

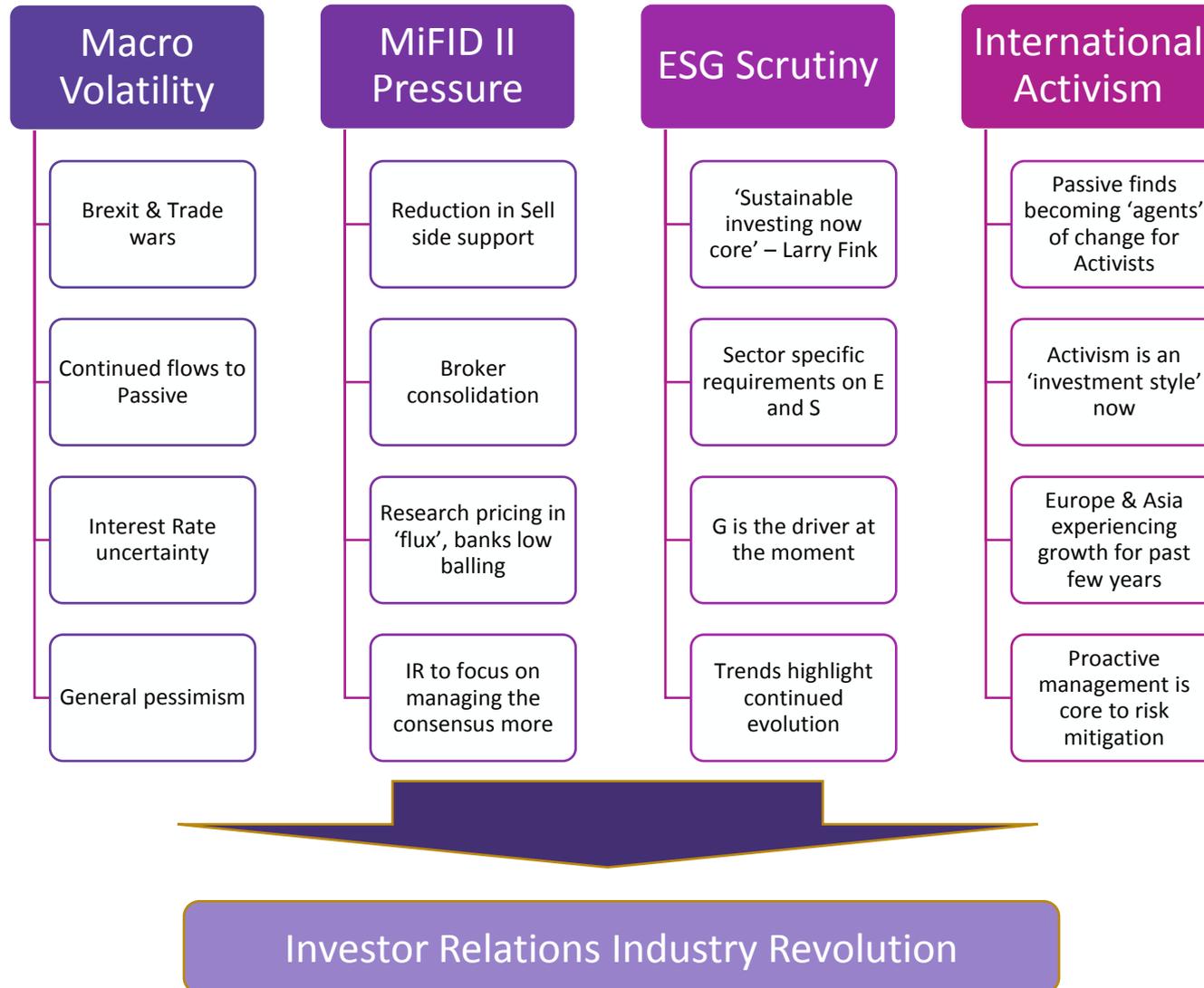


Nasdaq Corporate Solutions

International Corporate Governance

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2019 Market Predictions & Impact



Corporate Governance Priorities in 2018

According to the Harvard Law School Forum on Corporate Governance, the **top five governance priorities** in 2018 are the following:

- ① Board composition, with a particular focus on **enhanced diversity**
- ② **Board-level expertise** that is more aligned with business goals
- ③ Increased attention to **climate risk** and the environment
- ④ Enhanced attention to **talent** and human capital management
- ⑤ Compensation that is more aligned with **performance and strategy**

Notable members who sit on the Harvard Law School Forum on Corporate Governance include:

- **Joan Conley**, Nasdaq's Corporate Secretary
- **Bill Ackman**, Pershing Square
- **Carl Icahn**, Icahn Enterprises
- **Barry Rosenstein**, JANA Partners
- **Peter Atkins**, Skadden, Arps, Slate, Meagher and Flom
- **Jesse Cohn**, Elliott Capital Management

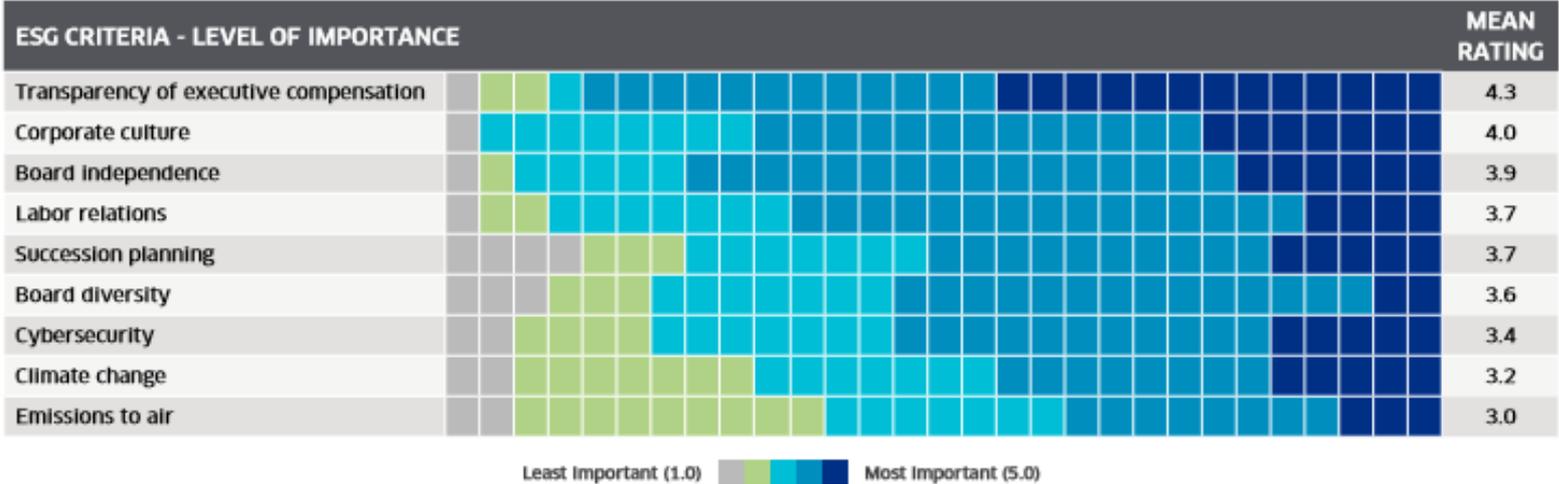
Global Governance Trends

Global governance trends

- New governance frameworks on investor stewardship in Japan, Holland, the Philippines and the UK.
- Shareholder Rights Directive brings say-on-pay votes; transparency on holdings and greater scrutiny of proxy advisers' voting guidelines.
- Introduction of the Investor Stewardship Group (ISG), which is backed by 34 signatories and 22 supporters – Aligned to the UNPRI and UK codes.
- Companies are enhancing their proxies with summaries; becoming digital; & greater input from the IR; CoSec; HR and finance.
- Digital proxy statements can influence voting up to 80 percent of outstanding shares. Voting can be embedded.
- Issuers running governance roadshows with board of directors focused on board diversity; composition; how the board works and what kind of oversight it has.
- There was sustained interest from US investors in both climate change scenarios and improved sustainability disclosures.
- This year saw the launch of ISS' E&S Quality-Score and the release of the Sustainability Accounting Standards Board's new reporting standards for environmental risk.

An insight into ESG Criteria

Understand the level of importance of various ESG criteria to existing and prospective investors



State Street's View

Trend 1: Investors are moving from purely exclusionary to integrated ESG strategies

- Investors embrace ESG investing due to the “value” it offers to long-term investors
- Proliferation of ESG data shows that ESG can be a value driver
- Regulatory action mandating ESG into their investment process

Trend 2: Investment strategies will be increasingly powered by multiple sources of ESG data from multiple providers

Trend 3: Growing demand to understand ESG performance of the portfolio against desired objectives will drive the need for enhanced reporting

- ESG reporting such as carbon intensity, and overall ESG profile.

Trend 4: Climate solutions will evolve to include adaptation alongside mitigation

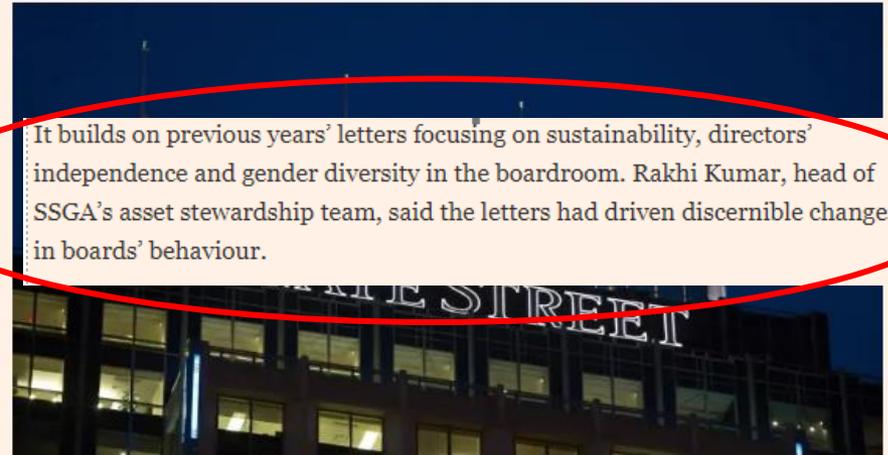
- have traditionally focused on mitigation
- investors will require companies to disclose how they are adapting their strategies to accommodate the impacts of climate change
- Boards to incorporate climate change into their long-term strategies.

Trend 5: Mainstreaming of ESG will drive investments in talent and infrastructure

- To build ESG capabilities, firms will require talent. It also will require training of people and investments in data, analytics and reporting infrastructure to allow for full integration.

State Street tells boards to focus on corporate culture

Asset manager wants companies to focus on ‘human capital’ to help create long-term value



© Bloomberg

Andrew Edgecliffe-Johnson in New York JANUARY 14, 2019



[State Street Global Advisors](#) is calling on boards to review their companies’ cultures and explain its alignment with their strategy, in the latest example of large investors emphasising [intangible factors](#) as a means to create long-term value.

The world’s third-largest asset manager has written to the independent chairs or lead independent directors of more than 1,100 companies in the S&P 500, FTSE-350 and equivalent indices in Australia, France, Germany and Japan.

The [letter](#) from Cyrus Taraporevala, SSGA chief executive, sets out how directors can assess, influence and report on their culture and says they should expect to answer questions on it from SSGA over the coming year.

BlackRock's approach

Engagement* for current year: July 1, 2017 to June 30, 2018†

Region	Total	Resource level††			Focus of engagement*		
		Basic	Moderate	Extensive	Environmental	Social	Governance
Americas	845	701	89	55	129	157	728
United Kingdom	282	234	42	6	24	31	270
EMEA (ex-UK)	314	263	49	2	64	57	297
Japan	345	52	202	91	48	78	325
Asia-Pacific (ex-Japan)	263	140	109	14	36	79	237
Total	2,049	1,390	491	168	301	402	1,857

Engagement* for current year: July 1, 2016 to June 30, 2017†

Region	Total	Resource level††			Focus of engagement**		
		Basic	Moderate	Extensive	Environmental	Social	Governance
Americas	439	295	95	49	50	53	408
United Kingdom	235	143	60	32	12	16	233
EMEA (ex-UK)	223	171	39	13	24	21	223
Japan	259	94	129	36	19	21	256
Asia-Pacific (ex-Japan)	118	21	80	17	18	12	118
Total	1,274	724	403	147	123	123	1,238

**Most engagement conversations cover multiple topics. Our engagement statistics reflect the primary engagement topic for which the meeting was called.

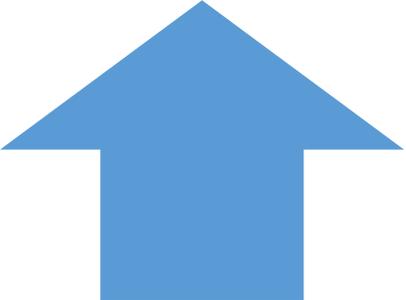
- High Level of engagement in voting
- Relatively high levels of 'against' management recommendation
- Focus shift to 'Social' factors
- 'Governance' still the core focus
- Highest votes 'Against' Mgmt proposals across Asia are Capitalisation (14%) and Comp. matters (19%) – highest globally
- Growing team of over 40 located globally

Voting* for current year: July 1, 2017 to June 30, 2018†

Region	Total Number of meetings voted	Total Number of proposals voted	% of meetings voted against one or more management recommendations	% of proposals voted against management recommendation
United States	3,904	31,265	29%	5%
Americas (ex-US)	1,108	9,993	50%	10%
United Kingdom	861	11,718	30%	5%
EMEA (ex-UK)	2,593	35,420	55%	12%
Japan	2,142	21,202	37%	5%
Asia-Pacific (ex-Japan)	6,543	49,344	35%	10%
Total	17,151	158,942	38%	8%

Election of Directors...criteria!

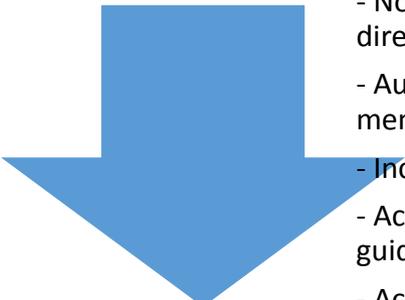
“Companies should attest to the independence of directors who serve on the Compensation, Nominating, and Audit committees. In any instance in which a director is not categorically independent, the basis for the independence determination should be clearly explained in the proxy statement”



APPROVAL CRITERIA

Nominated members results in board composed of a majority of independent directors.

- All members of Audit, Nominating, and Compensation committees are independent of management



AGAINST CRITERIA

- Nominated members results in board composed of a majority of non-independent directors.
- Audit, Nominating, and/or Compensation committees include non-independent members.
- Incumbent board member failed to attend at least 75% of meetings
- Actions of committee(s) on which nominee serves are inconsistent with other guidelines (e.g., excessive equity grants, lack of board independence).
- Actions of committee(s) on which nominee serves demonstrate serious failures of governance (e.g., unilaterally acting to significantly reduce shareholder rights, etc.).

Building the Boardroom of Tomorrow

CYBER RISK

The fear of cyber threats looms large, expanding now to include crypto jacking, supply chain attacks and mobile malware. Attacks have become more sophisticated and exposure points have increased partly from the growing array of connected devices, systems and networks.

GLOBAL DYNAMICS

As we enter a new and unsettling geopolitical environment, global risks are intensifying. Corporate executives and private equity investors expect merger and acquisition (M&A) activity to accelerate, and this consolidation will impact markets

Disruptions impacting your organization, of course, vary based on your industry, your product or service offering, and the competitive climate. However, there are new realities that extend across all industries.

NEW REGULATIONS

In 2008, Norway was the first European country to mandate board diversity, requiring 40% of directors for listed organizations be female.¹ A decade later, California passed a bill mandating major companies put female directors on their boards.

Changing dynamics

To compete — and thrive — amidst these and other disruptions, the board of directors must expand their roles beyond traditional governance. Directors require a more thorough understanding of companies' risks and opportunities, their unique culture and their strategic vision. Knowledge — and sharing that knowledge — has never been more important to the work of the board.

When it comes to board dynamics, the reality is, technology can only do so much. Any well-rounded board includes people from a variety of backgrounds and areas of expertise. That means their beliefs and opinions vary greatly, as well. Below are the critical, yet oftentimes overlooked practices that help forge board relationships and keep them aligned on one core goal: your business.

Set rules for how discussions (and disagreements) should be handled in board meetings. If you don't set and adhere to communication guidelines, you may be deterring other board members from speaking up.

Rotate boardroom seating so directors can network with people they may not know well. This helps prevent a "clique culture" from developing, which could lead to internal conflict.

Develop seed questions and add them to meeting agendas, so board members can brainstorm ideas and conjure up some preliminary thoughts. The end result is a more vibrant conversation that includes more diverse opinions and perspectives.

Continue the conversation by having executive leadership reach out to directors that may be silent during meetings or are particularly passionate about a specific subject. One-to-one outreach shows the board that the executive team appreciates their contribution and respects their input, which will ultimately increase their engagement in meetings

Pioneering Leading Governance Solutions for Forward-Looking Organizations & Effective Corporate Engagement

Nasdaq Boardvantage

The next generation board portal and leadership team collaboration software from Nasdaq Governance Solutions. Built on the latest technology and designed with innovative security features, this software solution easily scales to meet the dynamic meeting management and governance needs of corporate secretaries, directors and senior management teams and committees.

Best New Product of the Year –
Collaboration Software –
Nasdaq Boardvantage



STANTON CHASE

Board Advisory Services

Recognized for exceptional results around the world, Stanton Chase drives Board Leadership Excellence through board strategic renewal, evaluation, skill matrix composition and BoD acquisition to reduce risk and improve governance and performance.

Jointly, it is our mission to drive effective corporate engagement in a manner that is sustainable and value adding to help organizations improve governance, increase efficiency, and make a meaningful difference in their communities.