

State Street Screens S&P 500 Companies for Non-Compliance with Investor Stewardship Group Governance Principles

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The Chief Investment Officer of State Street Global Advisor (SSGA) [has sent letters](#) to board chairs and lead directors at S&P 500 companies requesting that they report on their compliance with the principles outlined by the [Investor Stewardship Group \(ISG\)](#). We previously discussed the ISG [Corporate Governance Principles here](#).

Starting this month, SSGA will review governance practices at those companies and seek to “proactively engage with companies to better understand the reasons for non-compliance.” If SSGA believes that companies are not adequately explaining their governance approaches, either publicly or through engagement, SSGA may hold the board accountable by voting against the independent chair, lead independent director or most senior independent director up for election.

SSGA is employing a screening methodology that identifies 13 voting guidelines encompassed in the six ISG Corporate Governance Principles. Companies that do not meet at least three of the 13 voting guidelines “will be targeted for further review and engagement.”

The 13 voting guidelines are not listed. The ISG Principles highlight certain governance practices, including annual elections, resignation for failure to receive majority support in director elections, proxy access, one-share one-vote, robust independent board leadership through either an independent chair or independent lead director with clearly explained roles, board refreshment and diversity, and pay-for-performance executive compensation programs. SSGA indicated that the compliance screen is based on its existing proxy votes and engagement guidelines.

Based on 2017 proxy filings, SSGA has found that 13%, or 66, of the S&P 500 companies fail to adhere to three or more of the guidelines and 40%, or 199, of the companies fully comply with the compliance screen. Lack of proxy access is the most common reason for non-compliance with the ISG Principles. Other reasons include lack of annual elections, “inadequate” board refreshment practices and insufficient board independence.

SSGA encourages companies to proactively evaluate and disclose their level of compliance with the ISG Principles and includes a framework for disclosing ISG compliance.

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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