



**March 21, 2017**

[Contact](#) | [Website](#) | [Subscribe](#) | [Calendar](#)



#### *Inside this edition*

##### **State Street Global Advisors announces it will vote against nominating governance committee chairs on boards without women directors in 2018**

While no quotas were given, State Street indicated that companies that aren't seen to be making progress towards diversifying their boards will be open to negative votes.

##### **BlackRock releases 2017-2018 engagement priorities**

BlackRock released their top investment stewardship priorities for 2017-2018 that outline key areas of focus during their engagement with management and boards.

##### **Anti-fraud report details leading practices for stemming fraud**

The Anti-Fraud Collaboration released a compilation of leading practices for avoiding fraud and reducing restatements based on feedback from executives, corporate directors and auditors.

##### **Survey finds investors want more engagement with directors**

Nearly three-quarters (72%) of investors responding to a recent Morrow Sodali survey indicated that board members were their preferred audience when engaging with companies.

##### **Unequal voting rights discussed at SEC Investor Advisory Committee**

The March 2017 SEC Investor Advisory Committee meeting included a discussion of unequal voting rights.

**See full articles below**

# ProxyPulse

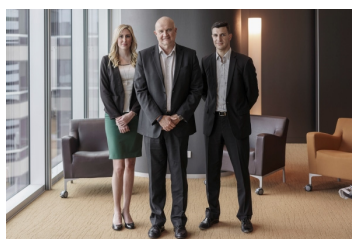
## 2017 Proxy Season Preview

[Learn more ▶](#)



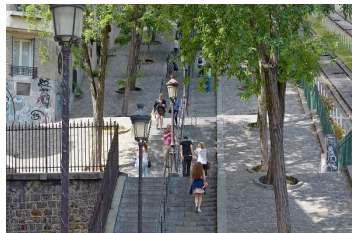
### **Board composition insights by industry**

Looking at board composition and refreshing the board is critical to its ability to stay current, focused on enhancing long-term shareholder value and fit for the future. What is the right board composition for your industry?



### **Risk Oversight Series: How your board can influence culture and risk appetite**

Understanding culture is difficult. It's especially tricky for directors to know whether the culture supports the right kind of risk-taking. Aggressive compensation targets or growing numbers of whistleblower complaints may be signs that a company's culture is out of control. Does your board have a handle on company culture?



### **The quarter close – Directors edition**

This quarterly publication is designed to keep directors informed about the latest accounting and financial reporting issues.

---

## Events and education

Join our team for engaging discussions at these upcoming governance events:

### **Governance Insights Center Quarterly Webcast**

April 11, 2017

1:00 p.m. EDT

CPE: 1 credit

*What's trending this proxy season and what will be the impact in your boardroom? Join PwC and Broadridge for a webcast on April 11th to learn more about these issues, plus the latest on: institutional and retail voting trends, director elections results, say on pay and proxy access.*

### **Equilar/Nasdaq Board Leadership Forum**

Dallas, Texas

May 16, 2017

*GIC Leader Paula Loop will moderate a panel on board evaluations and succession planning. GIC Partner Catherine Bromilow will participate in a panel discussion on the board's role in deal-making.*

### **The Deal: Corporate Governance 2017**

New York, New York

June 5, 2017

*PwC US Chairman and Senior Partner Tim Ryan will be interviewed by The Deal host Jim Cramer. GIC Leader Paula loop will be a panelist on shareholder activism.*

### **Skytop Strategies Public Companies Management and Boards**

New York, New York

June 8, 2017

*GIC Director Catie Hall will be participating in a panel on engagement and communication best practices for public company management and boards.*

### **Society of Corporate Governance National Conference**

San Francisco, California

June 28 – July 1, 2017

*Join the GIC team for one-on-one discussions during the conference.*

---

## **Main articles**

### **State Street Global Advisors announces it will vote against nominating governance committee chairs on boards without women directors in 2018**

While no quotas were given, State Street indicated that companies that aren't seen to be making progress towards diversifying their boards will be open to negative votes. State Street is focusing on companies in the Russell 3000, the UK's FTSE 350 and Australia's S&P/ASX 300. Nearly a quarter of companies in the Russell 3000—approximately 738 companies—do not have any women on their boards.

Supporting their stance on prioritizing gender diversity, State Street also [issued guidance](#) on how boards can enhance diversity. The framework is built on six key points:

- (1) Assess the current level of gender diversity on the board and within management
- (2) Establish goals aimed at enhancing the level of gender diversity on the board and senior management
- (3) Identify “diversity champions” on the board and within management who would support initiatives to meet established goals
- (4) Address behavioral gender bias in the director search and nomination process, including expanding the search for potential director candidates beyond existing director networks
- (5) Consider female directors for leadership positions and on key board committees
- (6) Enhance transparency and communication with investors on the board's position on gender diversity and report on progress against established goals

Ronald O’Hanley, chief executive of State Street Global Advisors, [stated](#), “If someone could convince us that the absence of diversity or gender diversity is not a problem, we’re leaving that open. Will they? I doubt it.”



### *Insights and actions*

Forward-looking boards should consider expanding the universe of potential qualified candidates outside the C-suite and even outside the corporate world—from the retired military, academia and large non-profits. Boards should consider investor recommendations, a practice on the rise, according to PwC’s [2016 Annual Corporate Director Survey](#). Our survey noted that the use of public databases and investor recommendations both increased by seven percentage points from 2015. We expect that upward trend to continue as boards are pressured to rethink composition.

## BlackRock releases 2017-2018 engagement priorities

BlackRock released their top [Investment Stewardship priorities](#) for 2017-2018, key areas of focus during their engagement with management and boards. The release of these priorities comes shortly after BlackRock CEO Larry Fink’s [letter](#) to CEOs which focused heavily on companies’ roles as corporate stewards. BlackRock describes its priorities as:

- [Governance](#) – Board composition, effectiveness, diversity and accountability remain a top priority.
- [Corporate strategy](#) – Board review of corporate strategy is key in light of shifting assumptions.
- [Compensation](#) – Executive pay policies should link closely to long-term strategy and goals.
- [Climate risk disclosure](#) – Systemic disclosure standards would enhance understanding of the impact of climate change on individual companies, sectors and investment strategies.
- [Human capital](#) – In a talent constrained environment, human capital management is a competitive advantage.

The framework also included considerations for management’s engagement with BlackRock. One suggestion is for management to be thoughtful about the agenda for meetings with BlackRock and send it in advance when requesting the meeting. Management should also consider using disclosures as a tool to engage with investors, not just to meet regulatory requirements.

## Anti-fraud report details leading practices for stemming fraud

The Anti-Fraud Collaboration released [Addressing Challenges for Highly Subjective and Complex Accounting Areas](#), a compilation of leading practices for avoiding fraud and reducing restatements based on feedback from executives, corporate directors and auditors. The group had solicited feedback during two 2016 workshops on issues raised in an analysis of SEC enforcement actions. The report cites two specific SEC actions of focus: when the SEC (1) took an action against an issuer or individual because of a securities violation and (2) asserted that there were issues with the company’s Internal Controls over Financial Reporting (ICFR). The report details the outcome of these discussions, focusing on themes such as regulatory activity, accounting policies, ICFR considerations and staffing challenges.

Four organizations—the Center for Audit Quality, Financial Executives International, the National Association of Corporate Directors and the Institute of Internal Auditors—formed the Anti-Fraud Collaboration in 2010 to advance the importance of financial reporting integrity.

## Survey finds investors want more engagement with directors

Nearly three-quarters (72%) of investors responding to a recent Morrow Sodali [survey](#) indicated that board members are their preferred audience when engaging with companies. The survey, which included responses from investors with approximately \$24 trillion in assets under management, focused on four key areas—ESG and shareholder engagement, board dynamics, executive pay and shareholder activism. Other key findings included:

- Sixty (60) percent of investors indicated that poor governance practices are the key factor (after poor financial performance) that cause them to support an activist claim. All investors indicated that they would communicate with activists.
- The leading topics for shareholder engagement in 2017 are climate change (50%), pay-for-performance (35%), cybersecurity (30%), board diversity (30%) and board refreshment (30%).
- All investors indicated that they will vote against compensation committee chairs/members with consistently poor pay practices in 2017.
- Just over three-quarters (77.5%) of investors indicated that using a “Board Skills Matrix” in the proxy disclosure is helpful in making voting decisions.
- Eighty-five (85) percent of investors viewed disclosing annual board performance evaluation results and recommendations as more important than how the evaluation was conducted.
- Almost three-quarters (72%) of investors indicated that the disclosure of ESG factors is very important.

## Unequal voting rights discussed at SEC Investor Advisory Committee

The March 2017 SEC Investor Advisory Committee meeting included a discussion of unequal voting rights. The meeting took place shortly after Snap, Inc. went public, offering multi-class shares, including shares without voting rights. SEC Commissioner Kara Stein noted that unequal voting rights create complexities that have to be acknowledged and addressed. Stein [stated](#), “In the long run we need to critically assess our regime for initial public offerings. The current structure is premised on taking investors' capital while giving the investor rights to hold that company's management accountable of that capital.”

David Berger, partner at law firm Wilson Sonsini noted some technology companies may be seeking new structures in response to Wall Street pressure on short-term gains. He cautioned that focusing entirely on shareholders could be detrimental to the broader company.

Ken Bertsch, executive director of the Council of Institutional Investors, voiced concerns from an investor perspective. According to [Bertsch](#), “The core concern here is corporate governance 101: Separation of ownership and control over time can lead to a lack of accountability, and accountability to owners is necessary for course corrections that are critical in our capitalist system.”

---

Explore additional Governance Insights [editions](#)

Visit **PwC's Governance Insights Center** on the web:

[www.pwc.com/us/governanceinsightscenter](http://www.pwc.com/us/governanceinsightscenter)

Follow us on [LinkedIn](#)

Follow us on Twitter: [@paula\\_loop](#)



Download the award-winning [365® business app](#) on iOS and Android devices today!

© 2017 PwC. All rights reserved. "PwC" and "PwC US" refers to PricewaterhouseCoopers LLP, a Delaware limited liability partnership, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity. This document is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.