
ISS Annual Policy Survey Seeks Input Regarding Auditors and Audit Committees

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Earlier this week, proxy advisory firm Institutional Shareholder Services Inc. (ISS) launched its Annual Policy Survey, which solicits responses from institutional investors, companies, corporate directors and other market constituents to help shape ISS' proxy voting guidelines for the upcoming proxy season. The survey topics provide a glimpse into issues on the minds of proxy advisory firms and their stakeholders, which for the upcoming proxy season include audit and audit committee matters among others.

Divided into two parts, the survey includes a "high-level ISS Governance Principles Survey covering a small number of global high-profile governance topics" and an "ISS Policy Application Survey" that includes more detailed questions specific to geographic regions and that focus on a more granular level at specific voting issues. After collecting survey responses and gathering other input, such as from regional roundtables, ISS issues proposed changes to its voting policies for the upcoming proxy season and offers a public comment period on the proposed changes before finalizing its policies.

Recognizing that investors and regulatory bodies around the world "have started to focus on additional indicators of audit quality and auditor independence," the survey includes questions regarding auditors and audit committees among the questions pertaining to "high-profile governance topics." With respect to auditors, "ISS voting guidelines often consider non-audit services and fees as one factor when assessing the independence of the external auditor," and ISS is seeking input on "what other audit-related factors could be considered in evaluation of the independence and performance of the external auditor." The survey offers respondents the opportunity to provide their own responses to this question, as well as the option to select one or more factors from the following list:

- Identity of audit partner and any links to the company or its management;
- Audit firm tenure;
- Audit partner tenure;
- Significant audit controversies;
- Regulatory fines or other penalties on the company related to financial disclosure practices

or weaknesses not identified in the audit report; and

- Regulatory fines or other penalties on the auditor for weaknesses or errors in audit practices.

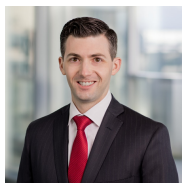
With respect to audit committees, the survey inquires about what information shareholders should consider when evaluating a company's audit committee. Some available survey responses to this question include:

- Skills and experience of audit committee members (including number of financial experts, if applicable);
- Quality of the company's financial reporting (e.g., number of restatements; nature of restatements);
- Significant financial reporting or audit controversies;
- The level of disclosure of factors used in the audit committee's assessment of the external auditor's independence, tenure, qualifications and work quality;
- Frequency of audit committee meetings; and
- Frequency of audit committee refreshment.

The other high-profile governance topics included in the survey are individual director accountability for oversight failures, gender diversity on boards, and reporting adjusted vote results on a "one-share, one vote" basis at companies with multi-class share structures. The more detailed questions pertaining to companies in the U.S. concern independent chair proposals, minimum stock ownership requirements for bylaw amendments, quantitative tests to evaluate pay-for-performance, non-employee director pay and board qualifications matrices.

The high-level ISS Governance Principles Survey remains open until August 24, and the more detailed ISS Policy Application Survey remains open until September 21.

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