



Europe, Middle East, and Africa (EMEA)

Includes U.K., Ireland, Continental Europe, Russia,
Middle East, North Africa, and South Africa

Proxy Voting Guidelines Updates

2016 Benchmark Policy Recommendations

Effective for Meetings on or after Feb. 1, 2016

Published Nov. 20, 2015

Revised Dec. 21, 2015

TABLE OF CONTENTS

UK AND IRELAND	3
BOARD OF DIRECTORS	3
Director Elections.....	3
CAPITAL STRUCTURE	4
Authorise Issue of Equity with and without Pre-emptive Rights.....	4
OTHER ITEMS	6
Authorise the Company to Call a General Meeting with Two Weeks' Notice	6
SMALLER COMPANIES	7
Accept Financial Statements and Statutory Reports	7
Authorise Board to Fix Remuneration of Auditors	9
Director Elections.....	9
Board and Committee Composition	9
Remuneration	11
OTHER POINTS TO NOTE	12
Voting disclosure and the response to significant shareholder dissent	12
CONTINENTAL EUROPE (EUROPEAN POLICY)	15
OPERATIONAL ITEMS	15
Appointment of Auditors and Auditor Fees.....	15
CAPITAL STRUCTURE	15
General Share Issuances- France	15
REMUNERATION	16
Expansion of the 3-year minimum vesting period required for LTIP - France	16
OTHER ITEMS	17
Antitakeover Mechanisms - France	17
RUSSIA AND KAZAKHSTAN	18
ELECTION OF DIRECTORS	18
Director Independence - Classification of Directors- Russia.....	18
SOUTH AFRICA	18
ELECTION OF DIRECTORS	18
Audit committee elections- South Africa.....	18
REMUNERATION	19
Approval of Remuneration Policy – South Africa.....	19
New Equity Incentive Scheme or Amendment to Existing Schemes- South Africa	21
EMEA REGIONAL POLICY (COVERING THE MIDDLE EAST AND AFRICA EXCLUDING SOUTH AFRICA)	23
Director Independence - Classification of Directors- Middle East and Africa (MEA).....	23
Cumulative Voting – Middle East and Africa (MEA)	25

UK AND IRELAND

BOARD OF DIRECTORS

Director Elections

► **Current General Recommendation:** Generally vote for the election or re-election of directors, unless:

- › Adequate disclosure has not been provided in a timely manner;
- › The board fails to meet minimum corporate governance standards – please see the following sections on independence classification and Board and Committee composition for further details of how this is interpreted in practice; or
- › There are specific concerns about the individual, such as their ability to commit sufficient time to the role.

An appropriate level of biographical detail should include a statement of a director's other directorships and responsibilities (including any relevant previous positions held), the experience and skills that they bring and the contribution that the director can make to the board. If the board provides no biographical details for a director who is standing for election for the first time, this is likely to result in a negative vote recommendation. A negative vote recommendation may also be considered in the absence of a supporting statement from the board where a director is standing for re-election.

There is no hard-and-fast threshold on the maximum number of directorships that are considered acceptable, but the NAPF¹ advises that the issue of time commitment is especially pertinent to the role of Chair, particularly where a company is both complex and global in scale and furthermore if it operates within a highly regulated sector such as financial services. The director's board and committee attendance will be considered when an individual holding multiple board positions stands for election or re-election. Under extraordinary circumstances, ISS will consider recommending a vote against individual directors for material failures of governance, stewardship, or risk oversight.

Key Changes:

The updated policy makes explicit reference to a recommended maximum number of boards on which directors should sit, and indicates that ISS may recommend against "overboarded" directors. The policy also clarifies how in practice ISS assesses attendance at board and committee meetings.

► **New General Recommendation:** Generally vote for the election or re-election of directors, unless:

- › Adequate disclosure has not been provided in a timely manner;
- › The board fails to meet minimum corporate governance standards – please see the following sections on independence classification and board and committee composition for further details of how this is interpreted in practice; or
- › There are specific concerns about the individual, such as his/her ability to commit sufficient time to the role.

¹ A.11 <http://www.napf.co.uk/PolicyandResearch/Corporate-Governance/NAPF-Corporate-Governance-Policy-and-Voting-Guidelines.aspx>

An appropriate level of biographical detail should include a statement of a director's other directorships and responsibilities (including any relevant previous positions held), the experience and skills that he/she brings, and the contribution that the director can make to the board. If the board provides no biographical details for a director who is standing for election for the first time, this is likely to result in a negative vote recommendation. A negative vote recommendation may also be considered in the absence of a supporting statement from the board where a director is standing for re-election.

Where directors have multiple board appointments, ISS may recommend a vote against directors who appear to hold an excessive number of board roles at publicly-listed companies. The following guidelines will be used:

- › Executive directors are not expected to hold other executive or chairmanship positions. They may, however, hold up to two other non-executive directorships.
- › A board chairman is not expected to hold an executive position elsewhere, or more than one other chairmanship position. The chairman may, however, hold up to three other non-executive directorships.
- › A non-executive director who does not hold executive or chairmanship positions may hold up to four other non-executive directorships.

When applying this policy, ISS will consider the nature and scope of the various appointments and the companies concerned, and if any exceptional circumstances exist. A stricter view may apply for directors who serve on the boards of complex companies, those in highly regulated sectors, or directors who chair a number of key committees.

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

In terms of considering attendance, ISS may recommend against the re-election of a director if, in the absence of a suitable explanation, attendance at board and committee meetings has been lower than 75 percent for two or more consecutive years. This applies to all directors, not just those with multiple outside directorships.

Rationale for Update:

The current policy document includes a reference to directors' time commitments but does not refer to a recommended maximum number of board seats which directors should hold.

The UK Corporate Governance Code – the UK's best practice code – specifies a recommended limit of no more than one FTSE 100 non-executive directorship to be held by executive directors. Although there is no stated limit in the Code for chairmen or non-executives, the Code does emphasise that "all directors should be able to allocate sufficient time to the company to discharge their responsibilities." It is a common feature of client voting policies that overboarding is considered in the context of a specific recommended maximum number of board seats. The approach to be applied in the UK is consistent with ISS' European policy.

As a matter of clarification, the policy document has been updated to specify precisely how ISS assesses board and committee attendance in the UK market in order to provide explicit guidance to clients and companies.

CAPITAL STRUCTURE

Authorise Issue of Equity with and without Pre-emptive Rights



Current General Recommendation: Generally vote for a resolution to authorise the issuance of equity, unless:

- › The general issuance authority exceeds one-third (33 percent) of the issued share capital. Assuming it is no more than one-third, a further one-third of the issued share capital may also be applied to a fully pre-emptive rights issue taking the acceptable aggregate authority to two-thirds (66 percent); or
- › The routine authority to disapply preemption rights exceeds 5 percent of the issued share capital.

ISS will generally support resolutions seeking authorities in line with the IMA's Share Capital Management Guidelines² and the Pre-Emption Group Statement of Principles.³

ISS will support an authority to allot up to two-thirds of the existing issued share capital, providing that any amount in excess of one-third of existing issued shares would be applied to fully pre-emptive rights issues only.

Under the Principles, the routine authority to disapply preemption rights should not exceed more than 5 percent of ordinary share capital in any one year, with an overall limit of 7.5 percent in any rolling three-year period.

In line with the NAPF⁴, the authorities should not be bundled together, or with any other voting issue. It is good practice, in terms of duration, for the authorities to require renewal at the following year's AGM.

Key Changes:

This policy update clarifies that a disapplication of pre-emption rights up to 10 percent of the issued share capital is acceptable, provided that the extra 5 percent above the original 5 percent is to be used only for the purposes of an acquisition or a specified capital investment.



New General Recommendation: Generally vote for a resolution to authorise the issuance of equity, unless:

- › The general issuance authority exceeds one-third (33 percent) of the issued share capital. Assuming it is no more than one-third, a further one-third of the issued share capital may also be applied to a fully pre-emptive rights issue taking the acceptable aggregate authority to two-thirds (66 percent); or
- › The routine authority to disapply pre-emption rights exceeds 10 percent of the issued share capital, provided that any amount above 5 percent is to be used for the purposes of an acquisition or a specified capital investment.

ISS will generally support resolutions seeking authorities in line with the IMA's Share Capital Management Guidelines² and the Pre-Emption Group Statement of Principles.³

ISS will support an authority to allot up to two-thirds of the existing issued share capital, providing that any amount in excess of one-third of existing issued shares would be applied to fully pre-emptive rights issues only.

Under the Pre-Emption Group Principles, the routine authority to disapply pre-emption rights should not exceed more than 5 percent of the issued share capital in any one year, with an overall limit of 7.5 percent in any rolling three-year period. Companies can seek shareholder approval for an authority up to 10 percent, provided that any amount in excess of the standard 5 percent is to be used only for purposes of an acquisition or a specified capital investment. A

² <https://www.ivis.co.uk/media/9777/Share-Capital-Management-Guidelines-30-July-2014-.pdf>

³ <https://www.ivis.co.uk/media/6059/Statement-of-Principles-July-2008.pdf>

⁴ J.4 <http://www.napf.co.uk/PolicyandResearch/Corporate-Governance/NAPF-Corporate-Governance-Policy-and-Voting-Guidelines.aspx>

company which receives approval for an authority of this nature but is then subsequently viewed to abuse the authority during the year (for example, by issuing shares up to 10 percent for purposes other than set out in the revised guidelines) is likely to receive a negative recommendation on the authority at the following AGM.

In line with the PLSA guidelines⁴, the authority to issue shares and the authority to disapply pre-emption right should not be bundled together, or with any other voting issue. It is good practice, in terms of duration, for the authorities to require renewal at the following year's AGM.

Rationale for Update:

The Pre-Emption Group, a UK body which includes representatives of companies and investors, has long-standing guidelines which recommend that a general authority to disapply pre-emption rights should be limited to no more than 5 percent of the issued share capital. This limit has been observed by most UK companies when seeking approval for a disapplication authority at their AGM.

In March 2015, the Pre-Emption Group issued revised guidelines. The revised guidelines now permit companies to seek shareholder approval for an extra 5 percent disapplication in addition to the standard 5 percent, provided that the additional 5 percent is used only in connection with an acquisition or a specified capital investment. A "specified capital investment" is defined as "one or more specific capital investment related uses for the proceeds of an issuance of equity securities, in respect of which sufficient information regarding the effect of the transaction on the listed company, the assets the subject of the transaction and (where appropriate) the profits attributable to them is made available to shareholders to enable them to reach an assessment of the potential return." Among others, the key UK investor trade bodies (the Investment Association and the Pensions and Lifetime Savings Association (previously known as the National Association of Pension Funds)) have endorsed the new guidelines.

Following the issue of the revised guidelines, a significant number of UK companies (as many as 45 percent of FTSE All Share companies holding AGMs between July and September 2015) have sought general authorities to disapply pre-emption rights up to 10 percent of the issued share capital, with the commitment that the additional 5 percent above the usual 5 percent will only be used as set out in the guidelines. These authorities have received widespread support, with no evidence of any specific concerns raised by investors in terms of the voting outcomes for these resolutions. As a result, the ISS policy has been updated to reflect what has become routine market practice.

Investors are expected to monitor carefully how companies use the new flexibility in the general authorities. In September 2015, Glencore was strongly criticised by the Investment Association and the NAPF for reneging on its commitment to only use the 10 percent authority approved at its May AGM in connection with an acquisition or specified capital investment. Glencore instead decided to use the full 10 percent authority to raise funds to strengthen its balance sheet.

OTHER ITEMS

Authorise the Company to Call a General Meeting with Two Weeks' Notice



Current General Recommendation: Generally vote for the resolution to authorise the company to call a general meeting with 14 days' notice if the company has provided assurance that the authority will only be used when merited.

Before the implementation of the EU Shareholder Rights Directive, companies were able to hold general meetings on 14 days' notice in line with the Companies Act 2006; however, since the Directive increased the minimum notice period to 21 days, shareholder authority must first be granted to opt out of the requirement.

Companies are expected to give as much notice as is practicable when calling a general meeting, with the additional flexibility afforded by this authority only being used in limited and time-sensitive circumstances where it would clearly be to the advantage of shareholders as a whole. ISS will generally support these resolutions, if the company has provided assurance that the shorter notice period would only be used when merited. However, companies which have used this authority inappropriately can expect future requests to be viewed sceptically when they attempt to renew this authority in future years.

Key Changes:

- › This policy update clarifies that if a company is viewed as using this authority inappropriately by calling short-notice general meetings which are not obviously time-sensitive, ISS may recommend against the authority at the next AGM.

▶ **New General Recommendation:** Generally vote for the resolution to authorise the company to call a general meeting with 14 days' notice if the company has provided assurance that the authority will only be used when merited. An appropriate use of the authority is in circumstances where time is of the essence.

Before the implementation of the EU Shareholder Rights Directive, companies were able to hold general meetings on 14 days' notice in line with the Companies Act 2006; however, since the Directive increased the minimum notice period to 21 days, shareholder authority must first be granted to opt out of the requirement.

Companies are expected to give as much notice as is practicable when calling a general meeting, with the additional flexibility afforded by this authority only being used in limited and time-sensitive circumstances where it would clearly be to the advantage of shareholders as a whole. ISS will generally support these resolutions, if the company has provided assurance that the shorter notice period would only be used when merited. Companies which have used this authority inappropriately by calling short-notice general meetings which are not obviously time-sensitive can expect future requests to be viewed sceptically when they attempt to renew this authority in future years. ISS may recommend against the authority at the next AGM in such cases.

The UK Corporate Governance Code was updated in 2014 to recommend that notices for general meetings (other than AGMs) should be sent to shareholders at least 14 *working* days before the meeting.⁵

Rationale for Update:

This update clarifies the ISS vote recommendation if companies are seen to abuse the authority to call general meetings on 14 days' notice. While there may be very valid reasons for a company to call a general meeting at short notice, this should not be the default position for all general meetings. The use of the short-notice authority means that investors can have very little time to fully consider the business of the meeting before being required to make their voting decisions; this can be a source of particular frustration when there is no obvious reason for a meeting to be called at short notice.

SMALLER COMPANIES

Accept Financial Statements and Statutory Reports

⁵ E.2.4 <https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Corporate-Governance-Code.aspx>

▶ **Current General Recommendation:** Generally vote for approval of financial statements and statutory reports, unless:

- › There are concerns about the accounts presented or audit procedures used; or
- › There has been an accounting fraud or material misstatement during the year.

In addition to the rationale stated under this resolution in the core policy (see above), where no appropriate resolution to target an investor's specific concern is on the ballot, perhaps because the company does not have annual elections for directors, ISS may suggest a negative vote recommendation against this resolution.

Key Changes:

Greater detail has been added, to expand upon the specific issues which ISS takes into account when recommending votes against this resolution at smaller companies. This:

- › Repeats the wording from the core policy that disclosure issues are also taken into account when considering this resolution, and includes examples of specific matters of disclosure viewed as particularly important;
- › Expands further on what specific concerns are taken into account in the vote recommendation on this item when there is no more appropriate resolution on the ballot; and
- › Highlights that it is more likely that a negative recommendation on these other issues is likely to take place after a number of years of concerns being raised, not in the first year.

▶ **New General Recommendation:** Generally vote for approval of financial statements and statutory reports, unless:

- › There are concerns about the accounts presented or the audit procedures used; or
- › There has been an accounting fraud or material misstatement during the year.

As stated in the core policy for this resolution, the overall quality of disclosure will also be considered, and the weakest examples, such as where the meeting documents are not released in time for investors to review these ahead of the meeting, are likely to attract a negative vote recommendation. Other minimum disclosure requirements include:

- › The identity of all the directors, their board roles, committee memberships and independence classification;
- › List of major shareholders; and
- › Attendance at board and committee meetings.

In addition, where no appropriate resolution to target an investor's specific concern is on the ballot, ISS may recommend a vote against this resolution. Specific concerns include:

- › Absence of sufficient independent representation on the board and the key committees (if the relevant director is not standing for election/re-election);
- › Absence of regular re-election for all directors (once every three years at a minimum); and
- › Remuneration not aligned with expected market practice (if there is no remuneration report or remuneration policy resolution on the agenda).

Concerns raised in the first year may not lead to a negative vote recommendation; this is more likely in the event of repeated concerns identified over a number of years.

Rationale for Update:

The additional text above does not represent a new policy; it instead provides clarification for clients and for companies on how ISS applies this policy in practice for smaller companies, i.e. those companies outside the FTSE All Share index. This includes members of the FTSE Fledgling index and those listed on AIM.

Authorise Board to Fix Remuneration of Auditors

Current General Recommendation: The policy does not specifically address auditors' remuneration for smaller companies.

Key Changes:

Apply the ISS UK & Ireland benchmark policy for FTSE All Share companies to smaller companies.

New General Recommendation: Generally vote for proposals authorising the board to fix the fees payable to the external auditors, unless:

- › Fees for non-audit services routinely exceed standard audit-related fees.

Where the ratio of non-audit fees to audit fees has been over 100 per cent for more than one year, and the company appears unwilling to address the issue, ISS may recommend a vote against the remuneration of the external auditors. In addition, the chairman of the audit committee is likely to receive a negative voting recommendation when he or she is next standing for re-election.

Rationale for Update:

By applying the core policy to smaller companies, we are ensuring consistency on this issue across all UK companies covered by ISS and putting in place an appropriately robust policy for this important area.

Director Elections

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

- › Adequate disclosure has not been provided in a timely manner;
- › The board fails to meet minimum corporate governance standards – please see the following sections on independence classification and board and committee composition for details of how this is interpreted in practice; or
- › There are specific concerns about the individual, such as his/her ability to commit sufficient time to the role.

Board and Committee Composition

The requirements for Fledgling companies are the same as for FTSE SmallCap companies, as set out in the core policy.

The chairman may sit on all committees provided that he or she continues to be considered independent.

For AIM companies only, which are not subject to the Code, the **audit** and **remuneration** committees should comprise a majority of independent non-executive directors, and half the members of the **nomination** committee need to be independent.

Key Changes:

- › To make it clear that certain aspects of the core policy apply also to smaller companies. Firstly, this ensures that the board requirements for FTSE Fledgling companies will be the same as for FTSE SmallCap companies (which are covered by the core policy). Second, the standard policy on the CEO becoming the chairman will be extended to smaller companies;
- › To provide extra clarification on how the policy operates in practice. For example, the updated policy recognises the convention that there is the potential for the board chairman to receive a negative vote recommendation in the event of long-running issues of concern being raised on board and committee composition.



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

- › Adequate disclosure has not been provided in a timely manner;
- › The board fails to meet minimum corporate governance standards – please see the following sections on independence classification and board and committee composition for details of how this is interpreted in practice; or
- › There are specific concerns about the individual, such as his/her ability to commit sufficient time to the role.

Board and Committee Composition

The requirements for FTSE Fledgling companies are the same as for FTSE SmallCap companies, as set out in the standard policy. This means that the **board** should include a minimum of two independent non-executive directors. The **audit** and **remuneration** committees should be fully independent, and should include a minimum of two independent non-executives. For the board and the audit and remuneration committees, the board chairman cannot count as one of the independent directors. The majority of the members of the **nomination** committee should be independent.

The chairman may sit on all committees provided that he/ she continues to be considered independent.

For AIM companies only, which are not subject to the UK Corporate Governance Code, the **audit** and **remuneration** committees should comprise a majority of independent non-executive directors, and half the members of the **nomination** committee need to be independent.

For all companies, executive directors should not serve on the **audit** or **remuneration** committees.

If there is evidence of long-running, systemic issues around board and committee composition which the company seems unable or unwilling to address, the board chairman may receive a negative vote recommendation on his/her reappointment, given he/ she retains overall responsibility for the board's corporate governance arrangements.

Election of a Former CEO as Chairman

Similar to the core policy, ISS may recommend a vote against the election of a former CEO as chairman, unless the company can provide a strong justification as to why this non-standard governance arrangement is appropriate for their specific situation and for a limited period of time.

Rationale for Update:

This policy update is intended primarily to provide extra clarification on how certain board and committee issues are assessed for smaller companies, i.e. those companies outside the FTSE All Share index. The extra clarity is considered useful for clients and for companies in understanding how the policy is applied in certain circumstances, for example the potential for escalation to a negative vote recommendation on the re-election of the board chairman.

The extension of the core policy regarding the election of a former CEO as chairman extends an important corporate governance principle to the smaller company universe. The UK Corporate Governance Code recommends that a CEO should not go on to become chairman of the same company.

Remuneration

General Recommendation: When assessing the remuneration resolutions for both FTSE Fledgling and AIM companies, a negative vote recommendation would be considered if any of the following had occurred:

- › Executive directors are not employed under formal service contracts or their service contracts, in the event of termination, provide for more than 12 months' notice;
- › NEDs have received performance-related pay, during the year under review;
- › Options have been re-priced during the period under review;
- › Vesting of incentive awards is not conditional on the achievement of performance hurdles;
- › Re-testing is allowed throughout the performance period; or
- › Awards granted to executive directors during the year under review feature a vesting period of less than three years.

The award of options to NEDs is not in line with best practice as it can cause a potential conflict of interest that may affect a NED's independent judgment. Therefore, the NAPF Smaller Companies Policy expects companies to remunerate NEDs with basic fees only, in the form of cash or shares.

Key Changes:

The current policy and the reasons for a potential negative vote recommendation do not differentiate between a remuneration policy resolution and a remuneration report resolution. This update makes this distinction, recognising that a number of companies covered by ISS' smaller companies policy are required by law to present separate policy and report resolutions, and that other companies choose to do so on a voluntary basis.

The list of issues which drive a negative vote recommendation has also been expanded, to ensure that the policy captures a greater number of key issues of potential concern. Such issues would be similar to those mentioned in the standard policy (i.e. the policy applying to FTSE All Share companies).

New General Recommendation:

Remuneration Policy Resolutions

When assessing remuneration policy resolutions, a negative vote recommendation would be considered if the following applied:

- › Executive directors are not employed under formal service contracts, or their service contracts, in the event of termination, provide for more than 12 months' notice;
- › Vesting of incentive awards is not conditional on the achievement of performance hurdles;
- › Re-testing is allowed throughout the performance period; or
- › There are any other serious issues with the policy when measured against good market practice.

Remuneration Report Resolutions

When assessing remuneration report resolutions, a negative vote recommendation would be considered if the following applied:

- › Disclosure of pay practices is poor. This would include if the individual emoluments paid to each director are not disclosed, or if the performance metrics which applied to LTIP awards made during the year under review are not disclosed;
- › NEDs have received performance-related pay during the year under review;
- › Options have been re-priced during the period under review;
- › Re-testing is allowed throughout the performance period;
- › Share awards granted to executive directors during the year under review feature a performance period of less than three years; or
- › There are any other serious issues with the report when measured against good market practice.

The award of options to NEDs is not in line with best practice as it can cause a potential conflict of interest that may affect an NED's independent judgment. Therefore, NEDs should be remunerated with basic fees only, in the form of cash and/or shares.

FTSE Fledgling companies are covered by the same remuneration reporting requirements which apply to companies in the FTSE All Share index. They are required by law to seek shareholder approval for a binding remuneration policy at least once every three years, and must also present their remuneration report to shareholders every year on an advisory basis. In contrast, companies listed on AIM are not required to provide shareholders with a vote on the remuneration report or the remuneration policy, although some do on a voluntary basis. An AIM-listed company which submits its remuneration report for shareholder approval (but not its remuneration policy) will be assessed on the basis of **all** the issues identified in both the remuneration policy and remuneration report sections above.

Rationale for Update:

This policy update provides a framework for enhanced focus on remuneration practices at smaller companies, recognising the evolution of governance and reporting standards, and brings the policy more into line with investor expectations and best market practice.

This is done by, firstly, separating pay issues into those relevant for remuneration policy and remuneration report resolutions and, secondly, by expanding upon the list of issues which would drive a negative vote recommendation. For remuneration report resolutions, this includes a note on minimum disclosure requirements, which is viewed as important given the diversity of practice among AIM companies in particular.

OTHER POINTS TO NOTE

Voting disclosure and the response to significant shareholder dissent



Current General Recommendation:

Investors expect that information regarding the voting outcomes on the resolutions presented at the AGM will be made available as soon as reasonably practicable after the AGM. The information should include the number of votes for the resolution, the number of votes against the resolution and the number of shares in respect of which

the vote was directed to be withheld, and the overall percentages for each group.

The 2014 Code⁶ states that when, in the opinion of the board, a significant proportion of votes have been cast against a resolution at any general meeting, the company should explain when announcing the results of voting what actions it intends to take to understand the reasons behind the vote result. The FRC does not include a threshold for significant dissent, and ISS notes that market practice is bound to evolve in this area given this is a new provision in the Code. However, many investors will use the 20 percent figure, initially suggested by the GC100 and Investor Group⁷ as a guideline for remuneration concerns, as a threshold for identifying significant issues more generally, although there may be reasons why, for some companies and/or types of resolution, a higher or lower level might be more appropriate.

In the accompanying feedback statement⁸, the FRC clarified that it was not the intention that votes withheld should be included, although other market participants such as the NAPF⁹ are of the view that dissent should be taken to mean both active abstentions and votes against. The GC100 and Investor Group¹⁰ advises that, although “votes withheld” (abstentions) are not votes in law, companies may wish to consider viewing votes withheld (or in combination with votes against) exceeding 20 percent as indicating a low level of support from investors that they would wish to address, although this will depend on the company concerned. Across other markets globally, ISS sees a consensus emerging with a figure somewhere in the range 20% to 30% consistently seen as a threshold for significant dissent.

Key Changes:

This discussion on the reaction of companies to high levels of dissent will be brought forward to become part of the introduction to the policy, with an additional note regarding how ISS will take this issue into account when formulating vote recommendations. This clarifies that ISS may recommend a vote against resolutions in certain circumstances.



New General Recommendation:

Investors expect that information regarding the voting outcomes on the resolutions presented at the AGM will be made available as soon as reasonably practicable after the AGM. The information should include the number of votes for the resolution, the number of votes against the resolution and the number of shares in respect of which the vote was directed to be withheld, and the overall percentages for each group.

The 2014 Code⁶ states that when, in the opinion of the board, a significant proportion of votes have been cast against a resolution at any general meeting, the company should explain when announcing the results of voting what actions it intends to take to understand the reasons behind the vote result. The FRC does not include a threshold for significant dissent, and market practice is bound to evolve in this area. However, many investors will use the 20 percent figure, initially suggested by the GC100 and Investor Group⁷ as a guideline for remuneration concerns, as a threshold for identifying significant issues more generally, although there may be reasons why, for some companies and/or types of resolution, a higher or lower level might be more appropriate.

⁶ E.2.2 <https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Corporate-Governance-Code.aspx>

⁷ 3.1.2 <http://uk.practicallaw.com/groups/uk-gc100-investor-group>

⁸ <https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/Feedback-Statement-Revisions-to-the-UK-Corporate-G.pdf>

⁹ Page 13, Section E <http://www.napf.co.uk/PolicyandResearch/Corporate-Governance/NAPF-Corporate-Governance-Policy-and-Voting-Guidelines.aspx>

¹⁰ 3.1.2 <http://uk.practicallaw.com/groups/uk-gc100-investor-group>

In the accompanying feedback statement⁸, the FRC clarified that it was not the intention that votes withheld should be included, although other market participants such as the PLSA⁹ are of the view that dissent should be taken to mean both active abstentions and votes against. The GC100 and Investor Group¹⁰ advises that, although “votes withheld” (abstentions) are not votes in law, companies may wish to consider viewing votes withheld (or in combination with votes against) exceeding 20 percent as indicating a low level of support from investors that they would wish to address, although this will depend on the company concerned. Across other markets globally, ISS sees a consensus emerging with a figure somewhere in the range of 20 percent to 30 percent consistently seen as a threshold for significant dissent.

Where a company has received a significant level of dissent on a resolution at a general meeting, ISS will consider if and how the company has sought to understand the reasons behind the vote result, and how the company has communicated its response to the dissent. As a starting point, dissent of 20 percent or more will generally be used as the trigger for this analysis. In certain circumstances, ISS may recommend a vote against the relevant resolution at a future general meeting if the company has not explained its reaction to the dissent.

Rationale for Update:

The UK Corporate Governance Code is clear that boards should make an effort to understand the reasons behind large negative vote results. When announcing results, some companies which have received a large level of dissent on a particular resolution do indicate an intention to canvass shareholder views on the issue of concern. Others provide a discussion of the board’s response in the next annual report, particularly on remuneration issues. However, for some companies there is no evidence that a large level of dissent has been considered by the board, which at best indicates a poor level of communication, or at worst a willingness to disregard shareholder views. This policy update provides a mechanism whereby a lack of information on the response to a large dissenting vote can be taken into account as a reason for recommending against the appropriate resolution at the next AGM.

CONTINENTAL EUROPE (EUROPEAN POLICY)

OPERATIONAL ITEMS

Appointment of Auditors and Auditor Fees

▶ **Current General Recommendation:** Vote for proposals to ratify auditors and/or proposals authorizing the board to fix auditor fees, unless:...

- › For companies on the local main index or MSCI-EAFE index, fees for non-audit services exceed either 100 percent of standard audit-related fees or any stricter limit set in local best practice recommendations or law.

Key Changes: Henceforth, the policy will be applied to all widely-held companies.

▶ **New General Recommendation:** Vote for proposals to ratify auditors and/or proposals authorizing the board to fix auditor fees, unless:

...

- › For widely-held companies, fees for non-audit services exceed either 100 percent of standard audit-related fees or any stricter limit set in local best practice recommendations or law.

Rationale for Update:

Excessive fees generated from non-audit services may pose a potential conflict of interest for the audit firm and interfere with its independent judgment. The proportion of non-audit fees compared to audit fees receives increasingly high scrutiny both from investors and regulators.

This expansion of policy application was already foreseen at the time of introduction of this policy; furthermore, over the past few years, ISS has been including warning language in its reports flagging excessive non-audit fees as an area of concern for all core companies.

CAPITAL STRUCTURE

General Share Issuances- France

▶ **Current General Recommendation:** For **French** companies:

- › Vote for general issuance requests with preemptive rights, or without preemptive rights but with a binding “priority right,” for a maximum of 50 percent over currently issued capital.
- › Generally vote for general authorities to issue shares without preemptive rights up to a maximum of 10 percent of share capital.

Key Changes:

- › For French companies, clarify that ISS recommendations on general share issuances without preemptive rights (to be subscribed for in cash) also address the share issuance price.

▶ **New General Recommendation:** For **French** companies:

- › Vote for general issuance requests with preemptive rights, or without preemptive rights but with a binding “priority right,” for a maximum of 50 percent over currently issued capital.
- › Generally vote for general authorities to issue shares without preemptive rights up to a maximum of 10 percent of share capital. When companies are listed on a regulated market, the maximum discount on share issuance price proposed in the resolution must, in addition, comply with the legal discount (i.e., a maximum of 5 percent discount to the share listing price) for a vote for to be warranted.

Rationale for Update:

The policy wording is updated to more clearly reflect current long-standing ISS practice: For the French market, ISS' recommendations on share issuance requests without preemptive rights have taken into account the potential discount on share issuance price for many years. Currently, a vote against is recommended at companies listed on a regulated market if the discount allowed by the general authority may exceed the maximum discount set under French law (i.e. 5 percent for companies listed on a regulated market).

REMUNERATION

Expansion of the 3-year minimum vesting period required for LTIP - France

- ▶ **Current General Recommendation:** Under ISS European policy (Source: *2015 Europe Summary Proxy Voting Guidelines*): The [LTI] plan(s) must be sufficiently long-term in nature/structure: the minimum vesting period must be no less than three years from date of grant;

Exception for the French market only (Source: *2015 French Equity-Based Compensation FAQ*): The [LTI] plan(s) must be sufficiently long-term in nature/structure (e.g. vesting period of at least **two** years; no phased vesting shorter than **two** years – provision applicable to all beneficiaries of all types of instruments);

Key Changes:

- › Apply the existing European policy regarding the minimum length of LTIP vesting periods to the French market as well. The current France-specific exception is not indicated in the *2015 Europe Summary Proxy Voting Guidelines*, but is specifically addressed by the *2015 French Equity-Based Compensation FAQ*.

- ▶ **New General Recommendation:** The ISS European policy remains unchanged, but will now be applied for France as well. An amendment to ISS' *French Equity-Based Compensation FAQ* (most recently published in early 2015 for meetings held since Feb. 1, 2015) will be made, stating the following:

"1) Which provisions of the European policy continue to apply to French companies?

French companies are subject to most of ISS' European Compensation Guidelines. In particular, the following provisions apply:

[...] The plan(s) must be sufficiently long-term in nature/structure (e.g. vesting period of at least **three** years; no phased vesting shorter than **three** years – provision applicable to all beneficiaries of all types of instruments); [...]"

Rationale for Update:

The change will align the French market application of the ISS policy on long-term incentive plan vesting periods with (i) other European markets, (ii) the French AFG recommendations, and (iii) many major French investors' policies. In

addition, although many French companies continue to have long-term incentive plans with vesting periods of two years or less, ISS has observed the recent actions of a number of major French companies to amend their practices in order to increase vesting periods to a minimum of three years.

OTHER ITEMS

Antitakeover Mechanisms - France

- ▶ **Current General Recommendation:** Generally vote against all antitakeover proposals, unless they are structured in such a way that they give shareholders the ultimate decision on any proposal or offer.

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

Key Changes:

The current policy applicable to CAC40 Index companies will be expanded to all French companies listed on a regulated market.

- ▶ **New General Recommendation:** Generally vote against all antitakeover proposals, unless they are structured in such a way that they give shareholders the ultimate decision on any proposal or offer.

As of Feb. 1, 2016, for French companies listed on a regulated market, generally vote against any general authorities impacting the share capital (i.e. authorities for share repurchase plans and any general share issuances with or without preemptive rights, including by capitalization of reserves) if they can be used for antitakeover purposes without shareholders' prior explicit approval.

Rationale for Update:

Following the Florange Act which took effect in 2015, French boards are now permitted by law to utilize any type of shareholder-approved capital issuance authority for the purpose of issuing shares as a takeover defense, unless either (i) the company's articles contain an opt-out provision stipulating that capital issuance authorities cannot be utilized for antitakeover purposes unless shareholders specifically approve the use of share authorities for such purpose, or (ii) the terms of the specific share authority preclude its use for antitakeover purposes.

Under the policy that took effect in 2015, ISS generally recommends against capital issuance authorities on the meeting agendas of blue chip CAC40 Index companies if the authority in question could be used for antitakeover purposes, based on the fact that the company's articles lack an opt-out clause and the terms of the authority do not rule out use for antitakeover purposes. From 2016, this policy will be expanded to all French companies listed on a regulated market. This expansion of the policy in year two of the Florange Act (that is, for 2016) was signaled in last year's policy update, and is supported by feedback received from many institutional investors.

RUSSIA AND KAZAKHSTAN

ELECTION OF DIRECTORS

Director Independence - Classification of Directors- Russia

▶ Current Director Classification (for determination of non-independence):

- › "Any director who is disclosed as an employee or executive of the company;"
- › "Any director specifically designated as a representative of a significant shareholder of the company;"
- › "Years of service is generally not a determining factor unless it is recommended best practice in a market and/or in extreme circumstances, in which case it may be considered."

Key Changes:

Update the director classification criteria to clarify market-specific thresholds and bring the director independence criteria in line with other ISS EMEA policy guidelines.

▶ New Director Classification (for determination of non-independence) :

- › Employee or executive of the company;
- › Any director specifically designated as a representative of or who is considered related to a significant shareholder of the company;
- › Excessive years of service from date of first appointment, as determined by local corporate governance codes, or local best practice, is generally a determining factor in evaluating director independence.

Footnotes (new):

1] In Russia, a significant shareholder is defined as a shareholder controlling directly or indirectly 5 percent or more of the voting rights.

6] For example, the definition of independence in the Russian Corporate Governance Code (2014) provides that in order to remain independent, a non-executive director shall have served on the board of directors [supervisory board] for no more than seven years.

Rationale for Update:

The changes bring the director classification criteria in line with other EMEA Policy Guidelines and clarifies the current wording of the document. The director classification criteria of the Russian CG Code (2014) were incorporated into the Listing Rules of the Moscow Exchange. Issuers are required to comply with the Listing Rules and most Russian companies have already adopted these requirements or are in the process of adopting them.

SOUTH AFRICA

ELECTION OF DIRECTORS

Audit committee elections- South Africa

▶ **Current General Recommendation:** Vote for the re-election of the audit committee and/or audit committee members, unless:

- › The committee includes one or more non-independent NEDs;
- › The audit committee member is a non-independent NED; or
- › There are serious concerns about the accounts presented, the audit procedures used, or some other feature for which the audit committee has responsibility.

Key Changes:

The policy will be updated to formally reflect the stance on audit committee attendance that is currently applied in practice, and to clarify the existing policy on the topic where the resolution to approve the audit committee members is bundled. A concern will be flagged should a member attend less than 75 percent of the committee's meetings without explanation, and should this become a habitual issue over time, a vote against may be considered appropriate.

▶ **New General Recommendation:** Vote for the re-election of the audit committee and/or audit committee members, unless:

- › Committee member elections are bundled into a single voting item, and the committee includes one or more non-independent NEDs;
- › Committee members are elected individually, and the audit committee member is a non-independent NED;
- › Repeated absences (less than 75 percent attendance) at committee meetings have not been explained; or
- › There are serious concerns about the accounts presented, the audit procedures used, or some other feature for which the audit committee has responsibility.

Rationale for Update:

This reflects an ISS position which is applied in practice. The applicable governance code (King III) states that non-executive directors should be expected to attend board and committee meetings. Specific to audit committees, the King III Principles also state that "the number of audit committee meetings held and members' attendance at these meetings" should be disclosed, and that the re-appointment of a director "should only occur after the proper evaluation of the performance and attendance of the director in question."

REMUNERATION

Approval of Remuneration Policy – South Africa

▶ **Current General Recommendation:** ISS evaluates management proposals seeking ratification of a company's remuneration policy on a case-by-case basis. When judging remuneration policies, ISS generally recommends a vote against if the level of disclosure of the policy and/or its application is below what is required for shareholders to make an informed judgment on the policy. In the event of satisfactory disclosure, ISS recommends a vote for the approval of the executive remuneration policy unless TWO or more of the following issues apply (NB it may be appropriate to vote against on ONE issue if it has been identified as particularly serious):

- › Large increases in fixed remuneration have been implemented which have not been adequately explained.
- › The company has made bonus payments but these have not been clearly linked to performance (including guaranteed bonuses or transaction bonuses).
- › The company operates long-term incentive schemes (including matching shares) which do not have performance conditions attached for all or a substantial proportion of awards.
- › The vesting period for long-term incentive schemes is set at less than three years.
- › Long-term schemes include an element of retesting.

- › Options can be granted at a discount to market value.
- › The potential dilution under share incentive schemes is deemed excessive, and there are no mitigating circumstances (e.g. stringent performance measures)
- › The company has made ex-gratia payments or one-off special awards to executives during the year which have not been adequately explained.
- › Discretion has been used during the year in a manner not considered consistent with shareholder interests.
- › The policy or the application of the policy is in any way not considered aligned with shareholder interests.

In circumstances where a company has demonstrated a significant shift in the right direction, it may be appropriate for ISS to support the remuneration policy resolution, notwithstanding the presence of some historical issues of concern.

Failure to propose a resolution on executive remuneration for shareholder approval may lead to an adverse vote recommendation on another AGM item, for example the re-election of the chairman of the remuneration committee.

Key Changes:

- › The language of the policy is being updated to move the line forward slightly for JSE-listed companies in terms of remuneration disclosure, specifically on the performance conditions of long-term incentive plans. To date, the ISS line as it relates to the remuneration policy vote in South Africa has been, as reproduced above, that performance conditions should be attached to long-term incentive awards, with no requirement in the current policy that further details should be disclosed.
- › An additional change will codify the share usage limits that have been applied in practice in this market over time. Specifically, the ISS limits on dilution arising from all equity incentive plans should be no more than 5% of the issued share capital for large, mature companies, or 10% in respect of smaller growth companies. ISS research already flags these issues and specifically refers to these limits in its coverage of the South Africa market.



New General Recommendation: ISS evaluates management proposals seeking ratification of a company's remuneration policy on a case-by-case basis. When judging remuneration policies, ISS generally recommends a vote against if the level of disclosure of the policy and/or its application is below what is required for shareholders to make an informed judgment on the policy. In the event of satisfactory disclosure, ISS recommends a vote for the approval of the executive remuneration policy unless TWO or more of the following issues apply (NB it may be appropriate to vote against on ONE issue if it has been identified as particularly serious):

- › Large increases in fixed remuneration have been implemented which have not been adequately explained.
- › The company has made bonus payments but these have not been clearly linked to performance (including guaranteed bonuses or transaction bonuses).
- › The company operates long-term incentive schemes (including matching shares) which do not have performance conditions attached for all or a substantial proportion of awards, or if performance conditions are in place, they are not disclosed or are not considered sufficiently challenging or relevant.
- › The vesting period for long-term incentive schemes is set at less than three years.
- › Long-term schemes include an element of retesting.
- › Options can be granted at a discount to market value.
- › The potential maximum dilution under all share incentive schemes exceeds 5 percent of the issued share capital of a large, widely held company, or 10 percent in the case of an emerging high-growth company, and there are no mitigating circumstances (e.g. stringent performance measures).
- › The company has made ex-gratia payments or one-off special awards to executives during the year which have not been adequately explained.
- › Discretion has been used during the year in a manner not considered consistent with shareholder interests.
- › The policy or the application of the policy is in any way not considered aligned with shareholder interests.

In circumstances where a company has demonstrated a significant shift in the right direction, it may be appropriate for ISS to support the remuneration policy resolution, notwithstanding the presence of some historical issues of concern.

Failure to propose a resolution on executive remuneration for shareholder approval may lead to an adverse vote recommendation on another AGM item, for example the re-election of the chairman of the remuneration committee.

Rationale for Update:

A subsection to Principle 2.25 of King III recommends as follows:

"Vesting of share incentive awards should be conditional on achieving performance conditions, and that such performance measures and the reasons for selecting them should be fully disclosed...[performance conditions] should be linked to factors enhancing shareholder value, and require strong levels of overall corporate performance, measured against an appropriately defined peer group or other relevant benchmark where yearly awards are made...awards with high potential value should be linked to commensurately high levels of performance".

The proposed update will more closely align ISS policy to accepted good practice in this market and ensure consistency across both LTIP and remuneration policy resolution types.

The update on potential dilution clarifies the ISS position on share usage within equity incentive plans. The limits now expressly specified in the policy are already applied in practice within ISS' South Africa research. The update formally codifies this practice.

New Equity Incentive Scheme or Amendment to Existing Schemes- South Africa

Current General Recommendation: ISS evaluates management proposals seeking approval for a share incentive scheme on a case-by-case basis. When judging such items, ISS will generally recommend a vote against if the level of disclosure on the proposal is below what is required for shareholders to make an informed judgment on the scheme. In the event of satisfactory disclosure, ISS will recommend a vote for the proposal unless ONE or more of the following apply:

- › Performance conditions do not apply, have not been disclosed or are not considered sufficiently challenging or relevant.
- › Performance conditions can be retested.
- › Performance is measured over a period shorter than three years.
- › The plan allows for option repricing or issue of options at a discount or backdating of options.
- › The potential dilution is deemed excessive, and there are no mitigating circumstances (e.g. stringent performance measures).
- › The scheme provides for potentially excessive individual reward or has no caps on individual participation.
- › NEDs can participate in the scheme.
- › The scheme is in any way not considered aligned with shareholder interests.

Proposals to amend a scheme will involve an assessment of the nature of the amendment.

Key Changes:

- › The policy change will codify the share usage limits that have been applied in practice in this market over time. Specifically, the ISS limits on dilution arising from all equity incentive plans should be no more than 5 percent of the issued share capital for large, mature companies, or 10 percent in respect of smaller growth companies. ISS research already flags these issues and specifically refers to these limits in its coverage of the South Africa market.

New General Recommendation: ISS evaluates management proposals seeking approval for a share incentive scheme on a case-by-case basis. When judging such items, ISS will generally recommend a vote against if the level of disclosure on the proposal is below what is required for shareholders to make an informed judgment on the scheme. In the event of satisfactory disclosure, ISS will recommend a vote for the proposal unless ONE or more of

the following apply:

- › Performance conditions do not apply, have not been disclosed or are not considered sufficiently challenging or relevant.
- › Performance conditions can be retested.
- › Performance is measured over a period shorter than three years.
- › The plan allows for option repricing or issue of options at a discount or backdating of options.
- › The potential maximum dilution under all share incentive schemes exceeds 5 percent of the issued share capital of a large, widely held company, or 10 percent in the case of an emerging high-growth company, and there are no mitigating circumstances (e.g. stringent performance measures).
- › The scheme provides for potentially excessive individual reward or has no caps on individual participation.
- › NEDs can participate in the scheme.
- › The scheme is in any way not considered aligned with shareholder interests.

Proposals to amend a scheme will involve an assessment of the nature of the amendment.

Rationale for Update:

The update on potential dilution clarifies the ISS position on share usage within equity incentive plans. The limits now expressly specified in the policy are already applied in practice within ISS' South Africa research. The new policy formally codifies this practice.

EMEA REGIONAL POLICY (COVERING THE MIDDLE EAST AND AFRICA EXCLUDING SOUTH AFRICA)

Director Independence - Classification of Directors- Middle East and Africa (MEA)

- ▶ **Current Classification:** ISS does not currently provide independence classification of directors of companies incorporated in Middle East and African (MEA) markets.

Key Changes:

Establish criteria for the independence classification of directors at widely-held companies incorporated in MEA markets.

- ▶ **New Classification:**

ISS Classification of Directors – EMEA Regional Policy 2016

Executive Director

- › Employee or executive of the company;
- › Any director who is classified as a non-executive, but receives salary, fees, bonus, and/or other benefits that are in line with the highest-paid executives of the company^[6].

Non-Independent Non-Executive Director (NED)

- › Any director who is attested by the board to be a non-independent NED;
- › Any director specifically designated as a representative of a significant shareholder of the company;
- › Any director who is also an employee or executive of a significant shareholder of the company;
- › Any director who is nominated by a dissenting significant shareholder, unless there is a clear lack of material^[5] connection with the dissident, either currently or historically;
- › Beneficial owner (direct or indirect) of at least 10 percent of the company's stock, either in economic terms or in voting rights (this may be aggregated if voting power is distributed among more than one member of a defined group, e.g., family members who beneficially own less than 10 percent individually, but collectively own more than 10 percent), unless market best practice dictates a lower ownership and/or disclosure threshold (and in other special market-specific circumstances);
- › Government representative;
- › Currently provides (or a relative^[1] provides) professional services^[2] to the company, to an affiliate of the company, or to an individual officer of the company or of one of its affiliates in excess of \$10,000 per year;
- › Represents customer, supplier, creditor, banker, or other entity with which company maintains transactional/commercial relationship (unless company discloses information to apply a materiality test^[3]);
- › Any director who has conflicting or cross-directorships with executive directors or the chairman of the company^[6];
- › Relative^[1] of a current or former executive of the company or its affiliates;
- › A new appointee elected other than by a formal process through the General Meeting (such as a contractual appointment by a substantial shareholder);
- › Founder/co-founder/member of founding family but not currently an employee;
- › Former executive (five-year cooling off period) ^[6];
- › Years of service is generally not a determining factor unless it is recommended best practice in a market and/or in extreme circumstances, in which case it may be considered.^[4]
- › Any additional relationship or principle considered to compromise independence under local corporate governance best practice guidance.^[7]

Independent NED

- › No material^[5] connection, either direct or indirect, to the company (other than a board seat) or to a significant shareholder.

Employee Representative

- › Represents employees or employee shareholders of the company (classified as "employee representative" but considered a non-independent NED).

Footnotes

^[1] "Relative" follows the definition of "immediate family members" which covers spouses, parents, children, stepparents, stepchildren, siblings, in-laws, and any person (other than a tenant or employee) sharing the household of any director, nominee for director, executive officer, or significant shareholder of the company.

^[2] Professional services can be characterized as advisory in nature and generally include the following: investment banking/financial advisory services; commercial banking (beyond deposit services); investment services; insurance services; accounting/audit services; consulting services; marketing services; and legal services. The case of participation in a banking syndicate by a non-lead bank should be considered a transaction (and hence subject to the associated materiality test) rather than a professional relationship.

^[3] A business relationship may be material if the transaction value (of all outstanding transactions) entered into between the company and the company or organization with which the director is associated is equivalent to either 1 percent of the company's turnover or 1 percent of the turnover of the company or organization with which the director is associated. OR, A business relationship may be material if the transaction value (of all outstanding financing operations) entered into between the company and the company or organization with which the director is associated is more than 10 percent of the company's shareholder equity or the transaction value, (of all outstanding financing operations), compared to the company's total assets, is more than 5 percent.

^[4] For example, in continental Europe, directors with a tenure exceeding 12 years will be considered non-independent. In the United Kingdom, Ireland, Hong Kong, and Singapore, directors with a tenure exceeding nine years will be considered non-independent, unless the company provides sufficient and clear justification that the director is independent despite his/her long tenure.

^[5] For purposes of ISS' director independence classification, "material" will be defined as a standard of relationship financial, personal, or otherwise that a reasonable person might conclude could potentially influence one's objectivity in the boardroom in a manner that would have a meaningful impact on an individual's ability to satisfy requisite fiduciary standards on behalf of shareholders.

^[6] For purposes of independence classification of directors incorporated in the Middle East and Africa region, this criterion will be taken into account in accordance with market best practice and disclosure standards and availability.

^[7] For MEA markets, directors' past services as statutory auditor/partner of the statutory audit firm will be taken into account, with cooling-off periods in accordance with local market best practice.

Rationale for Update:

Director independence is a major concern in Middle East and African (MEA) markets. This is due to the prevalence in the region of companies with concentrated ownership. A substantial number of local market corporate governance codes and regulations set requirements on the minimum number or proportion of independent directors on boards and key committees, reflecting a tightening of governance requirements in several markets in the region during recent years.

The update is intended to reflect the improving governance and disclosure frameworks. ISS' analysis will focus on the most relevant non-independence criteria in light of the level of stringency of local governance guidelines on director independence, as well as local corporate disclosure standards on directors' background, directorships, and affiliations.

Cumulative Voting – Middle East and Africa (MEA)

- ▶ **Current General Recommendation:** Cumulative voting is not explicitly addressed in the current Election of Directors policy.

Key Changes:

- › Supplement current policy with additional criteria of analysis in the event the director election process takes place through cumulative voting, whether the number of nominees is equal to the number of board seats or not. In the context of director elections by cumulative voting, shareholders do not vote against any nominee, but rather support some of the nominees. This is an important distinction, as, in some cases, shareholders may choose to support not all, but rather a limited number of nominees.
- › These criteria may also apply to other types of election processes (such as majority voting), in cases where the number of nominees up for (re)election exceeds the number of available board seats.

▶ **New General Recommendation:**

For MEA markets, in cases where:

- › Directors are proposed for (re)election through a cumulative voting system, or
- › Director elections do not take place through a cumulative voting system, but the number of nominees up for (re)election exceeds the number of board vacancies,

ISS will recommend a vote on a case-by-case basis, considering additional factors, for the purpose of identifying the best suited nominees to add value for shareholders. Positive vote recommendations will be issued preferentially in favor of the following categories of candidates:

- › Candidates who can be identified as representatives of minority shareholders of the company, or independent candidates, namely:
 - › Candidates who can be classified as independent according to ISS' policy, or, failing that,
 - › Candidates explicitly classified as independent per the company's director classification.
- › Candidates whose professional background may have the following benefits:
 - › Increasing the diversity of incumbent directors' professional profiles and skills (thanks to their financial expertise, international experience, executive positions/directorships at other listed companies, or other relevant factors.
 - › Bringing to the current board of directors relevant experience in areas linked to the company's business, evidenced by current or past board memberships or management functions at other companies.
- › Incumbent board members and candidates explicitly supported by the company's management.

Rationale for Update:

A cumulative voting system is recommended under a number of local corporate governance regulations in the MEA region. Under a cumulative voting system, each share represents a number of votes equal to the size of the board that will be elected. These votes may be apportioned equally among the candidates, or, if a shareholder wishes to exclude some nominees, among the desired candidates.

The new policy is primarily to help shareholders benefit from the cumulative voting system by favoring the (re)election, when possible, of the board candidates who are more likely to act in the best interest of all shareholders or to add value to the board.

Errata: The Nov. 20, 2015, version of this document incorrectly stated for the Approval of Remuneration Policy- South Africa, “In the event of satisfactory disclosure, ISS recommends a vote for the approval of the executive remuneration policy unless ONE or more of the following issues apply:...”. The statement should have read, and has been so amended in this document and the posted South Africa policy guidelines: “In the event of satisfactory disclosure, ISS recommends a vote for the approval of the executive remuneration policy unless TWO or more of the following issues apply (NB it may be appropriate to vote against on ONE issue if it has been identified as particularly serious):....”

~~The Nov. 20, 2015, version of this document incorrectly stated for the Approval of Remuneration Policy- South H Africa, “In the event of satisfactory disclosure, ISS recommends a vote for the approval of the executive remuneration policy unless ONE or more of the following issues apply:...”~~. This is incorrect, and has been amended in this document and the posted South Africa policy guidelines to read: “In the event of satisfactory disclosure, ISS recommends a vote for the approval of the executive remuneration policy unless TWO or more of the following issues apply (NB it may be appropriate to vote against on ONE issue if it has been identified as particularly serious):....”

This document and all of the information contained in it, including without limitation all text, data, graphs, and charts (collectively, the "Information") is the property of Institutional Shareholder Services Inc. (ISS), its subsidiaries, or, in some cases third party suppliers.

The Information has not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body. None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), or a promotion or recommendation of, any security, financial product or other investment vehicle or any trading strategy, and ISS does not endorse, approve, or otherwise express any opinion regarding any issuer, securities, financial products or instruments or trading strategies.

The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information.

ISS MAKES NO EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION AND EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY, AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.

Without limiting any of the foregoing and to the maximum extent permitted by law, in no event shall ISS have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits), or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not by applicable law be excluded or limited.

The Global Leader In Corporate Governance

www.issgovernance.com