International Corporate Governance Policy

2013 Updates

November 16, 2012

Institutional Shareholder Services Inc.

ISS' International 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' International 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 update document exclude the United States, Canada, and Europe.

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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 International Corporate Governance Policies. If you have any questions, please contact usresearch@issgovernance.com.

BOARD

Corporate Governance Issue: Voting on Director Nominees in Uncontested Elections

Director Nominee Disclosure (Global)

Current Recommendation: 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: 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 the 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. Moreover, 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.

Board Independence (Brazil)

Current Recommendation: Vote AGAINST proposals to elect directors if the post-election board is not at least 20-percent independent. This policy applies to companies that belong to the Nivel 2 listing segment.

Key Changes: Raise the required minimum level of board independence for Nivel 2 companies from 20 percent to 30 percent.

New Recommendation: Vote AGAINST proposals to elect directors if the post-election board is not at least 30-percent independent. This policy applies to Nivel 2 companies (in line with current policy for Novo Mercado companies).

Rationale for Update: The new policy would be more aligned with the concept of proportional board representation and in line with institutional investor views. The average free float among the Nivel 2 companies is over 40 percent (minimum required is 25 percent) and average board independence of the Nivel 2 companies stands at 33.3 percent.

The Brazilian Institute of Corporate Governance's (IBGC) best practices code, last edited in 2009, recommends that boards be at least majority independent. In late 2010, The Sao Paulo Stock Exchange (BM&FBovespa) attempted to increase the minimum board independence threshold for the Novo Mercado and Nivel 2 to 30 percent from 20 percent, and to establish a 20-percent minimum for Nivel 1 companies. However, issuers belonging to the voluntary corporate governance differentiated segments voted against this proposal.

ISS' minimum board independence for the Novo Mercado segment, which has accounted for nearly 90 percent of all IPOs in Brazil over the past three years, was increased to 30 percent last year. Though there are fewer issuers in the Nivel 2, the two segments are only differentiated by the fact that the Nivel 2 allows issuers to maintain a dual class structure.

Note that the current Novo Mercado/Nivel 2 regulations technically allow issuers to "round down" the number of required independent directors if the board is close to 20-percent independent. Thus, many companies with six or seven-member boards have only one independent director. However, as currently applied, ISS' policy will not "round down" the number of independent directors when determining the level of board independence.

Director Attendance – (Hong Kong, Singapore, and India)

Current Recommendation: Vote AGAINST directors who have failed to attend at least 75 percent of board meetings over the most recent two consecutive fiscal years, without a satisfactory explanation.

Key Change: Moving to a one-year look back for director attendance.

New Recommendation: Vote AGAINST directors who have failed to attend at least 75 percent of board meetings in the most recent fiscal year, without a satisfactory explanation.

Rationale for Update: This policy update brings the voting policies for Hong Kong, Singapore, and India into harmony with ISS policy in other markets, and recognizes that attendance in the most recent year is a better predictor of future attendance than attendance in earlier years.

Board Independence (Hong Kong, Singapore, and India)

Current Recommendation: In Hong Kong and Singapore, where independent directors represent less than one-third of the board, vote AGAINST the following directors:

- One executive director (generally the one with the worst attendance record) who is neither the CEO nor a member of the founding family; and
- One non-independent non-executive director (generally the one with the worst attendance record) who represents a substantial shareholder, where the board is less than one-third independent because of a preponderance of representatives of one substantial shareholder.

In India, ISS does not currently recommend against directors due to a lack of independence.

Key Change: In Hong Kong, Singapore, and India, vote against ALL non-independent nominees (other than CEOs/managing directors, executive chairmen, and company founders deemed integral to the company) where the board fails to meet relevant independence thresholds.

New Recommendations: In Hong Kong and Singapore, vote AGAINST all non-independent director nominees (other than a CEO/managing director, executive chairman, or company founder who is deemed integral to the company) where independent directors represent less than one-third of the board.

In India, vote AGAINST all non-independent director nominees (other than a CEO/managing director, executive chairman, or company founder who is deemed integral to the company) where independent directors represent less than one-third of the board (if the chairman is a non-executive) or one-half of the board (if the chairman is an executive director or a promoter director).

Rationale for Update: The updated policy reflects current best practices in the three markets, as set out in listing rules and corporate governance codes, and, in the case of India, reflects the fact that disclosure of director biographical information has improved substantially in recent years, enabling shareholders to know which directors are designated independent by the company. All three markets now specify that boards should be at least one-third independent. The new policy also avoids the need to compare attendance records of director nominees, and the need to use some other criterion to decide which directors to oppose, when all nominees have the same level of attendance.

Overboarding (Hong Kong & Singapore)

Current Recommendation: The number of boards on which a director sits is not currently used as a factor in making vote recommendations in Hong Kong or Singapore.

Key Changes: Define a director as "overboarded," and recommend against his or her election, where that director sits on a total of more than six public company boards.

New Recommendation: Vote AGAINST director nominees who sit on a total of more than six public company boards. For 2013, ISS will accept a commitment by an overboarded director to step down from one or more boards at the next annual meeting of the company or companies in question, if that will bring the total number of boards to no more than six.

Rationale for Update: The new policy would reflect investors' negative sentiment toward overboarded directors and would more closely align ISS policy for Hong Kong and Singapore with policies for other developed markets such as the U.S., Europe, and Australia. While the average number of board seats held by a director is only 2.2 in Hong Kong and 2.5 in Singapore, a small number of directors in these markets sit on eight or more public company boards; and one director in Hong Kong sits on 16 boards. Some academic studies have confirmed that "busy" directors correlate with lower shareholder returns, while even studies that showed a benefit from adding busy directors to a board – purportedly due to those directors' expertise and network of personal connections – defined "busy" as sitting on three or more boards; well below the threshold for considering a director to be "overboarded" under ISS policies for the U.S., Europe, and Australia.

Overboarding (Korea)

Current Recommendation: The number of boards on which a director sits is not currently used as a factor in making vote recommendations in Korea.

Key Changes: Define an outside director as "overboarded," and recommend against his or her election as a director and/or audit committee member, where that director sits on a total of more than two public company boards.

New Recommendation: Vote AGAINST the election of an outside director to the board or to the audit committee where that director sits on a total of more than two public company boards.

Rationale for Update: The new policy would reflect the provisions of the revised Commercial Act and its accompanying presidential decree, which took effect in April 2012. The law states that an individual with more than two board seats would have "difficulty in faithfully performing their duties as an outside director," and is thus not qualified to serve in that role.

Director Tenure (Hong Kong and Singapore)

Current Recommendation: For the Hong Kong market, vote AGAINST a director who is classified by the company as independent, but fails to meet the ISS criteria for independence. For the Singapore market, there is no policy of recommending against directors based on a discrepancy between the company's independence designation and ISS' categorization of that director. In both markets, the length of time a director has served on the board is not currently taken into consideration when classifying that director as independent or non-independent.

Key Change: Classify an "independent non-executive director" as non-independent if such director has served on the board for more than nine years, where the board either fails to provide any reason for considering the director to still be independent, or where the stated reasons raise concerns among investors as to the director's true level of independence.

New Recommendation: For the Hong Kong market, vote AGAINST a director who is classified by the company as independent, but fails to meet the ISS criteria for independence. For the Singapore market, no such policy will apply. For both markets, classify a director as non-independent where the director has served on the board for more than nine years (three terms), and where the board either fails to provide any reason for considering the director to still be independent, or where the stated reasons raise concerns among investors as to the director's true level of independence.

Rationale for Update: Many investors believe that long tenure on a board can, in some circumstances, lead to a sense of identification with the company and the interests of its management team which can damage a director's independence, even in the absence of a formal transactional or professional relationship between the director and the company. Listing rules in both Hong Kong and Singapore have recently been amended to provide that where a director designated as independent has served on the board for more than nine years, the company should provide the reasons why the board considers such director to still be independent – in effect, creating a rebuttable presumption that independence will be affected by long tenure. According to ISS' 2012-13 Policy Survey, a majority (55 percent) of investor respondents indicated that in such situations a case-by-case analysis is called for, and ISS plans to evaluate the quality of the disclosure and the reason(s) provided by the company to determine whether a designation of "independent" continues to be appropriate.

Director Elections Under the "Non-Nomination" System (Taiwan)

Current Recommendation: ISS will generally recommend voting FOR a director nominee if both the name and profile of the candidate have been disclosed by the company, and there are no known negative issues concerning the nominee. Examples of such negative issues include material failures of governance, stewardship, risk oversight, or fiduciary responsibilities at the company, failure to replace management as appropriate, or egregious actions related to a director's service on other boards.

Key Change: Recommend against all directors for elections via the "non-nomination" system.

New Recommendation: In cases where director elections are conducted using the nomination system, vote FOR the election of a board-nominated candidate unless there are known negative issues involving the candidate.

Examples of negative issues which could justify a vote AGAINST individual directors, members of a committee, or the entire board, are:

- Material failures of governance, stewardship, risk oversight, or fiduciary responsibilities at the company;
- Failure to replace management as appropriate; or
- Egregious actions related to a director's service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.

Where companies employ the non-nomination system for the election of directors, vote AGAINST all directors.

Rationale for Update: The nomination system is mandatory only for the election of independent directors in Taiwan. Many companies are still using a "non-nomination" system for the election of non-independent directors, which means that shareholders can literally vote for any person of legal age and companies are not obliged to provide a roster of candidates and their profiles before the meeting. Although contested director elections are extremely rare, it is not uncommon to see companies disclosing candidate names and profiles for the first time at the meeting, or only a few days beforehand. This poses a great challenge both to ISS and to investors, particularly overseas investors who must cast their votes well before the meeting takes place. This system acts to disenfranchise minority shareholders, who have limited visibility into the nominees chosen by the controlling shareholder and/or incumbent management team. Negative recommendations at these companies are intended to protest the poor disclosure and disenfranchisement, and to push companies to adopt a system for electing directors akin to that used in most of the world; and which is already used in Taiwan for the election of independent directors.

Director Elections at Companies with All-Insider Boards (Japan)

Beginning in 2013, ISS will recommend a vote AGAINST the top executive of a Japanese company if the board does not include at least one outside director. This policy change was already announced in advance last year, with a one-year moratorium on implementation to give Japanese companies time to secure qualified candidates. This is a reminder of the new policy, and is not a further change to the policy announced last year.

Audit

Corporate Governance Issue:
Voting on Appointment of Auditors and Election of Audit Committee Members (Hong Kong/Singapore)

Current Recommendation: With regard to proposals to (re)appoint auditors, vote FOR the appointment of auditors and authorizing the board to fix their remuneration, unless:

- There are serious concerns about the accounts presented or the audit procedures used;
- The auditor is being changed without explanation; or
- Non-audit related fees are substantial or are routinely in excess of standard annual audit fees.

Whilst ISS will consider the nature and scope of non-audit fees when assessing their magnitude, where non-audit fees have constituted more than 50 percent of total auditor compensation during three out of the five most recent financial years, ISS will ordinarily not recommend support for the reelection of the audit firm.

Under the current policy, the lack of disclosure of audit fees and/or non-audit fees does not warrant a vote against the appointment of external auditors or audit committee members. In reviewing total auditor compensation, Hong Kong/Singapore policy recommends voting against the appointment of external auditors where non-audit fees have constituted more than 50 percent of total auditor compensation during three out of the five most recent financial years. Additionally, there is no policy on director election that addresses the responsibility of the audit committee with regard to the fees paid to the auditor.

Key Changes: (1) ISS will recommend a vote against all audit committee members who are up for reelection when audit fees and/or non-audit fees are not disclosed. (2) Regarding the review of fees paid to external auditors, ISS will consider only the current fiscal year in review instead of a five-year period. Additionally, reelection of audit committee members will be opposed when the company has paid excessive non-audit fees.

New Recommendations:

Appointment of Auditor

Vote FOR proposals to (re)appoint auditors and authorize the board to fix their remuneration, unless:

- There are serious concerns about the accounts presented or the audit procedures used;
- The auditor is being changed without explanation; or
- The non-audit fees exceed the audit fees paid to the external auditor in the latest fiscal year without satisfactory explanation.

Whilst ISS will consider the nature and scope of non-audit fees when assessing their magnitude, where non-audit fees have constituted more than 50 percent of total auditor compensation during the most recent fiscal year, ISS will ordinarily not recommend support for the reappointment of the audit firm. ISS will make an exception to this policy if the non-audit fees in question relate to special projects or are due to unusual circumstances, and are not recurring in nature and are unlikely to create conflicts of interest. An example of acceptable "non-audit" fees would be fees for a special audit in connection with an IPO.

Election of Directors

Generally vote AGAINST all members of the audit committee up for reelection if:

- The non-audit fees paid to the auditor exceed audit fees without satisfactory explanation; or
- The company did not disclose the audit fees and/or non-audit fees in the latest fiscal year.

Rationale for Update:

Poor Disclosure of Audit Fees

Both in Hong Kong and Singapore, the breakdown between audit vs. non-audit fees is generally provided as regulators in both markets now require disclosure of these fees. However, a small minority of companies continues not to disclose the breakdown of audit and non-audit fees, preventing shareholders from assessing whether non-audit fees are excessive related to audit fees and if there are any conflicts of interest.

That said, a recommendation to vote against the appointment of the auditor due to poor disclosure may not be in shareholders' best interests. These resolutions are binding in these markets, and disapproval could result in the company not having an auditor until a replacement is found and approved by shareholders at a general meeting. Rather than opposing the reappointment of the auditor, ISS believes that the audit committee should be held accountable for failure to disclose the minimal information necessary to evaluate the independence of the auditor.

Audit Fees for Past Year

The vast majority of companies in these markets do not pay excessive non-audit fees, and virtually no firm has consistently paid excessive non-audit fees for three out of five years. Furthermore, in cases where a company paid excessive non-audit fees, most of the time these fees were paid in relation to an exceptional event, such as an IPO. Companies that pay excessive non-audit fees are rare exceptions. Therefore, the five-year look back period when reviewing fees paid to the auditor under the current policy is unnecessary and may have an unintended consequence of implicitly endorsing an auditor providing excessive non-audit services for certain fiscal years. As such, the one-year look back period under the new policy is more appropriate and in line with English-speaking markets. Additionally, given the audit committee's oversight role, it should be held accountable for having the auditor engage in excessive non-audit services and thus potentially compromising its independence and objectivity.

COMPENSATION

Corporate Governance Issue:
Voting on Stock Option or Restricted Stock Incentive Plans (China)

Current Recommendation:

Vote AGAINST an option scheme if:

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

Key Changes: Revise the current policy by taking into account restricted stock plans and recommend against those incentive plans whose performance hurdles for the fiscal year are set in the second half of the year.

New Recommendation:

Vote AGAINST a stock option scheme if:

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

Generally vote AGAINST a stock option scheme if:

- The scheme is proposed in the second half of the year and the measurement of the company's financial performance starts from the same year. The rationale is that the company's financial performance has been largely determined for that particular year and thus by linking the vesting conditions of part of the options to that year's financial performance, the company is providing incentives for the period of the second half only, which can either be too aggressive (if the target is far out of reach) or too insufficient (i.e., the target has already been reached).

Vote AGAINST a restricted stock scheme if:

- The grant price of the restricted shares is less than 50 percent of the average price of the company's shares during the 20 trading days prior to the pricing reference date;
- The maximum dilution level for the scheme exceeds ISS guidelines of 5 percent of issued capital for a mature company and 10 percent for a growth company. However, ISS will support plans at mature companies with dilution levels up to 10 percent if the plan includes other positive features such as challenging performance criteria and meaningful vesting periods, as these features partially offset dilution concerns by reducing the likelihood that restricted shares will be unlocked unless there is a clear improvement in shareholder value;
- Directors eligible to receive restricted shares under the scheme are involved in the administration of the scheme; or
- The company fails to set challenging performance hurdles for unlocking the restricted shares compared with its historical financial performance or the industry benchmarks.

Generally vote AGAINST a restricted stock scheme if:

- The scheme is proposed in the second half of the year and the measurement of the company's financial performance starts from the same year. The rationale is that the company's financial performance has been largely determined for that particular year and thus by linking the vesting conditions of part of the restricted stocks to that year's financial performance, the company is providing incentives for the period of the second half only, which can either be too aggressive (if the target is far out of reach) or too insufficient (i.e., the target has already been reached).

Rationale for Update: Given that restricted stock plans are becoming more prevalent in China, ISS has adopted a separate voting policy specifically for these incentive plans in addition to the existing policy which only addresses stock option schemes. A recommendation to vote against a restricted stock scheme with a grant price lower than 50 percent of the average price of the company's shares during the 20 trading days prior to the pricing reference date is in line with China Securities Regulatory Commission (CSRC) requirements.

Furthermore, one-year performance periods are rarely seen in China. Performance periods usually last for two to four years, with performance hurdles set for each year. If the company proposes an equity-based compensation plan in the second half of the year while still using the financial performance of the same year as one of the performance hurdles, it is questionable whether the intended incentivizing purpose can be achieved.

CAPITAL

Corporate Governance Issue:
Voting on Debt Issuance Requests (China, Hong Kong, and India)

Current Recommendation:

Debt Issuance Requests

- Vote non-convertible debt issuance requests on a CASE-BY-CASE basis, with or without preemptive rights.
- Vote FOR the creation/issuance of convertible debt instruments as long as the maximum number of common shares that could be issued upon conversion meets ISS' guidelines on equity issuance requests.
- Vote FOR proposals to restructure existing debt arrangements unless the terms of the restructuring would adversely affect the rights of shareholders.

Pledging of Assets for Debt

- Vote proposals to approve the pledging of assets for debt on a CASE-BY-CASE basis.

Increase in Borrowing Powers

- Vote proposals to approve increases in a company's borrowing powers on a CASE-BY-CASE basis.

Key Changes: (1) Develop an overarching view on debt-related proposals, and (2) Clarify under which circumstances a recommendation to vote against these proposals would be justified.

New Recommendation:

Debt Issuance Requests

- Vote non-convertible debt issuance requests on a CASE-BY-CASE basis, with or without preemptive rights.
- Vote FOR the creation/issuance of convertible debt instruments as long as the maximum number of common shares that could be issued upon conversion meets ISS' guidelines on equity-issuance requests.
- Vote FOR proposals to restructure existing debt arrangements unless the terms of the restructuring would adversely affect the rights of shareholders.

In evaluating debt-related proposals, the following factors will be considered:

- Rationale/use of proceeds: Why does the company need additional capital? How will that capital be used?
- Terms of the debts: Are the debt instruments convertible into equity? What are the interest rate and maturity dates? Any call or put options? Often these terms will not be determined until the time of issuance of debt instruments (or when the actual loan agreement is signed). The terms of the debts would generally be determined by the market conditions, and lack of disclosure concerning these terms should not be a cause for significant concern so long as the debt is not convertible into equity.
- Size: At a minimum, the size of the debt issuance/potential borrowing should be disclosed.
- The company's financial position: What is the company's current leverage and how does that compare to its peers?
- The risk of non-approval: What might happen if the proposal is not approved? Are there any alternative sources of funding? Could the company continue to fund its operations? Would it hinder the company's ability to realize opportunities?

A distinction should be made between a specific debt issuance or pledging of assets, and authority to issue or increase debt; as in the case of specific equity issuances and requests for authority to issue equity. For specific debt issuances or pledging of assets, while the above factors will be examined, in general a vote FOR these proposals will be warranted if:

- The size of the debt being requested is disclosed;
- A credible reason for the need for additional funding is provided;
- Details regarding the assets to be pledged are disclosed (for specific asset pledge proposals); AND
- There are no significant causes for shareholder concern regarding the terms and conditions of the debt.

So long as the proposal meets the above conditions, a vote FOR will be warranted even if the company has a high level of debt or the proposed issuance could result in a large increase in debt. A vote AGAINST will be warranted only in extremely egregious cases or where the company fails to provide sufficient information to enable a meaningful shareholder review.

Where a general authority to issue debt or pledge assets is requested, in addition to the above criteria, we will oppose such proposal if it could result in a potentially excessive increase in debt. A potential increase in debt may be considered excessive when:

- The proposed maximum amount is more than twice the company's total debt;
- It could result in the company's debt-to-equity ratio exceeding 300 percent (for non-financial companies); AND
- The maximum hypothetical debt-to-equity ratio is more than three times the industry and/or market norm.

When the above conditions are met, the proposed increase in debt may be considered excessive and thus the proposal may warrant an against vote. If we do not have data regarding the normal level of debt in that particular industry or market, only the company-specific information will be considered.

Pledging of Assets for Debt

Vote FOR proposals to approve the specific pledging of assets for debt if:

- The size of the debt being requested is disclosed;
- A credible reason for the need for additional funding is provided;
- Details regarding the assets to be pledged are disclosed; AND
- There are no significant causes for shareholder concern regarding the terms and conditions of the debt.

For proposals seeking a general authority to pledge assets for debt, the specific assets to be pledged need not be disclosed. However, in such cases, the authority should be limited such that it would not result in an excessive increase in debt. If the proposal grants excessive authority to the board or management, a vote AGAINST will be recommended.

In certain countries, shareholder approval is required when a company needs to secure a debt issuance with its assets. In many cases, this is a routine request and is a formality under the relevant law. When reviewing such proposals, ISS takes into account the terms of the proposed debt issuance, the company's overall debt level, and the company's justification for the pledging of assets.

ISS will issue vote recommendations against specific requests to pledge an asset in cases where no information regarding the size of the debt to be raised is disclosed, no credible explanation for the need of funding is provided, no details regarding the assets to be pledged are disclosed, or in extreme cases where shareholders' rights and economic interests could be negatively affected. When the board is requesting a general authority to pledge assets, the details regarding the assets to be pledged need not be disclosed; however, ISS will oppose such a proposal if it would grant the board excessive authority.

Increase in Borrowing Powers

Vote FOR proposals to approve increases in a company's borrowing powers if:

- The size of the debt being requested is disclosed;
- A credible reason for the need for additional funding is provided;
- The potential increase in debt is not excessive; AND
- There are no significant causes for shareholder concern regarding the terms and conditions of the debt.

In some countries, companies are required to seek shareholder approval for increases in their aggregate borrowing power authorities. The aggregate limit on the board's ability to borrow money is often fixed in a company's articles, and shareholder approval to change this limit is therefore legally required. ISS' analysis of borrowing power increase requests takes into account management's stated need for the increase, the size of the increase, and the company's current gearing level. Large increases in borrowing powers can sometimes result in dangerously high debt-to-equity ratios that could harm shareholder value. If no information regarding the limit on the borrowing power is disclosed, no credible explanation for the need of funding is provided, or an increase is excessive considering the company's debt level as well as normal levels of debt in its industry or market, ISS recommends opposing the request.

Rationale for Update: Debt-related proposals are fairly common in many Asian markets. A common framework with which to analyze these proposals, which includes details of the positive and negative factors impacting the case-by-case analysis, will ensure consistent treatment of similar proposals across different markets, and at different companies within the same market. The proposed policy change will also increase transparency for both investors and for issuers.

Corporate Governance Issue:
Voting on Loan Guarantee Requests (China, Hong Kong, and India)

Current Recommendation:

China

Chinese companies often provide loan guarantees for subsidiaries, affiliates, and related parties.

Article 14 of the Code of Corporate Governance states that a listed company shall not provide financial guarantees for its shareholders or their affiliates, whilst both the SSE and SZSE Listing Rules stipulate which guarantee transactions must be submitted to shareholders for approval.

In analyzing such requests, ISS will examine such requests on a CASE-BY-CASE basis, with reference to the identity of the entity receiving the guarantees, the relationship between the listed company and the entity receiving the guarantee, the purpose of the guarantee, and the terms of the guarantee agreement.

No policy for Hong Kong or India.

Key Changes: Clarify the policy on provision of loan guarantees and the factors ISS considers for these markets. Specifically, ISS' internal guideline for China will be codified into policy for China, Hong Kong, and India.

New Recommendation:

China

Chinese companies often provide loan guarantees for subsidiaries, affiliates, and related parties.

Article 14 of the Code of Corporate Governance states that a listed company shall not provide financial guarantees for its shareholders or their affiliates, whilst both the SSE and SZSE Listing Rules stipulate which guarantee transactions must be submitted to shareholders for approval.

Such requests will be evaluated on a CASE-BY-CASE basis. Generally vote AGAINST the provision of a guarantee where:

- The identity of the entity receiving the guarantee is not disclosed;
- The guarantee is being provided to a director, executive, parent company, or affiliated entities where the company has no direct or indirect equity ownership; or

- The guarantee is provided to an entity in which the company's ownership stake is less than 75 percent and such guarantee is not proportionate to the company's equity stake or other parties have not provided a counter guarantee.

When the proposed guarantee does not fall into the above criteria, vote FOR such request provided that there are no significant concerns regarding the entity receiving the guarantee, the relationship between the listed company and the entity receiving the guarantee, the purpose of the guarantee, or the terms of the guarantee agreement. Examples of such concerns include a previous default by the entity receiving the guarantee or a sub-investment grade credit rating.

Hong Kong

Chinese companies listed in Hong Kong often provide loan guarantees for subsidiaries, affiliates, and related parties.

Such requests will be evaluated on a CASE-BY-CASE basis. Generally vote AGAINST the provision of a guarantee where:

- The identity of the entity receiving the guarantee is not disclosed;
- The guarantee is being provided to a director, executive, parent company, or affiliated entities where the company has no direct or indirect equity ownership; or
- The guarantee is provided to an entity in which the company's ownership stake is less than 75 percent; and such guarantee is not proportionate to the company's equity stake or other parties have not provided a counter guarantee.

When the proposed guarantee does not fall into the above criteria, vote FOR such request provided that there are no significant concerns regarding the entity receiving the guarantee, the relationship between the listed company and the entity receiving the guarantee, the purpose of the guarantee, or the terms of the guarantee agreement. Examples of such concerns include a previous default by the entity receiving the guarantee or a sub-investment grade credit rating.

India

Indian companies often provide loan guarantees for subsidiaries, affiliates, and related parties.

Such requests will be evaluated on a CASE-BY-CASE basis. Generally vote AGAINST the provision of a guarantee where:

- The identity of the entity receiving the guarantee is not disclosed;
- The guarantee is being provided to a director, executive, parent company, or affiliated entities where the company has no direct or indirect equity ownership; or
- The guarantee is provided to an entity in which the company's ownership stake is less than 75 percent; and such guarantee is not proportionate to the company's equity stake or other parties have not provided a counter guarantee.

When the proposed guarantee does not fall into the above criteria, vote FOR such request provided that there are no significant concerns regarding the entity receiving the guarantee, the relationship between the listed company and the entity receiving the guarantee, the purpose of the guarantee, or the terms of the guarantee agreement. Examples of such concerns include a previous default by the entity receiving the guarantee or a sub-investment grade credit rating.

Rationale for Update: The provision of a loan guarantee by the company could be beneficial to the firm, but could also expose the firm and its shareholders to unnecessary risks. Provision of a guarantee would enable the entity receiving the guarantee to obtain more favorable terms from lenders, reducing the cost of borrowing. Therefore, if a guarantee is provided to a subsidiary, it could ultimately reduce the borrowing cost for the overall group. That said, the provision of a guarantee increases the risks at the company as the company could be held fully liable for debts owed by these entities. Without these guarantees, the company's liability could be limited even for wholly owned subsidiaries. Therefore, where the company's board cannot exercise proper oversight and control over the entities being guaranteed or where the company is taking a disproportionate financial risk relative to its ownership stake, the risks may outweigh the potential benefits.

The policy change establishes a clear guideline on the factors ISS considers reasonable while maintaining some flexibility for exemptions if the company provides a compelling rationale in support of the proposal.

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Corporate Governance Issue:
Voting on Capital Raising Requests (Taiwan)

Current Recommendation: Vote FOR share issuance requests without preemptive rights to a maximum of 20 percent of currently issued capital (based on ISS' International Policy).

Key Change: Establish a policy that is specific to the Taiwanese market.

New Recommendation: Generally vote FOR a general mandate for public share issuance if the issue size is no more than 20 percent of the existing issued share capital.

Generally vote FOR a general share issuance mandate that includes a private placement as one of the financing channels if the resulting dilution rate is no more than 10 percent.

Vote CASE-BY-CASE on requests to issue shares for a specific purpose such as the financing of a particular project, an acquisition, or a merger.

Rationale for Update: There are four capital raising channels that require shareholder approval in Taiwan:

- Issuance of new ordinary shares via a private placement;
- Issuance of convertible bonds via a private placement;
- Public issuance of new ordinary shares; and
- Public issuance of new shares to sponsor global depositary receipt (GDR) issuance.

Taiwanese companies normally seek authority to raise capital through one or a combination of the abovementioned channels, with the authority lasting for one year. This is, in essence, a general issuance mandate allowing companies to issue shares, convertible bonds, or GDRs up to a certain amount. The specific capital raising channel and usage of raised proceeds will be determined by the board at a later stage should the board decide to exercise this authority.

Additionally, it is not mandatory in Taiwan to have an independent director, and the vast majority of Taiwanese boards have minimal or no independent representation. Given the prevalence of insider-dominated boards in Taiwan, ISS believes that stricter limits should be placed on a general mandate that includes a private placement so as to reduce the risk of abuse by insiders for their own benefit.

Dilution resulting from capital raising, whether in the form of a public issuance or a private placement, continues to be a significant concern to investors. In 2012, ISS observed that 51.35 percent of the general issuance mandates with private placement will lead to dilution between 20 percent and 50 percent, while 16.22 percent will lead to more than 50 percent dilution. Out of 19 general issuance mandates for public issuance, 13 will result in a dilution rate exceeding 20 percent, on the assumption that no preemptive rights will be exercised. Preemptive rights are granted to existing shareholders by default, but, in the event of a public issuance, shareholders are usually asked to forfeit part or all of their preemptive rights to facilitate the book building process or the GDR issuance.

The new policy safeguards shareholders' interests and also is consistent with international guidelines and Hong Kong guidelines for general issuance mandates.

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ENVIRONMENTAL AND SOCIAL ISSUES

Corporate Governance Issue:
Voting on Social and Environmental Proposals (Global)

Current Recommendation: None

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

New Recommendation: Issues under the policy include a wide range of topics, including consumer and product safety, environment and energy, labor covered 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.

Generally vote CASE-BY-CASE, 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.

Other Issues

Corporate Governance Issue:
Voting On Mandates for Related-Party Transactions (Malaysia)

Current Recommendation: In the case of related-party transaction (RPT) mandates in Malaysia, generally vote FOR such proposals unless there is evidence of problems or abuse of authority in the past.

Key Changes: (1) Establish a guideline for RPT mandates in Malaysia. (2) Apply a materiality test to business transactions where an independent director (under the company's classification) has an interest and recommend a vote against transactions in excess of the threshold on the basis that involvement of such director in material transactions compromises his/her independence.

New Recommendation: Vote AGAINST a related-party transaction mandate if:

(a) A director who is classified by the company as independent has a vested interest[1] in the business transaction, AND
(b) The value of the transaction exceeds MYR 250,000[2].

In addition, directors involved in related-party transactions in excess of MYR 250,000 will be classified as non-independent by ISS.

Rationale for Update: Involvement of independent directors in business transactions, while carried out in the ordinary course of business of the company, can arguably interfere with the exercise of the director's independent judgment or the ability to act in the best interests of the company. As such, supporting these proposals despite potential conflicts of interest is contrary to ISS' view that an independent director should be free of material financial, transactional, or other relationships that might compromise his or her ability to fulfill his or her duties as an independent director.

The updated policy would set a threshold above which such transactions would be deemed likely to have a negative impact on director independence. The MYR 250,000 threshold is based on disclosure and approval requirements under the Bursa Malaysia Listing Requirements (see footnote 2 at bottom of page).

In line with the updated policy, the names of directors interested in the transaction(s), their relationship or affiliation with the parties involved, and the value of the transaction(s) will be provided in ISS' analysis of all RPT mandate proposals.

Corporate Governance Issue:
Voting on General Authority to Provide Financial Assistance (South Africa)

Current Recommendation: No formal policy. The current approach when considering these resolutions (which have been common in South Africa since 2011) has been to vote FOR, albeit drawing attention to resolutions which have a broader scope than routine proposals.

Key Change: Introduce a formal policy.

New Recommendation: Vote FOR a general authority to provide financial assistance, unless:

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[1] By virtue of being a partner, executive, or major shareholder of the related-party holding more than a 10 percent equity stake or being the direct recipient of the transaction. For the purpose of clarification, directors who are deemed interested by virtue of being a director at the transacting party or who hold immaterial interest in the transacting party will be exempted.

[2] Under Bursa Malaysia Listing Requirements, related-party transactions where the value of the transaction is less than MYR 250,000 are exempt from disclosure and approval requirements.

- As part of the authority, the company requests a general authority to provide financial assistance to directors, and this is not limited to participation in share incentive schemes; and/or
- As part of the authority, the company seeks approval to provide financial assistance "to any person."

Evidence that the company has used a previous authority in a manner deemed not to be in shareholders' interests would warrant further review and analysis.

Rationale for Update: The Companies Act 2008 came into effect on May 1, 2011. It includes sections on the provision by companies of "financial assistance," e.g. loans or loan guarantees. In an extension of previous practice, under the Act, companies are required to seek shareholder approval in advance of providing certain forms of financial assistance:

- To related or interrelated companies (see below for definition);
- To directors or "prescribed officers" (i.e., senior executives who are not directors); or
- For the purpose of (a) subscribing for any options or securities issued by the company or a related or interrelated company, or (b) purchasing any securities of the company or a related or interrelated company.

Under the Act, a company is related or interrelated to another company if (a) either of them directly or indirectly controls the other, or the business of the other, (b) either is a subsidiary of the other, or (c) a person directly or indirectly controls each of them, or the business of each of them.

In response to the Act, since 2011, many companies have added a routine item to their annual general meeting agendas requesting authorities from shareholders covering some or all of the areas of financial assistance discussed above. These are normally general authorities, in that they relate not to a specific instance of financial assistance but are intended to provide the company with flexibility to operate under the new legal framework.

The policy is intended to provide a framework for addressing the approaches companies have taken with respect to requesting these authorities. It also provides a way of highlighting concerns that certain general authorities regarding the provision of financial assistance could give boards considerable flexibility to make loans to directors, or to outside persons or organizations, without any further formal shareholder oversight.

Foreign Private Issuers Listed on U.S. Exchanges

Corporate Governance Issue: Voting at companies incorporated in tax and governance havens and listed on U.S. exchanges as Foreign Private Issuers

Current Recommendation: No explicit policy

Key Change: Create an explicit policy for companies listed on U.S. exchanges as Foreign Private Issuers (FPIs) and taking exemptions to U.S. governance and disclosure rules

New Recommendation: Vote AGAINST (or WITHHOLD from) non-independent director nominees at companies which fail to meet the following criteria: a majority-independent board, and the presence of an audit, a compensation, and a nomination committee, each of which is entirely composed of independent directors.

Where the design and disclosure levels of equity compensation plans are comparable to those seen at U.S. companies, U.S. compensation policy will be used to evaluate the compensation plan proposals. In all other cases, equity compensation plans will be evaluated according to ISS International Proxy Voting Guidelines.

All other voting items will be evaluated using ISS International Proxy Voting Guidelines.

Rationale for Update: In recent years there has been an increase in the number of companies primarily or solely listed on a U.S. exchange, but which are incorporated outside the U.S. and which meet the definition of a foreign private issuer (FPI). FPIs are defined as companies whose business is administered principally outside the U.S., with more than 50 percent of assets located outside the U.S.; a majority of whose directors/officers are not U.S. citizens or residents; and a majority of whose outstanding voting shares are held by non-residents of the U.S. Such companies are allowed to take exemptions from the disclosure and corporate governance requirements that apply to most companies traded on U.S. exchanges, and instead follow the corporate governance practices of their home country. However, most FPIs are incorporated in tax and governance havens such as Bermuda, the Marshall Islands, or the Cayman Islands, which impose few requirements related to disclosure and corporate governance.

Notwithstanding FPIs' exemption from many SEC rules and stock market listing requirements, many investors believe that companies primarily listed in the U.S., and seeking capital mainly from U.S. investors, should conform to the reasonable expectations of those investors regarding board and committee independence. The lack of a robust regulatory regime, coupled with the fact that many FPI companies have a controlling shareholder, mean that an independent board is the only entity that can be expected to protect the interests of minority shareholders. The key feature of this FPI policy, therefore, is the expectation that these companies will have a majority-independent board and all-independent key committees.

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