Executive Summary

Proxy Voting Guideline Updates and Process

2015 Benchmark Policy Recommendations

Effective for Meetings on or after Feb. 1, 2015

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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 ISS 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 during proxy season), 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 a review and comment period. 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 announced in November 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 their external asset managers, and Public Employee Pension Funds, as well as hundreds of fully customized policies that reflect clients' unique corporate governance philosophies and investment strategies. The vote recommendations issued under these policies often differ from those issued under the ISS benchmark policies. The majority of shares that are voted by ISS' clients via ISS' voting platform fall under ISS' custom or specialty recommendations.

Key Strengths of the 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 with Industry Constituents: 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, board members, 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.

2014-2015 Outreach

Policy Survey

In July 2014, ISS launched the 2014-2015 policy outreach cycle with our annual policy survey. The survey encouraged global market participants to provide regional input on corporate governance issues that are pertinent to all capital markets worldwide. The survey was concise (just eight questions) and structured around several high-level themes, including pay for performance; board accountability; boardroom diversity; equity plan evaluation; risk oversight and audit; cross-market listings; and environmental and social performance goals. The survey was open to issuer and investor communities and a broad range of other governance stakeholders. ISS received responses from 105 institutional investors and 255 members of the corporate issuer community (includes corporate issuers, consultants/advisers to issuers, and other organizations representing issuers).

Policy Roundtables/Feedback

In addition, ISS held numerous one-on-one and other discussions throughout the year with institutional investors, issuers, and other stakeholders in the U.S., Canada, Europe, and Asia.

ISS also held various policy roundtables/group discussions on topics that pertain to the U.S., Canadian, European, and Asian-Pacific markets.

For the U.S. market, ISS held two telephonic roundtable discussions with various market constituents as follows:

- On Sept. 11, 2014, the roundtable with institutional investors and corporate directors covered board refreshment (diversity, tenure, directors' skill sets) and board accountability (directors' unilateral adoption of material bylaw amendments that impact shareholder rights).
- On Sept. 16, the roundtable with institutional investors, corporate directors, and a compensation consultant covered equity plan scorecard, pay-for-performance and externally-managed REITS, and treatment of equity in corporate inversions.

For the Canadian market, ISS held three telephonic roundtable discussions as follows:

- On June 25, the roundtable with a mix of institutional investors and other market constituents covered considerations regarding the advance notice provisions policy.
- On Aug. 28, the roundtable with institutional investors covered board refreshment – mandatory majority voting impact on policy; advance notice provisions; and gender diversity.
- On Oct. 1, the roundtable with institutional investors covered compensation-related items including pay-for-performance peer groups, and burn rate methodology and policy.

In Europe, three separate in-person roundtable discussions were held with institutional investors in September in each of Paris, London, and Edinburgh.

- On Sept. 11, 2014, ISS held a policy roundtable discussion with institutional investors in Paris covering the French market policy changes regarding automatic granting of double voting rights and antitakeover measures in light of the Florange Act.
- ISS also held policy roundtable discussions with institutional investors in Edinburgh and London on Sept. 16 and Sept. 18, covering board-related gender diversity data, ISS' U.K Policy, potential impacts on shareholders' rights in light of the Florange act in France, and evolving approaches to pay across Europe, among other topics.

For Asia-Pacific markets, ISS held several roundtable discussions as follows:

- On July 31, a telephonic roundtable discussion covering board independence in Japan was held with non-Japanese institutional investors.
- ISS held two in-person roundtable discussions with institutional investors and other market constituents in Hong Kong and Singapore on Sept. 23 and Sept. 25, respectively. Topics covered at both of these roundtables included alternate director attendance, share issuance limit in Singapore, amendments to articles of incorporation in Hong Kong and China, annual grant limit of equity-based awards in Singapore and Hong Kong, and remuneration limit for directors in Korea.
- Regarding the Australia market, ISS held two in-person roundtables with institutional investors, academics, and other market constituents in Melbourne and Sydney on Feb. 25 and Feb. 27, respectively. The topics covered at

these roundtable discussions include, among others, director independence (tenure), risk management, and ESG risk reporting.

Comment Period

On Oct. 15, ISS invited institutional investors, corporate issuers, and industry constituents to comment on ISS' draft 2015 proxy voting policies on select topics. The comment period, which ran through Oct. 29 produced feedback on nine proposed updates to ISS' global proxy voting policy guidelines as follows: The draft policy updates on U.S. topics included independent chair shareholder proposals and a scorecard approach to evaluating equity plans. For Canada, topics included a cooling-off period for former CEOs with respect to director independence and advance notice provisions. For Europe, the impact of the Florange Act and board independence were the topics for France and Portugal, respectively. For Asia-Pacific markets, the topics included board independence and factoring capital efficiency into director elections for Japan and share issuance limits for Singapore.

ISS received a total of 39 comments (six from institutional investors, 15 from the corporate issuer community, and 18 from advisers/law firms/consultants/academics or other organizations). Please see the Appendix for a summary of comments received.

Policy Updates Related to Markets with Proxy Seasons in 3rd and 4th Quarters

Australia: In August 2014, ISS updated the Australia policy guidelines. ISS finalized six policy changes related to director elections drawing on the 3rd Edition of the ASX Corporate Governance Council Recommendations and Principles, recently promulgated requirements of the corporate regulator, as well as feedback from policy roundtables. Substantive additions and changes tied to ISS' voting recommendations on director elections include:

- Addressing the issue of excessive non-audit fees through a new voting policy on directors serving on audit committees.
- Modifying ISS' independence classification of directors to weigh more heavily close family ties, tenure, and past transactional relationships.
- Focusing on the level of disclosure provided around board diversity, a skills matrix and the establishment of a risk committee in our research reports as additional information to institutional investors. (Under certain circumstances, ISS may consider such disclosure in its vote recommendations on election of directors, as warranted.)

Additionally, our case-by-case policy on remuneration report proposals includes, as an additional factor, an assessment on the appropriateness and quality of the company's disclosure linking identified material business risks and the predetermined key performance indicators that determine annual variable executive compensation outcomes.

ISS also established a new policy on any proposals put to shareholder vote to change a company's constitution that provides the chair with the authority to postpone or adjourn a meeting of shareholders or security holders.

The Australia policy summary guidelines can be found here.

India: Also in August, ISS released a stand-alone policy for India, as well as a clarification on debt-related proposals. ISS amended its policy on debt-related proposals seeking an increase in borrowing power to clarify that financial institutions will be evaluated differently compared with nonfinancial institutions, given the business model of financial institutions and regulatory environment under which they operate. ISS will generally recommend a vote in support of such proposals at financial companies, taking into account the financial standing of the company, including, but not limited to, the capital adequacy, revenue growth, and asset base.

The India policy summary guidelines can be found here.

Israel: In October 2014, ISS released a standalone policy for Israel, in recognition of the growth of this market, its unique characteristics, and the increasing prominence of Israeli companies in institutional investors' portfolios. While most of the benchmark policies were a codification of ISS' current approach, a new policy on equity plan and equity grants approvals was adopted. Under the new policy, ISS will generally recommend for equity plans and individual equity grants, except:

- If the three-year average burn rate exceeds 1 percent and the total potential dilution from outstanding and proposed plans exceeds 10 percent; or
- If the three-year average burn rate is equal to or below 1 percent and the total potential dilution from outstanding and proposed plans exceeds 15 percent.

The Israel policy summary guidelines can be found here .

Upcoming Milestones

December 2014:

- ISS will release a complete set of updated policies (in full and/or summary form).
- ISS will release updated Frequently Asked Questions ("FAQ") documents on certain U.S. policies.
- ISS will release its U.K. benchmark policy, which will continue to be fully in line with NAPF Policy. For 2015, ISS is codifying its U.K. policy approach into a single policy document to enhance clarity and transparency.

January-March 2015:

- *January:* ISS will evaluate new U.S. shareholder proposals anticipated for 2015 and update its U.S. Summary Proxy Voting Guidelines accordingly.
- *January:* ISS will update the FAQ on say-on-pay and remuneration in shares related to the French market.
- *February 1*: 2015 Global Policy Updates will take effect for meetings that occur on or after this date.

SUMMARY OF POLICY UPDATES

The complete set of ISS Global Benchmark Policy Guidelines considers market-specific regulation and best practices, transparency, and direct input from institutional investor clients and other market constituents in addressing issues such as board structure, director accountability, corporate governance standards, executive compensation, shareholder rights, corporate transactions, and social/environmental issues. The updates contained in this document reflect changes to proxy voting policies within the three research regions – the Americas, EMEA (Europe/Middle East/Africa), and Asia-Pacific. These changes are based on significant engagement and outreach with multiple constituents in the corporate governance community, along with a thorough analysis of regulatory changes, best practices, voting trends, and academic research.

The 2015 policy updates are grouped by region with separate documents addressing U.S., Europe, Canada, and Asia-Pacific policy changes. The full updates are available through the Policy Gateway. Highlights and key changes for the upcoming year include:

- Equity Plan Scorecard (U.S.)
- Independent Chair Shareholder Proposals (U.S.)
- Advance Notice Provisions (Canada)
- Former CEO Cooling-off Period (Canada)
- Impact of Florange Act (France)
- Board Independence (Europe)
- Factoring Capital Efficiency into Director Elections (Japan)
- Board Independence (Japan)
- Share Issuance Limit (Singapore)

The full text of the updates, along with detailed results from the Policy Survey and posted comments during the open comment period, are all available on ISS' website under the Policy Gateway.

The ISS 2015 Global Policy Updates will be effective for meetings that occur on or after February 1, 2015.

The material updates to ISS' benchmark proxy voting policies are summarized below.

United States Policy Updates

Equity Plan Scorecard

Changes to ISS' analytical framework with respect to equity-based compensation plans were many years in the making. The catalysts for this effort are the same market forces—new accounting standards, greater use of performance-based awards, and growing plan complexity—that have spurred significant changes in equity plan design and administration by corporations in recent years.

ISS' new Equity Plans policy will provide for more nuanced consideration of equity plan proposals. As an alternative to applying a series of standalone pass/fail tests (focused on cost and certain egregious practices) to determine when a proposal warrants an "Against" recommendation, the updated approach will incorporate a model that takes into account multiple factors, both positive and negative, related to plan features and historical grant practices.

Feedback from institutional investors and corporate issuers in recent years, beginning with the 2011-2012 ISS policy cycle, indicates strong support for the new approach, which incorporates the following key goals:

› Consider a range of factors, both positive and negative, to determine vote recommendations.
› Select factors based on (1) feedback from clients and other market constituents, (2) tracking the growing body of best practices in equity compensation, and (3) internal analysis of correlations with TSR performance and plan proposal vote results.
› Establish burn-rate and factor weightings in keeping with company size (based on three market index groups).
› Ensure that plans associated with certain highly negative features (e.g., ability to reprice stock options without shareholder approval) or practices (pay-for-performance disconnects driven by excessive equity grants) will receive a negative recommendation.

The Equity Plan Scorecard ("EPSC") policy builds a more flexible multifactor approach around traditional cost evaluation models by analyzing a broad range of plan features and grant practices that reflect shareholders' embrace of performance-conditioned awards, risk-mitigating mechanisms, and reasonable plan duration. While some highly egregious features will continue to result in negative recommendations regardless of other factors (e.g., authority to reprice options without seeking shareholder approval), EPSC recommendations will largely be based on a combination of factors related to (1) cost, (2) plan features, and (3) grant practices. For example, a plan where cost is nominally higher than a company's allowable cap may receive a favorable recommendation if sufficient positive factors are present. Conversely, a plan where cost is nominally lower than the allowable cap may ultimately receive a negative recommendation if a preponderance of scorecard factors is negative.

The "scorecard" model ("EPSC") considers a range of positive and negative factors, rather than a series of pass/fail tests, to evaluate equity incentive plan proposals. The total EPSC score will generally determine whether ISS recommends for or against the proposal.

EPSC factors will fall under three categories ("EPSC pillars"): Plan Cost, Plan Features, and Grant Practices. As part of the new approach, the updated policy will:

› Utilize three index groups to determine burn-rate benchmarks (index/industry mean and 1 standard deviation above mean, along with a 2 percent de minimis benchmark) and factor weightings[1]:

[1] An additional version of the model will also be developed for companies that recently IPO'd or emerged from bankruptcy, where the burn-rate factor does not apply, per current policy.

  - S&P500
  - Russell 3000 (ex-S&P 500)
  - Non-Russell 3000.
- Utilize individual scorecards for each index group (S&P500, Russell3000, Non-Russell3000, and IPOs).
- Measure plan cost (SVT) by both of the following:
  - the company's total new (A shares) and previously reserved equity plan shares (B shares) plus outstanding grants and awards (C shares), and
  - only the new request plus previously reserved but ungranted shares ("A+B shares");
- Eliminate option overhang carve-outs, in light of the additional SVT evaluation factor for only A+B shares; and
- Eliminate consideration of "liberal share recycling" provisions from the SVT cost calculations; instead, share recycling will be scored as a negative plan feature.

Independent Chair Shareholder Proposals

Calls for independent board chairs were the most prevalent type of shareholder proposal offered for consideration at U.S. companies' annual meetings in 2014. As of Oct. 31, 63 of these proposals came to a shareholder vote, up from 59 resolutions over the same time period in 2013.

Recent high-profile board leadership changeovers at Hewlett-Packard and Bank of America may focus investors' attention on directors' decisions to revert to a combined CEO/chair role after years of independent boardroom leadership. At Bank of America, a shareholder-sponsored bylaw amendment mandating an independent chair received majority support from shareholders in 2009. The company's board repealed this provision to allow it to recombine the titles (and created a new lead director position as a counter-balance).

Regarding the presence of an executive or non-independent chair in addition to the CEO, a recent academic study[2] found that retention of a former CEO in the role of chair may prevent new CEOs from making performance gains by dampening their ability to make strategic changes at the company.

ISS' current policy is to generally recommend for independent chair shareholder proposals unless the company satisfies all of the following criteria:

- The company designates a lead director, who is elected by and from the independent board members with clearly delineated and comprehensive duties.
- The board is at least two-thirds independent.
- The key board committees are fully independent.
- The company has disclosed governance guidelines.
- The company has not exhibited sustained poor TSR performance (defined as one- and three-year TSR in the bottom half of the company's four digit industry group, unless there has been a change in the CEO position within that time).
- The company does not have any problematic governance issues.

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[2] Quigley, Timothy J. and Hambrick, Donald C., When the Former CEO Stays on as Board Chair: Effects on Successor Discretion, Strategic Change, and Performance (December 6, 2010). Strategic Management Journal, 33: 834–859, DOI: 10.1002/smj.1945, July 2012.

This "Generally For" policy is updated by adding new governance, board leadership, and performance factors to the analytical framework and to look at all of the factors in a holistic manner. New factors (not explicitly considered under the current policy) include the absence/presence of an executive chair, recent board and executive leadership transitions at the company, director/CEO tenure, and a longer (five-year) TSR performance period.

ISS believes that a more holistic review of each company's board leadership structure, governance practices, and financial performance will strengthen the application of this policy. Under the proposed revisions, any single factor that may have previously resulted in a "For" or "Against" recommendation may be mitigated by other positive or negative aspects, respectively.

Canada Policy Updates

Advance Notice Provisions

As advance notice requirements continue to evolve and their use is tested by market participants, Canadian institutional investors are voicing concerns about the specific provisions contained therein. Investors have cautioned with respect to the potential for certain provisions included within these notice requirements for board nominees to be used to impede the ability of shareholders to nominate director candidates to the board, a fundamental shareholder right under Canada's legal and regulatory framework. Enhanced and discretionary requirements for additional information that is not then provided to shareholders, provisions that may prohibit nominations based on restricted notice periods for postponed or adjourned meetings and written confirmations from nominee directors in advance of joining the board are all examples of the types of provisions that have the potential to be misused.

Recent court cases have provided a clear indication that advance notice provisions are intended to protect shareholders, as well as management, from ambush and that they are not intended to exclude nominations or to "buy time" for management to develop a strategy to defeat dissident shareholders. As well, that in the case of ambiguous provisions, the result should weigh in favour of shareholder voting rights.

Based on discussions with institutional investors, the policy is updated to incorporate the aforementioned provisions identified as potentially problematic and to reflect recent court decisions that have highlighted certain problematic aspects of advance notice requirements.

The updated policy is to recommend case-by-case on proposals to adopt or amend an advance notice bylaw or board policy, taking into consideration any feature or provision that may negatively impact shareholders' interests and that goes beyond the stated purpose of advance notice requirements, including but not limited to the following newly identified problematic features:

- For annual notice of meeting given not less than 50 days prior to the meeting date, the notification timeframe within the advance notice requirement should allow shareholders the ability to provide notice of director nominations at any time not less than 30 days prior to the shareholders' meeting. The notification timeframe should not be subject to any maximum notice period. If notice of annual meeting is given less than 50 days prior to the meeting date, a provision to require shareholder notice by close of business on the 10th day following first public announcement of the annual meeting is supportable. In the case of a special meeting, a requirement that a nominating shareholder must provide notice by close of business on the 15th day following first public announcement of the special shareholders' meeting is also acceptable;
- Any provision that restricts the notification period to that established for the originally scheduled meeting in the event that the meeting has been adjourned or postponed;
- Any additional disclosure requests within the advance notice requirement or the company's ability to require additional disclosure that exceeds that required within a dissident proxy circular or that goes beyond that necessary to determine director nominee qualifications, relevant experience, shareholding or voting interest in the company, or independence in the same manner as would be required and disclosed for management nominees; and in any event where there is no indication from the company that such additional disclosure, if requested and received, will be made publicly available to shareholders; and
- Stipulations within the provision that the corporation will not be obligated to include any information provided by dissident director nominees or nominating shareholders in any shareholder communications, including the proxy statement.

Former CEO Cooling-off Period

The Canadian corporate legal and regulatory frameworks provide for substantial shareholder protections and rights, which include allowing shareholders (with a combined five percent ownership stake) to call special meetings to replace or remove directors and being able to remove directors by a simple majority vote. The separation of the roles of Chair and CEO has been widely adopted by Toronto Stock Exchange (TSX) listed issuers in Canada. Additionally, the TSX has mandated majority voting for director elections, which further strengthens the impact of the shareholder vote. These substantial rights allow shareholders of Canadian issuers to specifically address concerns with particular directors in situations where these directors are thought not to be acting in shareholders' best interests.

Against this shareholder-friendly corporate governance backdrop, Canadian institutional investors have indicated that a cooling-off period for a former CEO who serves on the board is deemed reasonable in the Canadian market. Of the institutional investors that have established a cooling-off period for determining former executive independence (including former CEOs) within their policy guidelines, a majority have determined that a five-year look-back period is appropriate.

A five-year cooling-off period for the CEO generally better reflects a reasonable time period for reducing a former CEO's potential influence on the board as such timeframe allows for potential significant changes within the company's management team. Following a review of equity vesting provisions upon executive officer retirement within equity based incentive compensation plans, in a majority of cases, all outstanding equity awards received by the former CEO as compensation for his or her former position would be exercised within a five-year period, eliminating any lingering compensation ties to the company's operational performance which would have aligned the former CEO's interests with management. In some circumstances, ISS may conclude that a cooling-off period is inappropriate for a former CEO due to ties to the company, that call into question that person's independence on the board.

Under ISS' Definition of Independence, on a case-by-case basis, a former CEO will be subject to a five-year cooling-off period after which he/she will be deemed independent for purposes of serving on the board of directors or any key board committee unless there exists any other relationship with the issuer, or an executive officer of the issuer, which could be reasonably perceived to interfere with the exercise of his or her independent judgment as set out in the ISS definition of independence. Factors taken into consideration may include but are not limited to: management/board turnover, current or recent involvement in the company, whether the former CEO is or has been executive chairman of the board or a company founder, length of service, any related party transactions, consulting arrangements, and any other factors that may reasonably be deemed to affect the independence of the former CEO.

European Policy Updates

Florange Act -- France

The Florange Act, adopted on March 29, 2014, impacts French governance principles and provisions, particularly the one-share, one-vote principle and antitakeover measures.

The Act provides for the automatic granting of double-voting rights to any shares held in a registered form by the same shareholder for at least two years (also known as "time-phased" voting or "loyalty shares"), provided that the company does not prohibit double-voting rights in its bylaws. The Act allows companies to amend their bylaws (with shareholders' approval) to opt-out of this automatic granting of double voting rights and thus continue under the one-share, one-vote principle. The two-year holding period triggering the automatic acquisition of double-voting rights started on April 3, 2014. This means that French companies which did not already prohibit double-voting rights in their bylaws have to submit such bylaw amendment by April 2, 2016, in order to opt out of the automatic granting of double-voting rights.

The Act further enables the board, facing a potential takeover, to adopt any provisions to thwart a takeover, without shareholder approval. The Act does allow companies to amend their bylaws (with shareholders' approval) to opt-out the ability to adopt antitakeover measures without shareholders' prior approval.

To address the automatic granting of double voting rights, ISS' approach is as follows:

For French companies that:

- Did not have a bylaw allowing for double voting rights before the enactment of the Law of 29 March 2014 (Florange Act); and
- Do not currently have a bylaw prohibiting double-voting rights; and either
  - Do not have on their ballot for shareholder approval a bylaw amendment to prohibit double-voting, submitted by either management or shareholders; or
  - Have not made a public commitment to submit such a bylaw amendment to shareholder vote before April 3, 2016;

Then, on a case-by-case basis, ISS may recommend against the following types of proposals:

- The reelection of directors or supervisory board members; or
- The approval of the discharge of directors; or
- If neither reelection of directors/supervisory board members nor approval of discharge is considered appropriate, then the approval of the annual report and accounts.

Second, ISS will apply its antitakeover measures policy for 2015 as follows:

For companies in the CAC40 index, and until Jan. 31, 2016, generally recommend voting against any general share issuance authorities (with or without preemptive rights) if they can be used for antitakeover purposes without shareholders' approval.

Board Independence -- Europe

The new policy harmonizes the European policy for board independence at widely-held companies for all markets (except for Greece and Portugal) to a general minimum of 50 percent, except where there are legal requirements for non-shareholder elected board members such as employee representatives, or controlling shareholders who may reasonably be expected to have representation in line with their ownership. In such circumstances, the minimum independence level will be no less than one-third. For companies incorporated in Greece and Portugal, the minimum required level of independence is also set at one-third.

For the French market, this policy update also takes into account the recent legal change requiring certain companies to include employee board representatives. The new policy is consistent with the independence standard that is currently applied to companies in European markets where employee board representatives are required by law, and at the same time, explicitly articulates that a 50-percent independence standard would be maintained for board members that are elected by shareholders.

For Italy, the update to expand the board independence policy to apply to all widely-held companies is a component of ISS' longer-term goal of harmonizing its approach to the various European markets to the greatest extent possible.

ISS' current policy for Portugal is the only exception to the one-third independence standard and has been based on the recommendations of the Portuguese Code of Corporate Governance, which stipulated that at least 25 percent of the members of a board should be independent. However, at the end of 2013, the market regulator updated this code and abolished the 25-percent board independence guideline. The revised code now recommends that "non-executive members shall include an appropriate number of independent members, taking into account the adopted governance model, the size of the company, its shareholder structure and the relevant free float."

ISS' current policy for Portugal is based on the recommendation of the Portuguese code of best practice published by the CMVM, the market regulator. In October 2013, the market regulator updated this code to no longer retain the former 25-percent board independence guideline. A one-third independent board threshold for Portugal is consistent with the minimum threshold applied by ISS in many Continental European markets.

ISS will increase the independence threshold from 25 percent to 33.3 percent for Portuguese boards. ISS will recommend a vote against the entire slate of director candidates (in bundled elections) or a vote against the election of any non-independent directors (unbundled elections) if the board independence level does not meet the recommended one-third threshold. The updated policy would apply for companies that belong to the PSI-20 and/or MSCI-EAFE index.

Asia-Pacific Policy Updates

Factoring Capital Efficiency into Director Elections -- Japan

Many Japanese companies make inefficient use of capital, as demonstrated by returns on equity which are far lower on average than their counterparts in other developed markets. According to the Ito Review[3] by the Ministry of Economy, Trade and Industry, the average ROE for fiscal 2012 was only 5.3 percent for Japanese companies, compared to 22.6 percent for U.S. companies and 15.0 percent for European companies. In the report, Japanese companies are encouraged to increase their ROEs "in a manner befitting their respective businesses and connect this activity to generating sustainable growth." It also notes that "… [Japanese] companies should be conscious that the minimum expected level of ROE is 8%, and should strive to further increase their ROEs beyond this level…"

Poor capital stewardship has been recognized as a key factor behind the poor shareholder returns in the Japanese market over the past quarter century. Japanese boards are still dominated by executive directors, and function more as executive committees than as oversight bodies, and it is therefore appropriate to hold directors accountable for poor capital efficiency, which often stems from management decisions that prioritize stakeholders over shareholders.

Japanese regulators are increasingly focused on the need to improve ROE in order to improve the health of Japan's capital market. The Abe administration's economic policy includes measures to improve Japanese companies' capital efficiency. The administration requested the Tokyo Stock Exchange and Nikkei to create a new equity index to be composed of companies deemed shareholder friendly. The new JPX Nikkei 400 index, launched in response to the request, evaluates, among other factors, ROE to select index component companies, with a view to increasing awareness of the importance of ROE among Japanese companies. In addition, at the request of the administration, the Financial Services Agency released in February Japan's Stewardship Code[4] for investors holding Japanese equities, which aims to increase constructive shareholder engagement with companies. Measures to increase capital efficiency are cited in the code as one topic for such engagement. As of August 29, 160 institutions have signed the code.

Japanese institutional investors frequently incorporate ROE into their investment and proxy voting activities. In many cases, a 3 - 5 percent ROE threshold is used as a key factor when evaluating director election proposals, to address the issue of low capital efficiency at Japanese companies. The approach was originally inspired by the Pension Fund Association (PFA) of Japan, which employed a director election policy factoring in ROE beginning in 2007. Although the PFA currently does not have a stated ROE-based director election policy, domestic institutional shareholders continue to employ ROE in voting on directors.

ISS is adopting a new policy on director elections in Japan, which will result in negative recommendations on top executives of companies that have failed to achieve an average ROE of at least 5 percent over the previous five years. Exceptions will be made in cases where the ROE trend is improving (meaning that ROE in the most recent fiscal year is at or above 5 percent), and in cases where the senior executives have recently joined the company in connection with a bailout or a major restructuring. The 5 percent threshold was chosen as a minimum ROE level which investors could accept as an equity risk premium, based on discussions with institutional investors in Japan holding Japanese equities. Therefore, the threshold should be interpreted as a minimum acceptable level of ROE, and should not be interpreted as a goal or target level. The five-year measurement period was chosen so as not to discourage companies from undertaking investments or divestitures which may result in a short-term hit to earnings, but which are necessary for the company's long-term health.

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[3] http://www.meti.go.jp/english/press/2014/0806_04.html
[4] http://www.fsa.go.jp/en/refer/councils/stewardship/index.html

Under the policy, ISS will identify the outlier companies with low ROE and no demonstrated increase in ROE trend. Feedback on the policy change from Japanese investors has been positive.

Board Independence -- Japan

Corporate governance in Japan has long been criticized for lack of outside director oversight. This lack of oversight has enabled entrenched management teams to take actions which have contributed to poor shareholder returns. These include excessive cash accumulation, uneconomical investments, and a reluctance to consider mergers and asset sales. However, there has been an increase in the percentage of Japanese companies with at least one outsider on the board over the last six years, from 46 percent in 2008 to 71 percent as of September 2014, according to ISS data. The proportion of such companies, which had been increasing by one to two percentage points every year, began to increase sharply in 2013. In addition, a majority of large Japanese companies now have at least two outside directors.

Of Nikkei 225 index member companies, 72 percent have multiple outsiders, and of companies constituting the JPX-Nikkei 400 index, 55 percent have multiple outsiders (as of September 2014). Furthermore, Japan's Corporate Governance Code, to be announced in 2015, is expected to require companies to have multiple outside (independent) directors.

In 2013, ISS began recommending against top executives if the board after the shareholder meeting did not include at least one outsider, regardless of independence. Given that a majority of Japanese boards have at least one outsider, having outsiders on the board is no longer an alien concept among the Japanese business community, corporations, and institutional shareholders alike.

ISS plans to revise our policy on board composition in Japan, and to recommend votes against top executives at companies that do not have multiple outside directors, beginning in 2016. The details of this policy, including the breadth of its application, will be announced during 2015. However, we are communicating the change to the market well in advance, to give companies time to recruit and appoint additional outside directors.

Share Issuance Limit – Singapore

Singapore listing rules provide companies wide leeway in seeking annual share issuance mandates. Companies listed on the SGX Mainboard may seek an annual mandate for the issuance of ordinary shares up to 50 percent of issued capital, with a sub-limit of 20 percent of issued capital for shares issued without preemptive rights. Companies listed on the SGX Catalist market for start-up companies may seek an annual mandate for the issuance of ordinary shares up to 100 percent of issued capital, with a sub-limit of 50 percent of issued capital for shares issued without preemptive rights. Most Singapore-listed companies seek annual approval for such mandates, to avoid having to seek a separate vote on each share issuance during the year.

Existing ISS policy has called for votes for share issuance requests that track the limits allowed by Singapore listing rules. However, these limits are greater than those found in other markets, such as Hong Kong and Malaysia, and many shareholders are concerned about the potential for excessive dilution. In line with shareholder feedback, ISS will amend its policy to recommend votes for share issuance mandates for companies listed on the Mainboard of the Singapore Exchange only when the limits are no more than 50 percent of issued capital with preemptive rights and 10 percent without preemptive rights. For Catalist-listed companies, the respective limits will be 100 percent with preemptive rights and 20 percent without preemptive rights.

APPENDIX

Summary of Comments from 2014 Comment Period for 2015 Policies

While many commenters indicated general support for ISS' switching to a scorecard approach when evaluating equity plan proposals in the U.S., a common theme indicated that ISS should provide more transparency on the weights applied to the specific factors.

Regarding the proposed U.S. policy on independent chair shareholder proposals, investor comments varied indicating general support for an independent chair board leadership model or evaluating the merits of the proposal on a case-by-case basis. One commenter favored the proposed inclusion of a five-year time frame for examining total shareholder returns. A recurring theme among issuer-related comments indicated that ISS' holistic review of company-specific factors when evaluating the proposals raises ambiguity as to how ISS will evaluate the factors. Other commenters suggested ISS consider prior vote results on the proposal and the board's rationale for having its specific board leadership structure currently in place.

With respect to the draft policy updates related to Japan (board independence and factoring return on equity ("ROE") in director elections), investor commenters appeared to be generally supportive of such changes. Particularly regarding the draft policy related to ROE, investor feedback received through other forums in line with the sentiment observed among some of the commenters indicated that taking an average ROE is more sensible due to the possibility for example, that the policy may be interpreted to encourage companies to achieve a one-time high ROE performance level. Also, investors suggested that the trend in ROE is important. For example, if average ROE is less than 5 percent, but an improvement is observed, then negative votes on directors may not be appropriate.

Five comments or fewer were related to the proposed policy updates for Canada, Japan, and Singapore. Given the small number of comments received on those draft policies, ISS notes that they may not be an accurate representation of the viewpoints of the broader shareholder or corporate communities. No comments were received on proposed policy updates for France and Portugal.

The comment period is an important part of our policy development process providing an opportunity for ISS to review and consider feedback on select 2015 policies from institutional investors, corporate issuers, and other market constituents. As a result, ISS is providing the following responses with respect to several of the draft policies that were submitted for comment:

Equity Plan Scorecard (U.S.): Weightings for the three scorecard pillars applicable to S&P 500 and Russell 3000 companies along with the factors within each pillar, are shown in the "Equity-based and Other Incentive Plans" section of the 2015 U.S. Policy Updates document. More information about the policy and weightings will also be included in ISS' Compensation FAQ published in December.

Independent Chair Shareholder Proposals (U.S.): More information on the framework applied in ISS' holistic review will be forthcoming in the FAQ document to be released in December.

Factoring Capital Efficiency into Director Elections (Japan): The policy was updated by incorporating a five-year average ROE as the threshold and the trend in ROE. So, ISS will recommend against top executives of companies that have failed to achieve an average ROE of at least 5 percent over the previous five years. Exceptions will be made in cases where the ROE trend is improving (meaning that ROE in the most recent fiscal year is at or above 5 percent).

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