

November 19, 2018

## ISS Announces Limited Benchmark Policy Updates

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### **ISS Updates Its 2019 Benchmark Proxy Voting Policies for the Americas, EMEA, and Asia-Pacific Regions, to Take Effect for Shareholder Meetings Held on or After February 1, 2019**

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#### **SUMMARY**

Today, Institutional Shareholder Services Inc. (“ISS”) announced updates to its 2019 benchmark proxy voting policies for the Americas, Europe, Middle East and Africa (“EMEA”), and Asia-Pacific regions. The updates include a new voting policy designed to promote board gender diversity for U.S. companies with all-male boards beginning in 2020, which is consistent with the policy for which ISS solicited comments in October. Notably, the proposed switch to economic value added (“EVA”) measures for evaluating CEO Pay-for-Performance was not adopted, meaning there will be no changes in ISS’s screening methodology for 2019.

As previously discussed in our [memo](#) dated October 22, 2018, before today’s release, ISS had solicited comments on these policies from asset owners, asset managers, companies, and other market players. Additional information regarding these policies may be included when ISS issues Proxy Voting Research Procedures & Policies Frequently Asked Questions, which are expected to be released in December 2018.

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#### **2019 ISS BENCHMARK POLICY – NOTABLE UPDATES**

In response to concerns over the lack of female representation on the boards of U.S. companies, ISS has adopted the voting policy for directors of U.S. companies with no female directors that was presented for comment in October.<sup>1</sup> Under the new policy, ISS will generally issue negative recommendations on the nomination committee chair at boards with no female directors (and, on a case-by-case basis, on other

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directors who are responsible for the board nomination process) for companies in either the Russell 3000 or S&P1500 indices, beginning with shareholder meetings held on or after February 1, 2020. The one-year grace period affords boards time to recruit qualified female director candidates before adverse recommendations are issued. In exceptional circumstances, the policy will allow the absence of board gender diversity to be temporarily explained and excused, with mitigating factors including a company's firm commitment in its proxy statement to appoint at least one female director to the board in the near term or the presence of a female on the board at the preceding annual meeting.

In October 2018, ISS had proposed updating its secondary Financial Performance Assessment screen for evaluating the alignment between CEO pay and company performance in the U.S. and Canada.<sup>2</sup> In particular, ISS proposed to replace unadjusted GAAP measures with measures based on Economic Value Added ("EVA"), which ISS states is essentially a company's Net Operating Profit After Tax, less the cost of providing an acceptable return to a company's capital providers. ISS has since chosen not to adopt the use of EVA data in its secondary screen for 2019.

ISS has also updated its policies with respect to Board gender diversity in Canada, director tenures in Latin America, auditor ratification in the UK/Ireland and Europe, audit committee independence in Europe, board independence and disclosure in Taiwan, director independence in Japan, and auditor fees and audit committees in India and the Asia-Pacific region.<sup>3</sup>

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### ENDNOTES

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- <sup>1</sup> The new policy with respect to U.S. Board Gender Diversity, along with other Americas policy updates, is available at <https://www.issgovernance.com/file/policy/latest/updates/Americas-Policy-Updates.pdf>
  - <sup>2</sup> The proposed new policy with respect to say-on-pay secondary screens for the U.S. and Canada is available at <https://www.issgovernance.com/file/policy/2018/ISSPayforPerformanceModel-FinancialPerformanceAssessmentMethodology-USandCanada.pdf>
  - <sup>3</sup> The full 2019 ISS policy updates are available at <https://www.issgovernance.com/policy-gateway/latest-policies/>

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