

ISS Releases Responses to Policy Survey

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ISS announced the results of its [high-level policy survey](#). The results will inform the new and updated policies for the 2019 proxy season, which is usually released in November.

Auditors and Audit Committee. ISS asked whether additional indicators of audit quality and independence would be useful in addition to considering non-audit services and fees when assessing auditor independence. Investors most often cited regulatory fines or other penalties on the auditor for weaknesses or errors in audit practices, or significant audit controversies, as important matters of interest. The third most favored factor was the identity of the audit partner and any links to the company or its management.

ISS also asked whether shareholders should consider other information in evaluating audit committees. Investors cited skills and experience such as the number of financial experts, followed by significant financial reporting or audit controversies and the quality of the company's financial reporting, such as whether there have been restatements.

Director Accountability and Track Records. If ISS assessed that an individual director has failed in his or her oversight responsibilities and that resulted in a negative recommendation, ISS asked whether it should note that recommendation in the proxy research report of other companies where the director serves. A significant majority (84%) answered yes.

The types of oversight shortfalls that were most relevant were risk oversight failures related to fraud or other forms of corporate malfeasance. The second and third types of oversight failures cited included protection of shareholder rights or value and failures related to business operations such as cybersecurity, respectively.

The most favored look-back period for investors was no time limit (39%) or five years (30%).

One-Share, One-Vote. In terms of companies that have multi-class structures, ISS asked whether it should show "adjusted" vote results, meaning counting each share as if it has only one vote, and whether board responsiveness the next year should be measured by these adjusted results.

Ninety-two percent of investors would like to see the "adjusted" vote results shown, and 72% want the adjusted numbers to determine whether the board appropriately responded (for example, to shareholder proposals or say-on-pay votes). Some believe the use of the data should be on a case-by-case basis, taking into account factors such as share structure, ownership structure and the existence of a sunset provision. For most investors, one to three years, or four to six years, were the appropriate sunset periods.

Gender Diversity. ISS asked the same question as it did in last year's survey about gender diversity, and over 80% of investors in this survey indicated that a board with no female directors would be problematic, with 37% of those investors acknowledging that concerns may be mitigated if there is a disclosed policy or approach by the board to increase diversity.

ISS received 669 responses to this year's Governance Principles Survey, from 638 different organizations, an 11% increase compared to last year.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

Ning Chiu

+1 212 450 4908

ning.chiu@davispolk.com

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