

ISS Hints at Changes to Board Composition and Climate Risk

The policy survey for companies and investors to submit feedback closed on August 9th. Questions touched on board diversity, overboarding policies, and overseeing climate risks.

Institutional Shareholder Services (ISS) took the first step in its annual policy update process when the firm sent its annual policy survey to clients this month. Following the survey period, which closed on August 9th, ISS will release draft policies in the late summer or early fall for a two-week comment period, followed by final policy updates that typically come out in November. Adopted policies are effective in February 2020.

While issues addressed in the survey do not necessarily get incorporated into policy, ISS uses the responses as a guide for its policy review process. Occasionally, the proxy firm will update policies that are not included in the policy survey.

Below is a summary of the topics in the survey that are relevant for companies based in the United States.

Board Gender Diversity

As was expected, ISS has formalized its gender diversity policy. Starting in 2020, the proxy advisor will recommend voting against the nominating committee chair or committee members at Russell 3000 and/or S&P1500 companies that do not have at least one woman on the board. Before issuing a negative recommendation, ISS will consider whether the company has a firm commitment to appoint at least one woman to the board or the presence of at least one woman on the board at the time of the preceding annual meeting. ISS is now asking for feedback on what other types of mitigating factors it should consider before a negative recommendation is made.

ISS is also asking what statement best reflects an organization's view on the importance of gender diversity. For example, is gender diversity an essential attribute for effective board governance? Should it be examined on a market-by-market basis? Or, rather, is it best addressed at the company level rather than on a global or market level?

Director Overboarding

ISS noted that some large institutional investors have tightened limits on director overboarding and that global standards vary on overboarding limits. Therefore, ISS is revisiting questions on this topic from its 2015 policy survey to see if there have been any changes in investors' and non-investors' attitudes.

Currently, ISS withholds support from directors serving on more than five public company boards and CEOs serving on more than two public company boards beside their own. ISS is asking what amount of board seats is considered appropriate for a non-executive director, as well as for directors who serve as CEOs.

Combined Chair / CEO

ISS is asking organizations' views on shareholder proposals seeking an independent board chair. Specifically, the firm wants to know which factors or circumstances would most strongly suggest the need for an independent board chair. These can include a weak or poorly-defined lead director role, problematic governance practices, poor responsiveness to shareholder concerns and excessive or poorly structured executive compensation. ISS generally recommends investors support these shareholder proposals after taking into consideration a wide range of factors.

Sunsets on Multi-Class Capital Structure

ISS is soliciting input on what amount of time an organization considers appropriate to sunset multi-class capital structures when there is a time-based trigger in place. Specifically, the question asks if a maximum seven-year sunset provision is appropriate, and if not, what amount of time is appropriate.

Quantitative Pay-for-Performance: Use of EVA in FPA Secondary Screen; Retain GAAP Metrics

Starting in 2019, ISS' research reports included additional information on company performance using Economic Value Added (EVA). ISS stated that it plans to incorporate EVA metrics to improve the Financial Performance Assessment (FPA) portion of the pay-for-performance screening. ISS is now asking whether it would be helpful to continue to display the prior-used GAAP metrics as a point of comparison when EVA metrics are used.

Risk Oversight on Climate Change

ISS noted that investors are increasingly looking at how companies assess and measure the impact of risks related to climate change, as well as the rising regulatory tides in climate change-related disclosure. ISS is asking whether organizations consider climate change to be a high priority when assessing risk. The proxy advisor is also asking what actions, if any, organizations consider appropriate for shareholders to take at a company that is determined to be ineffectively reporting on or addressing its climate change risk. Some of the potential actions to choose from include: engaging with the board and or/management, or voting against the board chair, the full board, or the chairs of committees.

Next Steps

If you have any questions about these policy questions or other executive compensation and corporate governance-related matters, please [contact our team](#). We will continue to follow the ISS policy survey process and will provide updates when new information is available.

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