European Corporate Governance Policy

2011 Updates

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Institutional Shareholder Services Inc.

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ISS European Corporate Governance Policy
2011 Updates

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These policy updates present changes and clarifications to ISS' European benchmark guidelines for 2011. 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. Note that markets covered in this updates document exclude Central & Eastern Europe. The voting policy applied by ISS in the United Kingdom is that of the National Association of Pension Funds (NAPF) and an update to that policy document will be issued by the NAPF.

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RESEARCH COVERAGE

Corporate Governance Issue:
Country of Incorporation vs. Country of Listing—Application of Policy

Current Policy Application: ISS currently applies its benchmark policy based on an issuer's country of incorporation, as generally this approach has been compatible with the appropriate regulatory and operating environment.

Key Change: Apply U.S. policy to issuers that are incorporated outside the United States but file DEF 14As, 10-K annual reports, and 10-Q quarterly reports, and are thus considered domestic issuers by the U.S. Securities and Exchange Commission (SEC).

New Policy Application: In general, country of incorporation will still be the basis for policy application. However, ISS will generally apply its U.S. policies to the extent possible with respect to issuers that file DEF 14As, 10-K annual reports, and 10-Q quarterly reports, and are thus considered domestic issuers by the U.S. Securities and Exchange Commission (SEC).

Rationale for Update: In recent years, certain companies that are listed on a U.S. exchange have "redomesticated," i.e., re-incorporated outside the United States. As a result, many of these issuers have found themselves subject to a combination of governance regulations and best practice standards that may not be entirely compatible with ISS' policy approach based exclusively on country of incorporation. The intent of this policy change is to apply policies that are more compatible with standards applicable in an issuer's market of operation. While incorporated outside the United States, issuers that are listed on a U.S. exchange are considered U.S. domestic issuers by the SEC. In our 2010-2011 Policy Survey, 85 percent of institutional investors surveyed were in favor of this change. The adoption of this policy will result in the transfer of approximately 74 companies to be evaluated generally under ISS' U.S. policies. In the future, we will continue to look at potential transfers of companies that are incorporated in one jurisdiction but listed elsewhere.

BOARD

Corporate Governance Issue:
Board Independence (Austria)

Current Recommendation:

For the markets of Belgium, Germany, France, Spain, Switzerland, and the Netherlands, vote AGAINST the election or reelection of any non-independent directors (excluding the CEO) if the proposed board is not at least 50-percent independent (as defined by ISS' director categorization guidelines). If a nominee cannot be categorized, ISS will assume that person is non-independent and include that nominee in the calculation. The policy will apply to core companies in these six markets.

For German core companies where the board must consist of labor representatives by law, ISS will require that one-third of the total board be independent. For Swedish, Norwegian, and Danish local blue chip and/or MSCI EAFE companies, this policy will apply to shareholder-elected board members. In addition, ISS will require that one-third of the total board (shareholder-elected members and labor representatives) be independent non-executive directors.

Key Change: Include Austria to the markets for which ISS' European policy on board independence applies, including a carve-out for Austrian companies that are legally required to nominate labor representatives.

New Recommendation: For the markets of Austria, Belgium, Germany, France, Spain, Switzerland, and the Netherlands, vote AGAINST the election or reelection of any non-independent directors (excluding the CEO) if the proposed board is not at least 50-percent independent (as defined by ISS' director categorization guidelines). If a nominee cannot be categorized, ISS will assume that person is non-independent and include that nominee in the calculation. The policy will apply to core companies in these seven markets.

For Austrian and German core companies where the board must include labor representatives by law, ISS will require that one-third of the total board be independent. For Swedish, Norwegian, and Danish local blue chip and/or MSCI EAFE companies, this policy will apply to shareholder-elected board members. In addition, ISS will require that one-third of the total board (shareholder-elected members and labor representatives) be independent non-executive directors.

Rationale for Update:
Given that new Austrian Company Law requires that companies disclose detailed information on all supervisory board nominees (such as their names, CVs, and declaration of independence) on their Web sites no later than 21 days prior to the general meeting, ISS will be including Austria when applying this policy in 2011. In previous years, this information was not available until up to seven days prior to the meeting.

Corporate Governance Issue:
Disclosure of Nominee Names (Europe)

Current Recommendation:

For 13 markets (Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Spain, Sweden, and Switzerland) vote AGAINST the (re)election of any directors when the names of the nominees are not available at the time the ISS analysis is being written. This policy will be applied to all companies in these markets, for bundled as well as unbundled items.

For Austrian, Portuguese, and Greek companies that are part of a local blue chip market index and/or listed in the MSCI-EAFE, vote AGAINST the (re)election of directors if the names are not disclosed in a timely manner. In addition, ISS may recommend a vote AGAINST directors at companies outside the MSCI EAFE index and/or the local blue chip market index if the names of all nominees have not been disclosed and there are other concerns or egregious practices (such as in the case where another policy has already been pursued).

Key Change: Cancel the carve-out in the second paragraph for Austrian, Portuguese, and Greek companies, and apply this policy for all markets under ISS' European policy.

New Recommendation:

Vote AGAINST the (re)election of any directors when the names of the nominees are not available at the time the ISS analysis is being written. This policy will be applied to all companies in these markets, for bundled as well as unbundled items.

Rationale for Update:
The goal of this policy amendment is to cancel the current carve-outs for Austria, Portugal, and Greece where this policy currently applies only to those companies that are part of a local blue chip market index and/or listed in the MSCI-EAFE index. Good corporate governance standards in almost all western European markets, however, require disclosure of fundamental information, such as nominee names, in an appropriate time prior to a general meeting. Consequently, a company in a developed western European market, such as Austria, Portugal, or Greece, should not deviate from this fundamental governance principle that ISS strongly supports and upon which it bases this updated policy. For markets that are part of the European Union, the European Commission backed this principle when it adopted the Shareholder Rights Directive 2007/36/EC of July 11, 2007. The Directive encourages companies to disclose the names of the nominees to the board of directors or the supervisory board and states that shareholders should be able to cast informed votes at, or in advance of, the general meeting, no matter where they reside.

Corporate Governance Issue:
Combined Chair/CEO (Europe)

Current Recommendation:

Generally vote AGAINST a combined chair/CEO at core companies in European markets unless the company provides compelling reasons for a combination of the roles, or if there are exceptional circumstances that justify combining the roles.

Considerations should be given to any of the following exceptional circumstances on a CASE-BY-CASE basis:

- The company substantially demonstrates that the separation of the roles of chair and CEO would have a disproportionately negative effect on the company's economic situation;

- The company substantially demonstrates that the separation of the roles of chair and CEO would have a negative effect on shareholder value;
- The company provides assurance that the chair/CEO would only serve in the combined role on an interim basis, with the intent of separating the roles within a given timeframe; or
- The company provides other compelling reasons to justify a combined chair/CEO.

In all of the above cases, the company would need to provide adequate control mechanisms on the board (such as a lead independent director, a high overall level of board independence, and a high level of independence on the board's key committees) in order for ISS to consider a favorable vote recommendation for a combined chair/CEO.

This policy will be applied to all core companies in European markets that propose the (re)election of a combined chair/CEO to the board, including cases where the chair/CEO is included in an election by slate.

Key Changes: Remove the exceptional circumstances presented under the first, second, and fourth bullet points above, and keep the "interim situation" presented under the third bullet point as the only circumstance justifying that the two positions not be split.

New Recommendation:

Vote AGAINST (re)election of a combined chair/CEO at core companies in European markets.

However, when the company provides assurance that the chair/CEO would only serve in the combined role on an interim basis (no more than two years), with the intent of separating the roles within a given time frame, considerations should be given to these exceptional circumstances. In this respect, the vote recommendation would be made on a CASE-BY-CASE basis. In order for ISS to consider a favorable vote recommendation for a combined chair/CEO to serve on an interim basis, the company would need to provide adequate control mechanisms on the board (such as a lead independent director, a high overall level of board independence, and a high level of independence on the board's key committees).

This policy will be applied to all core companies in European markets that propose the (re)election of a combined chair/CEO to the board, including cases where the chair/CEO is included in an election by slate.

Rationale for Update: This policy amendment more precisely reflects ISS' actual policy application that is based on current market practice and gives special consideration to companies that publicly disclose their intention to make the combined chair/CEO an interim position and to separate the roles within a maximum time frame of two years. Combining the roles of chair and CEO may result in concentration of power and blurs the lines between the duties of the CEO versus the duties of the chair, thus posing a potential risk to shareholders. European markets have further moved toward broad acceptance of the separation of the chair and CEO roles, as reflected by general practice among European public companies, as well as the adoption of best practice recommendations to this end in local corporate governance codes and, therefore, the interim appointment has come to represent the only potentially acceptable explanation for a combination of the roles in Europe. The amended policy would be applied for all European markets.

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Corporate Governance Issue: Composition of Nominating Committees (Sweden/Norway/Finland)

Current Recommendation:

While ISS prefers that all key committees be composed of non-executive board members who are accountable to all shareholders, we recognize that it is market practice in Sweden/Norway to have non-board members that are representatives of major shareholders serving on the nominating committee. Vote FOR proposals to elect a nominating committee consisting of mainly non-board members, but advocate disclosure of the names of the proposed candidates to the committee in the meeting notice, which is not common practice.

Vote FOR shareholder proposals calling for disclosure of the names of the proposed candidates at the meeting, as well as the inclusion of a representative of minority shareholders in the committee.

For Swedish companies subject to the Swedish Code of Corporate Governance, vote AGAINST proposals to elect a nominating committee if any one of the following conditions is met:

1. A member of the executive management would be a member of the committee;

2. More than one board member who is dependent on a major shareholder would be on the committee; or

3. The chair of the board would also be the chair of the committee.

In cases where the principles for the establishment of the nominating committee, rather than the election of the committee itself, are being voted on, vote AGAINST the adoption of the principles if any of the above conditions are met for the current committee, and there is no publicly available information indicating that this would no longer be the case for the new nominating committee.

Key Changes: This policy will be extended to Finland and specifies for Sweden that ISS will only recommend AGAINST committees that violate one or more of the conditions above if the company is on the MSCI-EAFE or local main index. For Norway, the policy remains unchanged.

New Recommendation:

Vote FOR proposals in Sweden, Norway, and Finland to elect or appoint a nominating committee consisting mainly of non-board members.

Vote FOR shareholder proposals calling for disclosure of the names of the proposed candidates at the meeting, as well as the inclusion of a representative of minority shareholders in the committee.

The above policy notwithstanding, vote AGAINST proposals in Sweden to elect or appoint such a committee if the company is on the MSCI-EAFE or local main index and the following conditions are met:

1. A member of the executive management would be a member of the committee;
2. More than one board member who is dependent on a major shareholder would be on the committee; or
3. The chair of the board would also be the chair of the committee.

In cases where the principles for the establishment of the nominating committee, rather than the election of the committee itself, are being voted on, vote AGAINST the adoption of the principles if any of the above conditions are met for the

current committee, and there is no publicly available information indicating that this would no longer be the case for the new nominating committee.

Rationale for Update: The policy amendment is to bring Finnish policy in line with the rest of the Nordic region as the Finnish Code of Corporate Governance was updated in 2010 to allow for non-board participation in nominating committees. The Code has previously prohibited such arrangements. Following the financial crisis, the inclusion of non-board members (shareholders) is now more acceptable among the corporate governance community in a region where it already is market practice. Moreover, the updated Swedish policy addresses the board size and composition constraints faced by smaller companies by making the policy applicable only to Swedish companies on the MSCI-EAFE or local main index .

COMPENSATION

Corporate Governance Issue:
Compensation Guidelines (Europe)

Current Recommendation:

European Compensation Guidelines

The assessment of compensation should strictly follow the ISS Global Principles on Executive Compensation, which are detailed below. These principles are supported by recommended guidelines published by the EU Commission.

ISS may recommend a vote AGAINST compensation-related resolutions in cases where boards have failed to demonstrate good stewardship of investors' interests regarding executive compensation practices.

(A) The ISS Global Principles on Executive Compensation underlie market-specific policies in all markets:

1. Maintain appropriate pay-for-performance alignment with emphasis on long-term shareholder value;
2. Avoid arrangements that risk “pay for failure;”
3. Maintain an independent and effective compensation committee;
4. Provide shareholders with clear, comprehensive compensation disclosures;
5. Avoid inappropriate pay to non-executive directors.

In applying the Five Global Principles, ISS has formulated European Compensation Guidelines which take into account local market practices. The Guidelines provide a clear framework of compensation best practices in keeping with fast-evolving European market-specific best practice recommendations for policies and packages that are becoming more innovative and robust.

(B) Implementation of guidelines for European markets "say on pay" proposals:

ISS will evaluate management proposals seeking ratification of a European company's compensation policy on a case-by-case basis.

In support of the new EU recommended guidelines, ISS believes that seeking annual shareholder approval for a company's compensation policy is a positive corporate governance provision.

ISS will generally recommend a vote AGAINST a company's compensation-related proposal due to one or a combination of several of the following factors:

- The proposed compensation policy/report was not made available to shareholders in a timely manner;
- The level of disclosure of the proposed compensation policy is below what local market best practice standards dictate;
- Concerns exist with respect to the disclosure or structure of the bonus or other aspects of the compensation policy such as pensions, severance terms, and discretionary payments;
- Concerns exist surrounding the company's long-term incentive plan(s), including but not limited to, dilution, vesting period, and performance conditions:

    - The potential dilution from equity-based compensation plans exceeds ISS guidelines (the dilution must not exceed 5 percent for mature companies or 10 percent for growth companies);
    - Any short- or long-term compensation plans do not include a maximum award limit. For example, in the Netherlands and the United Kingdom, we expect plans to include individual award limit;
    - There is not a clear link between a company's performance and share awards;
    - Long-Term Share Plans do not include sufficiently challenging performance criteria and vesting periods (a minimum three-year vesting period). Performance standards must be quantifiable and fully disclosed, with relative performance measures being preferred. However companies may choose targets other than relative financial measures provided that those measures are relevant to their business and an explanation is provided.
    - Share Option Plans or Share Plans do not contain acceptable vesting periods (a minimum three-year vesting period) or provide insufficient disclosure of:
        - The exercise/strike price (options);
        - Discount on grant (outside of market practice);
        - Performance criteria
    - Related-party transactions with a current company executive regarding post-mandate exercise of share-based plans (or an auditor's report including such a transaction) if the transaction implies an adverse impact on shareholders' interests or is not in line with good market practices;

- Severance payments in excess of 24 months pay;
- Severance payments should not exceed 12 months of fixed pay (in the United Kingdom);
- Severance pay should not exceed one year's fixed salary or two years if the executive is dismissed during his/her first term of office (in the Netherlands);
- Provision of stock option grants, or similarly structured equity-based compensation, to non-executive directors;
- The policy or plan is in breach of any other supplemental market specific ISS voting policies.

The above applies as supported by local market best practice standards and practices and in markets which operate a "comply or explain" regime, if no compelling reason/justification has been provided.

Non-Executive Director Compensation

Vote FOR proposals to award cash fees to non-executive directors unless the amounts are excessive relative to other companies in the country or industry.

Vote on non-executive director compensation proposals that include both cash and share-based components on a CASE-BY-CASE basis.

Vote on proposals that bundle compensation for both non-executive and executive directors into a single resolution on a CASE-BY-CASE basis.

Vote AGAINST proposals to introduce retirement benefits for non-executive directors.

Vote AGAINST non-executive director compensation if documents (general meeting documents, annual report) provided prior to the general meeting do not mention fees paid to non-executive directors.

Vote AGAINST non-executive director remuneration if the company intends to excessively increase the fees in comparison with market/sector practices, without stating compelling reasons that justify the increase.

Vote AGAINST proposals that provide for the granting of stock options, or similarly structured equity-based compensation, to non-executive directors.

Key Changes: Strengthen the power of sanction in case of discretionary payments/pay for failure; establish the link between performance and actual pay; and include reference to market practice and disclosure with respect to severance payment and other compensation practices.

New Recommendation:

Preamble

The assessment of compensation follows the ISS Global Principles on Executive and Director Compensation which are detailed below. These principles take into account global corporate governance best practice.

The ISS Global Principles on Compensation underlie market-specific policies in all markets:

1. Provide shareholders with clear, comprehensive compensation disclosures;
2. Maintain appropriate pay-for-performance alignment with emphasis on long-term shareholder value;
3. Avoid arrangements that risk "pay for failure;"
4. Maintain an independent and effective compensation committee;
5. Avoid inappropriate pay to non-executive directors.

In line with European Commission Recommendation 2004/913/EC, ISS believes that seeking annual shareholder approval for a company's compensation policy is a positive corporate governance provision.

In applying the Five Global Principles, ISS has formulated European Compensation Guidelines which take into account local codes of governance, market best practice, and the Recommendations published by the European Commission. ISS analyzes compensation-related proposals based on the role of the beneficiaries and has therefore divided its executive and director compensation policy into two domains:

I. Executive compensation-related proposals; and
II. Non-executive director compensation-related proposals

Executive compensation-related proposals

ISS will evaluate management proposals seeking ratification of a company's executive compensation-related items on a CASE-BY-CASE basis, and will generally recommend a vote AGAINST a company's compensation-related proposal if such proposal fails to comply with one or a combination of several of the global principles and their corresponding rules:

1. Provide shareholders with clear and comprehensive compensation disclosures:

1.1 Information on compensation-related proposals shall be made available to shareholders in a timely manner;
1.2 The level of disclosure of the proposed compensation policy shall be sufficient for shareholders to make an informed decision and shall be in line with what local market best practice standards dictate;
1.3 Companies shall adequately disclose all elements of the compensation, including:
1.3.1 Any short- or long-term compensation component must include a maximum award limit.
1.3.2 Long-term incentive plans must provide sufficient disclosure of (i) the exercise price/strike price (options); (ii) discount on grant; (iii) grant date/period; (iv) exercise/vesting period; and, if applicable, (v) performance criteria.
1.3.3 Discretionary payments, if applicable.

2. Maintain appropriate pay-for-performance alignment with emphasis on long-term shareholder value:

2.1 The structure of the company's short-term incentive plan shall be appropriate.

2.1.1 The compensation policy must notably avoid guaranteed or discretionary compensation.

2.2 The structure of the company's long-term incentives shall be appropriate, including, but not limited to, dilution, vesting period, and, if applicable, performance conditions.

2.2.1 Equity-based plans or awards that are linked to long-term company performance will be evaluated using ISS' general policy for equity-based plans; and

2.2.2 For awards granted to executives, ISS will generally require a clear link between shareholder value and awards, and stringent performance-based elements.

2.3 The balance between short- and long-term variable compensation shall be appropriate

2.3.1 The company's executive compensation policy must notably avoid disproportionate focus on short-term variable element(s)

3. Avoid arrangements that risk "pay for failure":

3.1 Severance pay agreements must not be in excess of (i) 24 months' pay or of (ii) any more restrictive provision pursuant to local legal requirements and/or market best practices.

3.2 Arrangements with a company executive regarding pensions and post-mandate exercise of equity-based awards must not result in an adverse impact on shareholders' interests or be misaligned with good market practices.

3.3 The board shall demonstrate good stewardship of investor's interests regarding executive compensation practices.

3.3.1 There shall be a clear link between the company's performance and variable awards.

3.3.2 There shall not be significant discrepancies between the company's performance and real executive payouts.

4. Maintain an independent and effective compensation committee:

4.1 No executives may serve on the compensation committee.

4.2 In certain markets the compensation committee shall be composed of a majority of independent members, as per ISS policies on director election and board or committee composition.

In addition to the above, ISS will generally recommend a vote AGAINST a compensation-related proposal if such proposal is in breach of any other supplemental market-specific ISS voting policies.

Non-Executive Director Compensation

5. Avoid inappropriate pay to non-executive directors.

ISS will generally recommend a vote FOR proposals to award cash fees to non-executive directors, and will otherwise:

Recommend a vote AGAINST where:

- Documents (including general meeting documents, annual report) provided prior to the general meeting do not mention fees paid to non-executive directors.
- Proposed amounts are excessive relative to other companies in the country or industry.
- The company intends to increase the fees excessively in comparison with market/sector practices, without stating compelling reasons that justify the increase.
- Proposals provide for the granting of stock options, or similarly structured equity-based compensation, to non-executive directors.
- Proposals introduce retirement benefits for non-executive directors.

And recommend a vote on a CASE-BY-CASE basis where:

- Proposals include both cash and share-based components to non-executive directors.
- Proposals bundle compensation for both non-executive and executive directors into a single resolution.

Equity-based compensation Guidelines

ISS will generally recommend a vote FOR equity based compensation proposals for employees if the plan(s) are in line with long-term shareholder interests and align the award with shareholder value. This assessment includes, but is not limited to, the following factors:

The volume of awards transferred to participants must not be excessive: the potential volume of fully diluted issued share capital from equity-based compensation plans must not exceed the following ISS guidelines:

- The shares reserved for all share plans may not exceed 5 percent of a company's issued share capital, except in the case of high-growth companies or particularly well-designed plans, in which case we allow dilution of between 5 and 10 percent: in this case, we will need to have performance conditions attached to the plans which should be acceptable under ISS criteria (challenging criteria);

The plan(s) must be sufficiently long-term in nature/structure: the minimum vesting period must be no less than three years from date of grant;

The awards must be granted at market price. Discounts, if any, must be mitigated by performance criteria or other features that justify such discount.

If applicable, performance standards must be fully disclosed, quantified, and long-term, with relative performance measures preferred.

Rationale for Update:

According to our 2010-2011 Policy Survey, a substantial majority of both investors and issuers cited performance criteria and the pay-for-performance link as being among the three biggest concerns in evaluating long-term incentive plans. An overwhelming majority of investor respondents indicated that pay-for-performance disconnects (increasing compensation with declining performance) could warrant a negative vote. A majority of investor respondents also cited that disclosure issues (inconsistent and vague disclosure, especially surrounding performance) could warrant a negative vote.

For long-term investors, it is of utmost concern that a company's executive compensation system provides a clear link between pay and sustainable, long-term performance. When determining whether a company's compensation system appropriately links pay to performance, investors will naturally look at both the company's stated compensation principles as well as its application of those principles in the past, in order to assess the likelihood that the company's pay principles will be applied consequently in future years. When a company's disclosure gives the appearance that its compensation practices are not in line with its stated policy, the result is that the credibility of the entire compensation policy is thrown into question. Therefore, if disclosure is such that an investor could reasonably conclude that the company's pay allocations deviate significantly from its stated compensation policy, then ISS may make a negative vote recommendation.

Moreover, the new policy takes into account local best practice or legal requirements that are stricter than ISS' guidelines, and subsequently eliminates reference to market-specific policies. The policy on severance pay agreements still maintains the upper limit of 24 months' pay (both fixed and short-term variable), but otherwise refers to more stringent local provisions, if any, e.g., the Netherlands or Belgium as of 2011, instead of explicit carve-outs.

CAPITAL MEASURES & AUDITORS

Corporate Governance Issue:
Antitakeover Mechanisms (France)

Current Recommendation: Vote AGAINST all anti-takeover proposals unless they are structured in such a way that they give shareholders the ultimate decision on any proposal or offer.

For France, vote management proposals to approve the issuance of warrants in the context of a takeover offer (poison pills) on a CASE-BY-CASE basis. In general, ISS would consider recommending a vote FOR such authority only if these basic minimum requirements were met, and there were no other overriding concerns:

In terms of disclosure the company would need to provide:

- The circumstances under which the board intends to issue warrants;
- A commitment to provide a board report at the time of issue on why an offer is not in the interest of shareholders;
- The pricing terms of the warrants;
- That there are no other protective or entrenchment tools;
- That the exercise of issued warrants leads to a maximum capital increase of 25 percent and/or provides for a shareholder-friendly provision that automatically cancels issued warrants when a majority of shareholders have tendered their shares.

Vote AGAINST in all other situations, including where the information disclosed is insufficient or undisclosed in a timely manner to evaluate the request.

If the company decides to consult its shareholders during a takeover, the recommendations on management proposals to approve the issuance of warrants during a takeover offer (poison pills) should be determined on a CASE-BY-CASE basis. Because this resolution is proposed during a takeover, the position of ISS will be:

(i) Either to decide that the takeover is in the best interests of shareholders and therefore recommend that shareholders vote against the issuance of warrants; or

(ii) To decide that the takeover is not in the best interests of shareholders and therefore recommend that shareholders vote for the issuance of warrants (allowing the board to negotiate directly with the bidder).

Key Change: Remove the France-specific carve-out and apply European policy to the French market.

New Recommendation:

Vote AGAINST all anti-takeover proposals unless they are structured in such a way that they give shareholders the ultimate decision on any proposal or offer.

Rationale for Update: ISS' current CASE-BY-CASE policy was adopted at a time when no specific provisions were formulated by French legislation for the convening of a general meeting during a takeover period. Therefore, the final meeting notice (including final agenda, meeting date, time, and location) had to be published, like for any other general meeting, 15 days before the meeting date upon first call and six days before the meeting date upon second call. Considering the duration of a hostile offer in France (up to 25 days), issuers had insufficient time to convene a general meeting during a takeover and that shareholders could not directly vote on the issuance of free warrants. Therefore, ISS accepted, under certain conditions, an 18-month authorizatiion to issue free warrants in case of a takeover.

A change of the French Commercial Code, however, now gives issuers enough time to convene a general meeting in order to give shareholders an opportunity to vote on the issuance of free warrants. Therefore, there is no longer a reason to support an 18-month authorization to issue free warrants granted to the board and as such, ISS will recommend a vote AGAINST all anti-takeover proposals unless they are structured in such a way that they give shareholders the ultimate decision on any proposal or offer.

Corporate Governance Issue: Appointment of Auditors (Europe)

Current Recommendation:

Vote FOR the reelection of auditors and/or proposals authorizing the board to fix auditor fees, unless:

- There are serious concerns about the procedures used by the auditor;
- There is reason to believe that the auditor has rendered an opinion which is neither accurate nor indicative of the company's financial position;
- External auditors have previously served the company in an executive capacity or can otherwise be considered affiliated with the company;
- Name of the proposed auditors has not been published*;
- The auditors are being changed without explanation*; or
- Fees for non-audit services exceed standard annual audit-related fees (only applies to companies on the MSCI EAFE index and/or listed on any country main index).

In circumstances where fees for non-audit services include fees related to significant one-time capital structure events (initial public offerings, bankruptcy emergencies, and spin-offs) and the company makes public disclosure of the amount and nature of those fees, which are an exception to the standard "non-audit fee" category, then such fees may be excluded from the non-audit fees considered in determining the ratio of non-audit to audit fees.

For concerns related to the audit procedures, independence of auditors, and/or name of auditors, ISS may recommend AGAINST the auditor (re)election. For concerns related to fees paid to the auditors, ISS may recommend AGAINST remuneration of auditors if this is a separate voting item; otherwise ISS may recommend AGAINST the auditor election.

*In Austria, Greece, Spain, and Portugal, this is only applicable to companies on the MSCI EAFE index and/or listed on the main index. In all other markets this policy is applicable to all companies.

Key Change: Remove the carve-out for Austria, Greece, Spain, and Portugal that applies to the fourth and fifth bullet point of the current policy above, for which the policy is only applicable to companies included in the MSCI EAFE index and/or listed on the main index, and apply this policy for all markets under ISS' European policy.

New Recommendation:

Vote FOR the reelection of auditors and/or proposals authorizing the board to fix auditor fees, unless:

- There are serious concerns about the procedures used by the auditor;
- There is reason to believe that the auditor has rendered an opinion, which is neither accurate nor indicative of the company's financial position;
- External auditors have previously served the company in an executive capacity or can otherwise be considered affiliated with the company;
- Name of the proposed auditors has not been published;
- The auditors are being changed without explanation; or
- Fees for non-audit services exceed standard annual audit-related fees (only applies to companies on the MSCI EAFE index and/or listed on any country main index).

In circumstances where fees for non-audit services include fees related to significant one-time capital structure events (initial public offerings, bankruptcy emergencies, and spin-offs) and the company makes public disclosure of the amount and nature of those fees, which are an exception to the standard "non-audit fee" category, then such fees may be excluded from the non-audit fees considered in determining the ratio of non-audit to audit fees.

For concerns related to the audit procedures, independence of auditors, and/or name of auditors, ISS may recommend AGAINST the auditor (re)election. For concerns related to fees paid to the auditors, ISS may recommend AGAINST remuneration of auditors if this is a separate voting item; otherwise ISS may recommend AGAINST the auditor election.

Rationale for Update:

Good corporate governance standards in almost all western markets require disclosure of fundamental information, such as names of the auditors or the explanation why auditors have been changed, in an appropriate time prior to a general meeting. Consequently, a company in a developed western European market, such as Austria, Spain, Portugal, or Greece, should not deviate from this fundamental governance principle that ISS strongly supports and upon which it bases this updated policy, similar to the above policy amendment regarding the disclosure of nominee names.