

Independent Chair Shareholder Proposals (U.S.)

Background

The prevalence of independent chairs is on the rise, but the pace of change is slow especially at large cap companies. Over 60 percent of S&P 500 firms continue to combine the chair and CEO roles and the proportion of companies in the index having an independent chair increased by just two percentage points from 2011 to 2012 compared to four percentage points for firms in the S&P MidCap Index.

While many investors and corporate directors advocate for an independent chair in theory, the vote results on independent chair shareholder proposals do not reflect that such sentiment is translated into practice. Shareholder support levels for independent chair proposals at S&P 500 companies have been mired in the 28-36 percent range over the past five years. Despite record proposal volumes, average support in 2013 fell to 31.8 percent (of votes cast FOR and AGAINST) from 35.6 percent support in 2012. Both seasons' results were below the all-time high average support of 36.4 percent in 2009.

ISS' vote recommendations on the 59 proposals that have gone to a shareholder votes so far in 2013 have been split--29 FOR and 30 AGAINST. Notably, ISS policy places significant weight on the lead director duties in evaluating the robustness of that role as an effective counterbalance to a combined chair/CEO when determining a vote on the proposal. Also, the use of relative TSR performance as a factor may cause a change in vote recommendations regardless of a change in board leadership structure.

In this context, ISS is examining alternative approaches to our policy on shareholder proposals seeking an independent chair.

Current ISS Benchmark Policy

ISS' current policy is to generally recommend a vote for independent chair shareholder proposals unless the company maintains a counterbalancing governance structure, including a robust lead director position, and has no governance or performance concerns (performance is measured as TSR performance relative to the company's peers over a one- and three-year period). Details on ISS' current policy can be found [here](#).

Policy Directions

ISS is exploring a number of potential approaches to its policy regarding independent chair shareholder proposals for 2015 or beyond. At a high level, these approaches are:

- A. Maintain the current policy approach which is designed to focus on the structural aspects of a company's governance and board leadership structure while also considering whether the company has governance or performance (relative TSR) concerns.
- B. Generally vote for all independent chair shareholder proposals as a matter of best practice but consider certain company-specific circumstances – such as company size, the company's length of time as a public entity, and CEO transition – on a case-by-case basis that may warrant a combined CEO/chair board leadership structure.
- C. Always vote for all independent chair shareholder proposals.

Request for comment/feedback

Please feel free to add any additional information or comments on this policy. In addition, ISS is specifically seeking feedback on the following:

1. Please specify which approach above (A, B, or C) that best reflects the views of your organization.
2. Are there company-specific circumstances that generally lead you to support a combined CEO/chair board leadership role (e.g., size of a company, as measured by market cap; the company's length of time as a public entity; CEO in transition)? If so, what circumstances might justify a combined role?
3. Does your organization consider a company's relative TSR performance when voting on these proposals (if you are an investor respondent) or consider relative TSR as a factor in determining an appropriate board leadership structure (if you are an issuer respondent)? If yes, please specify the time frame(s) (e.g. one, three, five years).
4. Investor Respondents: What board-related concerns are most significant when deciding whether to support an independent chair proposal?

To submit a comment, please send via email to policy@issgovernance.com. Please indicate your name and organization.