

October 26, 2017

ISS Releases 2018 Draft Voting Policy Changes

Today Institutional Shareholder Services (ISS) launched the comment period for its [draft voting policy changes](#) for the 2018 proxy season. Comments are due by 5:00pm Eastern Time, on November 9. Specifically relating to U.S. issuers, ISS has proposed the following updates:

- **Director Recommendations at Companies with Unratified “Long-Term Poison Pill”**: ISS’s current policy provides that if a company maintains a long-term (>1 year) shareholder rights plan that has not been approved by shareholders, ISS will recommend voting against all nominees every year if the company’s board is classified. However, if the board is annually elected, ISS will recommend voting against the entire board once every three years. ISS proposes changing its policy to recommend voting against all directors of such companies at every annual meeting. In addition, commitments to put a long-term rights plan to a vote the following year would no longer be considered a mitigating factor by ISS (but may still be relevant to individual shareholder voting decisions). ISS would also eliminate the exemption for 10-year rights plans adopted prior to November 2009, which would affect approximately 90 companies. ISS notes that short-term rights plans would continue to be assessed on a case-by-case basis, but states that the updated policy would focus more on the rationale for the rights plan’s adoption than on the company’s governance and track record.
- **Excessive Non-Employee Director Compensation**: ISS states that median pay for non-employee directors has increased every year since 2012 and was approximately \$211,000 in 2016. In response to alleged “extreme pay outliers,” ISS is proposing to recommend voting against or withholding votes from members of board committees responsible for setting non-employee director compensation when there is a “pattern” (over two or more consecutive years) of “excessive” non-employee director pay without a compelling rationale or other mitigating factors. Among other things, ISS is seeking feedback regarding the circumstances for which large non-employee director pay magnitude would merit support on an exceptional basis, e.g., one-time onboarding grants for new directors.
- **Gender Pay Gap Shareholder Proposals**: ISS notes that there has been an increasing number of shareholder proposals requesting that companies report whether a gender pay gap exists, and if so, what measures will be taken to address the gap. ISS is proposing to vote case-by-case on requests for reports on a company’s pay data by gender, or a report on a company’s policies and goals to

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reduce any gender pay gap, taking into account the company's current policies and disclosure related to its diversity and inclusion policies and practices, its compensation philosophy and its fair and equitable compensation practices. ISS will also take into account whether the company has been the subject of recent controversy or litigation related to gender pay gap issues and whether the company's reporting regarding gender pay gap policies or initiatives is lagging its peers.

ISS intends to finalize its 2018 voting policy changes and announce the final policies during the second half of November; ISS may ultimately implement policy changes beyond topics raised in the draft voting policies. The final voting policies will be applied to shareholder meetings taking place on or after February 1, 2018.

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