



Europe, Middle East, and Africa (EMEA)

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

Proxy Voting Guidelines Updates

[2017 Benchmark Policy Recommendations](#)

Effective for Meetings on or after February 1, 2017

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UK AND IRELAND

BOARD OF DIRECTORS

Overboarding

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

...There are specific concerns about the individual, such as his/her ability to commit sufficient time to the role.

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.

Key Changes:

Amend the wording to provide clarification on the precise number of board seats which can be held under this policy; and

Amend the provision indicating that an adverse vote recommendation will not be applied at the company where the individual is chair.

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

...There are specific concerns about the individual, such as his/her ability to commit sufficient time to the role.

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, defined as follows:

Directors who hold more than five non-chair non-executive director positions.

A non-executive chairman who, in addition to this role, holds (i) more than three non-chair non-executive director positions, (ii) more than one other non-executive chair position and one non-chair non-executive director position, or (iii) any executive position.

Executive directors holding (i) more than two non-chair non-executive director positions, (ii) any other executive positions, or (iii) any non-executive chair position.

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; instead, any adverse vote recommendations will be applied to his/her additional seats on other company boards. The same is also valid for chairmen, except (i) where they exclusively hold other chair and/or executive positions or (ii) where they are elected as chairman for the first time.

Rationale for Update:

The new wording is intended to remove any confusion regarding what is acceptable under this policy. In particular, the new wording clarifies the total number of directorships viewed as acceptable for an individual holding one or more chair roles. This works on the broad basis that a chair role is equivalent to two non-executive director roles.

REMUNERATION

Remuneration Policy

- ▶ **Current General Recommendation:** Vote the resolution to approve the remuneration policy on a case-by-case approach, paying particular attention as to whether:

The overall remuneration policy or specific scheme structures are not over-complex;
The company's approach to fixed remuneration is appropriate;
The award levels for the different components of variable pay are capped, and the quantum is reasonable when compared to peers;
Increases to the maximum award levels for the LTIP and bonus have been adequately explained;
Performance conditions for all elements of variable pay are clearly aligned with the company's strategic objectives, and vesting levels are in line with UK good practice;
Change of control, good leaver and malus/clawback provisions are in line with standard practice in the UK market;
The shareholding requirement for executive directors is a minimum of 200 percent of base salary;
Service contracts contain notice periods of no more than twelve months' duration and potential termination payments are linked to fixed pay with no contractual entitlements to unearned bonus on termination;
Non-executive directors do not receive any performance-related remuneration beyond their standard fees;
The treatment of new joiners is appropriate, with particular attention paid to the use of buy-out awards, and that the potential for any additional awards is capped;
The remuneration committee seeks to reserve a degree of discretion in line with standard UK practice; and
There are no issues in the policy which would be of concern to shareholders.

Where a policy contains multiple areas of non-compliance with good practice, the vote recommendation will reflect the severity of the issues identified. A small number of minor breaches may still result in an overall recommendation of a "For", whereas a single, serious deviation may be sufficient to justify an "Against" vote recommendation.

Remuneration Report

- ▶ **Current General Recommendation:** Vote the resolution to approve the remuneration report on a case-by-case approach, paying particular attention as to whether during the year under review:

Any increases, either to fixed or variable remuneration, for the year under review or the upcoming year were well-explained and not excessive;
The bonus received and/or the proportion of the LTIP which vested was a fair reflection of the performance achieved;
Performance targets are measured over an appropriate period and are sufficiently stretching;
Targets for the bonus or the LTIP are disclosed in an appropriate level of detail;
Any exit payments to departing directors or special arrangements for new joiners were reasonable;
The remuneration committee exercised discretion appropriately; and
There are no issues in the report which would be of concern to shareholders.

Where the report contains multiple areas of non-compliance with good practice, the vote recommendation will reflect the severity of the issues identified. A small number of minor breaches may still result in an overall recommendation of a "For", whereas a single, serious deviation may be sufficient to justify an "Against" vote recommendation.

Approval of a New or Amended LTIP

▶ **Current General Recommendation:** Vote the resolution to approve a new or amended LTIP on a case-by-case approach, paying particular attention as to whether:

The LTIP is aligned with the company's strategy and fosters an appropriately long-term mindset;
The proposed award levels are appropriate, and, in the case of an amended plan, any increases to the previous award levels are well-explained;
The maximum payout is capped;
The vesting levels for threshold and on target performance are in line with market norms, with threshold vesting no higher than 25 percent;
The LTIP is in line with the current remuneration policy;
Change of control, good leaver and malus/clawback provisions are present and the terms are in line with standard practice in the UK market;
The remuneration committee seeks to reserve a degree of discretion in line with standard UK practice;
The company is operating within the dilution limits of the company's share-based incentive schemes; and
There are no issues with the plan which would be of concern to shareholders.

Where the plan contains multiple areas of non-compliance with good practice, the vote recommendation will reflect the severity of the issues identified. A small number of minor breaches may still result in an overall recommendation of a flagged 'For', whereas a single, serious deviation may be sufficient to justify an "Against" vote recommendation.

Key Changes:

The wording of the remuneration sections will be amended to reflect developments in market practice and investor expectations in the UK surrounding remuneration.

Introduce a direct reference (in the introduction section) to companies which seek to implement pay structures (for example non-performance related restricted shares) which sit outside of the typical UK model, making it clear that structures which involve a greater level of certainty of reward are matched by lower levels of award;
Introduce a reference to a potential recommendation against the chair of the remuneration committee in the event of serious issues being identified;
For the remuneration report resolution, introduce a reference to the use of ISS' Pay-for-Performance methodology (EP4P) and also include a definition of EP4P; and
For the remuneration report resolution, clarify that in termination scenarios, appropriate pro-rating on outstanding share awards should be applied.

Addition to Introduction Section

In 2016, the Executive Remuneration Working Group established by the Investment Association recommended that remuneration committees should have the flexibility to choose a pay structure which is appropriate for the company's strategy and business needs. This structure may be different to the salary/bonus/LTIP model typically followed by many UK companies. When forming a view on such arrangements, ISS will pay particular attention to the following points:

- (1) How far the proposals are consistent with the good practice principles set out in these voting guidelines;
- (2) The linkage between the proposals and the company's strategic objectives;
- (3) Whether or not the proposals have an appropriate long-term focus;
- (4) The extent to which the proposals help simplify executive pay; and
- (5) The impact on the overall level of potential pay. Any proposal which provides for a greater level of certainty regarding the ultimate rewards should be accompanied by a material reduction in the overall size of awards.

Remuneration Policy

- ▶ **New General Recommendation:** Vote the resolution to approve the remuneration policy on a case-by-case approach, paying particular attention as to whether:

The overall remuneration policy or specific scheme structures are not over-complex, have an appropriate long-term focus and have been sufficiently justified in light of the company's specific circumstances and strategic objectives;

The company's approach to fixed remuneration is appropriate;

The award levels for the different components of variable pay are capped, and the quantum is reasonable when compared to peers, and any increase in the level of certainty of reward is accompanied by a material reduction in the size of awards;

Increases to the maximum award levels for the LTIP and bonus have been adequately explained;

Performance conditions for all elements of variable pay are clearly aligned with the company's strategic objectives, and vesting levels are in line with UK good practice;

Change of control, good leaver and malus/clawback provisions are in line with standard practice in the UK market;

The shareholding requirement for executive directors is a minimum of 200 percent of base salary;

Service contracts contain notice periods of no more than twelve months' duration and potential termination payments are linked to fixed pay with no contractual entitlements to unearned bonus on termination;

Non-executive directors do not receive any performance-related remuneration beyond their standard fees;

The treatment of new joiners is appropriate, with particular attention paid to the use of buy-out awards, and that the potential for any additional awards is capped;

The remuneration committee seeks to reserve a degree of discretion in line with standard UK practice; and

There are no issues in the policy which would be of concern to shareholders.

Where a policy contains multiple areas of non-compliance with good practice, the vote recommendation will reflect the severity of the issues identified. A small number of minor breaches may still result in an overall recommendation of a "For", whereas a single, serious deviation may be sufficient to justify an "Against" vote recommendation.

In cases where a serious breach of good practice is identified, and typically where issues have been raised over a number of years, the chair of the remuneration committee (or, where relevant, another member of the remuneration committee) may receive a negative voting recommendation.

Remuneration Report

- ▶ **New General Recommendation:** Vote the resolution to approve the remuneration report on a case-by-case approach, where relevant taking into account the European Pay for Performance model¹ outcomes with the qualitative review of a company's remuneration practices, paying particular attention as to whether:

Any increases, either to fixed or variable remuneration, for the year under review or the upcoming year were well-explained and not excessive;
 The bonus received and/or the proportion of the LTIP which vested was a fair reflection of the performance achieved;
 Performance targets are measured over an appropriate period and are sufficiently stretching;
 Targets for the bonus or the LTIP are disclosed in an appropriate level of detail;
 Any exit payments to good leavers were reasonable, with appropriate pro-rating (if any) applied to outstanding long-term share awards;
 Any special arrangements for new joiners were in line with good market practice;
 The remuneration committee exercised discretion appropriately; and
 There are no issues in the report which would be of concern to shareholders.

Where the report contains multiple areas of non-compliance with good practice, the vote recommendation will reflect the severity of the issues identified. A small number of minor breaches may still result in an overall recommendation of a "For", whereas a single, serious deviation may be sufficient to justify an 'Against' vote recommendation.

In cases where a serious breach of good practice is identified, and typically where issues have been raised over a number of years, the chair of the remuneration committee (or, where relevant, another member of the remuneration committee) may receive a negative voting recommendation.

Approval of a New or Amended LTIP

- ▶ **New General Recommendation:** Vote the resolution to approve a new or amended LTIP on a case-by-case approach, paying particular attention as to whether:

The LTIP is aligned with the company's strategy, is not over-complex and fosters an appropriately long-term mindset;
 The proposed award levels are appropriate, and, in the case of an amended plan, any increases to the previous award levels are well-explained;
 Any increase in the level of certainty of reward is matched by a material reduction in the size of awards;
 The maximum payout is capped;

¹ Definition of Pay-for-Performance Evaluation:

- ISS annually conducts a pay-for-performance analysis to measure alignment between pay and performance over a sustained period. With respect to companies in the European Main Indices, this analysis considers the following:
 - Peer Group Alignment:
 - ✓ The degree of alignment between the company's annualized TSR rank and the CEO's annualized total pay rank within a peer group, each measured over a three-year period.
 - ✓ The multiple of the CEO's total pay relative to the peer group median.
 - Absolute Alignment – the absolute alignment between the trend in CEO pay and company TSR over the prior five fiscal years – i.e., the difference between the trend in annual pay changes and the trend in annualized TSR during the period.

The vesting levels for threshold and on target performance are in line with market norms, with threshold vesting no higher than 25 percent;
The LTIP is in line with the current remuneration policy;
Change of control, good leaver and malus/clawback provisions are present and the terms are in line with standard practice in the UK market;
The remuneration committee seeks to reserve a degree of discretion in line with standard UK practice;
The company is operating within the dilution limits of the company's share-based incentive schemes; and
There are no issues with the plan which would be of concern to shareholders.

Where the plan contains multiple areas of non-compliance with good practice, the vote recommendation will reflect the severity of the issues identified. A small number of minor breaches may still result in an overall recommendation of a flagged 'For', whereas a single, serious deviation may be sufficient to justify an "Against" vote recommendation.

Rationale for Update:

Executive remuneration has been in the spotlight in the UK during 2016 for a variety of reasons:

- (a) A number of high-profile defeats for remuneration report (and, in one case, remuneration policy) resolutions during the AGM season;
- (b) The publication of a report by the Executive Remuneration Working Group set up by the Investment Association on proposals for changes to the current pay model; and
- (c) Comments by the new Prime Minister calling for, among other things, binding votes on remuneration report resolutions and higher levels of pay disclosure.

Investors are also looking ahead to the 2017 AGM season, when many UK companies will be seeking shareholder approval for new (binding) remuneration policies.

The changes to the policy reflect some of the main issues which are expected to be relevant for 2017. The new paragraph added to the introductory section of the policy document directly addresses the recommendation of the Executive Remuneration Working Group for companies to consider pay models which do not fully align with the typical structure found in the UK market. This is accompanied by related changes to the wording of the specific sections of the voting guidelines on remuneration policy and remuneration report resolutions.

The extension of the policy to potentially recommend against the chair of the remuneration committee in the event of a serious breach of good practice reflects the position of some investors that the committee chair should be held directly accountable where major remuneration issues have been identified. This approach of escalation is also consistent with the voting guidelines of the Pensions and Lifetime Savings Association (PLSA), which have historically formed the basis for much of the content of ISS' UK & Ireland voting guidelines.

The current UK & Ireland guidelines do not explicitly refer to ISS' EP4P methodology. ISS developed this methodology for European companies in 2015 and introduced it in 2016. The implementation of the methodology was successful and feedback from the 2016 ISS policy survey indicates that a majority (92 percent) of investor respondents support the use of the EP4P model outcome as a contributing factor within the current holistic approach of examining remuneration. Therefore, a reference to the model will be introduced to the UK & Ireland guidelines as a factor to take into account in considering remuneration report resolutions.

SMALLER COMPANIES

Director Elections: Board and Committee Composition

► **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.

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

Key Changes:

Clarify that ISS' policy on AIM companies also applies to certain other companies;
Bring the policy into line with the Quoted Companies Alliance (QCA) Code by specifying that audit and remuneration committees should be fully independent. ISS will apply this standard with effect from February 2018.

► **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.

... The requirements for FTSE Fledgling companies are the same as for FTSE SmallCap companies, as set out in the core 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 companies listed on AIM, and for other companies which are not a member of the FTSE All Share or FTSE Fledgling Indices and in line with the QCA Code, the audit and remuneration committees should include independent non-executive directors only², 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.

Rationale for Update:

The new wording with respect to the coverage universe is intended to reflect current practice. The change for audit and remuneration committees reflects a desire to introduce a more rigorous standard which is consistent with the QCA Code, the relevant code for smaller listed companies in the UK. The QCA is the representative body for small and medium-sized companies in the UK, and its guidelines have been referenced in ISS' UK & Ireland policy for a number of years.

Smaller companies typically have lower levels of compliance with governance standards than larger companies, and the intention is to phase the change over the next two years to recognise the significant change in approach. For the 2017 AGM season only, the vote recommendation on non-independent members of audit and remuneration committees will be FOR, with the new policy formally taking effect from the 2018 season onwards.

² This position will be reflected in ISS vote recommendations from February 2018.

CONTINENTAL EUROPE (EUROPEAN POLICY)

BOARD OF DIRECTORS

Non-Contested Director Elections- Independence

▶ Current General Recommendation:

The following policies would be applied to all widely held companies³, unless there is a majority shareholder:

For all markets (except Greece or Portugal), vote against the election or reelection of any non-independent directors (excluding the CEO) if:

- Fewer than 50 percent of the board members elected by shareholders would be independent, or
- Fewer than one-third of board members, including those who, in accordance with local law(s) requiring their mandatory board membership, are not elected by shareholders, would be independent.

In Italy, at least half of the board should be independent (50 percent). Issuers with a controlling shareholder will be required to have a board consisting of at least one-third independent members (33 percent). This applies to individual director appointments (co-options). In the case of complete board renewals that are regulated by the Italian slate system ("voto di lista"), board independence will be one of the factors for determining which list of nominees ISS considers best suited to add value for shareholders based, as applicable, on ISS European policies.

For companies incorporated in Portugal or Greece, at least one-third of the board will be required to be independent. ISS will recommend a vote against the entire slate of candidates (in the case of bundled elections), or a vote against the election of any non-independent directors (in the case of unbundled elections) if board independence level does not meet the minimum recommended one-third threshold.

Key Changes: Add "excluding employee shareholder representatives" to the first bullet point -- For France, employee shareholder representatives would be excluded when calculating the 50% threshold (currently they are included).

▶ New General Recommendation:

The following policies would be applied to all widely held companies³, unless there is a majority shareholder:

For all markets (except Greece or Portugal), vote against the election or reelection of any non-independent directors (excluding the CEO) if:

- Fewer than 50 percent of the board members elected by shareholders, excluding, where relevant, employee shareholder representatives, would be independent, or
- Fewer than one-third of all board members, including those who, in accordance with local law(s) requiring their mandatory board membership, are not elected by shareholders, would be independent.

³ Widely held companies are interpreted as:

- Generally, based on their membership in a major index and/or the number of ISS clients holding the securities;
- For Sweden, Norway, Denmark, Finland, and Luxembourg: based on local blue chip market index and/or MSCI EAFE companies;
- For Portugal, based on their membership in the PSI-20 and/or MSCI-EAFE index.

In Italy, at least half of the board should be independent (50 percent). Issuers with a controlling shareholder will be required to have a board consisting of at least one-third independent members (33 percent). This applies to individual director appointments (co-options). In the case of complete board renewals that are regulated by the Italian slate system (“voto di lista”), board independence will be one of the factors for determining which list of nominees ISS considers best suited to add value for shareholders based, as applicable, on ISS European policies.

For companies incorporated in Portugal or Greece, at least one-third of the board will be required to be independent. ISS will recommend a vote against the entire slate of candidates (in the case of bundled elections), or a vote against the election of any non-independent directors (in the case of unbundled elections) if board independence level does not meet the minimum recommended one-third threshold.

Rationale for Update:

French law requires the presence of so-called Employee Shareholder Representatives (ESRs) on the board of directors of any company whose employees collectively hold an interest of more than 3 percent of the share capital. Unlike employee representatives that sit on boards in France and in many other European markets, ESRs are subject to election by the general meeting of shareholders.

In principle, ESRs – as employees of the company – can be broadly defined as non-independent directors. However, in light of the fact that the presence of ESRs on French boards of directors constitutes a legal requirement, the AFEP-MEDEF Code and the AFG (the French Association of Asset Managers) exclude ESRs when defining the level of independence that boards should maintain. In other words, under the approach favored by the AFEP-MEDEF Code and AFG Guidelines, ESRs should not be counted when calculating the percentage of independent directors on a company's board. The ISS European Voting Guidelines currently apply a similar exception for employee representatives and other board members not subject to shareholder election (e.g. government representatives), based on the same principle that such directors are legally required to be on the board.

The policy amendment reflects the guidance of the AFEP-MEDEF Code and AFG, and will mean that ESRs will effectively be treated the same as (non-shareholder elected) employee representatives under the ISS European Voting Guidelines. This means that ESRs will not be counted when calculating the overall level of independence of board members elected by shareholders, but will be counted when calculating the overall independence of all board members.

Non-Contested Director Elections- Overboarded directors



Current General Recommendation:

In **Austria, Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Spain, and Switzerland**, at widely held companies, ISS will generally recommend a vote against a candidate when s/he holds an excessive number of board appointments, as referenced by the more stringent of the provisions prescribed in local law or best practice governance codes, or the following guidelines:

Executive directors are expected not to hold other executive or chairmanship positions. They may, however, hold up to two other non-executive directorships.

Non-executive chairmen are expected not to hold executive positions elsewhere or more than one other chairmanship position. They may, however, hold up to three other non-executive directorships.

Non-executive directors who do not hold executive or chairmanship positions may hold up to four other non-executive directorships.

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

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

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

Key Changes: The amended version of the policy (i) clarifies the definition of what constitutes an overboarded director under the policy, (ii) replaces the term "executive director" with "executive directors or those in comparable roles", (iii) eliminates the safe harbor for non-executive chairman in certain scenarios, (iv) clarifies that, when calculating a director's total number of outside directorships, the total number of directorships at global publicly listed companies outside the same group will be counted, and (v) adds a carve-out for executives of investment holding companies.

New General Recommendation:

In **Austria, Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Spain, and Switzerland**, at widely held companies, ISS will generally recommend a vote against a candidate when s/he holds an excessive number of board appointments, as referenced by the more stringent of the provisions prescribed in local law or best practice governance codes, or as defined by the following guidelines:

Directors who hold more than five non-chair non-executive director positions.

A non-executive chairman who, in addition to this role, holds (i) more than three non-chair non-executive director positions, (ii) more than one other non-executive chair position and one non-chair non-executive director position, or (iii) any executive position.

Executive directors or those in comparable roles holding (i) more than two non-chair non-executive director positions, (ii) any other executive positions, or (iii) any non-executive chair position.

An adverse vote recommendation will not be applied to a director within a company where he/she serves as CEO; instead, any adverse vote recommendations will be applied to his/her additional seats on other company boards. The same is also valid for non-executive chairmen, except (i) where they exclusively hold other non-executive chair and/or executive positions or (ii) where they are elected as non-executive chairman for the first time.

ISS will take into account board positions held in global publicly listed companies outside the same group, defined as group of companies in which a common parent company controls at least 50 percent + 1 share of equity capital, alone or in concert.

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

Executive directors or those in comparable roles within investment holding companies will generally be treated similar to non-executive directors when applying this policy.

Rationale for Update:

The amendments clarify several passages in the current policy including the definition of what constitutes an overboarded director, as well as the fact that the policy applies to executive directors or those in similar positions, meaning executives who are not necessarily members of the board, e.g. in markets with two-tiered board systems.

The amended policy also clarifies that, when calculating a director's total number of directorships, positions in globally listed companies outside the same group are taken into account. This means that multiple directorships in listed companies within a single group (defined as a group of companies in which the parent company controls at least 50 percent + 1 share of the equity capital, alone or in concert) are considered to cumulatively constitute a single mandate, rather than multiple mandates.

The amended policy also clarifies that negative voting recommendations may be issued in cases where an overboarded director only holds non-executive chairman mandates, meaning effectively three or more non-executive chairmanships. While a safe harbor for non-executive chairman is still considered appropriate generally, this closes a loophole in the policy which currently precludes the application of a voting sanction in these (rather anomalous) cases. The amended policy would also clarify that a negative recommendation applies when a director is being elected as chairman for the first time (i.e. when the nominee's initial election as board chairman causes him/her to exceed the allowable threshold of total board mandates defined in the policy).

Finally, the amended policy foresees exceptional treatment for executives of investment holding companies. This change recognizes that, for investment holding company executives, the participation on portfolio company boards is oftentimes integral to their role. This change is also intended to align the policy with ISS client views, as reflected in the 2015/16 policy survey.

COMPENSATION

Executive Compensation-Related Proposals

- ▶ **Current General Recommendation:** ISS will evaluate management proposals seeking ratification of a company's executive compensation-related items on a case-by-case basis, and will generally recommend a vote against a company's compensation-related proposal if such proposal fails to comply with one or a combination of several of the global principles and their corresponding rules:

...

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

...

3.1 The board shall demonstrate good stewardship of investors' interests regarding executive compensation practices.

Key Changes: A reference to the European Pay-for-Performance Methodology (EP4P) will be added in the introductory section of the policy. In addition, a definition of EP4P will be included in Principle 3.1 of the policy. Finally, Principle 2 of the policy will be amended to change the term "pay-for-performance alignment" to "pay structure".

- ▶ **New General Recommendation:** ISS will evaluate management proposals seeking ratification of a company's executive compensation-related items on a case-by-case basis, and, where relevant, will take into account the European Pay for Performance model² outcomes within a qualitative review of a company's remuneration practices. ISS will generally recommend a vote against a company's compensation-related proposal if such proposal fails to comply with one or a combination of several of the global principles and their corresponding rules:

...

2. Maintain appropriate pay structure with emphasis on long-term shareholder value:

...

3.1. The board shall demonstrate good stewardship of investor's interests regarding executive compensation practices (principle being supported by Pay for Performance Evaluation⁴)

⁴ Definition of Pay-for-Performance Evaluation:

- ISS annually conducts a pay-for-performance analysis to measure the alignment between pay and performance over a sustained period. With respect to companies in the European Main Indices, this analysis considers the following:
 - Peer Group Alignment:
 - ✓ The degree of alignment between the company's annualized TSR rank and the CEO's annualized total pay rank within a peer group, each measured over a three-year period.
 - ✓ The multiple of the CEO's total pay relative to the peer group median.
- Absolute Alignment – the absolute alignment between the trend in CEO pay and company TSR over the prior five fiscal years – i.e., the difference between the trend in annual pay changes and the trend in annualized TSR during the period.

Rationale for Update:

After having introduced the ISS pay-for-performance methodology for US companies in 2012, the demand for a similar methodology for European companies from ISS clients and investors in general became evident. The 2014 policy survey results revealed that 83 percent of investors who responded had indicated that a European pay for performance quantitative methodology, including the use of peer group comparisons, would be useful as a factor in such evaluations. ISS developed a methodology for European companies in 2015 and introduced it in 2016.

ISS' European Guidelines refer to principles of good stewardship when it comes to remuneration, and to principles of a reasonable alignment between pay and performance. Already this year, ISS referred to the quantitative pay-for-performance assessment in its reports on continental European companies. However, the current European Voting Guidelines do not explicitly refer to the EP4P methodology. During the 2016 proxy season, this methodology was successfully implemented and feedback from the 2016 ISS policy survey indicates that a majority (92 percent) of investor respondents support the use of the EP4P model outcome as a contributing factor within the current holistic approach. Therefore, an explicit reference in the European Voting Guidelines would further clarify the guidelines and ensure global consistency.

Also, Principle 2 under the executive remuneration section in European voting guideline requires clarification in order to better reflect Principles 2.1 to 2.3, which are focused on the pay structure and the emphasis on long-term shareholder value.

Non-Executive Director Compensation



Current General Recommendation: ISS will generally recommend a vote for proposals to award cash fees to non-executive directors, and will otherwise:

Recommend a vote against where:

.....

- › Proposals provide for the granting of stock options or similarly structured equity-based compensation to non-executive directors.

Key Changes: The term "similarly structured equity-based compensation" would be changed to "performance based equity compensation, including stock appreciation rights and performance-vesting restricted stock, and performance-based cash".



New General Recommendation: ISS will generally recommend a vote for proposals to award cash fees to non-executive directors, and will otherwise:

Recommend a vote against where:

.....

- › Proposals provide for the granting of stock options, performance-based equity compensation (including stock appreciation rights and performance-vesting restricted stock), and performance-based cash to non-executive directors.

Rationale for Update:

The proposed amendments would mean that, henceforth, ISS will generally recommend against all forms of performance-based remuneration to non-executive directors at continental European companies.

Grants of performance-based cash and performance-based equity compensation to non-executive directors are relatively rare among publicly listed companies in most continental European markets, as these practices are widely viewed by investors as being potentially compromising of director independence. Notably, the ICGN and a number of prominent European codes of best practice recommend against these practices. Also, many ISS clients based in continental Europe have customized voting policies that oppose the grant of performance-based compensation of all forms to non-executive directors.

Moreover, the proposed amendment concerning the grant of performance-based equity compensation to non-executive directors reflects ISS client views expressed in the 2015-2016 policy survey. The survey results indicated that a majority of institutional investors believe the grant of stock options or performance-based equity are inappropriate forms of compensation for non-executive directors.

The proposed amendments would therefore bring the European Voting Guidelines into line with prevailing practice among public companies in most continental Europe, as well as investor views.

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