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Sent Via Electronic Mail

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Global Policy Board
Institutional Shareholder Services, Inc.
702 King Farm Boulevard, Suite 400
Rockville, MD 20850

Re: Policy Consultation—Independent Chair Stockholder Proposals

Dear Global Policy Board,

On behalf of Chevron Corporation, I would like to thank the ISS Global Policy Board for the opportunity to participate in its Policy Consultation and comment on one of the proposed revisions to the ISS voting policies. In particular, Chevron would like to express its views on the proposed revisions to the policy relating to independent chair stockholder proposals.

We ask that the Global Policy Board reject the proposed policy change or delay the policy change until ISS has provided a defensible rationale for the change and explanation for why additional factors are considered relevant. This will afford companies and stockholders a greater opportunity to evaluate whether there is a reasonable and appropriate basis for departing from ISS's existing voting policy standard.

Regarding independent chair proposals generally, we reiterate our position, communicated to you on February 13, 2014, as part of our written comments during the Benchmark Policy Consultation, that ISS should maintain its current policy approach. We continue to believe that the current policy approach strikes the most reasonable balance between the fundamental duty and right of a board of directors to exercise its business judgment and demonstrative governance or performance concerns. Whereas many corporate governance stockholder proposals, such as proposals regarding stockholders' ability to call a special meeting or those seeking to declassify a board of directors, relate to the relationship between stockholders and directors and the ability of stockholders to exercise their voting rights, independent chair proposals seek to override a determination made by a board – typically controlled by an overwhelming majority of independent directors – as to the best structure for the board's own effective operation. Under the current policy approach, boards of directors can choose an optimal leadership structure that is in the best interests of the company and its stockholders at the time chosen.

We remain concerned that ISS's frequent revisions of its criteria for evaluating independent chair proposals represents an incremental and steady advance towards de facto support for such proposals and an arbitrary preference for the independent chair structure despite the fact that little empirical evidence exists to support separate board leadership as a "best practice." Illustrative of our concern is ISS's own statement that "a more holistic review of each company's board leadership structure," would have resulted in ISS supporting a larger percentage of independent chair proposals in the past. Yet, ISS has not offered any explanation as to why it believes that its current voting policy on independent chair proposals should be revised or this arbitrary preference for the independent chair structure is justified.

As we noted in our letter earlier this year, while some governance professionals assert that separate board leadership is a "best practice," empirical inquiry has failed to uncover any significant, systemic relationship between board leadership structure and firm performance. See, for example, Ryan Krause and Matthew Semandeni, *Apprentice Departure and Demotion: An Examination of the Three Types of CEO-Board Chair Separation*, Academy of Management Journal, 56 (2013) (noting that "the lack of an evident relationship between board leadership structure and firm performance exhibits a level of consistency. . . unusual in any literature"); Olubunmi Faleye, *Does One Hat Fit All? The Case of Corporate Leadership Structure*, Journal of Management & Governance, Vol. 11, No. 3 (2007) (study of almost 2000 companies finding that operational needs and governance features of individual companies, as well as CEO traits, influence the choice of board leadership structure and determine whether that structure is beneficial for the company and concluding that mandating the separation of the chair and CEO roles "may be counterproductive because it ignores the role of firm characteristics in determining the appropriateness of separating or combining the two positions"). Moreover, an ISS policy that implicitly, if not explicitly, gives preference to an independent chair is contrary to the voting policies of many institutional stockholders, many of whom recognize that an independent lead director is an acceptable alternative to an independent chair. (See, for example, the voting policies of BlackRock Institutional Trust Company, Dodge & Cox, Fidelity Management & Research Company, Northern Trust Investments, T. Rowe Price Associates, Inc, Vanguard Group, Inc.) Chevron believes that ISS's policy regarding independent chairman proposals should reflect this lack of empirical evidence by deferring to boards and their business judgment in the determination of which board leadership structure is optimal for their company. Absent clear evidence that the leadership structure that a board has chosen to operate under does not empower board independence and is not providing effective oversight of the CEO and management, we respectfully believe that ISS should defer to directors' own decision as to the best operational structure for their boards.

Chevron believes that ISS's existing voting policy generally is better designed than the proposed new voting policy to focus on the structural and operational aspects of a company's governance and board leadership structure while preserving the flexibility to consider governance concerns. We view the factors currently evaluated by ISS – the presence of a large number of independent directors, all-independent directors on key board committees as mandated by stock exchange listing standards, and the presence of an independent lead director with clearly delineated duties – are appropriately focused on assessing whether a board has an effective leadership structure in place that ensures independence of the board and provides for effective oversight of management. We note that many companies currently disclose, either in their proxy statements pursuant to SEC-mandated disclosures regarding the board leadership structure or in their board governance guidelines, that their independent directors periodically discuss their leadership structure and are free to vary that structure from time-to-time as the board determines to be most appropriate at that point in time. Companies also increasingly disclose that their independent lead directors fulfill responsibilities that go beyond those that ISS has identified as appropriate for a lead director. Thus, we believe that there are appropriately robust discussions and disclosures around the leadership structure that company boards have implemented, and that ISS's existing voting standards appropriately recognize current governance practices.

Chevron also believes that ISS's policy should take into account prior stockholder votes on this issue. Just as ISS has developed policies governing board responsiveness to majority-supported stockholder proposals, its policies should also reflect consideration of a stockholder proposal's continued inability to achieve majority support. Since 2007, Chevron stockholders have voted on a stockholder proposal to separate the chair and CEO four times. Not once has this proposal received more than 38 percent support, and most recently in 2014, it only received 22 percent support. Chevron's stockholders' repeated unwillingness to support this proposal in any significant degree should be a factor in ISS's support for future proposals.

To the specific issues ISS seeks comment, we comment on only one: the timeframe ISS should use when assessing financial performance (i.e., total shareholder return, or TSR) when evaluating independent chair proposals. We believe that ISS should disregard TSR completely when assessing an independent chair proposal because TSR alone is questionable in terms of indicating the effectiveness of board leadership structure. First, assessing TSR in the context of determining whether to support an independent chair proposal implicitly affirms the assumption that there is an empirically provable connection between board leadership and firm performance. As we note above, this is a flawed assumption. Second, TSR, both absolute and relative, can be affected by a number of factors, many of which are not directly related to board leadership structure. Accordingly, we believe that ISS should disregard TSR completely when assessing independent chair proposals.

Thank you for the opportunity to share our views on this matter.

Sincerely yours,

Lydia I. Beebe