



An MSCI Brand

European Corporate Governance Policy

2013 Updates

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Institutional Shareholder Services Inc.

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ISS' European Corporate Governance Policy 2013 Updates

Effective for Meetings on or after Feb. 1, 2013
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These policy updates present changes and clarifications to ISS' European benchmark guidelines for 2013. 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 Eastern Europe. The voting policy applied by ISS in the U.K. 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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INTRODUCTION

Each year, ISS' Global Policy Board conducts a robust and transparent global policy formulation process which culminates in benchmark guidelines to be used in its proxy voting research for the upcoming year. To that end, ISS is pleased to announce its 2013 Global Policy Updates.

The complete set of ISS Global Benchmark Policy Guidelines consider market-specific recommended best practices, transparency, and disclosure when 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 regional proxy voting policies. These changes are based on significant engagement and outreach with multiple constituents in the corporate governance community, along with a thorough analysis of regional regulatory changes, best practices, voting trends, and academic research.

The 2013 policy updates are grouped by region, including separate documents that specifically address US, Europe, Canada, and International policy changes. Highlights and key changes for the upcoming year include:

- Pay for Performance Evaluation, including peer groups and realizable pay (US)
- Board Responsiveness to Majority Supported Proposals (US)
- Pledging of Company Stock (US)
- Pay for Performance Evaluation, including quantitative and qualitative factors (Canada)
- Voto di Lista (Italy)
- Overboarded Directors (Hong Kong and Singapore)
- Board Tenure (Hong Kong and Singapore)
- Director Nominee Disclosure (Global)

In addition to creating the updates to ISS' Global Policies, the ISS Research team collaborates with over 400 custom clients to ensure that their voting policies reflect their voting philosophy and are updated to take into account trends, practices, and regulatory changes in each market in which they invest.

The full text of the updates, along with detailed results from the Policy Survey, as well as comments received during the open comment period, are all available on ISS' Web site under the [Policy Gateway](#).

The ISS 2013 Global Policy Updates will be effective for meetings on or after February 1, 2013.

This document presents the changes being made to ISS' Benchmark European Corporate Governance Policies. If you have any questions, please contact ISS_EU-research@issgovernance.com.



BOARD

Corporate Governance Issue: Voting on Director Nominees in Uncontested Elections

Director Nominee Disclosure (Global)

Current Recommendation: ISS will recommend a vote AGAINST the election of directors if disclosure of nominee names has not been provided in a timely manner. This policy applies globally, with some exceptions, as listed below.

- Latin America (ex-Brazil): Vote AGAINST the election of directors at main-index companies if the name of the nominee is not disclosed in a timely manner prior to the meeting.
- Eastern Europe (ex-Russia): Vote FOR despite lack of disclosure.
- Middle East and North Africa: Vote FOR despite lack of disclosure.
- Turkey:
 - Main index companies: Vote AGAINST the election of directors at main-index companies if nominee names are not disclosed in a timely manner prior to the meeting.
 - Non-index core companies: Always vote FOR, but in the absence of disclosure of nominee names include in the vote recommendation box the following sentence: *Due to the lack of disclosure provided by the company, investors should consider whether an abstention is warranted to register discontent with the company's disclosure practices.*
 - Non-index, non-core companies: Vote FOR despite lack of disclosure.

Key Changes: Modify the policy to recommend against the election of directors at all companies if nominee names are not disclosed in a timely manner prior to the meeting. The policy would include a one-year grace period for Poland and for non-index Turkish companies during which ISS would include cautionary language in its research reports; the policy would be fully implemented in these markets in 2014.

New Recommendation: ISS will recommend a vote AGAINST the election of directors at all companies if the name of the nominee is not disclosed in a timely manner prior to the meeting.

Grace period: Vote FOR the election of directors at all Polish companies and non-index Turkish companies in 2013 even if nominee names are not disclosed in a timely manner prior to the meeting, but include cautionary language in research report. Beginning in 2014, vote AGAINST the election of directors at all Polish companies and non-index Turkish companies if nominee names are not disclosed in a timely manner prior to the meeting.

Rationale for Update: Although lack of nominee disclosure remains market practice in several countries, this significantly disenfranchises shareholders' voting by proxy. Nonetheless, global disclosure practices have noticeably evolved in recent years: in Brazil, the largest market in Latin America, detailed disclosure is now mandatory. In Europe, the introduction of the EU Shareholder Rights Directive has improved nominee disclosure practices among member states.

Local legislation in Poland allows shareholders to nominate directors up until the date of the general meeting, which has been used to waive the application of the current policy in Poland in the past. However, given the significant improvement in nominee disclosure practices in the EU Member States after the introduction of the EU Shareholder Rights Directive, this lack of disclosure, albeit allowed under local law, shall no longer be acceptable to ISS following a one-year period for Polish issuers during which ISS will include cautionary language in its research reports.

Due to legislative changes published at the end of 2011 in Turkey, companies must now provide the names of independent director candidates prior to the respective company's general assembly. However, most Turkish companies do not provide the names of the remaining (non-independent) candidates. ISS will continue to recommend that shareholders vote against

director election proposals at main-index Turkish companies that fail to disclose the names of all board nominees. For non-index Turkish companies, lack of disclosure (albeit allowed under local law) shall no longer be acceptable following a one-year period during which ISS will include cautionary language in its research reports.

According to ISS' 2012-2013 policy survey, more than 76 percent of institutional investors indicated that they would vote against the election of directors at all companies in Latin America, Eastern Europe, and the Middle East/North Africa for failure to disclose nominee names.

The updated policy would be better aligned with global best practices and the growing expectations of institutional investors. Furthermore, the proposed one-year grace period would allow non-Index Turkish companies sufficient time to adapt to recent regulatory changes; it would also communicate the upcoming policy change to companies in Poland, where ISS' current policy does not differentiate between index and non-index issuers.



CEO to Chair Succession (Austria)

Current Recommendation: ISS will generally recommend a vote AGAINST the election or reelection of a former CEO as chairman to the supervisory board or board of directors at widely held companies* in Germany, the U.K. and the Netherlands. In markets such as Germany, where the general meeting only elects the nominees and, subsequently, the new board's chairman, ISS will generally recommend a vote AGAINST the election or reelection of a former CEO, unless the company has publicly confirmed prior to the general meeting that s/he will not proceed to become chairman of the board.

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

- There are compelling reasons that justify the election or reelection of a former CEO as chairman; or
- The former CEO is proposed to become the board's chairman only on an interim or temporary basis; or
- The former CEO is proposed to be elected as the board's chairman for the first time after a reasonable cooling-off period.
- The board chairman will not receive a level of compensation comparable to the company's executives nor assume executive functions in markets where this is applicable.

*ISS defines a "widely held" company using the following factors:

1. Number of clients holding the security; and
2. Membership in a major index.

Key Changes: (1) Add Austria to the markets for which this policy applies, and (2) remove U.K. reference, including the fourth bullet point, which only applies to the U.K., because European voting policy does not include the U.K.

New Recommendation: ISS will generally recommend a vote AGAINST the election or reelection of a former CEO as chairman to the supervisory board or board of directors at widely held companies* in Germany, Austria, and the Netherlands. In markets such as Germany, where the general meeting only elects the nominees who subsequently select the new board's chairman, ISS will generally recommend a vote AGAINST the election or reelection of a former CEO, unless the company has publicly confirmed prior to the general meeting that he will not become chairman of the board. Considerations should be given to any of the following exceptional circumstances on a CASE-BY-CASE basis if:

- There are compelling reasons that justify the election or reelection of a former CEO as chairman; or
- The former CEO is proposed to become the board's chairman only on an interim or temporary basis; or
- The former CEO is proposed to be elected as the board's chairman for the first time after a reasonable cooling-off period.

*ISS defines a "widely held" company using the following factors:

1. Number of clients holding the security; and
2. Membership in a major index.

Rationale for Update: Over the past years, investors have come to view the practice of CEOs transitioning to the supervisory board chairmanship with increasing skepticism. The German and Austrian two-tier board systems make a strict distinction between the management board as the executive body and the supervisory board as the controlling body in order to guarantee independent oversight of management, and there is concern that the direct transition of the chief executive to the supervisory board chairmanship may blur these responsibilities in a way that harms independent oversight.

As of the beginning of 2012, Rule 55 of the Austrian Corporate Governance Code recommends that the chairman of the supervisory board shall not be the former chairman of the management board unless a cooling-off period of at least two years has passed since the termination of the function as an executive. This recommendation is similar to the legal situation in Germany. The addition of Austria to the current ISS policy is in line with market best practice.



Voto di Lista (Italy)

Current Recommendation: In Italy, for MSCI EAFE companies, the election of directors takes place through the *voto di lista* mechanism (similar to slate elections). Unfortunately, the various lists are rarely released more than 10 days in advance of the meeting. Before the lists of director nominees are disclosed, ISS will recommend a vote AGAINST the director elections at such companies. Once the various lists of nominees are disclosed, ISS will issue an alert to its clients and, if appropriate, change its vote recommendation to support one particular slate.

Key Changes: The publication date for lists would be changed from 10 days before the meeting to 21 days before the meeting for companies that fall under the authority of the European Shareholder Rights Directive (SRD). For those companies to which the SRD does not apply (i.e. seven Italian local banks out of about 270 listed companies), ISS would continue to issue an initial negative voting recommendation for director elections, followed by a subsequent alert, due to lack of available information at the time the ISS report is published.

New Recommendation: In Italy, director elections generally take place through the *voto di lista* mechanism (similar to slate elections). Since the Italian implementation of the European Shareholder Rights Directive (effective since Nov. 1, 2010), issuers must publish the various lists 21 days in advance of the meeting.

Since shareholders only have the option to support one such list, where lists are published in sufficient time, ISS will recommend a vote on a CASE-BY-CASE basis, determining which list of nominees it considers is best suited to add value for shareholders based, as applicable, on ISS European policies for Director Elections and for Contested Director Elections.

Those companies that are excluded from the provisions of the European Shareholder Rights Directive publish lists of nominees 10 days before the meeting. In the case where nominees are not published in sufficient time, ISS will recommend a vote AGAINST the director elections before the lists of director nominees are disclosed. Once the various lists of nominees are disclosed, ISS will issue an alert to its clients and, if appropriate, change its vote recommendation to support one particular list.

Rationale for Update: The Italian implementation of the SRD (effective from Nov. 1, 2010) requires that lists of nominees to director and internal auditor elections be published at least 21 days ahead of the meeting (previously 10 days). At the moment, Italian law excludes local banks from the application of the SRD. Currently, there are seven listed local banks in Italy, out of about 270 listed companies.

The updated policy acknowledges this disclosure improvement and clarifies that ISS will no longer need to apply an initial negative vote recommendation against director elections, followed by an alert, for companies that fall under the SRD, since disclosure now generally occurs well ahead of custodial voting cutoffs. In addition, the updated policy clarifies ISS' approach in those cases when, for whatever reasons, lists of nominees are not disclosed in sufficient time.



Overboarding (Europe)

Current Recommendation: In markets where local law or best practice governance codes address overboarding, disclosure is sufficient (such as detailed director biographies which include information on the director's role on the board and other external appointments both in the local market and abroad), and markets permit individual election of directors, ISS will recommend a vote AGAINST a candidate when s/he holds an excessive number of board appointments referenced by the more stringent of the provisions prescribed in local law or best practice governance codes. An adverse vote recommendation will not be applied to a director within a company where s/he serves as CEO or chair; instead, any adverse vote recommendations will be applied to his/her additional seats on other company boards.

For markets that adopt this overboarding principle but their governance codes do not go as far as prescribing a desired maximum number of boards or their local governance codes provide for less stringent requirements, as a general rule ISS expects directors not to hold more than a total of five board appointments.

Appreciating that time commitment varies between the roles of an executive director, a chairman, and a non-executive director, unless local corporate governance codes provide specific weightings, the following rule will apply:

- Executive directors are expected not to hold other executive or chairmanship positions. They may, however, hold up to two other non-executive directorships.
- Chairmen are expected not to hold other executive positions or more than one other chairmanship position. They may, however, hold up to three other non-executive directorships.
- NEDs who do not hold executive or chairmanship positions may hold up to four other non-executive directorships.

ISS will take into account board positions held in global publicly listed companies.

For directors standing for (re)election at French companies, take into account board appointments as censors in French publicly listed companies.

Key Changes: Clarify and simplify ISS policy such that in the case of overboarding, the more stringent of the provisions prescribed in local law, the local corporate governance code, or the ISS rule of specific weightings would apply.

New Recommendation: In markets where local law or best practice governance codes address overboarding, disclosure is sufficient, and markets permit individual election of directors, ISS will recommend a vote AGAINST a candidate when s/he holds an excessive number of board appointments referenced by the more stringent of the provisions prescribed in local law or best practice governance codes, or the following rule:

- Executive directors are expected not to hold other executive or chairmanship positions. They may, however, hold up to two other non-executive directorships.
- Non-executive chairmen are expected not to hold other executive positions or more than one other chairmanship position. They may, however, hold up to three other non-executive directorships.
- Non-executive directors who do not hold executive or chairmanship positions may hold up to four other non-executive directorships.

An adverse vote recommendation will not be applied to a director within a company where he/she serves as CEO or chair; instead, any adverse vote recommendations will be applied to his/her additional seats on other company boards.

ISS will take into account board positions held in global publicly listed companies.

For directors standing for (re)election at French companies, take into account board appointments as censors in French publicly listed companies.

Rationale for Update: The objective of this policy change is to simplify policy and make clear that the strictest of local law/code or ISS provisions will be applied. Under the current wording of the policy, local provisions apply as long as they address overboarding even if they are less stringent than the ISS policy of specific weightings. For example, the German code only states that executives should not hold more than three supervisory board mandates. Consequently, ISS must apply the less stringent code provision for executives under the current policy. As a result of the updated policy, the more stringent of the provisions prescribed in local law, the local governance code, or the ISS policy rule would apply, i.e. in the German example, the maximum number of supervisory board memberships for executives would be reduced from three to two. A strict overboarding approach is accepted by investors in Europe and would bring the German market in line with all other Western European markets, for which this policy is applicable.



Censors (France)

Current Recommendation: For widely held companies*, ISS will generally recommend a vote AGAINST proposals seeking shareholder approval to elect a censor, to amend bylaws to authorize the appointment of censors, or to extend the maximum number of censors to the board.

However, ISS will recommend a vote on a CASE-BY-CASE basis when the company provides assurance that the censor would serve on a short-term basis (maximum one year) with the intent to retain the nominee before his/her election as director. In this case, consideration shall also be given to the nominee's situation (notably overboarding or other factors of concern).

In consideration of the principle that censors should be appointed on a short-term basis, vote AGAINST any proposal to renew the term of a censor or to extend the statutory term of censors.

*ISS will define a "widely held" company using the following factors:

1. Number of clients holding the security; and
2. Membership in a major index

Key Changes: Extend policy coverage from only widely-held French issuers to all French issuers, and delete the reference to overboarding and other factors of concern which would be considered when making a case-by-case assessment on the election of a censor.

New Recommendation: ISS will generally recommend a vote AGAINST proposals seeking shareholder approval to elect a censor, to amend bylaws to authorize the appointment of censors, or to extend the maximum number of censors to the board.

However, ISS will recommend a vote on a CASE-BY-CASE basis when the company provides assurance that the censor would serve on a short-term basis (maximum one year) with the intent to retain the nominee before his/her election as director.

Rationale for Update: As background, in France, certain boards of directors include so-called "censors," which are essentially advisers without voting rights. Censors are not defined under French law and do not bear legal liability toward shareholders, and their duties are oftentimes not clearly disclosed and may vary from company to company. The precise scope of the censor role is not uniform and is therefore defined by the relevant company's bylaws. In most cases, the role is unclear. Company bylaws define the duration of the mandate, and some provide a generalized definition of the role. Despite a lack of voting rights or any legally-defined responsibilities, censors oftentimes receive remuneration on par with that of the company's non-executive directors, and because, in practice, many are ex-senior executives or directors, their influence on the board may be considerable.

Last year, ISS implemented a new voting policy to address shareholder concerns about the use of censors in the French market. The current policy applies only to widely held companies whereas the underlying rationale is also valid for smaller companies. The current policy approach was supported by the majority of institutional respondents to ISS' 2011-2012 Policy Survey : a combined 64 percent indicated that the nomination of a censor or modification of company bylaws in order to set up the role of a censor is either never appropriate (32 percent) or appropriate if the appointment is temporary (32 percent). Note that the survey question did not distinguish between large-, mid-, or small-cap companies. Furthermore, during ISS' 2011-2012 Comment Period, there was a consensus among respondents that ISS should take a restrictive approach to the nomination of censors, meaning that support for the nomination of censors is only acceptable in extraordinary circumstances or if the censor mandate is temporary. There was also agreement that the shift of a director to a censor position is never acceptable if done to circumvent good governance practices¹. In addition, vote results on resolutions related to censors in 2012 show a consistent level of dissent against censors. As a result, ISS is adopting the updated policy to address such proposals for all listed companies in France.

In addition, the reference to overboarding and other factors of concern that could be considered when making a case-by-case assessment on the election of a censor is deleted from the current policy. This change is purely a simplification of the policy language and would not have any effect on application. The European overboarding policy states that board appointments as censors at French publicly listed companies will be considered when calculating overboarding, which means that ISS may oppose the election of a censor if s/he would be overboarded.



¹ In practice, the censors are often former directors/executives, and ISS identified this new role as a possible way to avoid a certain number of situations, such as overboarding, a decrease of director independence on the board, and conflicts of interests / related-party transactions.

ENVIRONMENTAL AND SOCIAL ISSUES

Corporate Governance Issue:

Voting on Social and Environmental Proposals (Global)

Current Recommendation: None

Key Changes: Establish overarching principles for social and environmental proposals for all markets.

New Recommendation: Issues covered under the policy include a wide range of topics, including consumer and product safety, environment and energy, labor standards and human rights, workplace and board diversity, and corporate political issues. While a variety of factors goes into each analysis, the overall principle guiding all vote recommendations focuses on how the proposal may enhance or protect shareholder value in either the short-term or long-term.

ISS will generally recommend a vote on a CASE-BY-CASE basis, taking into consideration whether implementation of the proposal is likely to enhance or protect shareholder value, and in addition the following will be considered:

- If the issues presented in the proposal are more appropriately or effectively dealt with through legislation or government regulation;
- If the company has already responded in an appropriate and sufficient manner to the issue(s) raised in the proposal;
- Whether the proposal's request is unduly burdensome (scope, timeframe, or cost) or overly prescriptive;
- The company's approach compared with any industry standard practices for addressing the issue(s) raised by the proposal;
- If the proposal requests increased disclosure or greater transparency, whether or not reasonable and sufficient information is currently available to shareholders from the company or from other publicly available sources; and
- If the proposal requests increased disclosure or greater transparency, whether or not implementation would reveal proprietary or confidential information that could place the company at a competitive disadvantage.

Rationale for Update: This policy update codifies the overarching principles that are applied to all markets globally, and clarifies the factors that ISS considers in its case-by-case evaluation of environmental and social shareholder proposals. In markets where shareholder proposals on specific environment and social issues are routinely or frequently observed on company ballots, ISS has more nuanced policies that stem from these principles to address those issues.



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