

As the Investor Stewardship Group Framework Goes into Effect, Investors Want Companies to Explain Their Governance Practices

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The Framework for U.S. Stewardship and Governance launched by the Investor Stewardship Group, which we previously discussed [here](#), becomes effective on January 1, 2018.

According to [a press release](#) issued by ISG, beginning with the 2018 proxy season, ISG is “encouraging” companies to explain “how their governance structures and practices align with the ISG’s Corporate Governance Principles and where and why they differ in approach.” Companies are free to choose how and where to disclose their alignment with the Principles, which may be through investor relations, boards, corporate governance websites or shareholder engagement materials.

The release notes that the goal of ISG is to establish the very first broad-based U.S. Stewardship and Governance Code, while allowing individual ISG signatories to differ on specific standards. It also is not intended to be all-inclusive or comprehensive in nature, nor is it a substitute for direct engagement.

While the majority of the Corporate Governance Principles establish fairly broad guidelines, such as emphasizing that boards are accountable to shareholders and that directors’ experience and skills should be relevant to corporate strategy, others focus on promoting specific structures. Those include annual elections for directors, the expected resignation of directors who fail to receive majority support in uncontested elections or an explanation of why the resignation or acceptance of the resignation was not necessary, proxy access rights, one-share one-vote standards and board responsiveness to shareholder proposals that receive majority votes.

Companies should also note that in addition to advocating for independent leadership, majority of independent directors and independent committees, the Principles state that directors should seek access to information from a variety of sources and not simply executive management, and also ensure appropriate mechanisms for board refreshment that include robust evaluations and the evaluation of policies relating to term limits or retirement ages.

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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