



Asia Pacific

Proxy Voting Guidelines Updates

2016 Benchmark Policy Recommendations

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JAPAN

ELECTION OF DIRECTORS

Voting on Nominees in Uncontested Elections

▶ **Current General Recommendation:** ISS has three policies for director elections in Japan: one for companies with a statutory auditor board structure, one for companies with a U.S.-type three committee structure, and one for companies with a board with audit committee structure.

1. **At companies with a statutory auditory structure:** vote for the election of directors, except:
 - › Top executive(s)¹ at a company that has underperformed in terms of capital efficiency (i.e., when the company has posted average return on equity (ROE) of less than five percent over the last five fiscal years)², unless an improvement³ is observed;
 - › Top executive(s) if the board, after the shareholder meeting, does not include at least one outsider, regardless of independence;
 - › Top executive(s) at a company that has a controlling shareholder, where the board, after the shareholder meeting, does not include at least two independent directors based on ISS independence criteria for Japan;
 - › An outside director nominee who attended less than 75 percent of board meetings during the year under review⁴; or
 - › Top executive(s) who are responsible for not implementing a shareholder proposal which has received a majority⁵ of votes cast, or not putting a similar proposal on the ballot as a management proposal the following year (with a management recommendation of for), when that proposal is deemed to be in the interest of independent shareholders.

2. **At companies with a U.S.-type three committee structure:** (In addition to the guidelines for companies with a statutory auditor structure) vote for the election of directors, except where:
 - › An outside director nominee is regarded as non-independent based on ISS independence criteria for Japan, and the board, after the shareholder meeting, is not majority independent; or
 - › Where the company has a controlling shareholder, a director nominee sits on the nomination committee and is an insider, or non-independent outsider, when the board, after the shareholder meeting, does not include at least two independent directors based on ISS independence criteria for Japan.

3. **At companies with a board with audit committee structure:** (In addition to the guidelines for companies with a statutory auditor structure) vote for the election of directors, except where:

¹ In most cases, the top executive will be the “shacho” (president). However, there are companies where the decision-making authority also rests with the “kaicho” (executive chairman) or “daihyo torishimariyaku” (representative director).

² Exceptions may be considered for cases such as where the top executive has newly joined the company in connection with a bailout or restructuring. This policy will not be applied to companies which have been public for less than five years.

³ Improvement is defined as ROE of five percent or greater for the most recent fiscal year.

⁴ The attendance of inside directors is not disclosed in Japan.

⁵ Many Japanese shareholder proposals are submitted as article amendments, which require supermajority support in order to pass.


- › An outside director nominee who is also nominated as an audit committee member⁶ is regarded as non-independent based on ISS independence criteria for Japan.

Regardless of governance structure, under extraordinary circumstances, vote against individual directors, members of a committee, or the entire board, due to:

- › 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.

Key Changes:

- › For companies with a **statutory auditor structure**, as communicated in 2015, ISS will look for at least two outside directors.
- › At companies with a **three committee structure** and companies with an **audit committee structure**, ISS will look for attendance at 75 percent or more of audit committee meetings for incumbent committee members.
- › Add a reference that, per current practice, the audit committee structure policy is applied to the election of executive directors and supervisory directors at REIT unitholder meetings.

 **New General Recommendation:** ISS has three policies for director elections in Japan: one for companies with a statutory auditor board structure, one for companies with a U.S.-type three committee structure, and one for companies with a board with audit committee structure⁷.

1. At companies with a statutory auditory structure: vote for the election of directors, except:

- › Top executive(s)¹ at a company that has underperformed in terms of capital efficiency (i.e., when the company has posted average return on equity (ROE) of less than 5 percent over the last five fiscal years)², unless an improvement³ is observed;
- › Top executive(s) if the board, after the shareholder meeting, will not include at least two outside directors;
- › Top executive(s) at a company that has a controlling shareholder, where the board, after the shareholder meeting, will not include at least two independent directors based on ISS independence criteria for Japan;
- › An outside director nominee who attended less than 75 percent of board meetings during the year under review⁸; or,
- › Top executive(s) who are responsible for not implementing a shareholder proposal which has received a majority⁵ of votes cast, or not putting a similar proposal on the ballot as a management proposal the following year (with a management recommendation of for), when that proposal is deemed to be in the interest of independent shareholders.

⁶ Outside director nominees who are not nominated as audit committee members are not subject to this policy.

⁷ The director election policy for companies with a board with audit committee structure will be applied to the election of executive directors and supervisory directors at real estate investment trusts (REITs), to the extent that the information necessary to apply the policy is disclosed.

⁸ The attendance of inside directors is not disclosed in Japan. For companies with a three committee structure and companies with an audit committee structure, ISS will require attendance of 75 percent or more of audit committee meetings as well as 75 percent or more of board meetings.

2. **At companies with a U.S.-type three committee structure:** (In addition to the guidelines for companies with a statutory auditor structure) vote for the election of directors, except where:
 - › An outside director nominee is regarded as non-independent based on ISS independence criteria for Japan, and the board, after the shareholder meeting, will not be majority independent; or
 - › Where the company has a controlling shareholder, a director nominee sits on the nomination committee and is an insider, or non-independent outsider, when the board, after the shareholder meeting, will not include at least two independent directors based on ISS independence criteria for Japan.
3. **At companies with a board with audit committee structure:** (In addition to the guidelines for companies with a statutory auditor structure) vote for the election of directors, except where:
 - › An outside director nominee who is also nominated as an audit committee member⁶ is regarded as non-independent based on ISS independence criteria for Japan.

Regardless of governance structure, under extraordinary circumstances, vote against individual directors, members of a committee, or the entire board, due to:

- › 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.

Rationale for Update:

Corporate governance in Japan has long been criticized for lack of outside director oversight, which has led boards to take shareholder-unfriendly actions such as hoarding cash, tying up assets in cross-shareholdings and other unproductive investments, and resisting value-enhancing transactions. However, the situation has improved in recent years. Japan's Corporate Governance Code (which went into effect in June) encourages companies to appoint at least two independent outside directors based on the independence criteria developed by the Tokyo Stock Exchange (TSE). In addition, the recently-updated corporate law requires companies without any outside directors to explain why the appointment of outside directors is inappropriate. As a result of these regulatory changes, there is a noticeable trend of accepting outside oversight. ISS data as of the end of June 2015 shows that 55 percent of companies already have at least two outside directors. The updated policy on board composition is expected to further accelerate the trend to improve Japanese corporate governance.

Japanese law requires companies with a three committee structure and companies with an audit committee structure to disclose director attendance at audit committee meetings. (Attendance disclosure for nomination and compensation committees is not required). Currently, ISS does not evaluate attendance at audit committee meetings, but, as the information is available, it makes sense to evaluate audit committee attendance to verify that directors are fulfilling their duties to shareholders.

Voting on Director Nominees in Contested Elections



Current General Recommendation: Currently, contested director elections are analyzed on a case-by-case basis under the shareholder proposal analysis framework.

Key Changes:

In order to clarify ISS's approach to contested director elections, a new provision will be added concerning contested elections, in addition to the current policy on shareholder proposal analysis.

▶ **New General Recommendation:** Vote case-by-case on the election of management and shareholder nominees in contested elections, considering the following factors:

- › Long-term financial performance of the target company relative to its industry;
- › Management's track record;
- › Background to the contentious situation;
- › Nominee qualifications and any compensatory arrangements;
- › Strategic plan of dissident(s) and quality of critique against management;
- › Likelihood that the proposed goals and objectives can be achieved (both slates); and
- › Stock ownership positions.

These factors will be considered whether the combined number of management and shareholder nominees exceeds the number of available board seats, or whether there are sufficient open seats that all management and shareholder nominees could be elected. In the latter case, the election will still be treated as "contested" if management opposes the election of the shareholder nominees.

Rationale for Update:

There are few contested director elections in Japan. Because the requirements for nominating a director are the same as those for other shareholder proposals, ISS currently analyzes contested elections on a case-by-case basis, in line with our guidelines on shareholder proposals. This update is intended to clarify the factors considered in that case-by-case analysis, and to increase the transparency of our policy. As is the case in other markets, these considerations will apply to recommendations on management nominees as well as shareholder nominees in a contested election.

ARTICLE AMENDMENTS

Adoption of a U.S.-style three committee board structure

▶ **Current General Recommendation:** Generally vote for the adoption of a U.S. style, three-committee board structure, unless none of the outside director candidates meets ISS criteria on independence.

Key Changes:

Remove the requirement that outside director candidates include at least one independent outsider.

▶ **New General Recommendation:** Generally vote for the adoption of a U.S. style, three-committee board structure.

Rationale for Update:

The current policy was formulated more than a decade ago when the three-committee board structure was made available to Japanese companies by a Commercial Law amendment. At that time, there was an expectation that a substantial number of companies would switch to the three committee structure. Meanwhile, there was a concern that

the governance structure could be employed by companies as a tool to control their listed subsidiaries, through the appointment of outside directors who were representatives of the parent company. The current policy was created with those considerations in mind.

However, contrary to such expectations, today only 2 percent of Japanese companies have adopted the three committee system. The number of controlled companies employing this governance structure, and appointing only parent company representatives as outside directors, has greatly diminished, as the Corporate Law now forbids current executives of a parent company from being appointed as outside directors of a subsidiary. On the other hand, an increase was observed in the number of companies adopting a board with an audit committee system. Although the new governance structure was made available to Japanese companies by a Corporate Law amendment only this year, 6 percent of companies have already switched to the new system as of June 30, 2015.

For companies seeking to adopt an audit committee system, ISS does not require that the company has at least one independent outsider, as a condition to support the article amendment making that change to the governance system. If ISS continues to require that companies seeking to adopt a three committee system appoint at least one independent outsider, the policy could amount to penalizing companies opting for a governance structure which is more stringent than the audit committee system. The policy is being changed to address that contradiction.

Repurchase of shares at board's discretion

▶ **Current General Recommendation:** Generally vote against this change.

Key Changes:

Take a case-by-case approach when these items are proposed.

▶ **New General Recommendation:** Vote case-by-case on article amendments to give the board discretionary authority over share repurchases, taking into account the company's:

- › Balance sheet conditions;
- › Capital efficiency and return on equity;
- › Past share buybacks and dividend payouts;
- › Board composition;
- › Shareholding structure; and
- › Other relevant factors.

Generally vote against these amendments if shareholders will lose the ability to submit shareholder proposals on share repurchases.

Rationale for Update:

The current policy was formulated a decade ago when Japanese companies were first allowed to carry out buybacks at the board's discretion where this authority is stipulated in the articles of incorporation. Prior to that, Japanese companies were required to seek shareholder approval for all share repurchases. Accordingly, ISS' current approach is to oppose article amendments giving share repurchase authority to the board because companies can seek shareholder approval for share repurchase authority every year as may be required.

However, almost all Japanese companies have already amended their articles for this purpose, so these proposals are now very rare, and very few companies still seek shareholder approval for their buyback plans. Moreover, ISS now has

an ROE policy for director elections, which is intended to emphasize the importance of increasing capital efficiency. Accordingly, the current policy opposing article amendments authorizing the board to carry out share buybacks at its discretion is contradictory to the message the ROE policy intends to convey.

TAKEOVER DEFENSE PLANS (POISON PILLS)

Current General Recommendation: Generally vote for the approval of takeover defense plans (poison pills), unless:
(Necessary conditions)

- › The board does not include at least 20 percent (but no fewer than two) independent directors after the shareholder meeting; or
- › These independent directors fail to meet ISS guidelines on board meeting attendance; or
- › The directors are not subject to annual election; or
- › One or more members of the bid evaluation committee cannot be regarded as independent based on ISS criteria for independence; or
- › The trigger threshold is set at less than 20 percent of shares outstanding; or
- › The duration of the poison pill exceeds three years; or
- › There are other protective or entrenchment tools that can serve as takeover defenses, including blocking stakes held by management-friendly shareholders, or setting the maximum board size to the actual board size to eliminate vacant seats, or tightening of procedures for removing a director from office; or
- › The company fails to release its proxy circular at least three weeks prior to the meeting, to give shareholders sufficient time to study the details of the proposal and question management about them.

(Second stage of analysis)

- › The company has not disclosed what specific steps it is taking to address the vulnerability to a takeover by enhancing shareholder value.

Key Changes:

Starting in 2016, ISS will make the current policy more stringent by requiring as necessary conditions for support of a poison pill that 1) the board has a higher degree of independence, 2) all members of the special committee are either directors or statutory auditors of the company and thus directly accountable to shareholders, and 3) the proxy circular is posted on the stock exchange website at least four weeks prior to the meeting.

New General Recommendation: Generally vote against the approval of takeover defense plans (poison pills), unless:
(Necessary conditions)

- › Independent directors who meet ISS guidelines on attendance comprise at least 1/3 of the board after the shareholder meeting;
- › The number of independent directors who meet ISS guidelines on attendance is at least two after the shareholder meeting;
- › The directors are subject to annual elections;
- › The bid evaluation committee is composed entirely of independent directors, or independent statutory auditors, who meet ISS guidelines on attendance;
- › The trigger threshold is set at no less than 20 percent of shares outstanding;
- › The duration of the poison pill does not exceed three years;
- › There are no other protective or entrenchment tools that can serve as takeover defenses, including blocking stakes held by management-friendly shareholders, or setting the maximum board size to the actual board size to eliminate vacant seats, or tightening of procedures for removing a director from office; and
- › The company posts its proxy circular on the stock exchange website at least four weeks prior to the meeting, to give shareholders sufficient time to study the details of the proposal and question management about them.

(Second stage of analysis, to be applied only when all necessary conditions are met)

- › The company has disclosed in its proxy circular specific, credible steps it is taking to address the vulnerability to a takeover by enhancing shareholder value, and explained how the temporary protection afforded by the pill will help accomplish this goal.

Rationale for Update:

The current poison pill policy was formulated a decade ago when Japanese companies first started to introduce pills. Given the potential for pills to be misused, particularly by insider-dominated boards, the policy was intended to set a reasonably stringent threshold for Japanese companies, factoring in corporate governance and information disclosure practices at that time.

Today, the situation is different from what it was a decade ago. There is a noticeable trend toward accepting outside oversight at Japanese companies. Japan's Corporate Governance Code (which took effect in June) encourages companies to appoint at least two independent outside directors. An increasing number of companies have started to make their proxy circulars available to shareholders on stock exchange websites in recent years.

Meanwhile, shareholders' skepticism toward poison pills at Japanese companies continues, as there have been several high-profile cases where a poison pill was used in a way that was disadvantageous to minority shareholders, including the takeover attempts of Hokuetsu Paper by Oji Paper in 2006, Bull-Dog Sauce by Steel Partners in 2007, and Toyo Denki Seizo by Nidec Corp. in 2008. In each of these cases, pills were used by the target companies not as leverage to negotiate more favorable terms, but as tools to avoid any meaningful negotiations, by boards determined from the beginning to thwart the bids.

This change is intended to update the current policy to reflect the changing corporate governance profile and information disclosure practices at Japanese companies and to reflect the best practices defined under Japan's new Corporate Governance Code. In addition, the policy has been reconfigured from "generally vote for, unless conditions are not met" to "generally vote against, unless conditions are met," to reflect the fact that most companies still do not meet all the conditions specified by the policy.

As to board independence, about 33 percent of TOPIX companies have at least two independent outside directors based on meetings held from Jan. 1, to June 30, 2015, based on the ISS definition of independence. Moreover, the percentage of TOPIX companies with at least two independent outside directors (based on the Tokyo Stock Exchange definition of independence) increased from 21.5 percent to 48.4 percent in 2015 according to the exchange. The percentage is very likely to further increase, reflecting Japan's Corporate Governance Code which requires at least two independent directors. If a company seeks to implement a poison pill, it arguably needs higher independence than the market standard.

As to the members of the bid evaluation committee, if the committee members are either directors or statutory auditors of the company, shareholders can hold them accountable for their decisions, whereas accountants, attorneys, consultants and other third parties who are sometimes appointed to these committees are not accountable to shareholders and may have interests which are more closely aligned with those of incumbent managers.

As to the release date, the current policy requires the official proxy circular release date (when printed circulars are mailed) to be at least 21 days before the meeting. With the proposed change, a company will be required to disclose an electronic version of its circular on the stock exchange website at least 28 days before the meeting. In 2015, on average, circulars are mailed 19 days prior to the meeting date. The Corporate Governance Code recommends that companies disclose electronic versions of their circulars prior to the official release of the printed version. Because circulars are usually finalized more than a week before they are printed and mailed, requiring disclosure of the electronic version of the finalized circular 28 days before the meeting should not be an unreasonable burden for issuers. It is an easy way to see how seriously companies take the issues of disclosure and overall shareholder friendliness.

SOUTH KOREA

ELECTION OF DIRECTORS AND ELECTION OF AUDIT COMMITTEE MEMBERS

Election of Directors



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

- › Adequate disclosure has not been provided in a timely manner;
- › An outside director sits on more than two public company boards, in violation of the Commercial Act and accompanying presidential decree;
- › An outside director has attended less than 75 percent of board meetings⁹ over the most recent fiscal year, without a satisfactory explanation. Acceptable reasons for director absences are generally limited to the following:
 - › Medical issues/illness;
 - › Family emergencies;
 - › The director has served on the board for less than a year; and
 - › Missing only one meeting (when the total of all meetings is three or fewer);
- › For large companies, any non-independent director nominees (under ISS classification) where the board is less than majority-independent.

Where adequate disclosure has been provided, generally vote for the election of a CEO, managing director, executive chairman, or founder whose removal from the board would be expected to have a material negative impact on shareholder value.

Under extraordinary circumstances, vote against individual directors, members of committees, or the entire board, due to:

- › 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/her ability to effectively oversee management and serve the best interests of shareholders at any company.

Generally vote against directors for failure to remove a director convicted of wrongdoing from the board.

For cases where the election of multiple directors is presented as a bundled item, vote against the entire slate of directors if one of the nominees presents any of the governance concerns highlighted above.

Election of Audit Committee Member(s)



Current General Recommendation: Vote case-by-case on the election of audit committee members. Consider the history of a particular director when deciding whether to vote in favor of his or her (re)election.

Examples of circumstances where a vote against an audit committee member's (re)election should be considered include:

- › There are serious concerns about the statutory reports presented or audit procedures used;
- › A director has had significant involvement with a failed company;
- › A director has in the past appeared not to have acted in the best interests of all shareholders;

⁹ Korean law requires companies to disclose the attendance of only outside directors.

- › A director has breached fiduciary duties or engaged in willful misconduct or gross negligence in his/her capacity as a director (irrespective of whether such wrongdoing brings claims of losses and damages to the company);
- › A director has been indicted by the Prosecutors' Office and there are pending investigations;
- › An outside director has attended less than 75 percent of board meetings in the most recent financial year, without a satisfactory explanation;
- › An outside director sits on more than two public company boards, in violation of the Commercial Act and accompanying presidential decree;
- › An inside director seeks to become an audit committee member (for large companies only);
- › A director has engaged in some significant transactions with the company in the last three years and he/she cannot reasonably be seen to have the necessary objectivity and independence; or
- › Other questions exist concerning any of the audit committee members being appointed.

Key Changes:

- › Minimum independence criteria will be introduced applicable to director elections and election of audit committee members for small companies (defined under the Korean Commercial Act as companies with assets less than KRW 2 trillion).
- › Currently, ISS policy only applies independence criteria to boards and audit committees for large companies. The new policy will apply the following minimum independence requirement for small companies, in line with the requirements stipulated in the Korean Commercial Act:
 - › The board must be at least one-fourth independent; and
 - › If the company chooses to establish an audit committee, the audit committee must comprise at least three directors, with a minimum of two outside directors (two-thirds independent), as required by law.

Election of Directors



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

- › Adequate disclosure has not been provided in a timely manner;
- › An outside director sits on more than two public company boards, in violation of the Commercial Act and accompanying presidential decree;
- › An outside director has attended less than 75 percent of board meetings¹⁰ over the most recent fiscal year, without a satisfactory explanation. Acceptable reasons for director absences are generally limited to the following:
 - › Medical issues/illness;
 - › Family emergencies;
 - › The director has served on the board for less than a year; and
 - › Missing only one meeting (when the total of all meetings is three or fewer);
- › Any non-independent director nominees (under ISS classification) where the board is less than majority-independent (in the case of large companies) or less than 25 percent independent (in the case of small companies).

Where adequate disclosure has been provided, generally vote for the election of a CEO, managing director, executive chairman, or founder whose removal from the board would be expected to have a material negative impact on shareholder value.

Under extraordinary circumstances, vote against individual directors, members of committees, or the entire board, due to:

- › Material failures of governance, stewardship, risk oversight, or fiduciary responsibilities at the company;

¹⁰ Korean law requires companies to disclose the attendance of only outside directors.

- › Failure to replace management as appropriate; or
- › Egregious actions related to a director's service on other boards that raise substantial doubt about his/her ability to effectively oversee management and serve the best interests of shareholders at any company.

Generally vote against directors for failure to remove a director convicted of wrongdoing from the board.

For cases where the election of multiple directors are presented as a bundled item, vote against the entire slate of directors if one of the nominees presents any of the governance concerns highlighted above.

There are differences in the definition of independence between ISS and the Korean law. Examples are:

- › While Korean law sets the materiality threshold of professional services at 10 percent of the service provider's annual revenue, ISS director classification sets the amount at U.S. \$10,000 per year.
- › While Korean law applies a two-year cooling-off period for former executives of the company, ISS applies a five-year cooling-off period.

Election of Audit Committee Member(s)



New General Recommendation: Vote case-by-case on the election of audit committee members. Consider the history of a particular director when deciding whether to vote in favor of his/ her (re)election.

Examples of circumstances where a vote against an audit committee member's (re)election should be considered include:

- › There are serious concerns about the statutory reports presented or audit procedures used;
- › A director has had significant involvement with a failed company;
- › A director has in the past appeared not to have acted in the best interests of all shareholders;
- › A director has breached fiduciary duties or engaged in willful misconduct or gross negligence in his/her capacity as a director (irrespective of whether such wrongdoing brings claims of losses and/or damages to the company);
- › A director has been indicted by the Prosecutors' Office and there are pending investigations;
- › An outside director has attended less than 75 percent of board meetings in the most recent financial year, without a satisfactory explanation;
- › An outside director sits on more than two public company boards, in violation of the Commercial Act and accompanying presidential decree;
- › A non-independent director (under ISS classification) seeks to become an audit committee member (for large companies);
- › A non-independent director (under ISS classification) seeks to become an audit committee member and the audit committee is less than two-thirds independent (for small companies);
- › A director has engaged in some significant transactions with the company in the last three years and he/she cannot reasonably be seen to have the necessary objectivity and independence; or
- › Other questions exist concerning any of the audit committee members being appointed.

Rationale for Update:

The Korean Commercial Act imposes two different sets of corporate governance standards on listed companies – those applied to large companies (companies whose asset size is greater than KRW 2 trillion) and small companies (companies whose asset size is below KRW 2 trillion).

Under the Act, large company boards must have a majority of outside directors, while small companies are required to have a board on which one-fourth of the directors are outsiders. The Act also requires large companies to establish an audit committee comprising at least three directors with a minimum of two outside directors, while small companies

must have at least one internal auditor, or alternatively, choose to establish an audit committee that is identical in requirements to that of large companies.

ISS policy currently applies independence criteria only to large companies, recommending votes against any non-independent nominees (under ISS classification) where the board is less than majority independent, and against any inside director seeking to become an audit committee member. There are no minimum independence requirements imposed on the boards and audit committees of small companies.

The policy change will align the policies on election of directors and audit committee members with the minimum independence requirements stipulated in the Korean Commercial Act, at the same time ensuring consistency with ISS' approach at large companies for these voting items.

COMPENSATION

Remuneration Cap for Internal Auditors

Current General Recommendation: Generally vote for approval of the remuneration cap for internal auditors, unless there are serious concerns about the statutory reports presented or audit procedures used.

Key Changes:

The policy on remuneration cap for internal auditors is updated placing greater emphasis on disclosure and transparency, requiring companies to provide an explanation behind any proposed increase in the cap as well as on a remuneration cap that is excessive relative to the company's peers.

New General Recommendation: Generally vote for the remuneration cap for internal auditors, unless:

- › The proposed remuneration cap for internal auditors is excessive relative to peer companies' remuneration caps without reasonable justification; or
- › The company is asking for an increase in the remuneration cap where the company has not provided a reasonable justification for the proposed increase; or
- › There are serious concerns about the statutory reports presented or audit procedures used.

Rationale for Update:

Remuneration caps and actual remuneration of internal auditors are generally reasonable in Korea and seldom warrant shareholder concern. However, reflective of regulatory movements pushing for improvement in pay disclosure, and considering that excessive remuneration paid to internal auditors may create economic incentives that could compromise the independence of internal auditors, greater emphasis is placed on disclosure and transparency on the remuneration cap for internal auditors, in particular when a request is being made to approve an increase in the remuneration cap.

CHINA

REMUNERATION

Employee Stock Purchase Plans

▶ **Current General Recommendation:** No formal policy.

Key Changes:

- › This is a newly-formulated policy to formalize current practice and to provide more clarity and transparency around the ISS policy with respect to employee stock purchase plans.

▶ **New General Recommendation:** Generally vote for employee stock purchase plans (ESPPs) unless any of the following applies:

- › The total stock allocated to the ESPP exceeds 10 percent of the company's total shares outstanding at any given time;
- › The share purchase price is less than 90 percent of the market price¹¹ when the share purchase is conducted solely through private placement;
- › The company's significant shareholders (i.e. individuals with 5 percent or more of beneficial ownership of the company) are involved as plan participants;
- › The ESPP is proposed in connection with an equity financing scheme which does not warrant shareholder support; or
- › The ESPP contains any other terms that are deemed disadvantageous to shareholders.

Rationale for Update:

Chinese companies started proposing ESPPs following the first guideline on such equity-based incentive plans issued by the China Securities Regulatory Commission (CSRC) in June 2014. Compared to traditional incentive plans, such as stock option or restricted stock plans, where only selected executives and core employees are eligible for stock options or restricted stock granted by the company, an ESPP enables the company to target more employees, offers more flexibility, and is considered more cost-effective.

As of July 20, 2015, more than 100 Chinese companies under ISS coverage have announced ESPPs. In light of the increasing number of ESPP proposals and given that the ESPP is different from other incentive plans that are currently covered by existing China policy, ISS formulated a new policy for ESPPs.

The new policy takes into account both relevant regulations and market practices recognized in international markets:

1. The 10-percent threshold for the size of an ESPP is in line with the guideline issued by CSRC as well as ISS regional policies for the U.S. and Europe;
2. The 10-percent share purchase discount limit follows CSRC's guidelines on private share placements;

¹¹ Calculated as the average trading price 20 trading days prior to the announcement, pursuant to the CSRC's guidelines on private placements.

3. Significant shareholders do not need to acquire an additional stake in the company through an ESPP and hence should be excluded.

Chinese issuers often propose an ESPP in conjunction with an equity financing proposal. Such an ESPP will be reviewed under the policy for equity financing.

RELATED PARTY TRANSACTIONS

Loan Financing Requests



Current General Recommendation: Vote case-by-case on loans and financing proposals.

In assessing requests for loan financing provided by a related party:

- › ISS will examine stated uses of proceeds, the size or specific amount of the loan requested, along with interest rates to be charged. ISS also gives importance to, and seeks disclosure on, the specific relation of the party granting the loan to the company.

In assessing requests to provide loan financing to a related party:

- › ISS will examine stated uses of proceeds, the size or specific amount of the loan requested, along with interest rates to be charged. ISS also gives importance to, and seeks disclosure on, the specific relation of the party to be granted the loan by the company.
- › ISS will generally recommend that shareholders vote against the provision of loans to clients, controlling shareholders, and actual controlling persons of the company.

Key Changes:

Clarify the policy for loans extended to subsidiaries or associate companies.



New General Recommendation: Vote case-by-case on loans and financing proposals.

In assessing requests for loan financing provided by a related party:

- › ISS will examine stated uses of proceeds, the size or specific amount of the loan requested, and the interest rate to be charged. ISS also gives importance to, and seeks disclosure on, the specific relation of the party providing the loan to the company.

In assessing requests to provide loan financing to a related party:

- › ISS will examine stated uses of proceeds, the size or specific amount of the loan requested, and interest rates to be charged. ISS also gives importance to, and seeks disclosure on, the specific relation of the party to be granted the loan by the company.
- › ISS will generally recommend that shareholders vote against the provision of loans to clients, controlling shareholders, and actual controlling persons of the company.
- › ISS will generally recommend that shareholders vote against the provision of loans to an entity in which the company's ownership stake is less than 75 percent and the financing provision is not proportionate to the company's equity stake.


Rationale for Update:

It is not unusual for Chinese issuers to extend loan financing to their subsidiaries or associate companies. When reviewing such financing provision requests, ISS adopts a similar approach to that for the guarantee provision proposals and recommends an against vote when the company's ownership stake in the receiving entity is less than 75 percent and the loan financing provision is disproportionate to the company's equity stake. This policy change clarifies ISS' approach and is also in line with the India policy for financial assistance requests.

HONG KONG

BOARD OF DIRECTORS – ELECTION OF DIRECTORS

Non-Independent Chairman of Audit Committee, Remuneration Committee, and Nomination Committee

 **Current General Recommendation:** Generally vote for the re/election of directors, unless:

- › The nominee has been a partner of the company's auditor within the last three years, and serves on the audit committee;
- › The nominee has attended less than 75 percent of board and key committee meetings over the most recent fiscal year, without a satisfactory explanation. The calculation of director attendance will not include meetings attended by alternate directors. Acceptable reasons for director absences are generally limited to the following:
 - › Medical issues/illness;
 - › Family emergencies;
 - › The director has served on the board for less than a year; and
 - › Missing only one meeting (when the total of all meetings is three or fewer);
- › The nominee is an executive director serving on the remuneration committee or nomination committee, and the committee is not majority independent;
- › The nominee is an executive director serving on the audit committee;
- › The nominee sits on a total of more than six public company boards (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); or
- › Any non-independent director nominees where the board is less than one-third independent under ISS classification of directors.

In making these recommendations, ISS generally will not recommend against the election of a CEO, managing director, executive chairman, or founder whose removal from the board would be expected to have a material negative impact on shareholder value.

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

- › The non-audit fees paid to the auditor are excessive; or
- › The company did not disclose the audit fees and/or non-audit fees in the latest fiscal year.

Under extraordinary circumstances, vote against or withhold from individual directors, members of a committee, or the entire board, due to:

- › 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.

Key Changes:

Introduce a new policy that assesses the independence of the chairmen of key committees and formalizes current practice concerning companies without a formal remuneration committee and/or nomination committee.



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

Attendance

- › The nominee has attended less than 75 percent of board and key committee meetings over the most recent fiscal year, without a satisfactory explanation. The calculation of director attendance will not include meetings attended by alternate directors. Acceptable reasons for director absences are generally limited to the following:
 - › Medical issues/illness;
 - › Family emergencies;
 - › The director has served on the board for less than a year; and
 - › Missing only one meeting (when the total of all meetings is three or fewer).

Overboarding (unless exceptional circumstances exist)

- › The nominee sits on a total of more than six public company boards (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).

Independence Considerations

Board Independence

- › The nominee has been a partner of the company's auditor within the last three years, and serves on the audit committee;
- › Any non-independent director nominees where the board is less than one-third independent under ISS' classification of directors.

Committee Independence/Formulation

- › The nominee is an executive director serving on the audit committee;
- › The nominee is an executive director serving on the remuneration committee or nomination committee, and the committee is not majority independent;
- › The nominee is a non-independent director serving as the chairman of the audit committee, remuneration committee, and/or nomination committee (except for a non-independent director serving as chairman of the nomination committee who also serves as the chairman of the board).

When the board does not have a formal audit committee, remuneration committee, and/or nomination committee, vote against if:

- › The nominee is an executive director and the board is not majority independent;
- › The nominee is a non-independent chairman of the board.

In making any of the above recommendations on the election of directors, ISS generally will not recommend against the election of a CEO, managing director, executive chairman, or founder whose removal from the board would be expected to have a material negative impact on shareholder value.

Problematic Audit-Related Practices

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

- › The non-audit fees paid to the auditor are excessive; or
- › The company did not disclose the audit fees and/or non-audit fees in the latest fiscal year.

Governance Failures

Under extraordinary circumstances, vote against or withhold from individual directors, members of a committee, or the entire board, due to:

- › 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.

Rationale for Update:

The ISS policy for director elections currently does not consider the independence of the chairman of the audit committee, remuneration committee, and/or nomination committee. Therefore, there are no restrictions for non-independent directors to serve as chairman of these committees.

Under the Hong Kong code provisions, only independent directors should chair the audit committee and remuneration committee (Rule 3.21 and Rule 3.25 of the Hong Kong Listing Rules). The nomination committee should also be chaired by an independent director, unless the committee chairman also serves as the chairman of the board of directors (Code A.5.1 of the Corporate Governance Code).

The role of a committee chairman in leading functional committees to make objective decisions regarding audit matters, director and senior executive compensation, and director or senior executive appointments and dismissals, is critical to shareholder value. Therefore, it is reasonable to consider the independence of the committee chairman. The change would also align ISS' policy on board committees with that of the Hong Kong code provisions.

For companies that do not have a formal remuneration and/or nomination committee, the functions of these committees fall under the responsibility of the entire board. Therefore, more scrutiny should be applied towards the independence of the board.

REMUNERATION- EQUITY COMPENSATION PLANS

Employee Stock Purchase Plans

▶ **Current General Recommendation:** No formal policy.

Key Changes:

- › This is a newly-formulated policy to formalize current practice and to provide more clarity and transparency of the ISS policy with respect to employee stock purchase plans.

▶ **New General Recommendation:** Generally vote for employee stock purchase plans (ESPPs) unless any of the following applies:

- › The total stock allocated to the ESPP exceeds 10 percent of the company's total shares outstanding at any given time;
- › The share purchase price is less than 90 percent of the market price¹² when the share purchase is conducted solely through private placement;
- › The company's significant shareholders (i.e. individuals with 5 percent or more of beneficial ownership of the company) are involved as plan participants;
- › The ESPP is proposed in connection with an equity financing scheme which does not warrant shareholder support; or
- › The ESPP contains any other terms that are deemed disadvantageous to shareholders.

Rationale for Update:

Hong Kong companies started proposing ESPPs following the first guideline on such equity-based incentive plans issued by the China Securities Regulatory Commission (CSRC) in June 2014. Compared to traditional incentive plans such as stock option or restricted stock plans where only selected executives and core employees are eligible for stock options or restricted stock granted by the company, an ESPP enables the company to target more employees, offers more flexibility and is considered more cost-effective.

As of July 20, 2015, more than 100 Chinese companies under ISS coverage have announced ESPPs. In light of the increasing number of ESPP proposals and given that the ESPP is different from other incentive plans that are currently covered by existing Hong Kong policy, a new policy is being formulated for ESPPs.

The new policy takes into account both relevant regulations and market practices recognized in international markets:

1. The 10-percent threshold for the size of an ESPP is in line with the guideline issued by CSRC as well as ISS regional policies for the U.S. and Europe;
2. The 10-percent share purchase discount limit follows CSRC's guidelines on private share placements;
3. Significant shareholders do not need to acquire an additional stake in the company through an ESPP and hence should be excluded.


Chinese issuers often propose an ESPP in conjunction with an equity financing proposal. Such ESPP will be reviewed under the policy for equity financing.

¹² Calculated as the average trading price 20 trading days prior to the announcement, pursuant to the CSRC's guidelines on private placements.

SINGAPORE

BOARD OF DIRECTORS – ELECTION OF DIRECTORS

Non-Independent Chairman of Audit Committee, Remuneration Committee, and Nomination Committee

 **Current General Recommendation:** Generally vote for the re/election of directors, unless:

- › The nominee has been a partner of the company's auditor within the last three years, and serves on the audit committee;
- › The nominee has attended less than 75 percent of board and key committee meetings over the most recent fiscal year, without a satisfactory explanation. Acceptable reasons for director absences are generally limited to the following:
 - › Medical issues/illness;
 - › Family emergencies;
 - › The director has served on the board for less than a year; and
 - › Missing only one meeting (when the total of all meetings is three or fewer).
- › The nominee is an executive director serving on the audit, remuneration or nomination committee;
- › The nominee sits on a total of more than six public company boards (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); or
- › Any non-independent director nominees where the board is less than one-third independent under ISS classification of directors.

In making these recommendations, ISS generally will not recommend against the election of a CEO, managing director, executive chairman, or founder whose removal from the board would be expected to have a material negative impact on shareholder value.

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


- › The non-audit fees paid to the auditor are excessive; or
- › The company did not disclose the audit fees and/or non-audit fees in the latest fiscal year.

Under extraordinary circumstances, vote against individual directors, members of a committee, or the entire board, due to:

- › 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.

Key Changes:

Introduce a new policy that assesses the independence of the chairmen of key committees and formalizes current practice concerning companies without a formal remuneration committee and/or nomination committee.

 **New General Recommendation:** Generally vote for the re/election of directors, unless:

Attendance

Enabling the financial community to manage governance risk for the benefit of shareholders.

- › The nominee has attended less than 75 percent of board and key committee meetings over the most recent fiscal year, without a satisfactory explanation. Acceptable reasons for director absences are generally limited to the following:
 - › Medical issues/illness;
 - › Family emergencies;
 - › The director has served on the board for less than a year; and
 - › Missing only one meeting (when the total of all meetings is three or fewer).

Overboarding (unless exceptional circumstances exist)

- › The nominee sits on a total of more than six public company boards (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).

Independence Considerations

Board Independence

- › The nominee has been a partner of the company's auditor within the last three years, and serves on the audit committee;
- › Any non-independent director nominees where the board is less than one-third independent under ISS classification of directors.

Committee Independence/Formulation

- › The nominee is an executive director serving on the audit, remuneration, and/or nomination committee;
- › The nominee is a non-independent director serving as the chairman of the audit committee, remuneration committee, and/or nomination committee.

When the board does not have a formal audit committee, remuneration committee, and/or nomination committee, vote against if:

- › The nominee is an executive director;
- › The nominee is a non-independent chairman of the board.

In making any of the above recommendations on the election of directors, ISS generally will not recommend against the election of a CEO, managing director, executive chairman, or founder whose removal from the board would be expected to have a material negative impact on shareholder value.

Problematic Audit-Related Practices

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

- › The non-audit fees paid to the auditor are excessive; or
- › The company did not disclose the audit fees and/or non-audit fees in the latest fiscal year.

Governance Failures

Under extraordinary circumstances, vote against individual directors, members of a committee, or the entire board, due to:

- › 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.

Rationale for Update:

The ISS policy for director elections currently does not consider the independence of the chairman of the audit committee, remuneration committee, and nomination committee. Therefore, there are no restrictions for non-independent directors to chair these committees.

Under the Singapore code provisions, only independent directors should chair the audit committee (Guideline 12.1), remuneration committee (Guideline 7.1), and nomination committee (Guideline 4.1). These provisions were implemented in 2012, and most companies are compliant with the best practices.

The role of a committee chairman in leading functional committees to make objective decisions regarding audit matters, director and senior executive compensation, and director and senior executive appointments and dismissals, is critical to shareholder value. Therefore, it is reasonable to consider the independence of the committee chairman. The change would also align ISS' policy on board committees with that of the Singapore code provisions.

For companies that do not have a formal remuneration and/or nomination committee, the functions of these committees fall under the responsibility of the entire board. Therefore, more scrutiny should be applied towards the independence of the board.

SHARE ISSUANCE REQUESTS

General Issuance Requests – Real Estate Investment Trusts

- ▶ **Current General Recommendation:** For companies listed on the Mainboard of the Singapore Exchange, generally vote for a general issuance of equity or equity-linked securities without preemptive rights when the share issuance limit is not more than 10 percent of the company's issued share capital and 50 percent with preemptive rights.

For companies listed on the Catalist market of the SGX, generally vote for a general issuance of equity or equity-linked securities without preemptive rights when the share issuance limit is not more than 20 percent of the company's issued share capital and 100 percent with preemptive rights.

Key Changes:

Establish a policy specifically for share issuances by Real Estate Investment Trusts.

- ▶ **New General Recommendation:** Generally vote for a general issuance of equity or equity-linked securities without preemptive rights when the share issuance limit is not more than 10 percent of the company's issued share capital and 50 percent with preemptive rights for all Singapore companies, with the exception of Catalist-listed companies and Real Estate Investment Trusts.

For Singapore companies listed on the Catalist market of the SGX, generally vote for a general issuance of equity or equity-linked securities without preemptive rights when the share issuance limit is not more than 20 percent of the company's issued share capital and 100 percent with preemptive rights. For Real Estate Investment Trusts, generally vote for a general issuance of equity or equity-linked securities without preemptive rights when the unit issuance limit is not more than 20 percent of its issued unit capital and 50 percent with preemptive rights.

Rationale for Update:

Enabling the financial community to manage governance risk for the benefit of shareholders.

Singapore-incorporated companies routinely seek shareholder approval of a general mandate for the issuance of ordinary shares with or without preemptive rights. This policy update clarifies the applicable policy for these companies, including Singapore-incorporated companies that are listed offshore.

Currently, there are 33 Real Estate Investment Trusts (REITs) listed in Singapore. REITs in Singapore are required by the country's Inland Revenue Authority to distribute at least 90 percent of distributable income to unitholders, in order to enjoy tax-exempt status. Given the required percentage of distribution, the current ISS policy for non-preemptive unit issuance limit of 10 percent is deemed to be too restrictive to the REITs' growth in terms of acquisition of properties.

In October 2014, the Monetary Authority of Singapore issued a consultation paper *Enhancements to the Regulatory Regime Governing REITs and REIT Managers*. The initiative was meant to provide REIT managers with increased operational flexibility while imposing measures to better protect unitholders and strengthen accountability.

Market players generally welcome the suggestion of giving greater operational flexibility to REIT managers, although some respondents raised concerns over potential changes in the risk profile of REITs. In view of the regulator's consultation proposal and the market response, ISS' limit on REIT unit issuance under the general mandate is being aligned with relevant code provisions, in an attempt to promote operational flexibility for REIT managers while keeping intact the risk profile of such trusts.

INDIA

MISCELLANEOUS

Acceptance of Deposits

▶ **Current General Recommendation:** No current formal policy.

Key Changes: This is a newly-formulated policy to formalize current practice and to provide more clarity and transparency of ISS policy on acceptance of deposits by companies from shareholders and/or the general public.

▶ **New General Recommendation:** Generally vote against proposals to accept deposits from shareholders and/or the public, unless there are no significant causes for shareholder concern regarding the terms and conditions of the deposit. Sufficient information regarding the deposits must be disclosed, including:

- › Justification for the need for additional funding; and
- › The interest rate offered, which must not exceed the interest rate prescribed by the Reserve Bank of India (RBI) for acceptance of deposits by non-banking financial companies (NBFCs).

Rationale for Update:

The Companies Act, 2013 (CA 2013), which came into effect in 2014, requires companies (other than banks and NBFCs) to seek shareholder approval to accept deposits from shareholders and/or the public. In addition, the Companies Rules, 2014 (Rules) provides that such deposits (a) shall not exceed 10 percent of the aggregate of issued shares and free

reserves of the company and (b) are repayable not earlier than three months from the date of such deposit. Furthermore, the Rules provide that the interest rate on such deposits shall not exceed the interest rate prescribed by the RBI for acceptance of deposits by NBFCs.

The new policy is based on the current policy for increase in borrowing powers and pledging of assets, introducing a common framework with which to analyze the positive and negative factors of the proposal, ensuring consistency and transparency of ISS recommendations.

ASIA PACIFIC REGION POLICY

MALAYSIA

General Share Issuance Mandate

- ▶ **Current General Recommendation:** Generally vote for issuance requests with preemptive rights to a maximum of 100 percent over currently issued capital.

Vote for issuance requests without preemptive rights to a maximum of 20 percent of currently issued capital.

Key Changes:

For Malaysia, the cap for general share issuance mandates will be reduced from 20 percent to 10 percent of currently issued capital, except for real estate investment trusts (REITs) which will remain at 20 percent of currently issued capital.

- ▶ **New General Recommendation:** Generally vote for issuance requests with preemptive rights to a maximum of 100 percent over currently issued capital.

Vote for issuance requests without preemptive rights to a maximum of 20 percent of currently issued capital.

Malaysia:

For companies listed on the Main Market and ACE Market of the Bursa Malaysia Securities Bhd (Exchange), vote for issuance requests without preemptive rights to a maximum of 10 percent of currently issued capital.

For real estate investment trusts (REITs), vote for issuance requests without preemptive rights to a maximum of 20 percent of currently issued capital.

Rationale for Update:

The policy change is to align the general share issuance mandate policy with local regulations. Section 132D of the Companies Act, 1965 prohibits share issuances, except with shareholder approval. Such approval is valid until the conclusion of the next annual general meeting (AGM). In addition, Chapter 6.03 Part C of the Listing Requirements of the Exchange prohibits share issuances which, when aggregated with issuances during the preceding 12 months,

exceed 10 percent of currently issued capital. Any share issuance exceeding 10 percent of currently issued capital requires separate shareholder approval of the specific terms and condition of such issue.

SRI LANKA

Director Elections

► **Current General Recommendation:** No carve-out for Sri Lanka.

Key Changes:

- › Board independence will be considered in making vote recommendations on director elections. A recommendation against all non-independent nominees will be made when independent directors represent less than the higher of two independent directors or one-third of the board.
- › In addition, a recommendation against any executive director serving on the audit, remuneration, or nomination committees will be made to align director election policy in Sri Lanka with other Asia Pacific markets.

► **New General Recommendation:**

For Sri Lanka, vote for the election of a board-nominated candidate unless:

- › He/ she is an executive director serving on the audit, remuneration, or nomination committees; or
- › He/ she is a non-independent director nominee and independent directors represent less than the higher of two independent directors or one-third of the board.

Rationale for Update:

The policy changes are to align the director election policy in Sri Lanka with that of other Asia Pacific markets, as well as with local guidelines and regulations. In Sri Lanka, the Colombo Stock Exchange listing rules and Code of Best Practice both specify that independent directors should represent the higher of two independent directors or one-third of the board.

PHILIPPINES

Election of Directors

► **Current General Recommendation:** Generally vote for management nominees in the election of directors, unless:

For Philippines, where independent directors represent less than the higher of: three independent directors or 30 percent of the board, recommend against the following candidates:

- › An executive director with exception of the CEO; or

- › One non-executive non-independent director who represents a substantial shareholder where the number of seats held by the representatives is disproportionate to its holdings in the company.

In accordance with local standards, in determining whether the required percentage of independent directors is satisfied, the total number of directors is multiplied by 30 percent and the product is rounded down to the nearest whole number. For example, a thirteen-director board with three independent directors satisfies the board independence requirement, even though the board is only 21.4-percent independent.

Key Changes:

- › The current policy to recommend against one executive director or non-executive non-independent director will be changed to recommend against all non-independent director nominees when the board represents less than the higher of three independent directors or 30 percent of the board.
- › Director attendance will be considered in making vote recommendations on director elections. A recommendation against a director nominee will be made when he/ she has attended less than 75 percent of board and key committee meetings over the most recent year, without satisfactory explanation.



New General Recommendation:

For Philippines, vote for the election of a board-nominated candidate unless:

- › He/ she has attended less than 75 percent of board and key committee meetings over the most recent year, without satisfactory explanation. Acceptable reasons for director absences are generally limited to the following:
 - › Medical issues/illness;
 - › Family emergencies;
 - › The director has served on the board for less than a year; and
 - › Missing only one meeting (when the total of all meetings is three or fewer).
- › He/she is a non-independent director nominee and independent directors represent less than the higher of three independent directors or 30 percent of the board.

In accordance with local standards, in determining whether the required percentage of independent directors is satisfied, the total number of directors is multiplied by 30 percent and the product is rounded down to the nearest whole number. For example, a thirteen-director board with three independent satisfies the board independent requirement, even though the board is only 21.4-percent independent.

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

Rationale for Update:

The policy changes are to align the director election policy in the Philippines with that of other Asia Pacific markets, as well as with local guidelines and regulations. In the Philippines, it is recommended under the Philippine Stock Exchange Corporate Governance Guidelines that independent directors represent the higher of three independent directors or 30 percent of the board.

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