# 2020 Global Benchmark Policy Survey

## Summary of Results

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# Overview

This document summarizes the findings of the ISS 2020 Global Benchmark Policy Survey, which opened on July 29, 2020, and closed on Aug. 28, 2020.

The survey is a part of ISS' annual global benchmark policy development process, and was, as it is every year, open to institutional investors, corporate executives, board members and all other interested constituencies to solicit broad feedback on areas of potential policy change for 2021 and beyond.

This year, the survey was structured to include questions related to ISS policy guidance released earlier this year in response to the COVID-19 pandemic, including AGM formats, dividends, capital raising, poison pills and stakeholder expectations regarding compensation and adjustments to incentives. Additionally, the questions also elicited global level feedback related to climate change risk, sustainable development goals, auditors and audit committees, and racial and ethnic diversity on corporate boards. Survey topics at the regional and market levels included independent board chairs in the U.S.; pan-European executive and director remuneration; director independence classifications in Russia; board and corporate governance reports in the Middle East; auditor fees in Sub-Saharan Africa; board independence, capital misallocation tied to cross-shareholdings, and director elections in Japan; director independence related to tenure in India; and material governance failures in Korea.

ISS received 519 responses to this year’s online Global Policy Survey. This represented 175 responses from investors and 344 responses from non-investors. In a few cases, multiple people responded from the same organization.

## Number and category of respondents to online survey

| Category of Respondent | Number of Respondents |
|---|---|
| **Investor Total** | **175** |
| Asset Manager | 129 |
| Asset Owner | 31 |
| Advisor to institutional investors | 4 |
| Other investor | 11 |
| **Non-Investor Total** | **344** |
| Public corporation | 276 |
| Board member of public corporation | 30 |
| Advisor to public corporations | 27 |
| Other non-investor | 11 |
| | |
| **Total Respondents** | **519** |

Responses were received through the online survey from 175 investors and related organizations. For purposes of this report, 175 “investor” respondents answered at least one subject-matter question. Of the institutional investor respondents, 74 percent represented asset managers and 18 percent represented asset owners

Responses were also received from 344 non-investors to the online survey. For purposes of this report, 344 "non-investor” respondents answered at least one subject-matter question. Responses from representatives of public corporations were by far the most prevalent.

One institutional investor provided responses to ISS after the close of the survey bringing the total investor responses to 176. This response was not aggregated in the survey results, but it will be considered during the policy development process. Two non-investors provided responses to ISS without taking the online survey bringing the total non-investor responses to 346. These two responses were also not aggregated in the survey results, but they will be considered in the policy development process. In total, ISS received 522 responses to the survey.

One-half of the respondents to the online survey – 258 in all – represented organizations based in the United States. 149 respondents were based in Continental Europe or the U.K., and 49 respondents were based in Canada. Responses came in from 29 organizations based in Asia. Most investor respondents had a market focus that goes beyond their own home country or region.

| Primary Market of Focus (as declared by respondent) | % of Investor Respondents to Online Survey | % of Non-Investor Respondents to Online Survey |
|---|---|---|
| Global (including most or all of the regions listed below) | 52% | 19% |
| U.S. | 26% | 43% |
| Continental Europe | 9% | 9% |
| Canada | 3% | 9% |
| Asia-Pacific | 3% | 8% |
| U.K. or Ireland | 1% | 8% |
| Developing/emerging markets generally | 1% | 1% |
| Latin America | 0% | 1% |
| Other (includes Africa or combination of two or more other markets) | 5% | 3% |

The breakdown of investors by the size of assets owned or assets under management is as follows:

| Asset Size (as declared by respondent) | % of Investor Respondents to Online Survey |
|---|---|
| Under $100 million | 5% |
| $100 million - $500 million | 3% |
| $500 million - $1 billion | 5% |
| $1 billion - $10 billion | 19% |
| $10 billion - $100 billion | 34% |
| Over $100 billion | 35% |

Some respondents answered every survey question; others skipped one or more questions. Throughout this report, response rates are calculated as a percentage of the valid responses received on each question from investors and from non-investor respondents, excluding blank responses. Survey participants who filled out the "Respondent Information" but did not answer any of the policy questions or who did not provide identifying information have been excluded from the analysis and are not part of the count or the demographic breakout of respondents above.

For questions that allowed multiple answers, rankings are based on the percentage of responses for each answer choice (percentages indicate what percentage of that category of respondent selected that answer – they will not total 100 percent). Percentages for other questions may not equal 100 percent due to rounding.

## Key findings

### COVID-19 related questions

*Global - ISS policy guidance in response to COVID-19 pandemic*: With respect to ISS's policy guidance issued in response to the pandemic, a significant majority of both investor (62 percent) and non-investor respondents (87 percent) indicated that ISS should carry this or similar guidance into 2021 and continue to apply flexible approaches where warranted through at least the 2021 main proxy seasons.

*Global - AGM formats - virtual meetings*: Regarding the question on the preferred shareholder meeting format, absent continuing COVID-19 health and social restrictions, almost 80 percent of investor respondents chose “Hybrid” meetings, with the possibility for shareholders to attend and participate in the meeting either in-person or via effective remote communications. On the other hand, a plurality of non-investor respondents (42 percent) indicated a preference for in-person meetings, with virtual meetings used only when there is a compelling reason (such as pandemic restrictions).

*Global - expectations regarding compensation adjustments*: When asked about the respondent's viewpoint regarding executive compensation in the wake of the pandemic, a significant majority of investor respondents (70 percent) indicated that the pandemic's impact on the economy, employees, customers and communities and the role of government-sponsored loans and other benefits must be considered by boards, incorporated thoughtfully into compensation decisions to adjust pay and performance expectations, and should be clearly disclosed to shareholders.

Among non-investors, a majority (53 percent) indicated that the pandemic is different from previous market downturns and many boards and compensation committees will need flexibility to make decisions regarding reasonable adjustments to performance expectations and related changes to executive compensation.

*Global - adjustments to short-term/annual incentive programs*: Regarding short-term/annual incentive programs and the respondents' views on what is a reasonable company response under most circumstances, slightly over one-half of both investors (51 percent) and non-investors (54 percent) indicated that both (1) making mid-year changes to annual incentive metrics, performance targets and/or measurement periods to reflect the changed economic realities; and (2) suspending the annual incentive program and instead making one-time awards based on committee discretion could be reasonable, depending on circumstances and the justification provided.

## Global (excluding global Covid-19 pandemic-related questions)

*Climate change risk - director accountability to assess and mitigate*: When respondents were asked what actions are considered appropriate for shareholders to take at a company that they consider to be not effectively reporting on or addressing its climate change risk, the top three actions that received the most investor support, based on the responses as a percentage of the number of respondents who checked at least one answer to the question, were to: (1) engage with the board and company management about their concerns (92 percent); (2) consider support for shareholder proposals seeking increased disclosure related to greenhouse gas (GHG) emissions or other climate-related measures (87 percent); and (3) consider support for shareholder proposals seeking establishment of specific targets for reduction of GHG emissions, possibly including targets for reducing the carbon footprint associated with the company's products and services (84 percent). Notably, three-quarters of investors responded that they would consider a vote against directors who are deemed to be responsible for poor climate change risk management.

Non-investor responses overwhelmingly favored engagement with the board and company management as the most appropriate action (93 percent) while other possible actions were far less popular. Urging boards to make appropriate climate-risk related goals part of their executive incentive programs (30 percent) and considering support for shareholder proposals seeking increased disclosure related to greenhouse gas (GHG) emissions or other climate-related measures (29 percent) were the distant second and third most often chosen actions by non-investors.

*Sustainable Development goals*: When asked whether the respondent considers the United Nation's SDG framework to be an effective way for companies to measure environmental and social risks and to commit to improving environmental and social disclosures and actions, the responses were generally split among non-investors between “Yes” (49 percent) and “No” (51 percent), while investor responses were “Yes” (44 percent) and “No” (56 percent).

Of those respondents who indicated "No," the top three alternative frameworks getting the highest uptake from investors were the Sustainability Accounting Standards Board (SASB) (82 percent), the Taskforce on

Climate-related Financial Disclosures (TCFD) (73 percent) and the CDP (formerly the Carbon Disclosure Project) (52 percent). The most responses from non-investors were on the SASB (60 percent) followed by the Global Reporting Initiative (GRI) Sustainability Reporting Standards (47 percent) and the TCFD (43 percent).

*Auditors and audit committees*: ISS voting guidelines (policies) often consider the relative level of non-audit services and fees compared to audit-related services and fees as a factor when assessing the independence of the external auditor. When asked in principle what other factors (when disclosed) the respondent considers relevant to shareholders' evaluations of the independence and performance of the external auditor, significant audit controversies (88 percent) was the most popular choice by investors followed by significance/frequency of material restatements of financial results by the company due to errors, omissions or misconduct (83 percent). Regulatory fines or other penalties on the company related to financial disclosure practices or weaknesses not identified in the audit report and such fines or other penalties on the auditor for weaknesses or errors in audit practices tied for the next position with 82 percent recorded for each factor.

Significance/frequency of material restatements (67 percent) ranked first among non-investor responses followed by the identity of the lead audit partner(s) and any significant links to the company or its management (59 percent). Similar to the investor responses, regulatory fines or other penalties on the company related to financial disclosure practices or weaknesses not identified in the audit report and such fines or other penalties on the auditor for weaknesses or errors in audit practices each also tied for the next position (with 53 percent for each).

When evaluating performance and independence of the external auditor, significant majorities of both investors (79 percent) and non-investors (67 percent) indicated support for considering whether the lead audit partner has been identified as being linked with a significant auditing controversy at one or more other companies (in markets where the lead audit partner is disclosed).

When respondents were asked what information should be considered by shareholders in evaluating a company's audit committee, the most popular response among investors was significant controversies relating to financial reporting, financial controls or audit (93 percent) closely followed by skills and experience of audit committee members (including presence of financial expertise) (92 percent) and any concerns about quality of the company's financial reporting (84 percent). Non-investor responses indicated skills and experience of audit committee members (97 percent) as the most popular response followed by significant controversies relating to financial reporting, financial controls or audit (74 percent) and any concerns about quality of the company's financial reporting (73 percent).

*Racial and ethnic diversity*: When asked should all corporate boards provide disclosure of the demographics of their board members including directors' self-identified race and/or ethnicity, close to three-quarters (73 percent) of investors indicated all boards should disclose this information to the full extent possible and permitted under relevant laws. A plurality of non-investors (36 percent) indicated the same response; however, almost one-third of non-investors (32 percent) indicated boards should only disclose this information where it is mandated in jurisdictions where they operate. Twenty-two percent of non-investors indicated "Other" of which several respondents indicated that boards should be able to choose whether to disclose such information, or that it should only be disclosed if all members of a board agreed.

When asked about the respondent's view of the importance of ethnic and racial diversity on corporate boards, a significant majority of investors (61 percent) indicated that boards should aim to reflect the company's customer base and the broader societies in which they operate by including directors drawn from racial and ethnic minority groups. On the other hand, a slight majority (53 percent) of non-investors indicated that while board diversity with respect to race and ethnicity is desirable, expectations may reasonably differ based on many factors, for example local laws, company size, geographic location, and other factors.

When respondents were asked what actions may be considered appropriate for investors to consider taking to encourage increased racial and/or ethnic diversity on the boards of their portfolio companies, engagement

with the board and management team to encourage the inclusion of racial and ethnically diverse directors was the most popular choice among both investors (85 percent) and non-investors (92 percent). For investors, supporting shareholder proposals urging the company to set workforce diversity targets or to be more transparent about workforce diversity levels (78 percent) and supporting shareholder proposals that urge the board to consider at least one member of an underrepresented group in the slate of candidates for every open senior position ,which is sometimes referred to as the "Rooney Rule", (58 percent) were ranked second and third, respectively. Voting against members of the nominating committee (or other directors) where board racial and ethnic diversity is lacking ranked fourth for investors (56 percent).

For non-investors, other than engagement with the board and management team, all the other proposed actions did not receive a significant number of responses. Supporting shareholder proposals urging the company to set workforce diversity targets or to be more transparent about workforce diversity levels (18 percent) and supporting "Rooney Rule" type shareholder proposals (13 percent) were the next most popular actions chosen by non-investors.

## North America

*Independent chair – U.S.:* When asked about the respondent's preference that the board chair be an independent director, 85 percent of investors replied that an independent chair is their preferred model. Such support was qualified, however, as 47 percent of investors said that company-specific circumstances may justify other models. A smaller number of investors (38 percent) replied that non-independent chairs should only be allowed in emergency or temporary situations.

Nearly half of non-investor respondents indicated that there was no single preferred model for board leadership.

When asked which governance or risk oversight failures should be considered significant when evaluating an independent chair proposal, all possible circumstances received strong support from investors. "Significant misconduct or mismanagement," "materially diminishing shareholder rights without approval," "significant audit failures," "insufficient responsiveness to a majority-supported shareholder proposal," and "failure to address risks such as those related to climate change" were all selected by over 80 percent of investors. "Significant failures of human capital management" was supported by a smaller, but still significant portion (66 percent) of investors.

On the other hand, "significant misconduct or mismanagement" was the only response that was chosen by over half of non-investors.

## Europe

*Executive and director remuneration – pan-European:* When asked to rate the importance of several different considerations when evaluating a company's remuneration report, 86 percent of investors responded that "pay for performance alignment or misalignment" was "very important." At the other end of the spectrum, "internal pay ratio" stood out as a factor that 19 percent of investors thought was "not important."

The responses from non-investors were similar, with 79 percent of respondents stating that "pay for performance alignment or misalignment" was "very important" while 32 percent stated that "internal pay ratio" was "not important."

*Director independence classification – Russia:* Current ISS policy for Russia takes the company designation of a candidate as non-independent as the de-facto classification. The market has begun to see an increase in the number of Russian companies classifying minority-nominated candidates as non-independent. When asked which statement best reflects their view of that situation, relatively few investors thought that the independence classification provided either by the company or by the minority shareholder(s) who nominated the candidate(s) should prevail. Considering both of these subjective classifications of independence and conducting a case-by-case analysis was selected by 59 percent of investor respondents. Nearly the same percentage – 57 percent – selected the response that company classification is a good starting point but "appropriate skepticism should be applied" when the company did not provide adequate

justification. Those two responses were by far also the most popular with non-investors as well, with 47 percent and 45 percent respectively choosing them.

## Middle East and Africa

*Board and corporate governance reports – Middle East:* Both investors (89 percent) and non-investors (91 percent) felt strongly that shareholders are justified in considering voting against the approval of a company's board report and its corporate governance report if the company has not disclosed the reports in a timely manner or at all.

*Audit and non-audit fees – sub-Saharan Africa:* A strong majority of investors (89 percent) and non-investors (72 percent) responded that ISS should start applying in Sub-Saharan markets a similar policy to the one applied in South Africa, which is to generally recommend against auditor remuneration or the re-election of auditors if non-audit related fees are substantial (and not adequately explained) or are routinely in excess of audit-related fees, or if auditor fees are not disclosed. Large numbers of investors and non-investors did not respond to the question.

## Asia

*Board independence – Japan:* There are three types of corporate board structures in Japan: (1) a U.S.-style three committee structure, (2) an audit committee structure, and (3) a statutory auditor system. ISS Japan policy requires companies in the first two categories to have a board composed of at least one-third outsiders. However, for companies with a statutory auditor system (found at roughly 65 percent of companies in the current ISS Japan coverage universe), ISS Japan policy has previously required only two outside directors, given the historical reality that such companies have tended to have fewer outsiders on their boards than companies using the other two types of board structures.

When asked whether ISS should harmonize its policy approach and require at least one-third of members of boards with a statutory auditor system to be outside directors, both investors (86 percent) and non-investors (79 percent) strongly supported making the change.

*Capital misallocation tied to cross-shareholdings– Japan:* Over two-thirds of investors (69 percent) responded that shareholders may be justified in considering opposing the re-election of a Japanese company's top executives if the company allocates a significant portion of its net assets to cross-shareholdings. In the "It Depends" responses, many investors noted that opposing board members is justifiable if the cross-shareholdings do not appear to be in investors' interests. Over half of non-investors (51 percent) agreed that shareholders may be justified in opposing directors in that circumstance.

Investors were split in terms of what threshold would be considered appropriate to define a "significant" portion of net assets tied to cross-shareholdings. "10%"received the strongest response from investors, at 43 percent, while "5%" received 23 percent. Non-investors were also split and "10%" received the highest response (33 percent).

### *Directore– Japan*

When asked what the most urgent priority is for Japanese boards, investors strongly supported both gender diversity and limits on overboarding. Sixty-three percent of investors responded that a lack of gender diversity on boards was of "high" importance. Fifty-nine percent responded that overboarding was of high importance. Non-investors also most frequently chose those two issues as of high importance in the market. The percentage of non-investors that responded that all issues were of low importance was also much higher.

### *Director independence related to tenure – India*

Over half of the investors who responded (59 percent) agreed that board members who have served more than 10 years on a board should be classified by ISS as non-independent, despite a loophole in local regulation that ignores board service prior to April 2014. Non-investors were split, with 39 percent agreeing that those

directors should be considered non-independent, while another 39 percent responded that director independence should not be measured using tenure or, if it is, local regulations should prevail.

*Material governance failures – Korea*

There was not a strong consensus about what the appropriate lead time should be for considering the removal of a director from a board when there is a clear case of material governance concerns or failures. Thirty-nine percent of investors and 37 percent of non-investors responded that it should be a maximum of three months. A significant number of respondents, however, did not pick a specified time period and offered alternative case-by-case approaches.

# Detailed survey questions and summary of responses

# COVID-19 related questions

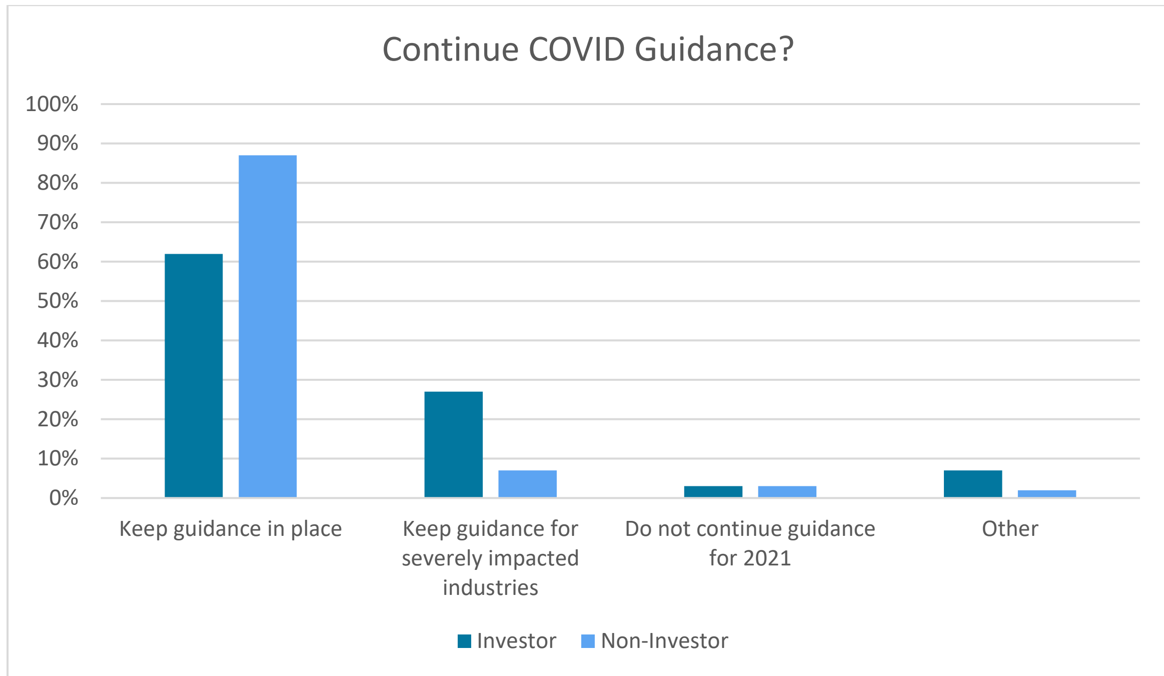
## 1. ISS policy guidance in response to COVID-19 pandemic - Global

As countries worldwide continue to tackle the 2020 COVID-19 global pandemic, entire economies have been severely affected, and job impacts as well as health impacts have been extensive. Public markets have roiled through months of volatility fueled by uncertainty. Many governments have taken on substantial debt to support businesses and individuals. Public companies across many major markets have announced shut downs of operations, and reductions or cessation of dividends and other distributions to preserve cash, and many have made cuts in their workforce and/or to executive and director pay. Even as more economies begin to re-open, a return to normal – or a new normal – still appears some way off.

On April 8, 2020, ISS issued policy guidance in response to the impact of the pandemic. This guidance covered a wide array of topics, generally recognizing that increased flexibility would be appropriate in a number of areas given the impacts (and unknowns) of the pandemic. The topics include AGM format and timing, poison pills, shareholder rights, director attendance, changes to boards, and changes to compensation, capital structure, dividends and other payouts. Details of the guidance can be found here. ISS is seeking feedback on whether continuation of the policy guidance remains appropriate/needed and should be continued into 2021.

**What is your organization's view with respect to the continuation into 2021 of ISS's policy guidance issued in response to the pandemic?**

| | Investors | Non-Investors |
|---|---|---|
| ISS should keep this or similar guidance in place into 2021 and continue to apply flexible approaches where warranted through at least the 2021 main proxy seasons. | 62% | 87% |
| ISS should keep the guidance in place for 2021 for specific markets, companies or industry sectors (e.g., travel, restaurants, retail and leisure) that continue to be severely impacted by the pandemic, but not continue it more generally for 2021. | 27% | 7% |
| ISS should sunset the 2020 pandemic-driven policy guidance, and not continue to apply it during 2021. | 3% | 3% |
| Other | 7% | 2% |
| Total number of respondents | 165 | 334 |

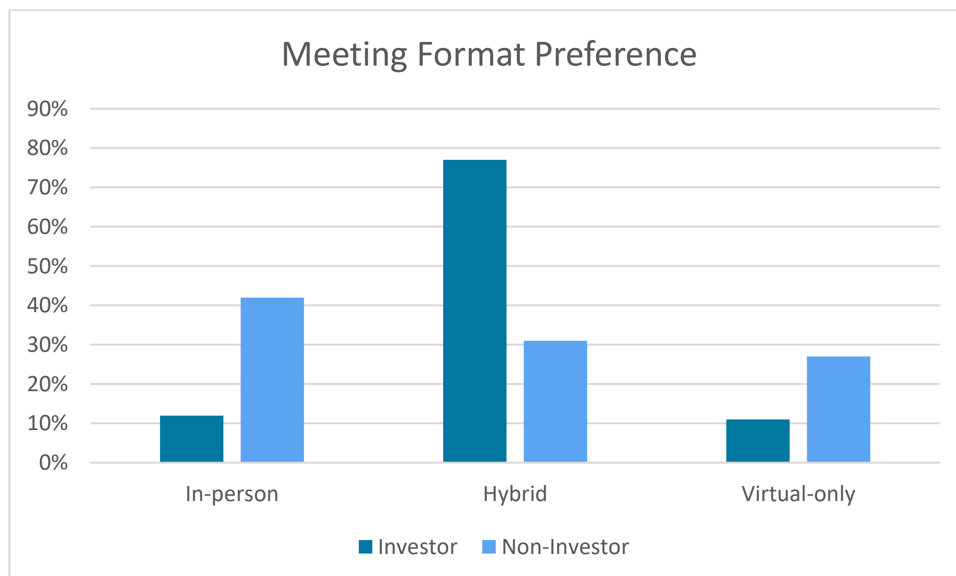

Continue COVID Guidance?
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Keep guidance in place
Keep guidance for severely impacted industries
Do not continue guidance for 2021
Other
Investor
Non-Investor

## 2. AGM formats – virtual meetings - Global

The COVID-19 global pandemic has significantly changed how many shareholders meetings are held due to the widespread use of virtual-only meeting formats in response to lockdowns and other social distancing requirements adopted in many counties. In some jurisdictions, the ability for companies to hold virtual meetings was already part of the pre-COVID-19 regulatory framework, without the need for company-specific provisions. In others, regulators had to set rules for the adoption of such general meeting formats as the effects of the pandemic continued to expand. As a result, virtual-only and/or hybrid (combined on-line and physical) shareholder meetings are now permitted in many global markets. While there is an obvious and compelling rationale for restricting physical shareholder meetings during an unprecedented global pandemic, the potential long-term impacts on the rights of shareholders of moving to virtual-only formats has been the subject of much debate.

**Absent continuing COVID-19 health and social restrictions, what shareholder meeting format does your organization prefer?**

| | Investors | Non-Investors |
|---|---|---|
| In-person meetings, with virtual meetings used only when there is a compelling reason (such as pandemic restrictions) | 12% | 42% |
| "Hybrid" meetings, with the possibility for shareholders to attend and participate in the meeting either in-person or via effective remote communications | 77% | 31% |
| Virtual-only shareholder meetings | 11% | 27% |
| Total number of respondents | 168 | 319 |

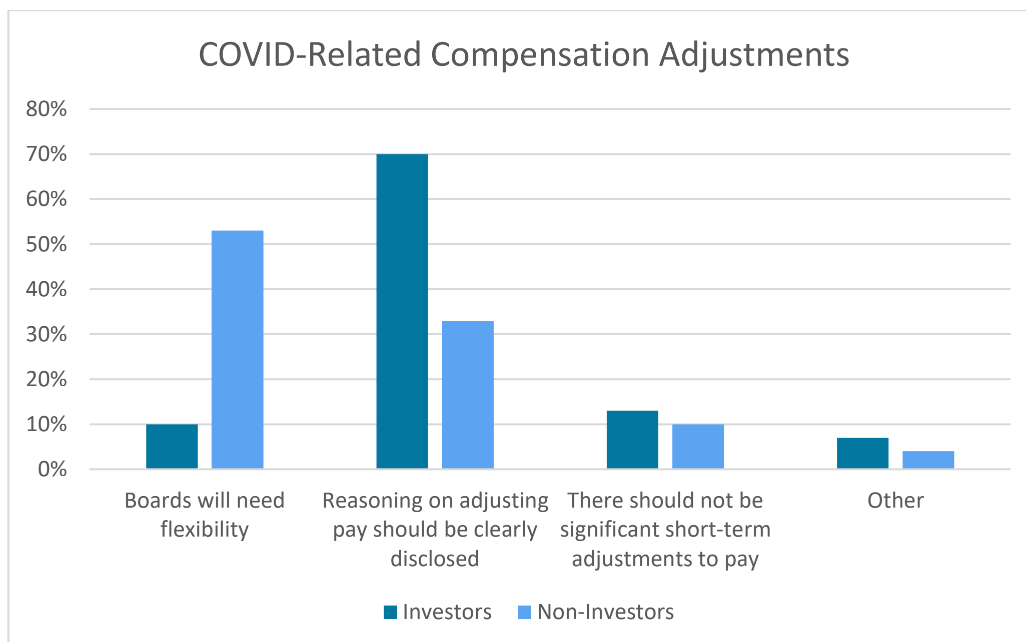


## 3. Expectations regarding compensation adjustments - Global

As a result of the many impacts of the COVID-19 pandemic, many decisions regarding executive compensation and performance expectations, including both short-term and long-term, will be made by boards and by shareholders during the remainder of 2020 and throughout 2021.

**Which of the following most closely reflects your organization's view of executive compensation in the wake of the pandemic?**

| | Investors | Non-Investors |
|---|---|---|
| The pandemic is different from previous market downturns and many boards and compensation committees will need flexibility to make decisions regarding reasonable adjustments to performance expectations and related changes to executive compensation. | 10% | 53% |
| The pandemic's impact on the economy, employees, customers and communities and the role of government-sponsored loans and other benefits must be considered by boards, incorporated thoughtfully into compensation decisions to adjust pay and performance expectations, and should be clearly disclosed to shareholders. | 70% | 33% |
| The impact of the pandemic is not substantially different from other major market downturns, such as the financial crisis of 2007-2008, and decisions regarding performance and executive pay should reflect actions taken to promote a return to profitability and financial health over a reasonable timeframe without significant short-term adjustments to performance expectations or executive compensation. | 13% | 10% |
| Other | 7% | 4% |
| Total number of respondents | 165 | 327 |

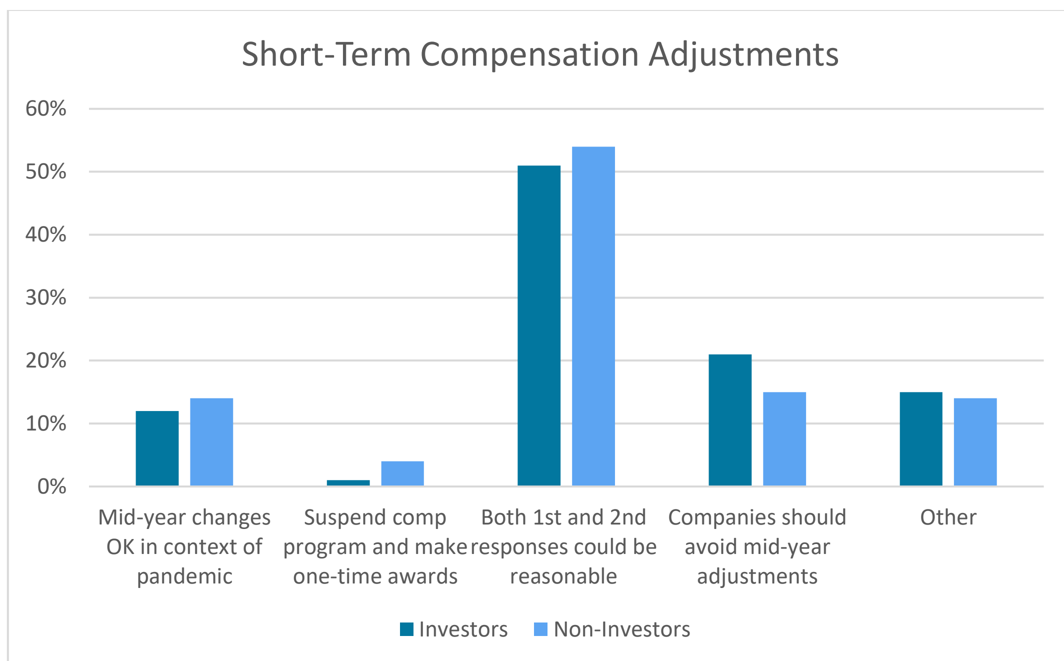


## 4. Adjustments to short-term/annual incentive programs - Global

With respect to short-term executive incentives, many companies have announced changes to their immediate annual incentive or bonus programs in response to the COVID-19 pandemic and the resulting general economic downturn.

**Regarding short-term/annual incentive programs, which of the following best represents your organization's view on a reasonable company response under most circumstances?**

| | Investors | Non-Investors |
|---|---|---|
| Making mid-year changes to annual incentive metrics, performance targets and/or measurement periods to reflect the changed economic realities | 12% | 14% |
| Suspending the annual incentive program and instead making one-time awards based on committee discretion; | 1% | 4% |
| Both the first and second response could be reasonable, depending on circumstances and the justification provided | 51% | 54% |
| Companies should avoid mid-year adjustments and make payouts based on the original program design; | 21% | 15% |
| Other | 15% | 14% |
| Total number of respondents | 164 | 323 |



# Global (excluding global Covid-19 pandemic-related questions)

## 5. Climate change risk – director accountability to assess and mitigate

Measuring and assessing the impact of risks related to climate change in portfolio companies is increasingly important to many investors, as well as to many firms themselves. The Paris Agreement's long-term goal to keep the increase in global average temperature to well below 2°C is receiving continued attention, including by many institutional investors. The emergence of widely-accepted voluntary disclosure frameworks, such as recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD), encourage companies to adopt standardized approaches to reporting that allow investors to better evaluate companies' climate awareness and risk management. In addition to such voluntary frameworks, government-mandated disclosures and legislation to regulate climate change related disclosure and carbon emissions performance are spreading. This rising regulatory tide illustrates the need for companies to assess and mitigate regulatory risks related to climate change, as well as potentially direct environmental risks to their businesses.

**What actions, if any, does your organization consider may be appropriate for shareholders to take at a company that they consider to be not effectively reporting on or addressing its climate change risk? (Check all that apply)**

| | Investors' Rank* | Non-Investors' Rank* |
|---|---|---|
| Engage with the board and company management on their concerns | 1 (92%) | 1 (93%) |
| Consider support for shareholder proposals seeking increased disclosure related to greenhouse gas (GHG) emissions or other climate-related measures | 2 (87%) | 3 (29%) |
| Consider support for shareholder proposals seeking establishment of specific targets for reduction of GHG emissions, possibly including targets for reducing the carbon footprint associated with the company's products and services | 3 (84%) | 4 (14%) |
| Consider a vote against directors who are deemed to be responsible for poor climate change risk management oversight | 4 (75%) | 5 (11%) |
| Urge boards to make appropriate climate-risk related goals part of their executive incentive programs | 5 (74%) | 2 (30%) |
| Consider support for shareholder proposals calling for an independent board chair (if one is not already in place) due to climate change risk management oversight concerns | 6 (65%) | 7 (6%) |
| Consider a vote against the company's financial statements, statutory reports, or Corporate Social Responsibility report (in markets where this is an option) | 7 (45%) | 8 (5%) |
| Other | 8 (11%) | 6 (8%) |
| Number of respondents who checked at least one answer | 157 | 271 |

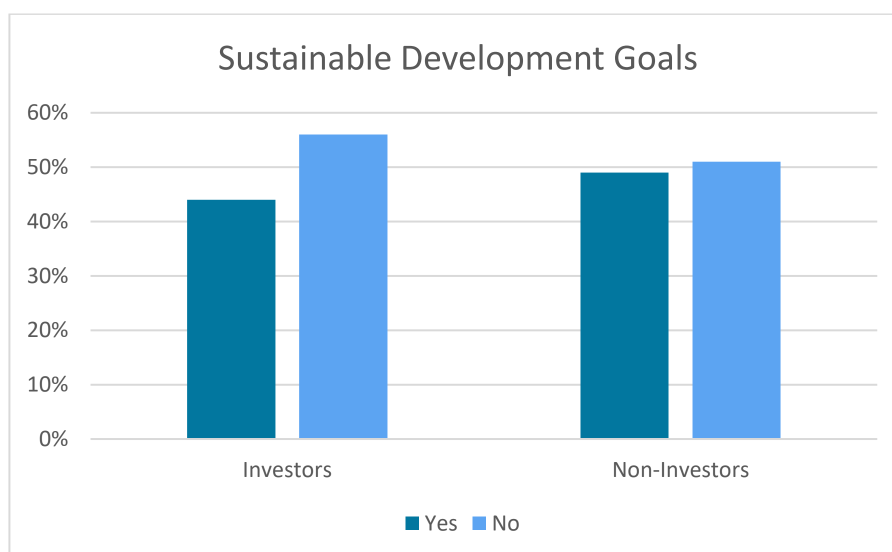
*Rankings are based on number of responses for each answer choice

## 6. Sustainable Development goals

The Sustainable Development Goals (SDGs) are a series of 17 interconnected goals developed by the United Nations on a range of social topics including education, health, social protection, and job opportunities, and a range of environmental topics such as climate change, clean water, and waste management. The UN considers the SDGs to be a "blueprint to achieve a better and more sustainable future for all" by addressing "the global challenges we face, including those related to poverty, inequality, climate change, environmental degradation, peace and justice."

**Does your organization consider the SDG framework to be an effective way for companies to measure environmental and social risks and to commit to improving environmental and social disclosures and actions?**

| | Investors | Non-Investors |
|---|---|---|
| Yes | 44% | 49% |
| No | 56% | 51% |
| Total number of respondents | 151 | 254 |




**If you answered "No" to the question above, are there other framework(s) that your organization considers to be more effective or relevant (check all that apply):**

| | Investors' Rank* | Non-Investors' Rank* |
|---|---|---|
| The Sustainability Accounting Standards Board (SASB) | 1 (82%) | 1 (60%) |
| The Taskforce on Climate-related Financial Disclosures (TCFD) | 2 (73%) | 3 (43%) |
| The CDP (formerly the Carbon Disclosure Project) | 3 (52%) | 5 (31%) |
| The Global Reporting Initiative (GRI) Sustainability Reporting Standards | 4 (49%) | 2 (47%) |
| Other | 5 (31%) | 4 (32%) |
| Number of respondents who checked at least one answer | 101 | 134 |

*Rankings are based on number of responses for each answer choice

## 7. Auditors and audit committees

Over the past year, questions about the quality of corporate audits stayed in the spotlight, including recent examples of allegedly fraud-related meltdowns at Wirecard AG and Luckin Coffee. While shareholder votes on auditor ratification in some markets provide an avenue for shareholders to assess and express their views on audit-related topics including competence, candor and independence, the high support levels generally recorded at AGMs do not appear to adequately reflect concerns that have been voiced by a range of commentators, including investors and some regulatory bodies. ISS is revisiting the questions that we asked in our 2018 governance principles survey with respect to auditors and audit committees to identify changes, if any, in viewpoints on this topic.

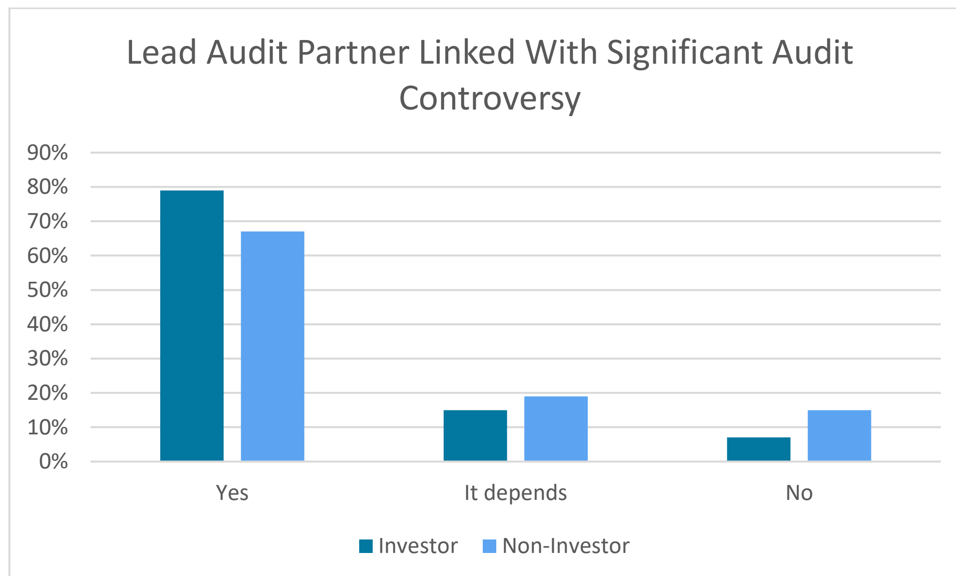
**ISS voting guidelines (policies) often consider the relative level of non-audit services and fees compared to audit-related services and fees as a factor when assessing the independence of the external auditor. In principle, what other factors (when disclosed) does your organization consider relevant to be considered in shareholders' evaluations of the independence and performance of the external auditor? (check all that apply)**

| | Investors' Rank* | Non-Investors' Rank* |
|---|---|---|
| Significant audit controversies | 1 (88%) | 5 (52%) |
| Significance/frequency of material restatements of financial results by the company due to errors, omissions or misconduct | 2 (83%) | 1 (67%) |
| Regulatory fines or other penalties on the company related to financial disclosure practices or weaknesses not identified in the audit report | 3 (82%) | 3 (53%) |
| Regulatory fines or other penalties on the auditor for weaknesses or errors in audit practices | 3 (82%) | 3 (53%) |
| Identity of the lead audit partner(s) and any significant links to the company or its management | 5 (78%) | 2 (59%) |
| Audit firm tenure | 6 (72%) | 7 (40%) |
| Audit partner tenure | 7 (55%) | 5 (52%) |
| Other | 8 (9%) | 8 (6%) |
| Number of respondents who checked at least one answer | 152 | 254 |

*Rankings are based on number of responses for each answer choice

**When evaluating performance and independence of the external auditor, would your organization also consider a case where the lead audit partner has been identified as being linked with a significant auditing controversy at one or more other companies (in markets where the lead audit partner is disclosed)?**

| | Investors | Non-Investors |
|---|---|---|
| Yes | 79% | 67% |
| It depends | 15% | 19% |
| No | 7% | 15% |
| Total number of respondents | 151 | 248 |




**What information should be considered by shareholders in evaluating a company's Audit Committee? (check all that apply)**

| | Investors' Rank* | Non-Investors' Rank* |
|---|---|---|
| Significant controversies relating to financial reporting, financial controls or audit | 1 (93%) | 2 (74%) |
| Skills and experience of audit committee members (including presence of financial expertise) | 2 (92%) | 1 (97%) |
| Any concerns about quality of the company's financial reporting (e.g., number of restatements, nature of restatements) | 3 (84%) | 3 (73%) |
| The level of disclosure of factors used in the audit committee's assessment of the external auditor's independence, tenure, qualifications and work quality | 4 (74%) | 5 (34%) |
| Frequency of audit committee refreshment | 5 (57%) | 6 (16%) |
| Frequency of audit committee meetings | 6 (51%) | 4 (43%) |
| Other | 7 (8%) | 7 (4%) |
| Number of respondents who checked at least one answer | 152 | 261 |

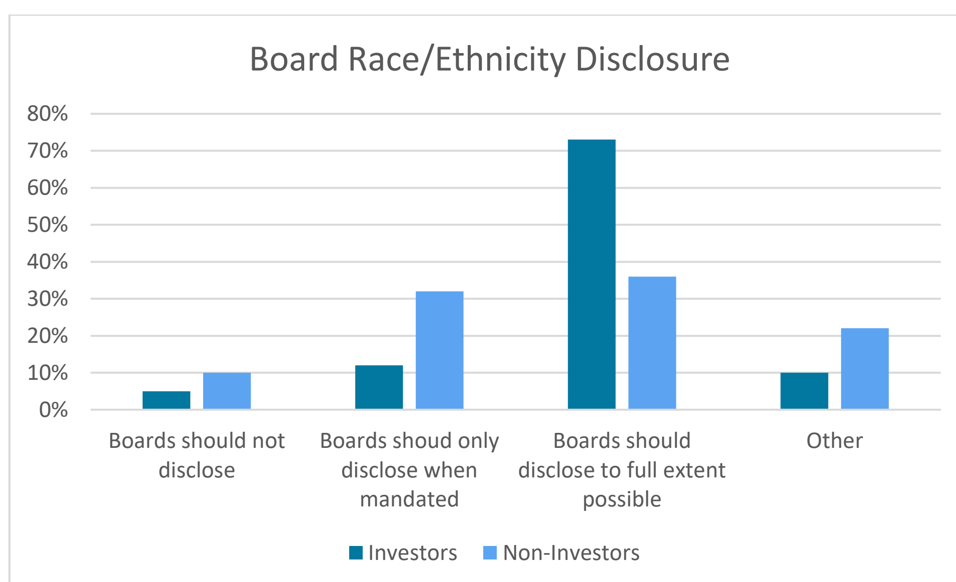
*Rankings are based on number of responses for each answer choice

## 8. Racial and ethnic diversity

Recent protests over racial and ethnic inequalities and public responses to them have also cast the spotlight on the low levels both of company disclosure about and of representation by members of racial and ethnic minority groups in boardrooms and executive suites in some global markets.

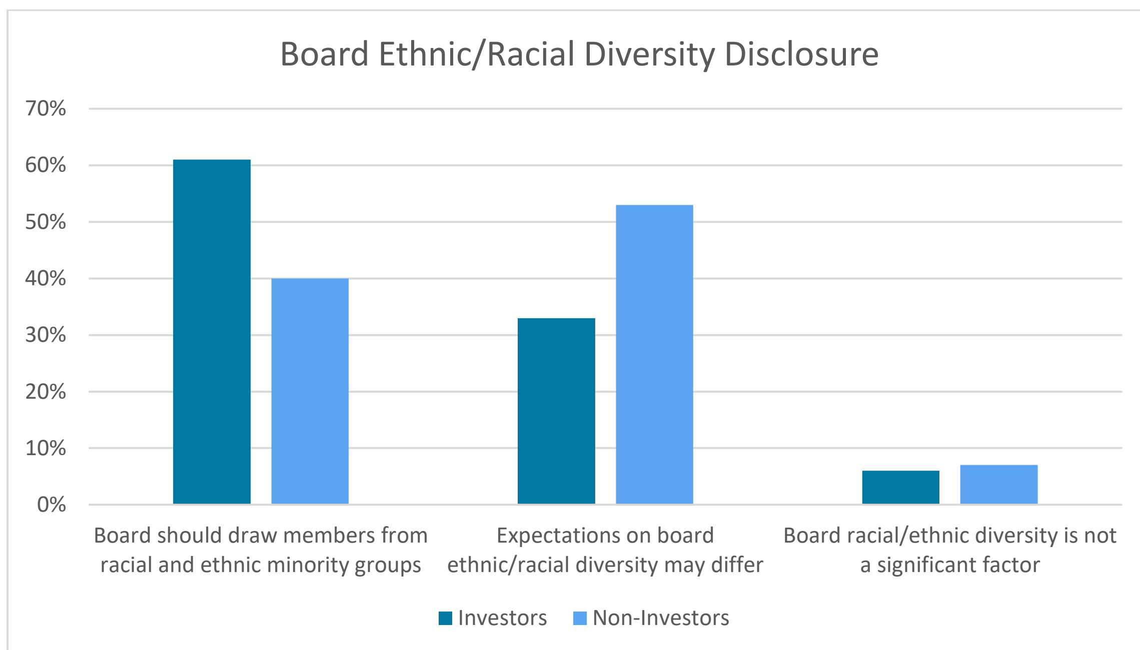
**Should all corporate boards provide disclosure of the demographics of their board members including directors' self-identified race and/or ethnicity?**

| | Investors | Non-Investors |
|---|---|---|
| Boards should not disclose this information | 5% | 10% |
| Boards should only disclose this information where it is mandated in jurisdictions where they operate | 12% | 32% |
| All boards should disclose this information to the full extent possible and permitted under relevant laws. | 73% | 36% |
| Other | 10% | 22% |
| Total number of respondents | 154 | 268 |




**Which of the following best describes your organization's view of the importance of ethnic and racial diversity on corporate boards?**

| | Investors | Non-Investors |
|---|---|---|
| Boards should aim to reflect the company's customer base and the broader societies in which they operate by including directors drawn from racial and ethnic minority groups. | 61% | 40% |
| While board diversity with respect to race and ethnicity is desirable, expectations may reasonably differ based on many factors, for example local laws, company size, geographic location, and other factors. | 33% | 53% |
| Board racial/ethnic diversity is not a significant factor that should be considered. | 6% | 7% |
| Total number of respondents | 151 | 270 |




**What actions, if any, does your organization consider may be appropriate for investors to consider taking to encourage increased racial and/or ethnic diversity on the boards of their portfolio companies? (check all that may apply)**

| | Investors' Rank* | Non-Investors' Rank* |
|---|---|---|
| Engage with the board and management team to encourage the inclusion of racial and ethnically diverse directors | 1 (85%) | 1 (92%) |
| Support shareholder proposals urging the company to set workforce diversity targets or to be more transparent about workforce diversity levels | 2 (78%) | 2 (18%) |
| Support shareholder proposals that urge the board to consider at least one underrepresented minority in the slate of candidates for either every open senior position (sometimes referred to as the "Rooney Rule") | 3 (58%) | 3 (13%) |
| Vote against members of the nominating committee (or other directors) where board racial and ethnic diversity is lacking | 4 (56%) | 4 (11%) |
| Support shareholder proposals asking the board to add new members who are drawn from racial and ethnic minority groups | 5 (47%) | 5 (9%) |
| Support linkage of executive pay to racial and ethnic diversity goals | 6 (37%) | 7 (5%) |
| Other | 7 (12%) | 6 (7%) |
| Number of respondents who checked at least one answer | 147 | 257 |

*Rankings are based on number of responses for each answer choice

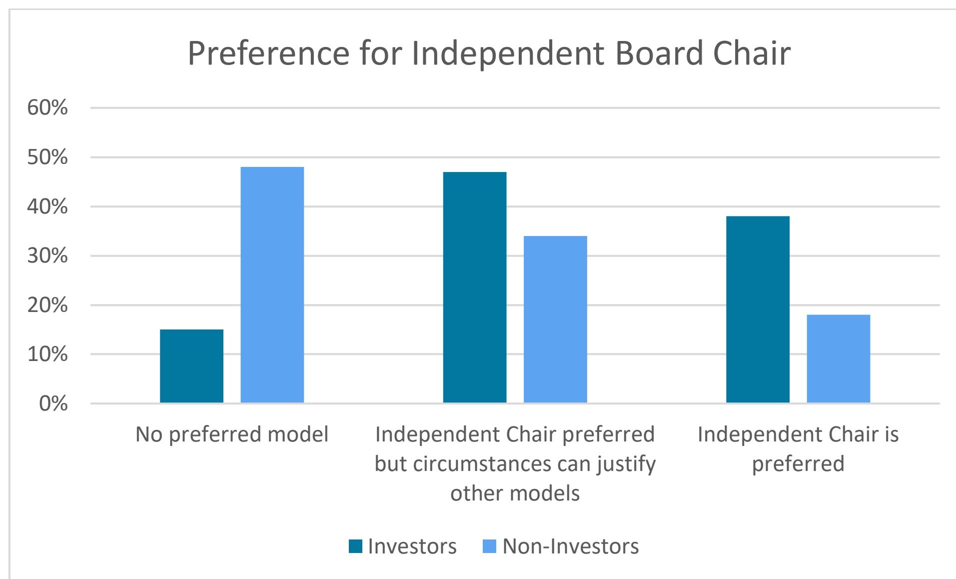
## North America

### 9. Independent chair - U.S.

A number of shareholder proposals at U.S. companies calling for independent board chairs received increased levels of shareholder support in 2020, although only two received majority support.

**Which statement best reflects the view of your organization regarding independent board chairs?**

| | Investors | Non-Investors |
|---|---|---|
| My organization has no single preferred model for board leadership and any assessment should take company-specific factors into account | 15% | 48% |
| An independent chair is generally the preferred model, but there are company-specific circumstances that can justify other models | 47% | 34% |
| Absent an emergency or temporary transition period, an independent chair position is my organization's default preferred model for board leadership. | 38% | 18% |
| Total number of respondents | 152 | 211 |



**Which of the following governance or risk oversight failures does your organization consider to be significant when evaluating an independent chair proposal? (check all that apply)**

| | Investors' Rank* | Non-Investors' Rank* |
|---|---|---|
| Significant misconduct or mismanagement by the company, board or senior executives resulting in legal and reputational risks | 1 (90%) | 1 (78%) |
| Unilateral board actions that have materially diminished shareholder rights without shareholder agreement or ratification | 2 (89%) | 4 (46%) |
| Significant failures of audit or internal control oversight | 3 (83%) | 2 (55%) |
| Insufficient board responsiveness to a majority shareholder vote (for example, against a say on pay vote or director election or for a shareholder proposal) | 4 (82%) | 3 (48%) |
| Significant concerns about failure to address risks to the business model or the company's long-term viability such as those related to climate change | 5 (81%) | 5 (35%) |
| Significant failures of human capital management | 6 (66%) | 6 (30%) |
| Number of respondents who checked at least one answer | 150 | 175 |

*Rankings are based on number of responses for each answer choice

# Europe

## 10.Executive and director remuneration – pan-European

With the second European Shareholder Rights Directive (SRD II) being implemented in most European Union member states, there was a substantial increase in the number of proposals to approve the remuneration report (say on pay votes) at 2020 AGMs. In principal, all listed companies in the European Union will in the future annually submit a remuneration report for shareholder approval. However, in 2020, the quality of disclosures on various elements of the remuneration report, especially regarding disclosure of variable incentive targets and levels of achievement, varied. SRD II sets a requirement for companies to disclose how performance criteria were applied during the financial year under review. The European Commission is also mandated to set non-binding guidelines on the standardized presentation of the remuneration report, although these have not yet been finalized. On the basis of widely circulating drafts of these guidelines, it appears that the European Commission's best practice recommendations will request that companies provide the following information: (1) financial and non-financial performance criteria, (2) the relative weighting of the performance criteria, (3) the performance achieved over the reported financial year and (4) the outcome of the remuneration resulting from each criterion, and the predetermined performance targets or objectives and both the minimum and the maximum possible remuneration under each performance criterion.

**To understand views on what relative weightings and considerations ISS European policy should give to various key elements including company disclosures as well as the European Commission's guidelines, when evaluating a company's remuneration report, please indicate "Very Important", "Somewhat Important" or "Not Important" for the following elements:**

| | Investors | | | Non-Investors | | |
|---|---|---|---|---|---|---|
| | Not Important | Somewhat Important | Very Important | Not Important | Somewhat Important | Very Important |
| Pay for performance alignment or misalignment | 1% | 13% | 86% | 3% | 16% | 79% |
| Disclosure and explanation of use of any discretionary authority by the board or remuneration committee to adjust pay outcomes | 1% | 15% | 81% | 6% | 34% | 57% |
| Disclosure of variable incentive targets and according levels of achievement and performance awards made, after the relevant performance period (ex-post) | 3% | 16% | 79% | 6% | 25% | 68% |
| Disclosure of variable incentive targets and performance measures, in advance of the relevant performance period (ex-ante) | 2% | 20% | 76% | 34% | 36% | 26% |
| Overall quantum/amount of the CEO's pay package | 1% | 36% | 63% | 3% | 40% | 54% |
| Fees and any performance-based remuneration for non-executive directors | 2% | 37% | 58% | 7% | 38% | 51% |
| Details of any severance payments made during the year | 4% | 35% | 58% | 12% | 40% | 44% |
| Pension arrangements and contributions for executives and directors | 1% | 45% | 51% | 14% | 42% | 42% |
| Internal pay ratio | 19% | 49% | 30% | 32% | 50% | 12% |
| Number of respondents who checked at least one answer | 136 | | | 117 | | |

## 11. Director independence classification - Russia

In Russia, directors are elected through so called cumulative voting. In this system, each share confers a number of votes equal to the number of board seats up for election, which can be allocated in any combination to one or more of the nominees. In some cases, the number of candidates exceeds the number of available seats making these elections contested. ISS has noted an increase in Russian companies classifying candidates as non-independent when they have been nominated by minority shareholders as independent nominees. These determinations of independence are often made by companies without further explanation or any compelling rationale.

Current ISS policy for Russia takes the company designation of a candidate as non-independent as the de-facto classification. The increase in the number of Russian companies classifying minority-nominated candidates as non-independent, however, indicates that a reappraisal of the policy is now warranted.

**When such situations arise at Russian companies, which statements best reflect your organization's view (please select more than one if relevant):**

| | Investors' Rank* | Non-Investors' Rank* |
|---|---|---|
| If publicly available information and justifications are provided by both the company and the proposing minority shareholder(s), both should be considered and a case-by-case analysis undertaken | 1 (59%) | 1 (47%) |
| Company classification is an appropriate starting point, but appropriate skepticism should be applied where the company does not provide justification of a classification of non-independence for a minority shareholder-proposed candidate | 2 (57%) | 2 (45%) |
| Publicly available information and analysis by a recognized shareholders' association (e.g. API, the Russian Association of Institutional Investors) is compelling for classification as independent, even if the company classification is non-independent | 3 (42%) | 3 (18%) |
| Independence classification provided by the minority shareholder(s) who nominated the candidate(s) should prevail (as long as sufficient justification is provided) | 4 (20%) | 5 (16%) |
| Company classification of non-independence should always prevail | 5 (11%) | 3 (18%) |
| Number of respondents who checked at least one answer | 99 | 38 |

*Rankings are based on number of responses for each answer choice

# Middle East and Africa

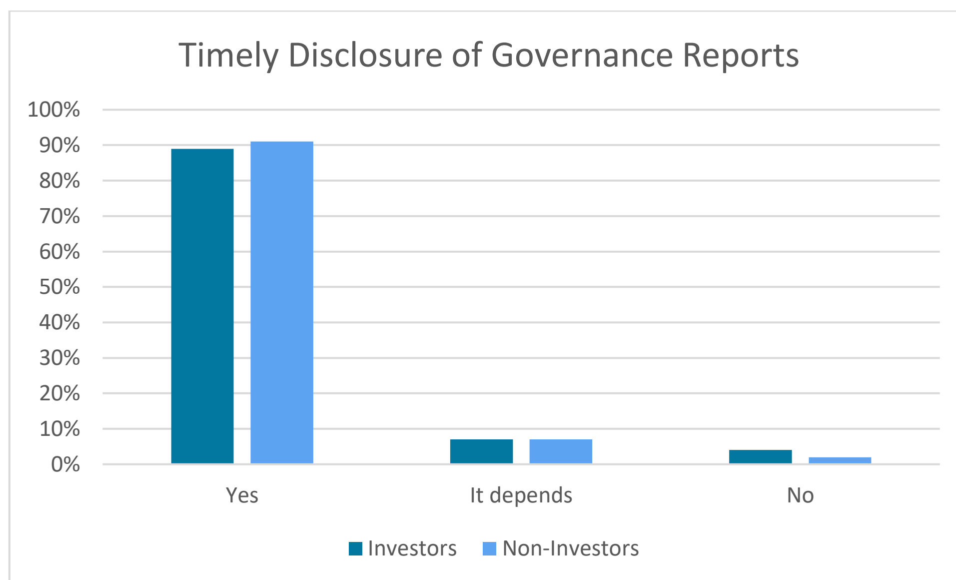
## 12.Board and corporate governance reports - Middle East

In a number of Middle Eastern markets, boards of publicly-listed companies are required to prepare a yearly report on the company's business activity and a separate report reflecting the company's corporate governance practices during the reported fiscal year. The corporate governance report covers issues related to board and committee composition, significant shareholders, external auditors, and compliance with local governance regulations. Both reports are presented for shareholders' approval by vote at the annual general meeting.

Some companies routinely fail to publicly disclose such reports in a timely fashion ahead of their annual meetings, which makes it difficult or impossible for shareholders to assess their activities and governance practices during the year and make informed voting decisions. Companies listed on Boursa Kuwait, for example, often fail to disclose such reports entirely.

**Does your organization consider that shareholders are justified in considering voting against the approval of a company's board report and the corporate governance report if the company has not disclosed the reports in a timely manner or at all?**

| | Investors | Non-Investors |
|---|---|---|
| Yes | 89% | 91% |
| It depends | 7% | 7% |
| No | 4% | 2% |
| Total number of respondents | 101 | 45 |



## 13. Audit and non-audit fees – sub-Saharan Africa

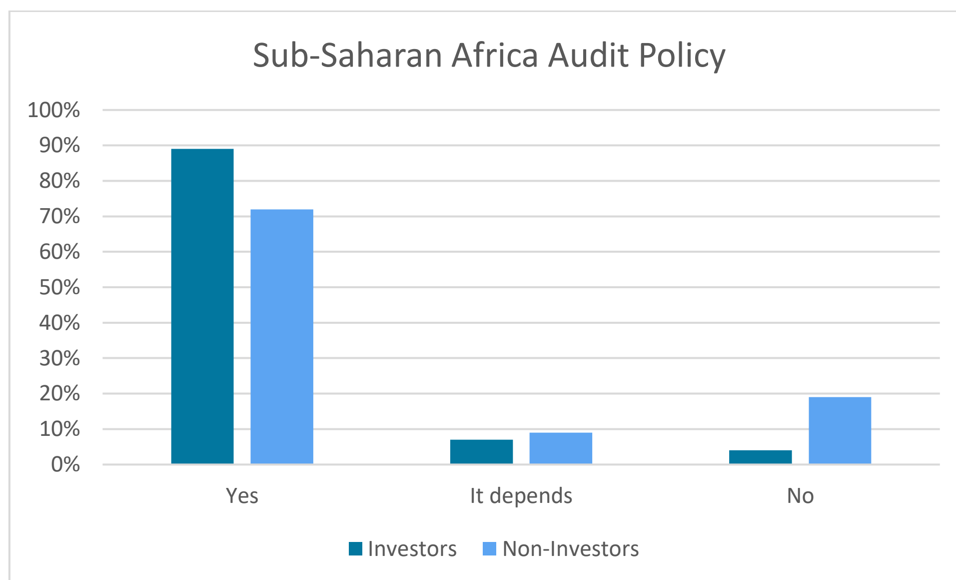
In many developed markets around the world, regulatory bodies require company disclosure of audit and non-audit fees paid to outside auditors. In less developed and emerging markets, audit-related disclosure requirements differ widely.

Local laws in some Sub-Saharan African markets, including Ghana, Namibia and Nigeria, stipulate that boards should disclose information related to audit and non-audit fees paid to auditors.

ISS policy in more developed markets in the region, such as South Africa, is to generally recommend voting against items approving auditor remuneration or the re-election of auditors if non-audit related fees are substantial (and not adequately explained) or are routinely in excess of audit-related fees, or if auditor fees are not disclosed.

**Does your organization consider that ISS should start applying a similar policy to auditor-related vote recommendations in Sub-Saharan African markets?**

| | Investors | Non-Investors |
|---|---|---|
| Yes | 89% | 72% |
| It depends | 7% | 9% |
| No | 4% | 19% |
| Total number of respondents | 99 | 43 |



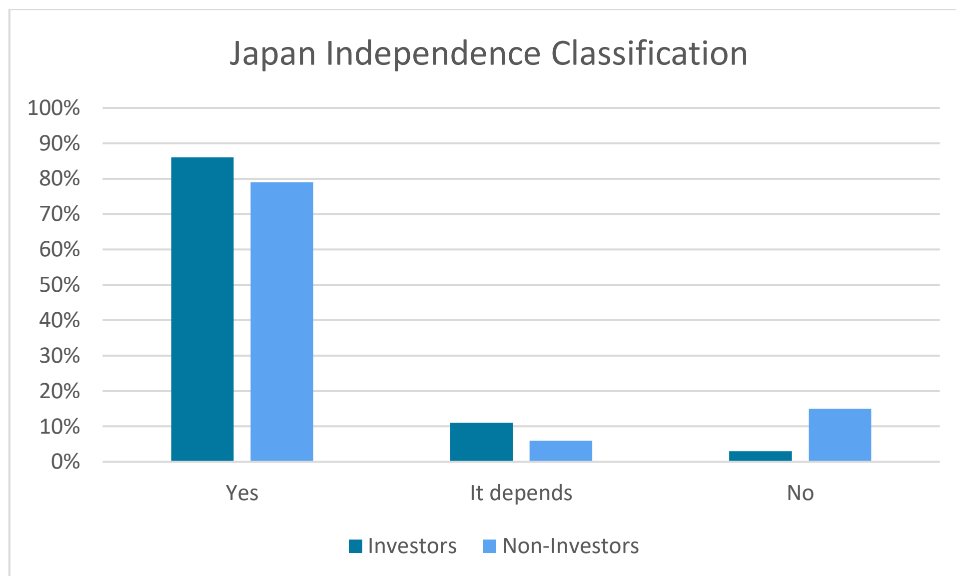
# Asia

## 14. Board independence – Japan

There are three types of corporate board structures in Japan: (1) a U.S.-style three committee structure, (2) an audit committee structure, and (3) a statutory auditor system. ISS Japan policy requires companies in the first two categories to have a board composed of at least one-third outsiders. However, for companies with a statutory auditor system (found at roughly 65 percent of companies in the current ISS Japan coverage universe), ISS Japan policy has previously required only two outside directors, given the historical reality that such companies have tended to have fewer outsiders on their boards than companies using the other two types of board structures. However, as practices evolve, as of June 2020, more than half (54 percent) of companies with a statutory auditor system had boards where outsiders represent at least one-third of the members.

**Should ISS consider amending its policy on Japanese board composition at companies with a statutory auditor system to harmonise it with the other two types of board structures, and recommend opposing the election of top executives if such companies do not have a board of directors where at least one-third of the members are outside directors?**

| | Investors | Non-Investors |
|---|---|---|
| Yes | 86% | 79% |
| It depends | 11% | 6% |
| No | 3% | 15% |
| Total number of respondents | 111 | 47 |



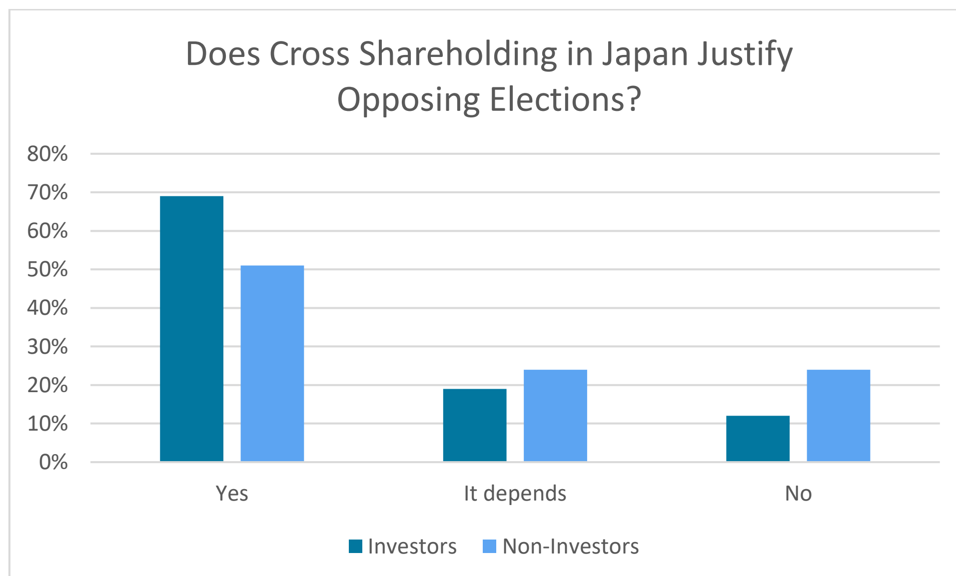
## 15. Capital misallocation tied to cross-shareholdings – Japan

Capital misallocation and reduced market discipline resulting from cross-shareholdings have long been viewed as amongst the most serious corporate governance problems in Japan. It is fairly common for Japanese companies to own long-held shares of other companies for reasons other than pure investment purposes, for instance, in order to strengthen relationships with customers, suppliers, or borrowers. Here, "cross-shareholdings" refer not only to mutual cross-shareholdings but also to unilateral holdings where these are designated by the company as shareholdings for non-investment purposes (the typical description for such shareholdings).

Such cross-shareholdings may place the company's desire to strengthen its business relationships in conflict with its responsibility to create long-term value for shareholders, as funds used to buy such shares are not available for acquisitions, CapEx, dividends or share buybacks. Moreover, such practices reduce market discipline as management-friendly shareholders will almost always support board-backed resolutions and oppose shareholder proposals.

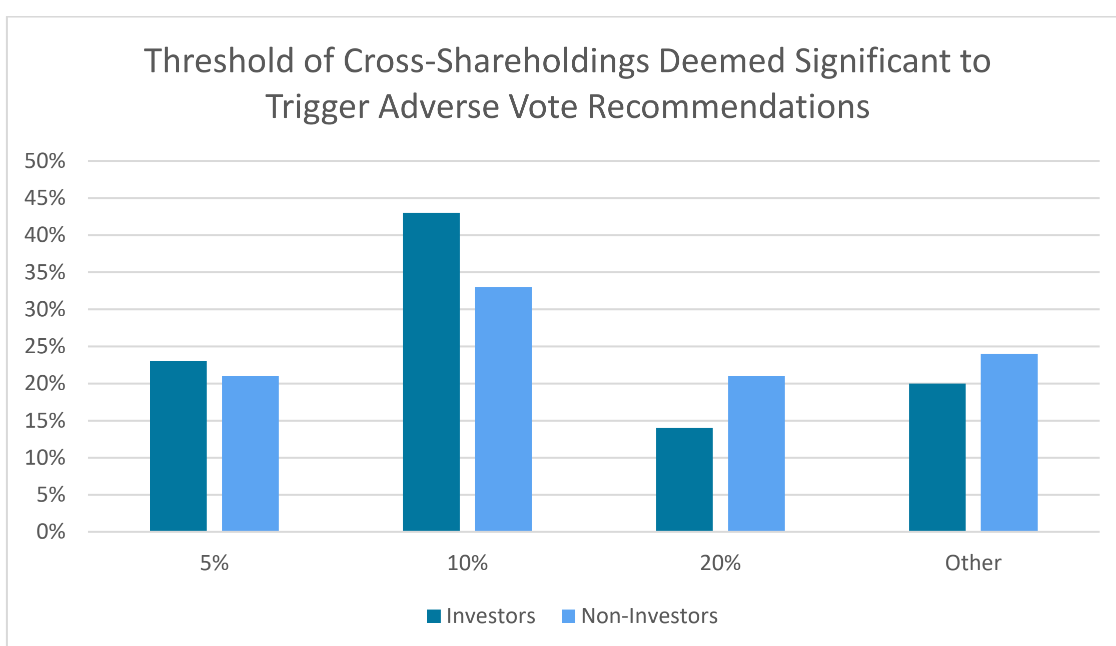
**Does your organization consider shareholders may be justified in considering opposing the re-election of a Japanese company's top executives if the company allocates a significant portion of its net assets to cross-shareholdings?**

| | Investors | Non-Investors |
|---|---|---|
| Yes | 69% | 51% |
| It depends | 19% | 24% |
| No | 12% | 24% |
| Total number of respondents | 111 | 45 |



**If you answered "Yes" or "It depends" to the question above, what threshold is considered appropriate to define a "significant" portion of net assets (or shareholder equity) tied to cross-shareholdings?**

| | Investors | Non-Investors |
|---|---|---|
| 5% | 23% | 21% |
| 10% | 43% | 33% |
| 20% | 14% | 21% |
| Other (i.e., other percentage of assets or shareholder equity, other formula or approach to define an excessive level, etc.) | 20% | 24% |
| Total number of respondents | 91 | 33 |




## 16. Director elections – Japan

**How would your organization rank the following Japanese board composition issues in terms of urgency of concern (please rate each as "High", "Medium" or "Low")?**

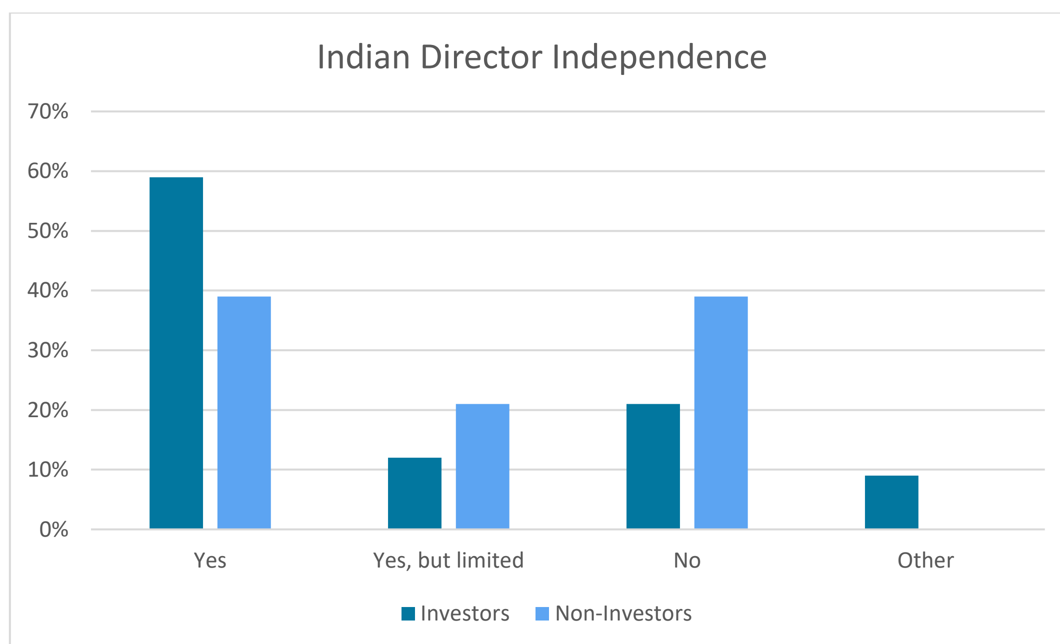
| | Investors | | | Non-Investors | | |
|---|---|---|---|---|---|---|
| | Low | Medium | High | Low | Medium | High |
| Lack of gender diversity on boards (i.e., no female directors on boards) | 4% | 29% | 63% | 11% | 39% | 45% |
| Significant director overboarding (i.e., directors that may be serving on an excessive number of boards) | 7% | 32% | 59% | 20% | 36% | 41% |
| Excessive director tenure (i.e., as a factor in evaluating director independence) | 5% | 46% | 46% | 23% | 39% | 36% |
| Number of respondents who checked at least one answer | | 112 | | | 44 | |

## 17. Director independence related to tenure – India

Regulatory provisions in India now mandate that independent directors retire after 10 years of service on a board to avoid compromising their independence. The regulations stipulate, however, that length of tenure be counted from 1 April 2014 and not from the director's original date of appointment. This loophole has resulted in a situation where many independent directors continue to serve on boards despite having tenures in excess of 10 years.

**Given this context, would your organization consider the classification of directors who have served more than 10 years on a board as non-independent as justified, even though their presence on the board is permitted by local regulation?**

| | Investors | Non-Investors |
|---|---|---|
| Yes, the principle of long tenure compromising independence should be recognized to consider them as non-independent, despite the loophole in local market regulation | 59% | 39% |
| Yes, but it should be limited to cases where the actual tenure is concurrent with that of an executive director or promoter | 12% | 21% |
| No, director independence should not be measured using tenure, or if it is, local regulation should prevail in assessing tenure | 21% | 39% |
| Other | 9% | 0% |
| Total number of respondents | 102 | 38 |



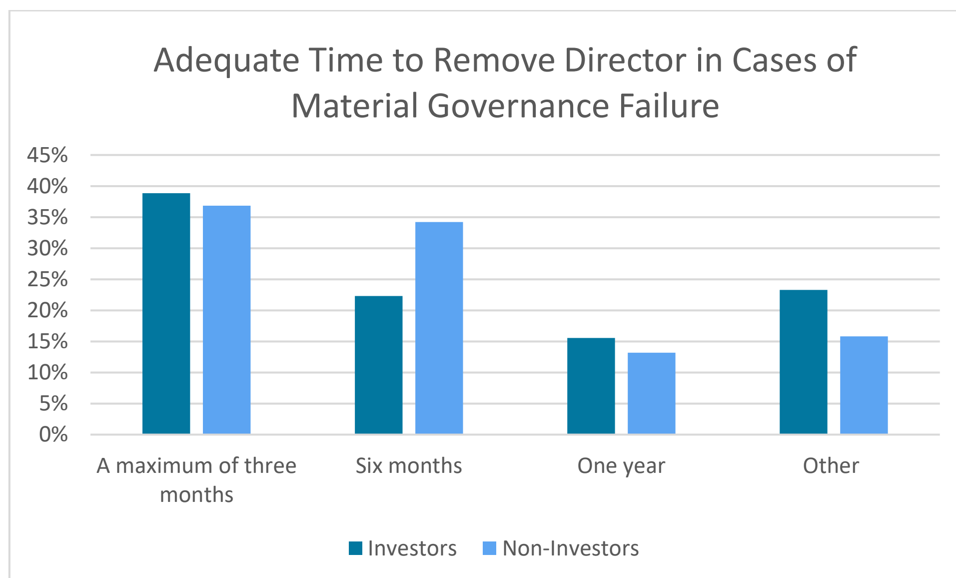
## 18. Material governance failures – Korea

Under current ISS policy for Korea, material governance concerns or failures – such as indictment or conviction for criminal offenses or significant sanctions by regulatory authorities – will drive negative ISS vote recommendations on the relevant director(s) involved. In addition, ISS Korea policy generally considers fellow directors' inactions to remove a board member who has demonstrated such serious failures of accountability as a material governance failure in and of itself.

In practice, however, we recognize that directors and boards may need time to consider and take appropriate actions upon their initial knowledge of an egregious action committed by another director on the board.

**What does your organization consider an adequate lead time for considering the removal of a director from a board when there is a clear case of material governance concerns or failures, measured from the time when the concerns or failures were proven or otherwise became clear?**

| | Investors | Non-Investors |
|---|---|---|
| A maximum of three months | 39% | 37% |
| Six months | 22% | 34% |
| One year | 16% | 13% |
| Other | 23% | 16% |
| Total number of respondents | 103 | 38 |



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