An MSCI Brand

Transparency. Inclusiveness. Global Expertise.

Asia-Pacific Corporate Governance Policy

2014 Updates

November 21, 2013

Institutional Shareholder Services Inc.

ISS' Asia-Pacific Corporate Governance Policy 2014 Updates

Effective for Meetings on or after Feb. 1, 2014
Updated: Nov. 21, 2013

These policy updates present changes and clarifications to ISS' Asia-Pacific benchmark guidelines for 2014. If new issues arise, such as shareholder proposals or regulatory developments, prior to the next formal update, ISS will adopt policies to cover such issues on an as-needed basis.

Table of Contents

SUMMARY OF ISS' POLICY FORMULATION PROCESS

Each year, ISS' Global Policy Board conducts a robust, inclusive, and transparent global policy formulation process that produces the benchmark proxy voting guidelines that will be used during the upcoming year.

The policy review and update process begins with an internal review of emerging issues and notable trends across global markets. Based on data gathered throughout the year (particularly from client and issuer feedback), ISS forms policy committees by governance topics and markets. As part of this process, the policy team examines academic literature, other empirical research, and relevant commentary. ISS also conducts surveys, convenes roundtable discussions, and posts draft policies for review and comment. Based on this broad input, ISS' Global Policy Board reviews and approves final drafts and policy updates for the following proxy year. Annual updated policies are announced in November and apply to meetings held on and after February 1 of the following year.

Also, as part of the process, ISS collaborates with clients with customized approaches to proxy voting. ISS helps these clients develop and implement policies based on their organizations' specific mandates and requirements. In addition to the ISS regional benchmark (standard research) policies, ISS' research analysts apply more than 400 specific policies, including specialty policies for Socially Responsible Investors, Taft-Hartley funds and managers, and Public Employee Pension Funds, as well as hundreds of fully customized policies that reflect clients' unique corporate governance philosophies. The vote recommendations issued under these policies often differ from those issued under the ISS benchmark policies. ISS estimates that the majority of shares that are voted by ISS' clients fall under ISS' custom or specialty recommendations.

Key Strengths of ISS' Policy Formulation Process

Industry-Leading Transparency: ISS promotes openness and transparency in the formulation of its proxy voting policies and the application of these policies in all global markets. A description of the policy formulation and application process, including specific guidelines and Frequently Asked Questions, appear on our website under the Policy Gateway section.

Robust Engagement Process with Industry Participants: Listening to diverse viewpoints is critical to an effective policy formulation and application process. ISS' analysts routinely interact with company representatives, institutional investors, shareholder proposal proponents, and other parties to gain deeper insight into critical issues. This ongoing dialogue enriches our analysis and informs our recommendations to clients.

Global Expertise: ISS ' policy formulation process is rooted in global expertise. ISS' network of global offices provides access to regional and local market experts for the Americas, EMEA (Europe/Middle East/Africa), and Asia-Pacific regions.

This document presents the changes being made to ISS' Benchmark Asia-Pacific Corporate Governance Policies. The full text of the updates, detailed results from the Policy Survey, and comments received during the open comment period, are all available on ISS' website under the Policy Gateway.

The ISS 2014 Asia-Pacific Policy Updates will be effective for meetings on or after February 1, 2014. In December 2013, ISS will release a complete set of updated policies (in full or summary form). For other updates, please refer to the Executive Summary of Key 2014 Updates and Process.

If you have any questions, please contact Asia-research@msci.com.

BOARD

Corporate Governance Issue:
Voting on Director Nominees in Uncontested Elections

Director Attendance (Hong Kong, Singapore, India, Malaysia, Thailand)

Current Recommendation:

For Hong Kong, Singapore, and India: Vote against a director election if the director:

- Had attended less than 75 percent of board meetings in the most recent fiscal year, without a satisfactory explanation.

For Malaysia and Thailand: Vote against a director election if the director:

- Had attended less than 75 percent of board meetings over the most recent two years, without a satisfactory explanation.

Key Changes:

- Apply one-year look back period for director attendance at companies in Malaysia and Thailand;
- Exempt first-year on the board from the policy;
- Clarify what ISS would consider as "acceptable reasons," including missing one out of three or fewer meetings;
- Count key committee meetings (audit, compensation, and nominating) in calculating director attendance.

New Recommendation: Vote against the re/election of a director if the nominee has attended less than 75 percent of board and key committee (audit, compensation, and nominating) meetings over the most recent fiscal year, without a satisfactory explanation. Acceptable reasons for director absences are generally limited to the following:

- Medical issues/illness;
- Family emergencies;
- The director has served on the board for less than a year; and
- Missing only one meeting (when the total of all meetings is three or fewer).

Rationale for Update: This policy update harmonizes the policies on director attendance in various Asian markets, and makes them more consistent with ISS policy in other markets. It also recognizes that attendance in the most recent year may be a better predictor of future attendance than attendance in earlier years. Acceptable reasons for absences are clarified, thus improving transparency in the policy. Exempting the first year of service and missing only one meeting from the strict application of the attendance policy also reflects investors’ views expressed during ISS' policy roundtable discussions. Additionally, the inclusion of the committee attendance records in applying this policy reflects the improvement in disclosure practices on committee attendance records in the region, as well as the understanding that committee meetings are as important as, if not more so than, the board meetings.

Board Independence (Malaysia and Thailand)

Current Recommendation: Typically vote for the re/election of directors, unless:

- The nominee is an executive director and serves on the audit, remuneration, or nomination committee; or
- The nominee has attended less than 75 percent of board meetings over the most recent two years, without a satisfactory explanation.

In making these recommendations, ISS will not recommend against the election of a CEO, managing director, executive chairman, or founder who is integral to the company

Key Changes: Measure the company's board independence against the independence level required/recommended in the local market and consider it as a criterion in forming ISS' vote recommendations on director elections in Malaysia and Thailand. The exemption for founders and other "integral individuals" will be maintained.

New Recommendation Typically vote for the re/election of directors, unless:

- The nominee is an executive director and serves on the audit, remuneration, or nomination committee; or
- The nominee has attended less than 75 percent of board and committee meetings over the most recent year, without a satisfactory explanation; or
- The nominee is a non-independent director and the board is less than one-third independent under ISS classification of directors.

In making these recommendations, ISS will not recommend against the election of a CEO, managing director, executive chairman, or founder who is integral to the company.

Rationale for Update: ISS currently does not consider the level of board independence in determining vote recommendations on director elections in Malaysia and Thailand. In Malaysia, the Main Market Listing Requirements requires that at least two members or one-third of the board, whichever is higher, are independent directors. Similarly, in Thailand, the 2006 Principles of Good Corporate Governance for Listed Companies recommends that one-third of the board, but not less than three members, are independent. The new policy aligns the director elections policy in Malaysia and Thailand with the local practice as well as regionally accepted best practice. A one-third independent board is not only the norm in these markets, but also is the minimum recommended independence in various markets in Asia, including Singapore, Hong Kong, and India.

COMPENSATION

Corporate Governance Issue:
Equity Incentive Plans (Hong Kong & Singapore)

Current Recommendation:

For Hong Kong: Vote against an option scheme if:

- The maximum dilution level for the scheme exceeds ISS guidelines of 5 percent of issued capital for a mature company and 10 percent for a growth company. However, ISS will support plans at mature companies with dilution levels up to 10 percent if the plan includes other positive features such as challenging performance criteria and meaningful vesting periods as these features partially offset dilution concerns by reducing the likelihood that options will become exercisable unless there is a clear improvement in shareholder value; and/or
- Directors eligible to receive options under the scheme are involved in the administration of the scheme.

For Singapore:

Stock Option Plans

Vote against an option plan if:

- The maximum dilution level for the plan exceeds ISS guidelines of 5 percent of issued capital for a mature company and 10 percent for a growth company. However, ISS will support plans at mature companies with dilution levels up to 10 percent if the plan includes other positive features such as challenging performance criteria and meaningful vesting periods as these features partially offset dilution concerns by reducing the likelihood that options will become exercisable unless there is a clear improvement in shareholder value;
- The plan permits options to be issued with an exercise price at a discount to the current market price; or
- Directors eligible to receive options under the plan are involved in the administration of the plan.

Performance Share Plans

For performance-based plans alone, vote for these plans at a maximum dilution of 10 percent of a company's issued capital provided that appropriate performance hurdles are employed.

Performance share plans in Singapore are structured specifically to provide incentives to company employees, which is in line with ISS guidelines. The plans have an effect on the company's issued share capital only to the extent that new shares are issued. If only existing shares are used for the awards, there will be no impact on issued capital. Unlike share option plans, ISS generally approves the implementation of performance share plans.

Key Changes:

- Clarify the current policy with respect to director involvement in the administration of the compensation plan by not recommending against the plan if award grants to these directors are in lieu of cash fees; and
- Update ISS' policy for Performance Share Plans in Singapore to bring it in line with the policy for other equity awards and to encourage improvement in company disclosure of specific performance hurdles or vesting schedule.

New Recommendation:

For Hong Kong: Vote against an option scheme if:

- The maximum dilution level for the scheme exceeds ISS guidelines of 5 percent of issued capital for a mature company and 10 percent for a growth company. However, ISS will support plans at mature companies with dilution levels up to 10 percent if the plan includes other positive features such as challenging performance criteria and meaningful vesting periods as these features partially offset dilution concerns by reducing the likelihood that options will become exercisable unless there is a clear improvement in shareholder value; or
- Directors eligible to receive options under the scheme are involved in the administration of the scheme and the administrator has the discretion over their awards[1].

For Singapore:

Stock Option Plans

Vote against an option scheme if:

- The maximum dilution level for the scheme exceeds ISS guidelines of 5 percent of issued capital for a mature company and 10 percent for a growth company. However, ISS will support plans at mature companies with dilution levels up to 10 percent if the plan includes other positive features such as challenging performance criteria and meaningful vesting periods as these features partially offset dilution concerns by reducing the likelihood that options will become exercisable unless there is a clear improvement in shareholder value;
- The plan permits options to be issued with an exercise price at a discount to the current market price; or
- Directors eligible to receive options under the scheme are involved in the administration of the scheme and the administrator has the discretion over their awards[2].

Performance Share Plans and Restricted Share Plans

Vote against a performance share plan or restricted share plan if:

- The maximum dilution level for the plan exceeds ISS guidelines of 5 percent of issued capital for a mature company and 10 percent for a growth company. However, ISS will support plans at mature companies with dilution levels up to 10 percent if the plan includes other positive features such as challenging performance criteria and meaningful vesting periods as these features partially offset dilution concerns by reducing the likelihood that awards will become exercisable unless there is a clear improvement in shareholder value; or
- Directors eligible to receive options under the scheme are involved in the administration of the scheme and the administrator has the discretion over their awards[2].

In principle, the shares should be subject to performance criteria for all participants except for shares granted to non-executive directors in lieu of cash fees, and in order to evaluate performance criteria, full disclosure on the performance requirements is recommended.

Rationale for Update: Share option and other equity-based compensation schemes in Hong Kong and Singapore are generally administered by the remuneration committee or the board as a whole. While it is a common practice in these markets for plan administrators to be eligible to receive awards under the compensation plans, this practice raises concerns of self-dealing as well as misalignment of interests. Companies may disclose that grants are made based on "predetermined" metrics or standards, but such metrics are rarely disclosed. However, when an equity award is simply made in lieu of cash fees, these concerns are mitigated as it removes discretion over the grant of such awards.

[1] Equity awards granted or taken in lieu of cash fees generally would not be considered discretionary awards.
[2] Equity awards granted or taken in lieu of cash fees generally would not be considered discretionary awards.

Performance Share Plans are intended to provide incentives to executives to increase shareholder value; however, specific performance hurdles or vesting schedules are generally not disclosed in Singapore. Despite such poor disclosure, ISS' current policy assumes that these plans are structured to provide appropriate incentives to maximize shareholder value. The current policy allows for a greater dilution limit than that allowed under the policy for share options even though the monetary value of each performance share award is greater than a stock option. These performance grants represent a very real cost to the company and shareholders, and dilution should be limited to 5 percent of issued capital except at growth companies or for plans with well-designed and disclosed performance and vesting features for which a 10 percent limit will apply.

Corporate Governance Issue: Restricted Stock Award Proposals (Taiwan)

Current Recommendation: Case-by-case based on analytical framework.

Key Changes: Adopt a formal policy.

New Recommendation: Vote on a case-by-case basis taking into account the following features:

- Existing substantial shareholders are restricted in participation;
- Presence of challenging performance hurdles if restricted shares are issued for free or at a deep discount; and
- Reasonable vesting period (at least two years) is set.

Rationale for Update: The new policy is adopted in light of an increasing number of restricted stock award proposals in the past few years. The implementation of the policy formalizes ISS' current approach on RSA plans, increases transparency to the market, and encourages improvements in both plan structure and disclosure.

CAPITAL

Corporate Governance Issue:
Voting on Proposals to Invest in Financial Products Using Idle Funds (China)

Current Recommendation: Case-by-case based on analytical framework.

Key Changes: Adopt a formal policy.

New Recommendation: Vote on proposals to invest in financial products using idle funds on a case-by-case basis. Key factors for evaluating such requests include:

- Any known concerns with previous investments;
- The amount of the proposed investment relative to the company's assets;
- Disclosure of the nature of the products in which the company proposes to invest; and
- Disclosure of associated risks of the proposed investments and related risk management efforts by the company.

Rationale for Update: The new policy is adopted in light of an increasing number of proposals concerning the investment in financial products using idle funds in recent years. Chinese law requires non-financial companies to put such investments to a shareholder vote in certain circumstances. ISS acknowledges that management should be in a better position to decide on the usage of the company's idle funds. However, the amount invested in the financial products should not be excessive and negatively affect the company's daily operations or business development. Additionally, companies should disclose relevant details concerning the proposal to enable shareholders to make an informed decision.

DISCLOSURE/DISCLAIMER