Honeywell

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To whom it may concern:

Honeywell International Inc. wishes to respond to ISS' invitation to provide feedback to its 2015 Benchmark Policy Consultation. Honeywell's feedback is focused on two particular proposed changes to ISS' voting policies: independent chair shareholder proposals and the equity plan scorecard. Honeywell is a Fortune 100 diversified technology and manufacturing leader, serving customers worldwide with aerospace products and services; control technologies for buildings, homes and industry; turbochargers; and performance materials. We are committed to building a world that is safer and more secure, more comfortable and energy efficient, and more innovative and productive.

Independent Chair Shareholder Proposals

Honeywell is deeply concerned about ISS' proposed new factors relevant to its decision of whether to recommend "For" or "Against" a proposal to separate the role of Chairman and CEO. Many reputable academic studies have concluded that there is no correlation between Chair/CEO separation and firm performance and, indeed, that separation of these roles can create strategic confusion and lack of clear leadership.[1] Despite the lack of certainty over whether separating the role of Chairman and CEO is ever in shareholders' best interest, ISS' current voting policy at least has the benefit of being clear and unambiguous. In exercising their informed judgment on the best leadership structure for a particular company, Boards of Directors can today have some clarity as to whether ISS will recommend a vote "For" or "Against" a shareholder proposal on separation of the roles of Chair/CEO.

ISS' proposed changes will eliminate that clarity, making it extremely difficult for Boards to predict whether a given leadership structure -- short of full separation of the Chair and CEO roles -- will meet with ISS' approval. According to ISS' 2015 Consultation, "any single factor that may have previously resulted in a 'For' or 'Against' recommendation may be mitigated by other positive or negative aspects, respectively." It is extremely difficult to know what this means,

[1] *See* Krause, R & Semadeni, M. 2012. Apprentice, Departure, and Demotion: An Examination of the Three Types of CEO-Board Chair Separation. *Academy of Management Journal.*

how relevant factors would be weighted, or how they would be applied, leaving public companies, like Honeywell, mystified as to what prompted a voting recommendation. Companies seeking to make changes, short of full separation, would also be in the dark regarding which, if any, single factor might be changed in advance of the 2015 ISS report to improve ISS' vote recommendation.

Honeywell also questions how ISS' staff can possibly make an informed decision, based on accurate, relevant information, for the thousands of publicly-traded corporations covered by ISS. For example, the leadership structure might depend on a company's long-term business strategy or long-term CEO succession plans, details of which are not publicly-disclosed. As a practical matter, ISS appears to assume that the "best fit" individual to serve as independent Chair could be readily selected from among the independent Directors and that this Director would immediately have ample time available to serve in the Chair role, but this may not be the case. Determining the appropriate leadership structure for a particular organization requires the insights, reason and judgment of a well-informed Board, and cannot be reduced into easily digestible formulas applied indiscriminately to thousands of companies by research analysts who are unfamiliar with the quality of a particular corporation's management, board, business activities, or future prospects.

Equity Plan Scorecard

Honeywell also has some concerns with respect to the proposed Equity Plan Scorecard methodology and offers the following responses to the specific questions posed by ISS:

Which factors in the proposed scorecard approach should be more heavily weighted?:

Assuming acceptable burn rates and SVT levels are published or made available in advance; the Plan Cost aspect should be the most heavily weighted factor as it provides a company the opportunity to set their share request in a predictable way, based on projected company needs and what ISS deems acceptable. In determining plan cost, ISS should also consider a company's practice relative to share buy-backs specifically intended to offset any shareowner dilution attributable to employee equity plans.

Do you see unintended consequences from shifting to a scorecard approach? If yes, why?:

Yes. The proposed process of assessing plan features and practices adds a level of subjectivity that may have an unintended consequence of decreasing transparency of how ISS arrived at their overall conclusion. The loss of transparency resulting from a change to the new, proprietary ISS Compass model is likely to promote the negative perception that ISS applies its subjectivity inconsistently. In contrast, greater transparency would allow companies to consider changes in light of their importance to the ISS model in advance of the ISS report and equity plan recommendation.

When measuring the proportion of the CEO's most recent grants subject to performance conditions (under grant practices), looking only at equity awards and ignoring L-T cash-based awards issued under the same Omnibus incentive plan has the unintended consequence of providing an inadequate comparison among companies with different L-T incentive philosophies. It would be more accurate to consider the performance aspects of *all awards* granted under the Omnibus incentive plan, not just equity grants (i.e. **% of LTI awards** that are subject to performance conditions provides a better relative comparison than % of equity awards subject to performance conditions).

Honeywell appreciates the opportunity to comment on ISS' 2015 Survey. However, as discussed above, we disagree with both of the proposed changes and question how implementation of these changes will enhance shareholder value. We welcome the opportunity to answer any questions or discuss the issues raised in this letter with ISS staff members.

Very truly yours,

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