies, or those in highly regulated sectors, or who chair a significant

number of board committees. When applying this policy, ISS will consider the nature and scope of the various appointments and the companies concerned, and if any exceptional circumstances exist.

Intent and Impact

This policy update is intended to provide clear guidance within the ISS UK & Ireland policy on the treatment of directors with multiple board roles, given how important it is for directors to have sufficient time to devote to their roles. The proposed policy wording also incorporates a degree of flexibility to take into account exceptional circumstances, and will ensure that there can be consideration on a case-by-case basis of directorships that may be different in nature. For example, it is recognised that a directorship of an investment trust board may be different to that of the board of an operating company.

In terms of potential impact, this policy is likely to result in a small increase in the number of vote recommendations against individual directors.

Request for Comment

1. Do you agree that setting a recommended maximum limit on the number of board roles a director can hold is a useful enhancement to the ISS UK & Ireland policy?
2. Do you agree with the proposed limits, or are there alternative limits or factors which should be considered?