



FORTIS  
LAW  
PARTNERS

1900 Wazee Street., Suite 300  
Denver, Colorado 80202  
303-295-9700

## **2014 ISS Policy Updates That Can Affect Stockholder Voting at Your Company's Next Annual Meeting**

*March 3, 2014*

### **Introduction**

Institutional Stockholder Services (ISS) recently released updates to its benchmark U.S. proxy voting policies. These policy updates are used to devise voting recommendations for public company stockholder meetings held on or after February 1<sup>st</sup> of this year. ISS recommendations are very influential amongst institutional investors and as a result, ISS policy often affects the outcomes of stockholder votes on various significant proposals. ISS has distinguished four main issues that contain key updates for 2014. These issues include voting on director nominees in uncontested elections, executive pay evaluation, lobbying, and human rights risk assessment.

### ***Voting on director nominees in uncontested elections***

One of the key updates for 2014 is in regard to board responsiveness. Under the 2014 policy, ISS recommends voting for individual directors, committee members or the entire board of directors on a case-by-case basis, as opposed to a general vote against, if the board has failed to act on a shareholder proposal that received the support of a majority of the shares cast in the previous year. ISS considers the following factors in making its voting recommendations:

- Disclosed outreach efforts by the board to stockholders in the wake of the vote
- Rationale provided in the proxy statement for the level of implementation;
- The subject matter of the proposal;
- The level of support for and opposition to the resolution in past meetings
- Actions taken by the board in response to the majority vote and its engagement with stockholders;
- The continuation of the underlying issue as a voting item on the ballot (as either stockholder or management proposals); and
- Other factors as appropriate

### ***Executive Pay Evaluation***

ISS annually conducts a pay-for-performance analysis to identify strong or satisfactory alignment. As part of its 2014 policy update, ISS changed its methodology for calculating

the relative degree of alignment (“RDA”). The RDA measure examines the difference between the company’s total stockholder return (“TSR”) rank and the CEO’s total pay rank. The new methodology will change from a 40/60 weighted average of 1- and 3-year RDA measures to a single, yearly RDA measure for the 3-year measurement period (or shorter period if pay and performance data are not available for all three years). Under the new model, each year of TSR will be weighted equally and calculated to produce the annualized TSR for the measurement period.

### ***Lobbying***

2014 ISS Policy recommends considering the following when voting case-by-case on proposals requesting information on a company’s lobbying activities, policies, or procedures:

- The company’s current disclosure of relevant lobbying policies and management and board oversight;
- The company’s disclosure regarding trade associations or other groups that it supports, or is a member of, that engage in lobbying activities; and
- Recent significant controversies, fines, or litigation regarding the company’s lobbying-related activities.

ISS is no longer considering the impact that the public policy issues in question may have on the company’s business operations.

### ***Human Rights Risk Assessment***

Last year, it was ISS policy to vote case-by-case on application of a global approach that was generally in conformity with international human rights standards and conventions. For 2014, ISS recommends voting case-by-case on proposals requesting that a company conduct an assessment of the human rights risks in its operations or in its supply chain, or report on its human rights risk assessment process, considering:

- The company’s industry and whether the company or its suppliers operate in countries or areas where there is a history of human rights concerns;
- Recent significant controversies, fines, or litigation regarding human rights involving the company or its suppliers, and whether the company has taken remedial steps; and
- Whether the proposal is unduly burdensome or overly prescriptive.

### **Conclusion**

Proxy voting advisory firms such as ISS and Glass, Lewis & Co. are becoming increasingly influential amongst institutional shareholders. If you would like to learn more about the policies of these firms, one of our expert attorneys would be more than happy to assist you.

### **For more information or to discuss specific scenarios, please contact:**

Julie Herzog, Member/ Manager  
Fortis Law Partners LLC  
1900 Wazee Street, Suite 300, Denver, CO 80202  
303-295-9707 | 303-295-9700 (general office)  
jherzog@fortislawpartners.com