

ISS Issues Survey Results for 2014 Policy Updates

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ISS received more than 500 [responses](#) on emerging issues that could make up its policy update for the 2014 season, with a total of 128 institutional investors and 350 corporate issuers. Over 90% of the issuers were based in the United States, compared to 66% of the investors.

Last year, ISS implemented a controversial policy that they will recommend against any board that fails to respond to a shareholder proposal that receives a majority of votes cast. Recognizing the flak that resulted, ISS included a question about the policy in this year's survey. Only 36% of investors indicated that the board should implement specific actions, while 40% wanted the board to exercise its discretion freely. Another 24% of investors suggested it depended on the circumstances, including the level of shareholder support on the proposal. It is unclear whether these survey answers will change the policy.

Investors were more inclined to rally around concerns of director tenure, as more than 10 years would be deemed problematic by 74%, with concerns related to independence and limitations on the board's ability to change its membership. Over half of investors encouraged rotation of key positions such as board chair, lead director and committee chairs.

Service on other public company boards is one way investors assess director performance, including positive factors such as a director's breadth of experience and expertise, or negative aspects such as governance concerns at those other companies. Fifty-four percent of investors believe ISS should consider company performance, primarily TSR, when evaluating directors.

More than half of the investors indicated it would be appropriate for ISS to distinguish policies based on company size when it comes to equity compensation plans, but not as many investors supported differentiation for issues such as chair and CEO separation.

Performance conditions on equity awards in equity-based compensation plans seeking shareholder approval were considered very significant by 75% of investors if ISS moves to a holistic approach to equity plan evaluation, while the cost of the plan and other features such as vesting requirements were similarly viewed by a majority of investors.

For share authorizations, a large number of investors found the size of the requested increase, the ratio of outstanding compared to new potential shares and the use of the shares to be important. More than half indicated that a company's governance structure was very important in these voting decisions.

The next step is for ISS to release draft policies for open comment, before issuing new policy updates in November.

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.

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