

Corporate Governance Principles For US Listed Companies



CORPORATE GOVERNANCE FRAMEWORK FOR U.S. LISTED COMPANIES⁽¹⁾:

Principle 1: Boards are accountable to shareholders.

Principle 2: Shareholders should be entitled to voting rights in proportion to their economic interest.

Principle 3: Boards should be responsive to shareholders and be proactive in order to understand their perspectives.

Principle 4: Boards should have a strong, independent leadership structure.

Principle 5: Boards should adopt structures and practices that enhance their effectiveness.

Principle 6: Boards should develop management incentive structures that are aligned with the long-term strategy of the company.

Principle 1: Boards are accountable to shareholders.

1.1 It is a fundamental right of shareholders to elect directors whom they believe are best suited to represent their interests and the long-term interests of the company. Directors are accountable to shareholders, and their performance is evaluated through the company's overall long-term performance, financial and otherwise.

1.2 Requiring directors to stand for election annually helps increase their accountability to shareholders. Classified boards can reduce the accountability of companies and directors to their shareholders. With classified boards, a minority of directors stand for elections in a given year, thereby preventing shareholders from voting on all directors in a timely manner.

1.3 Individual directors who fail to receive a majority of the votes cast in an uncontested election should tender their resignation. The board should accept the resignation or provide a timely, robust, written rationale for not accepting the resignation. In the absence of an explicit explanation by the board, a director who has failed to receive a majority of shareholder votes should not be allowed to remain on the board.

1.4 As a means of enhancing board accountability, shareholders who own a meaningful stake in the company and have owned such stake for a sufficient period of time should have, in the form of proxy access, the ability to nominate directors to appear on the management ballot at shareholder meetings.

1.5 Anti-takeover measures adopted by companies can reduce board accountability and can prevent shareholders from realizing maximum value for their shares. If a board adopts such measures, directors should explain to shareholders why adopting these measures are in the best long-term interest of the company.

1.6 In order to enhance the board's accountability to shareholders, directors should encourage companies to disclose sufficient information about their corporate governance and board practices.

Principle 2: Shareholders should be entitled to voting rights in proportion to their economic interest.

2.1 Companies should adopt a one-share, one-vote standard and avoid adopting share structures that create unequal voting rights among their shareholders.

2.2 Boards of companies that already have dual or multiple class share structures are expected to review these structures on a regular basis or as company circumstances change, and establish mechanisms to end or phase out controlling structures at the appropriate time, while minimizing costs to shareholders.

Principle 3: Boards should be responsive to shareholders and be proactive in order to understand their perspectives.

3.1 Boards should respond to a shareholder proposal that receives significant shareholder support by implementing the proposed change(s) or by providing an explanation to shareholders why the actions they have taken or not taken are in the best long-term interests of the company.

3.2 Boards should seek to understand the reasons for and respond to significant shareholder opposition to management proposals.

3.3 The appropriate independent directors should be available to engage in dialogue with shareholders on matters of significance, in order to understand shareholders' views.

3.4 Shareholders expect responsive boards to work for their benefit and in the best interest of the company. It is reasonable for shareholders to oppose the re-election of directors when they have persistently failed to respond to feedback from their shareholders.

Principle 4: Boards should have a strong, independent leadership structure.

4.1 Independent leadership of the board is essential to good governance. One of the primary functions of the board is to oversee and guide management. In turn, management is responsible for managing the business. Independent leadership of the board is necessary to oversee a company's strategy, assess management's performance, ensure board and board committee effectiveness and provide a voice independent from management that is accountable directly to shareholders and other stakeholders.

4.2 There are two common structures for independent board leadership in the U.S.: 1) an independent chairperson; or 2) a lead independent director. Some investor signatories believe that independent board leadership requires an independent chairperson, while others believe a credible independent lead director also achieves this objective.

4.3 The role of the independent board leader should be clearly defined and sufficiently robust to ensure effective and constructive leadership. The responsibilities of the independent board leader and the executive chairperson (if present) should be agreed upon by the board, clearly established in writing and disclosed to shareholders. Further, boards should periodically review the structure and explain how, in their view, the division of responsibilities between the two roles is intended to maintain the integrity of the oversight function of the board.

Principle 5: Boards should adopt structures and practices that enhance their effectiveness.

5.1 Boards should be composed of directors having a mix of direct industry expertise and experience and skills relevant to the company's current and future strategy. In addition, a well-composed board should also embody and encourage diversity, including diversity of thought and background.

5.2 A majority of directors on the board should be independent. A board with a majority of independent directors is well positioned to effectively monitor management, provide guidance and perform the oversight functions necessary to protect all shareholder interests.

5.3 Boards should establish committees to which they delegate certain tasks to fulfill their oversight responsibilities. At a minimum, these committees should include fully independent audit, executive compensation, and nominating and/or governance committees.

5.4 The responsibilities of a public company director are complex and demanding. Directors need to make the substantial time commitment required to fulfill their responsibilities and duties to the company and its shareholders. When considering the nomination of both new and continuing directors, the nominating committee should assess a candidate's ability to dedicate sufficient time to the company in the context of their relevant outside commitments.

5.5 Attending board and committee meetings is a prerequisite for a director to be engaged and able to represent and protect shareholder interests; attendance is integral to a director's oversight responsibilities. Directors should aim to attend all board meetings, including the annual meeting, and poor attendance should be explained to shareholders.

5.6 Boards should ensure that there is a mechanism for individual directors to receive the information they seek regarding any aspect of the business or activities undertaken or proposed by management. Directors should seek access to information from a variety of sources relevant to their role as a director (including for example, outside auditors and mid-level management) and not rely solely on information provided to them by executive management.

5.7 Boards should disclose mechanisms to ensure there is appropriate board refreshment. Such mechanisms should include a regular and robust evaluation process, as well as an evaluation of policies relating to term limits and/or retirement ages.

Principle 6: Boards should develop management incentive structures that are aligned with the long-term strategy of the company.

6.1 As part of their oversight responsibility, the board or its compensation committee should identify short- and long-term performance goals that underpin the company's long-term strategy. These goals should be incorporated into the management incentive plans and serve as significant drivers of incentive awards. Boards should clearly communicate these drivers to shareholders and demonstrate how they establish a clear link to the company's long-term strategy and sustainable economic value creation. All extraordinary pay decisions for the named executive officers should be explained to shareholders.

6.2 A change in the company's long-term strategy should necessitate a re-evaluation of management incentive structures in order to determine whether they continue to incentivize management to achieve the goals of the new strategy.

⁽¹⁾ The Corporate Governance principles do not apply to U.S.-registered investment companies and business development companies, because they are not operating companies and have unique corporate governance practices as provided by law.