2018 Asia-Pacific Proxy Voting Guidelines Updates

Benchmark Policy Changes for Japan, China, Hong Kong, India, Philippines, Singapore, South Korea, and Taiwan

Effective for Meetings on or after February 1, 2018

Published November 16, 2017

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~~Redlined~~ = deleted; green = added

JAPAN

Election of Directors

Voting on Director Nominees in Uncontested Elections

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General Recommendation: ISS has three policies for director elections in Japan: one for companies with a statutory auditor board structure, one for companies with a U.S.-type three committee structure, and one for companies with a board with audit committee structure[1]. 1. **At companies with a statutory auditory structure:** vote for the election of directors, except: › Top executive(s)[2] at a company that has underperformed in terms of capital efficiency (i.e., when the company has posted average return on equity (ROE) of less than five percent over the last five fiscal years)[3], unless an improvement[4] is observed; › Top executive(s) if the board, after the shareholder meeting, will not include at least two outside directors; › Top executive(s) at a company that has a controlling shareholder, where the board, after the shareholder meeting, will not include at least two independent directors based on ISS independence criteria for Japan;	**General Recommendation:** ISS has three policies for director elections in Japan: one for companies with a statutory auditor board structure, one for companies with a U.S.-type three committee structure, and one for companies with a board with audit committee structure[1]. 1. **At companies with a statutory auditory structure**: vote for the election of directors, except: › Top executive(s)[2] at a company that has underperformed in terms of capital efficiency (i.e., when the company has posted average return on equity (ROE) of less than five percent over the last five fiscal years)[3], unless an improvement[4] is observed; › Top executive(s) if the board, after the shareholder meeting, will not include at least two outside directors; › Top executive(s) at a company that has a controlling shareholder, where the board, after the shareholder meeting, will not include at least two independent directors based on ISS independence criteria for Japan;

[1] The director election policy for companies with a board with audit committee structure will be applied to the election of executive directors and supervisory directors at real estate investment trusts (REITs), to the extent that the information necessary to apply the policy is disclosed.
[2] In most cases, the top executive will be the "shacho" (president). However, there are companies where the decision-making authority also rests with the "kaicho" (executive chairman) or "daihyo torishimariyaku" (representative director).
[3] Exceptions may be considered for cases such as where the top executive has newly joined the company in connection with a bailout or restructuring. This policy will not be applied to companies which have been public for less than five years.
[4] Improvement is defined as ROE of five percent or greater for the most recent fiscal year.

› An outside director nominee who attended less than 75 percent of board meetings during the year under review[5]; or › Top executive(s) who are responsible for not implementing a shareholder proposal which has received a majority[6] of votes cast, or not putting a similar proposal on the ballot as a management proposal the following year (with a management recommendation of for), when that proposal is deemed to be in the interest of independent shareholders.	› An outside director nominee who attended less than 75 percent of board meetings during the year under review[5]; or › Top executive(s) who are responsible for not implementing a shareholder proposal which has received a majority[6] of votes cast, or not putting a similar proposal on the ballot as a management proposal the following year (with a management recommendation of for), when that proposal is deemed to be in the interest of independent shareholders.
2. **At companies with a U.S.-type three committee structure:** (In addition to the guidelines for companies with a statutory auditor structure) vote for the election of directors, except ~~where~~: › Where ~~A~~an outside director nominee is regarded as non-independent based on ISS independence criteria for Japan, and the board, after the shareholder meeting, is not majority independent; ~~or~~ › For meetings on or after Feb 1, 2019, top executive(s) if at least one-third of the board members, after the shareholder meeting, will not be outside directors;[7] or › Where the company has a controlling shareholder, a director nominee sits on the nomination committee and is an insider, or non-independent outsider, when the board, after the shareholder meeting, does not include at least two independent directors based on ISS independence criteria for Japan.	2. **At companies with a U.S.-type three committee structure:** (In addition to the guidelines for companies with a statutory auditor structure) vote for the election of directors, except: › Where an outside director nominee is regarded as non-independent based on ISS independence criteria for Japan, and the board, after the shareholder meeting, is not majority independent; › For meetings on or after Feb 1, 2019, top executive(s) if at least one-third of the board members, after the shareholder meeting, will not be outside directors;[7] or › Where the company has a controlling shareholder, a director nominee sits on the nomination committee and is an insider, or non-independent outsider, when the board, after the shareholder meeting, does not include at least two independent directors based on ISS independence criteria for Japan.
3. **At companies with a board with audit committee structure:** (In addition to the guidelines for companies with a statutory auditor structure) vote for the election of directors, except ~~where~~: › Where ~~A~~an outside director nominee who is also nominated as an audit committee member[8] is regarded as non-independent based on ISS independence criteria for Japan~~.~~; or › For meetings on or after Feb 1, 2019, top executive(s) if at least one-third of the board members, after the shareholder meeting, will not be outside directors.[7]	3. **At companies with a board with audit committee structure:** (In addition to the guidelines for companies with a statutory auditor structure) vote for the election of directors, except: › Where an outside director nominee who is also nominated as an audit committee member[8] is regarded as non-independent based on ISS independence criteria for Japan; or › For meetings on or after Feb 1, 2019, top executive(s) if at least one-third of the board members, after the shareholder meeting, will not be outside directors.[7]

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

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

[7] To give companies time to recruit additional qualified outside director candidates, the policy will not be implemented until February 2019.

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

Rationale for Change:

Corporate governance in Japan has historically been criticized for lack of outside director oversight, but the presence of outside directors on Japanese boards has increased in recent years. Especially notable is the pace at which companies are adding outside directors. In 2014, only 32.6 percent of companies had multiple outside directors, but as of June 2017, 84.7 percent of companies now have multiple outsiders on the board, according to ISS data.

The trend is especially prominent for companies employing one of the two governance structures featuring committees: the U.S.-type three-committee structure and the board with audit committee structure. As of June 2017, on average, 5.1 out of 9.6 board members are outsiders at companies with a U.S.-type three-committee structure, and 3.0 out of 9.7 members are outsiders at companies with a board with audit committee structure (whereas companies with a statutory auditor system have on average 2 outsiders out of 8.4 board members).

Against this backdrop, the new policy aims to reflect the accelerating trend and recognize that the level of outside directors is increasingly being held to standards comparable to global peers. Under the new policy, if at least one-third of the board members, after the shareholder meeting, will not be outside directors, ISS will recommend a vote against top executive(s). The new policy will be applied only to companies with three committees or with an audit committee, because these governance structures, by design, are intended to separate management and supervision. If companies opt for such a governance structure, that choice can be interpreted as the company's intention to separate management from supervision, so it is reasonable to require a greater outsider presence than at companies that maintain the traditional statutory auditor-based governance structure. The Corporate Governance Code of Japan recommends that all companies appoint at least two independent directors, and at the same time, the Code refers to one-third independence, depending on each company's circumstances, including governance structure.

This new policy does not factor in outside directors' independence. While independence is conceptually important, it was considered that too much emphasis on independence at this stage of Japan's corporate governance development might prompt companies to recruit individuals with little or no business background. Although one or two outside directors with limited business backgrounds may be acceptable, a board where individuals with limited business experience occupy all of the outside director posts is not ideal.

The new policy will not be implemented until 2019. This one-year transition period is intended to give companies sufficient time to recruit qualified outside director candidates.

Takeover Defense Plans (Poison Pills)

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
General Recommendation: Generally vote against the approval of takeover defense plans (poison pills), unless: (Necessary conditions) › Independent directors who meet ISS guidelines on attendance comprise at least 1/3 of the board after the shareholder meeting; › The number of independent directors who meet ISS guidelines on attendance is at least two after the shareholder meeting; › The directors are subject to annual elections; › The bid evaluation committee is composed entirely of independent directors, or independent statutory auditors, who meet ISS guidelines on attendance; › The trigger threshold is set at no less than 20 percent of shares outstanding; › The duration of the poison pill does not exceed three years; › There are no other protective or entrenchment tools that can serve as takeover defenses, including blocking stakes held by management-friendly shareholders, or setting the maximum board size to the actual board size to eliminate vacant seats, or tightening of procedures for removing a director from office; ~~and~~ › The company posts its proxy circular on the stock exchange website at least four weeks prior to the meeting, to give shareholders sufficient time to study the details of the proposal and question management about them~~.~~; and › The pill's total duration[9] does not exceed three years. (Second stage of analysis, to be applied only when all necessary conditions are met) › The company has disclosed in its proxy circular specific, credible steps it is taking to address the vulnerability to a takeover by enhancing shareholder value, and explained how the temporary protection afforded by the pill will help accomplish this goal.	**General Recommendation:** Generally vote against the approval of takeover defense plans (poison pills), unless: (Necessary conditions) › Independent directors who meet ISS guidelines on attendance comprise at least 1/3 of the board after the shareholder meeting; › The number of independent directors who meet ISS guidelines on attendance is at least two after the shareholder meeting; › The directors are subject to annual elections; › The bid evaluation committee is composed entirely of independent directors, or independent statutory auditors, who meet ISS guidelines on attendance; › The trigger threshold is set at no less than 20 percent of shares outstanding; › The duration of the poison pill does not exceed three years; › There are no other protective or entrenchment tools that can serve as takeover defenses, including blocking stakes held by management-friendly shareholders, or setting the maximum board size to the actual board size to eliminate vacant seats, or tightening of procedures for removing a director from office; › The company posts its proxy circular on the stock exchange website at least four weeks prior to the meeting, to give shareholders sufficient time to study the details of the proposal and question management about them; and › The pill's total duration[9] does not exceed three years. (Second stage of analysis, to be applied only when all necessary conditions are met) › The company has disclosed in its proxy circular specific, credible steps it is taking to address the vulnerability to a takeover by enhancing shareholder value, and explained how the temporary protection afforded by the pill will help accomplish this goal.

[9] The pill's total duration is defined as the sum of the number of years the company has had a pill in place and the number of years the proposed pill will be effective.

Rationale for Change:

From an investor viewpoint, the justification for a poison pill is its usage as a tool to force a would-be acquirer into negotiations with the board, and extract more favorable terms for shareholders. Such a situation is most likely to occur when the company is temporarily vulnerable to a hostile takeover due to a low market valuation which does not reflect its intrinsic value, and thus requires temporary protection. The key point here is that the pill should be a temporary measure, and a pill that is repeatedly renewed can instead serve as a management entrenchment device. In Japan, 88 percent of companies with a pill in effect adopted it initially nine years ago or more. Shareholder concern over the continued maintenance of pills is growing.

In ISS' evaluation of pill proposals, the policy update adds as a first stage necessary condition that the pill's total duration does not exceed three years. Absent this condition, the evaluation of the pill proposal will not progress to the second stage of the analysis. The pill's total duration is defined as the sum of the number of years the company has had a pill in place and the number of years the proposed pill will be effective.

The policy update is intended to communicate that companies should not routinely renew pills, so that they do not turn into management entrenchment tools, and is intended to accelerate the current trend of pill abolition. The peak of pill maintenance in Japan was observed in 2009, when about 570 Japanese companies had pills in place. Since then, the number of companies that decided to abolish their pills has been increasing, given regulatory developments concerning the issue as well as changes in the business environment. As of June 30, 2017, 464 companies still have a pill in place (including 17 pills adopted without a shareholder vote), according to ISS data.

CHINA, HONG KONG, INDIA, SINGAPORE, AND TAIWAN

BOARD OF DIRECTORS

Classification of Directors

Current ISS Classification, incorporating policy changes:	New ISS Classification:
Executive Director › Employee or executive of the company or a wholly-owned subsidiary 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.	**Executive Director** › Employee or executive of the company or a wholly-owned subsidiary 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.
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[1] shareholder of the company; › Any director who is also an employee or executive of a subsidiary, associate, joint venture, or company that is affiliated with a significant[1] shareholder of the company; › Any director who is nominated by a dissenting significant shareholder, unless there is a clear lack of material[2] 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;	**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 shareholder of the company; › Any director who is also an employee or executive of a significant[1] shareholder of the company; › Any director who is also an employee or executive of a subsidiary, associate, joint venture, or company that is affiliated with a significant[1] shareholder of the company; › Any director who is nominated by a dissenting significant shareholder, unless there is a clear lack of material[2] 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 has provided (or a relative[3] provides) professional services[4] to the company, to an affiliate of the company, or to an individual officer of the company or of one of its affiliates in the latest fiscal year in excess of USD~~$~~ 10,000 per year; › Represents customer, supplier, creditor, banker, or other entity with which the company maintains transactional/commercial relationship (unless company discloses information to apply a materiality test[5]); › Any director who has a conflicting relationship with the company, including but not limited to~~or~~ cross-directorships with executive directors or the chairman of the company; › Relative[3] of a current employee or executive of the company or its affiliates; › Relative[3] of a former employee or 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 or executive; › Former executive or employee (five-year cooling off period); › 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.[6] › Any additional relationship or principle considered to compromise independence under local corporate governance best practice guidance.	› Currently provides or has provided (or a relative[3] provides) professional services[4] to the company, to an affiliate of the company, or to an individual officer of the company or of one of its affiliates in the latest fiscal year in excess of USD 10,000 per year; › Represents customer, supplier, creditor, banker, or other entity with which the company maintains transactional/commercial relationship (unless company discloses information to apply a materiality test[5]); › Any director who has a conflicting relationship with the company, including but not limited to cross-directorships with executive directors or the chairman of the company; › Relative[3] of a current employee or executive of the company or its affiliates; › Relative[3] of a former employee or 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 or executive; › Former executive or employee (five-year cooling off period); › 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.[6] › Any additional relationship or principle considered to compromise independence under local corporate governance best practice guidance.
Independent NED › No material[2] connection, either directly or indirectly, to the company (other than a board seat) or the dissenting significant shareholder.	**Independent NED** › No material[2] connection, either directly or indirectly, to the company (other than a board seat) or the dissenting significant shareholder.
Employee Representative › Represents employees or employee shareholders of the company (classified as “employee representative” but considered a non-independent NED).	**Employee Representative** › Represents employees or employee shareholders of the company (classified as “employee representative” but considered a non-independent NED).
Footnotes: [1] At least 10 percent of the company's stock, unless market best practice dictates a lower ownership and/or disclosure threshold. [2] For purposes of ISS' director independence classification, “material” will be defined as	**Footnotes:** [1] At least 10 percent of the company's stock, unless market best practice dictates a lower ownership and/or disclosure threshold. [2] 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. [3] "Relative" follows the definition of "immediate family members" which covers spouses, parents, children, stepparents, step-children, 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. [4] 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. [5] 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. [6] For example, in ~~continental Europe, directors with a tenure exceeding 12 years will be considered non-independent. In the United Kingdom, Ireland,~~ Hong Kong, Singapore and Taiwan, 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 long tenure.	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. [3] "Relative" follows the definition of "immediate family members" which covers spouses, parents, children, stepparents, step-children, 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. [4] 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. [5] 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. [6] For example, in Hong Kong, Singapore and Taiwan, 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 long tenure.

Rationale for Change:

ISS Asia ex-Japan Research currently references the ISS Classification of Directors under the Asia-Pacific Regional Policy in evaluating the classification of board directors and nominees. The changes to the director classification document for Asia ex-Japan are intended to eliminate potential ambiguities in the existing document which could result in different interpretations by analysts covering different markets, which could lead to misalignments in approach. The updated document, which would further synchronize the approach of research teams across Asia ex-Japan in terms of director classification, will be incorporated into the voting guidelines for China, Hong Kong, India, Singapore and Taiwan.

CHINA AND HONG KONG

Amendments to Company Articles and Bylaws

Communist Party Committee

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
General Recommendation: [No current formal policy] Generally vote against proposals for article and/or bylaw amendments regarding Party Committees where the proposed amendments lack transparency or are not considered to adequately provide for board accountability and transparency to shareholders. **Discussion:** Driven by the corporate reforms initiated by the China Communist Party, the regulatory enforcements to legitimize the existence of a Communist Party Committee or to establish one in state-owned enterprises (SOEs) have prompted listed SOEs to amend their articles, while non-SOEs have begun to follow suit. Such committees' members are not necessarily directors elected by shareholders, nor are they carrying out their duties as transparently as any board members or held accountable to shareholders. However, whilst no regulations explicitly grant the Party Committee the authority to override a company's board of directors, many proposals have included provisions that will modify the board representation and allow the Party Committee to assert disproportionate influence over the board. These issues raise governance concerns. Given that most companies neither delineate the responsibilities of the Party Committee from those of the board of directors or its key committees, nor specify clearly the actual interaction between the two when making material decisions, a more stringent approach is requested by institutional investors and market participants, including issuers, in general.	**General Recommendation:** Generally vote against proposals for article and/or bylaw amendments regarding Party Committees where the proposed amendments lack transparency or are not considered to adequately provide for board accountability and transparency to shareholders. **Discussion:** Driven by the corporate reforms initiated by the China Communist Party, the regulatory enforcements to legitimize the existence of a Communist Party Committee or to establish one in state-owned enterprises (SOEs) have prompted listed SOEs to amend their articles, while non-SOEs have begun to follow suit. Such committees' members are not necessarily directors elected by shareholders, nor are they carrying out their duties as transparently as any board members or held accountable to shareholders. However, whilst no regulations explicitly grant the Party Committee the authority to override a company's board of directors, many proposals have included provisions that will modify the board representation and allow the Party Committee to assert disproportionate influence over the board. These issues raise governance concerns. Given that most companies neither delineate the responsibilities of the Party Committee from those of the board of directors or its key committees, nor specify clearly the actual interaction between the two when making material decisions, a more stringent approach is requested by institutional investors and market participants, including issuers, in general.

Rationale for Change:

The Chinese Communist Party (CCP or Party) and Chinese Company Law have long imposed a requirement for state-owned enterprises (SOEs) to establish a Party Committee to facilitate Party activities and the implementation of government policies. By law, all Chinese SOEs shall have a Party secretary as the chairman of the board. A 2015 Party Directive added the requirement that SOEs include language relating to the Party Committee in their Articles of Incorporation (Articles).

Nonetheless, no law or regulation explicitly grants the Party Committee the authority to override a corporate board that is legitimately set up by shareholders, and the board has full discretion over how the Articles are amended to reflect the requirements stipulated by the Party Directive.

The 2015 Party Directive neither stipulates a timeframe by which SOEs must amend their Articles, nor does it specify any penalties for failure to do so. If the resolution fails to receive shareholder approval, the company may revise the proposal and resubmit it for shareholder vote.

Governance issues and concerns about potential conflicts of interest may be raised by the following factors. Most companies neither delineate the responsibilities of the Party Committee from those of the corporate board of directors or its key committees, nor specify clearly the actual interaction between the two entities when making material decisions. Party Committees' members are not necessarily directors elected by shareholders and, as such, they are generally not accountable to shareholders. Disclosures about the actions of these committees and their members are not transparent.

Many institutional investors and other market participants favor a more exacting approach to these article and/or bylaw amendments to establish, or formalize the existence of, a Chinese Communist Party Committee in listed companies. The new policy is established due to the increasing number of such proposals.

Remuneration

Equity-based Compensation: Stock Option & Performance Share Schemes of A Shares

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
A-share Stock Option Schemes and Performance Share Schemes **General Recommendation:** Vote against a stock option and/or performance share scheme if: › Pricing basis - The plan permits ~~options to be issued with an~~ the exercise price ~~at a discount to the current market price~~ of the stock options and/or grant price of the performance shares[10] to be set at ~~a discount~~ an unreasonable price[11] compared to the market price without sufficient justification; ~~or~~ › Dilution - The maximum dilution level for the scheme exceeds 10 percent of issued capital; or ISS guidelines of 5 percent of issued capital for a mature	**A-share Stock Option Schemes and Performance Share Schemes** **General Recommendation:** Vote against a stock option and/or performance share scheme if: › Pricing basis - The plan permits the exercise price of the stock options and/or grant price of the performance shares[10] to be set at an unreasonable price[11] compared to the market price without sufficient justification; › Dilution - The maximum dilution level for the scheme exceeds 10 percent of issued capital; or ISS guidelines of 5 percent of issued capital for a mature company and 10 percent for a growth company. However, ISS will support plans at mature companies with dilution levels up to 10 percent if the plan

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[10] Performance share, termed as "restricted stock" literally in Chinese by companies incorporated in China, is a type of stock award that is commonly granted as a performance-based incentive in the market. The shares issued under such performance share plans are immediately locked after issuance, and will only be vested upon completion of certain performance conditions.

[11] The Administrative Measures on the Equity-based Incentive Schemes of Listed Companies recommends the following pricing basis:

› Performance share grant price - the higher of 50 percent of the two: 1) the average trading price one day before the announcement day; 2) the average trading price 20, 60, or 120 days before the announcement day.

› Stock option exercise price - the higher of the two: 1) the average trading price one day before the announcement day; 2) the average trading price 20, 60, or 120 days before the announcement day.

company and 10 percent for a growth company. However, ISS will support plans at mature companies with dilution levels up to 10 percent if the plan includes other positive features such as challenging performance criteria and meaningful vesting periods, as these features partially offset dilution concerns by reducing the likelihood that options will become exercisable unless there is a clear improvement in shareholder value;

- ~~The company fails to set challenging performance hurdles for exercising the stock options compared with relating to its historical financial performance or the industry benchmarks; or~~
- Performance benchmark - The scheme is proposed in the second half of the year and the measurement of the company's financial performance starts from the same year. The rationale is that the company's financial performance has been largely determined for that particular year and thus by linking the vesting conditions of part of the options and/or performance shares to that year's financial performance, the company is providing incentives for the period of the second half only, which can either be too aggressive (if the target is far out of reach) or too insufficient (i.e., the target has already been reached)~~.~~; or
- Incentive plan administration - Directors eligible to receive options and/or performance shares under the scheme are involved in the administration of the scheme~~;~~.

~~Restricted Stock Schemes~~

~~General Recommendation:~~ ~~Vote against a restricted stock scheme if:~~

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

includes other positive features such as challenging performance criteria and meaningful vesting periods, as these features partially offset dilution concerns by reducing the likelihood that options will become exercisable unless there is a clear improvement in shareholder value;

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

~~› The company fails to set challenging performance hurdles for unlocking the restricted shares compared with its historical financial performance or the industry benchmarks; or~~ ~~› The scheme is proposed in the second half of the year and the measurement of the company's financial performance starts from the same year. The rationale is that the company's financial performance has been largely determined for that particular year and thus by linking the vesting conditions of part of the options to that year's financial performance, the company is providing incentives for the period of the second half only, which can either be too aggressive (if the target is far out of reach) or too insufficient (i.e., the target has already been reached).~~	

Rationale for Change:

This change updates and streamline the policy regarding equity-based compensation schemes for the China policy, and is a carve-out under Hong Kong benchmark voting guidelines for dual-listed companies proposing A-share equity compensation schemes. The term “restricted stock” as it literally appears in Chinese disclosure is replaced by “performance share” to reflect the nature of such awards and to harmonize with other global markets in the use of terminology.

On July 15, 2016, the China Securities Regulatory Commission (CSRC) released the Administrative Measures on the Equity-based Incentive Schemes of Listed Companies, providing listed companies with more flexibility to formulate their equity incentive schemes. While a pricing guideline is provided in the regulation, listed companies are allowed to determine their own pricing basis for exercising options or granting performance shares. An independent financial advisor shall be hired to provide a feasibility and fairness opinion regarding that pricing basis. In view of the changes in the regulations, the policy language is updated.

Capital

Adjustments of Conversion Price of Outstanding Convertible Bonds

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
General Recommendation: [No current formal policy] Generally vote against the downward adjustment of the conversion price of A-share convertible bonds unless the proposed adjusted conversion price is deemed reasonable given the company's justification; and the company is under extraordinary circumstances, such as liquidation or debt restructuring process due to financial distress.	**General Recommendation:** Generally vote against the downward adjustment of the conversion price of A-share convertible bonds unless the proposed adjusted conversion price is deemed reasonable given the company's justification; and the company is under extraordinary circumstances, such as liquidation or debt restructuring process due to financial distress.

Rationale for Change:

ISS has adopted a new policy for proposals seeking shareholder approval to adjust downward the conversion price of outstanding convertible bonds for A shares, to ensure that existing shareholders would be protected from potential excessive dilution.

During the 2017 proxy season, ISS observed an increased number of A-share convertible bond issuance proposals in the face of tightened regulation on equity financing via share private placements. It is a market norm for companies to include a clause for downward adjustment of the conversion price in their convertible bond issuance proposals for A shares. On the other hand, a similar mechanism for an upward adjustment is rarely seen.

Companies generally propose to adjust downward the conversion price to encourage the conversion of outstanding convertible bonds into the company's A shares. This could potentially benefit the company by lowering the gearing ratio, as bond conversion reduces the company's outstanding liabilities and liquidity requirements. However, a lower conversion price allows the bondholders to receive more shares in the event of bond conversion, which would increase potential dilution to the existing shareholders and essentially transfers value from the existing shareholders to the bondholders.

The CSRC stipulates that all downward adjustment of conversion prices will require special resolution approval at a shareholder meeting. In light of the 2015-2016 stock market turbulence in China and the increasing number of A-share convertible bond issuance proposals, more companies with such outstanding convertible bonds are expected to propose conversion price adjustments for shareholder approval.

Capital Raising – Share Issuance Requests

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
General Recommendation: Vote case-by-case on share issuance requests, with reference to the identity of the placees, the use of proceeds, and the company's past share issuance requests. **Discussion** Share issuance requests allow companies to issue shares to raise funds for general financing purposes. ~~CSRC stipulates in a document titled "~~ In the Measures for the Administration of the Issuance of Securities by Listed Companies 2006~~"~~ and the Detailed Rules for Private Placement by Listed Companies, the China Securities Regulatory Commission (CSRC) stipulates the following regarding public rights offerings~~that~~: › The number of new shares issued via a public rights offering shall not exceed 30 percent of the number of shares already issued; and › A successful rights offering shall have a subscription rate of no less than 70 percent. The controlling shareholder is required to make a public commitment to indicate the number of rights to which it will subscribe. In the Chinese market, the rights issued are non-renounceable rights, which are not transferable and cannot be traded in the open market. The trading of rights issued in the A-share market was terminated by the CSRC in June 1996. Investors therefore could not sell their entitlements for a cash value to, in turn, compensate for the losses in their percentage of ownership should they decide not to exercise the rights entitlements. Further, given the high level of retail investors' participation in the market, a portion of the rights issued are often left unexercised due to the lack of awareness of these investors, resulting in increased control by the controlling shareholder at a steep discount via the public rights offering. The Detailed Rules for Private Placement by Listed Companies stipulates the following regarding share private placements: › Share issuances via a private placement shall be issued to not more than 10 specific parties;	**General Recommendation:** Vote case-by-case on share issuance requests, with reference to the identity of the placees, the use of proceeds, and the company's past share issuance requests. **Discussion** Share issuance requests allow companies to issue shares to raise funds for general financing purposes. In the Measures for the Administration of the Issuance of Securities by Listed Companies 2006 and the Detailed Rules for Private Placement by Listed Companies, the China Securities Regulatory Commission (CSRC) stipulates the following regarding public rights offerings: › The number of new shares issued via a public rights offering shall not exceed 30 percent of the number of shares already issued; and › A successful rights offering shall have a subscription rate of no less than 70 percent. The controlling shareholder is required to make a public commitment to indicate the number of rights to which it will subscribe. In the Chinese market, the rights issued are non-renounceable rights, which are not transferable and cannot be traded in the open market. The trading of rights issued in the A-share market was terminated by the CSRC in June 1996. Investors therefore could not sell their entitlements for a cash value to, in turn, compensate for the losses in their percentage of ownership should they decide not to exercise the rights entitlements. Further, given the high level of retail investors' participation in the market, a portion of the rights issued are often left unexercised due to the lack of awareness of these investors, resulting in increased control by the controlling shareholder at a steep discount via the public rights offering. The Detailed Rules for Private Placement by Listed Companies stipulates the following regarding share private placements: › Share issuances via a private placement shall be issued to not more than 10 specific parties; › The share issue price for a private placement shall not be lower than 90 percent of the average trading price of the company's A shares 20 trading days prior to the first day of the issuance period;

› The share issue price for a private placement shall not be lower than 90 percent of the average trading price of the company's A shares 20 trading days prior to ~~the benchmark date~~ the first day of the issuance period; › The share lock-up period shall be 12 months for minority investors and 36 months for the controlling shareholder and actual controlling person of the company; › A cooling-off period of at least 18 months from the last share issuance should be in place; › The resulting dilution from a private share placement should be capped at 20 percent of the company's total shares outstanding prior to the share issuance. Chinese companies do not ask for general mandates to issue shares to third parties, rather they seek shareholder approval for a specific issuance.	› The lock-up period of the shares shall be 12 months for unaffiliated investors and 36 months for the controlling shareholder and actual controlling person of the company; › A cooling-off period of at least 18 months from the last share issuance should be in place; › The resulting dilution from a private share placement should be capped at 20 percent of the company's total shares outstanding prior to the share issuance. Chinese companies do not ask for general mandates to issue shares to third parties, rather they seek shareholder approval for a specific issuance.

Rationale for Change:

Rights issuance: A rights offering is generally considered a fairer and less dilutive means of equity financing. However, given the composition of the market participants and the unique nature of the Chinese regulations, which restrict trading of rights entitlements while requiring controlling shareholders to commit to their subscription, such proposals may result in the controlling shareholder increasing its stake at a steep discount. In contrast, minority shareholders might find no way to sell their entitlements for their cash value and be compensated for the rights they forgo, if any. Considering an increasing number of rights issuance proposals in the face of tightened regulations on equity financing via private share placements, as well as the potential concerns, ISS benchmark policy is updated with additional market context.

Private Share placement: The wording in the paragraphs related to private share placements is amended to reflect the new development in regulations on pricing reference, dilution cap and cooling-off period from the last share issuance.

The above policy on rights issuances and private share placements is applicable to requests for the issuance of A shares of Chinese companies, including those dual-listed in Hong Kong and either Shanghai or Shenzhen.

HONG KONG AND SINGAPORE

Remuneration

Equity Compensation Plans (exception on equity grants in lieu of cash)

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
General Recommendation: Generally vote for an equity-based compensation plan unless: › The maximum dilution level for the scheme exceeds 5 percent of issued capital for a mature company and 10 percent for a growth company. However, ISS will support plans at mature companies with dilution levels up to 10 percent if the plan includes other positive features such as challenging performance criteria and meaningful vesting periods as these features partially offset dilution concerns by reducing the likelihood that options will become exercisable unless there is a clear improvement in shareholder value. In addition, ISS will support a plan's dilution limit that exceeds these thresholds if the annual grant limit under the plan is 0.5 percent or less for a mature company (1 percent or less for a mature company with clearly disclosed performance criteria) and 1 percent or less for a growth company. › The plan permits options to be issued with an exercise price at a discount to the current market price; or › Directors eligible to receive options or awards under the scheme are involved in the administration of the scheme and the administrator has the discretion over their awards.~~[12]~~ Equity awards granted or taken in lieu of cash fees generally would not be considered discretionary awards.	**General Recommendation:** Generally vote for an equity-based compensation plan unless: › The maximum dilution level for the scheme exceeds 5 percent of issued capital for a mature company and 10 percent for a growth company. However, ISS will support plans at mature companies with dilution levels up to 10 percent if the plan includes other positive features such as challenging performance criteria and meaningful vesting periods as these features partially offset dilution concerns by reducing the likelihood that options will become exercisable unless there is a clear improvement in shareholder value. In addition, ISS will support a plan's dilution limit that exceeds these thresholds if the annual grant limit under the plan is 0.5 percent or less for a mature company (1 percent or less for a mature company with clearly disclosed performance criteria) and 1 percent or less for a growth company. › The plan permits options to be issued with an exercise price at a discount to the current market price; or › Directors eligible to receive options or awards under the scheme are involved in the administration of the scheme and the administrator has the discretion over their awards. Equity awards granted or taken in lieu of cash fees generally would not be considered discretionary awards.

Rationale for Change:

This policy update moves the footnote on the exception for equity award grants in lieu of cash to the main content paragraph of the policy. This is expected to make the exception more visible and avoid misinterpretation of the policy.

~~[12] Equity awards granted or taken in lieu of cash fees generally would not be considered discretionary awards.~~

SINGAPORE

Share Issuance Requests

Share Repurchase Plans

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
General Recommendation: Generally vote for resolutions authorizing the company to repurchase its own shares, unless the premium over the average trading price of the shares as implied by the maximum price paid exceeds 5 percent for on-market and/or off-market repurchases.	**General Recommendation:** Generally vote for resolutions authorizing the company to repurchase its own shares, unless the premium over the average trading price of the shares as implied by the maximum price paid exceeds 5 percent for on-market and/or off-market repurchases.

Rationale for Change:

Under Singapore Exchange rules, the premium at which market share repurchases can be made is limited to a price not more than 5 percent above the average closing market price over the five trading days before the repurchase. However, there are no rules regarding the premium allowed for off-market share repurchases.

Share repurchases at excessive premiums could prove costly to the company and lead to the deterioration of shareholder value. The introduction of price ceilings for share repurchases would limit potential abuses of the mandate, such as the buyback of shares from a related-party shareholder at an above-market price.

The adoption of share price limits would generally align the ISS Singapore policy with the viewpoints expressed by institutional investors during the ISS policy development process.

The updated policy will only apply to on-market and/or off-market share repurchase mandates. Repurchases under exceptional circumstances, such as one-off company specific events, would be assessed case-by-case based on the merits.

INDIA

Debt Issuance Requests

Increase in Borrowing Powers

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
General Recommendation: Vote for debt-related proposals if: › The size of the debt being requested is disclosed; › A credible reason for the need for additional funding is provided; › The potential increase in debt is not excessive; and › There are no significant causes for shareholder concern regarding the terms and conditions of the debt. For non-financial companies, the following criteria are used to assess whether the potential increase in debt is considered excessive: › The proposed maximum amount is more than twice the company's total debt; › It could result in the company's ~~net~~ debt-to-equity ratio, or gearing level, exceeding 300 percent; and › The maximum hypothetical debt-to-equity ratio is more than three times the industry and/or market norm. Generally vote for debt-related proposals of financial companies taking into account the current financial standing of the company, including but not limited to: › The capital adequacy to risk (weighted) assets; or › Capital adequacy ratio vis-à-vis the regulatory norm; › Revenue growth; and › Asset base.	**General Recommendation:** Vote for debt-related proposals if: › The size of the debt being requested is disclosed; › A credible reason for the need for additional funding is provided; › The potential increase in debt is not excessive; and › There are no significant causes for shareholder concern regarding the terms and conditions of the debt. For non-financial companies, the following criteria are used to assess whether the potential increase in debt is considered excessive: › The proposed maximum amount is more than twice the company's total debt; › It could result in the company's debt-to-equity ratio, or gearing level, exceeding 300 percent; and › The maximum hypothetical debt-to-equity ratio is more than three times the industry and/or market norm. Generally vote for debt-related proposals of financial companies taking into account the current financial standing of the company, including but not limited to: › The capital adequacy to risk (weighted) assets; or › Capital adequacy ratio vis-à-vis the regulatory norm; › Revenue growth; and › Asset base.

Rationale for Change:

This update is to change the definition of gearing and harmonize it with regional guidelines.

SOUTH KOREA

Amendments to the Articles of Incorporation

Stock Option Programs for the Employee Stock Ownership Plan

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
General Recommendation: [No current formal policy] Generally vote for article amendments to establish stock option programs for the Employee Stock Ownership Plan if: › The company explicitly states that shareholders' approval will be required for the board to grant stock options to individual members of the employee stock ownership plan pursuant to the Framework Act on Labor Welfare, either prior to the grant or retrospectively at the earliest general meeting; and › The maximum dilution level under the program does not exceed 5 percent of issued capital for a mature company and 10 percent for a growth company.	**General Recommendation:** Generally vote for article amendments to establish stock option programs for the Employee Stock Ownership Plan if: › The company explicitly states that shareholders' approval will be required for the board to grant stock options to individual members of the employee stock ownership plan pursuant to the Framework Act on Labor Welfare, either prior to the grant or retrospectively at the earliest general meeting; and › The maximum dilution level under the program does not exceed 5 percent of issued capital for a mature company and 10 percent for a growth company.

Rationale for Change:

Until recently, proposals to introduce stock option program for the employee stock ownership plan were rare, whereas more than 20 companies have proposed the introduction through article amendments in 2017. This program is different from ordinary stock options in terms of legal base - the former is based on the Framework Act on Labor Welfare whereas the latter is based on the Commercial Act. However, the nature of the two plans are the same as they both pursue alignment of interest between shareholders and employees/executives, while posing dilution risks to existing shareholders. Therefore, a consolidated approach is required.

Under the Framework Act on Labor Welfare, a company may introduce a stock option program for the employee stock ownership plan, to which the board may grant up to 20 percent of issued shares as stock options. The law further states that the board has the authority to grant up to 10 percent of issued shares without shareholders' approval. This is in contrast to ordinary stock option grants, for which the board must seek shareholder approval, either prior to the grant, or retrospectively at the earliest general meeting. The table below summarizes the four key differences between this program and ordinary stock option grants:

	Stock Option Program for the Employee Stock Ownership Plan	Ordinary Stock Option Grants
Legal framework	Article 39 of the Framework Act on Labor Welfare	Article 542-3-2 of the Commercial Act and accompanying Presidential Decree
Grant limit	If a company has amended its articles, it is allowed to grant stock options up to 20 percent of issued capital to members of the employee stock	A company may grant stock options up to 15 percent of issued capital. Also, the company may grant stock options at the board's discretion up to 1 percent of issued capital if shareholder's equity is more than KRW

	ownership association and the board has authority to grant up to 10 percent of issued shares, regardless of the company size.	300 billion, the lower between 3 percent of issued capital and 6 billion shares if shareholder's equity is between KRW 100 and 300 billion, and 3 percent if shareholder's equity is less than KRW 100 billion.
Shareholder approval requirement	This program also requires shareholders' approval. However, the law does not mandate a company to call for a shareholder meeting if the grant size is smaller than 10 percent of the amount that the board has authority to grant.	Ordinary stock option grants must be put to a shareholders' vote either ex-ante or ex-post, regardless of grant size. Even if the board has authority to grant a certain amount of stock options, it still requires shareholders' approval.
Exercise price	Up to 70 percent discount to the reference price that is the arithmetic average of the volume-weighted average share price of one month, one week, and a day before the grant date	The arithmetic average of the volume-weighted average share price of two months, one month, and one week before the grant date

Additionally, the law governing this program was amended in 2011 to allow a company to grant stock options to specific employees, not necessarily to all the employees in the employee stock ownership association. This has enabled a company to use the program as an incentive tool for its employees. With such legal developments, the program becomes an incentive scheme that is very similar to ordinary stock option grants.

Although its implications and risks are same for the program and ordinary stock option grants, there are differences regarding the grant size and shareholders' rights due to the different legal bases. Despite the fact that any types of stock option grants are still rare in Korea, allowing excessive flexibility to the board could pose potential dilution risks to existing shareholders. In Korea, once an article amendment is approved by shareholders, a board is no longer required to seek shareholder approval for actions stipulated in the articles. The proposed changes are usually presented in a format that makes it vague whether the board will seek shareholder approval for stock option grants to the members of the employee stock ownership plan. Given that the relevant law allows the board to issue up to 10 percent of issued shares without shareholder approval, this may breach the maximum dilution limits in our current policy for ordinary stock option grants which are set at 5 percent for a mature company and 10 percent for a growth company.

TAIWAN

Election of Directors and Supervisors – Voting for Director Nominees in Uncontested Elections

Overboarding

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
General Recommendation: Vote against all directors and supervisors where the company employs the non-nomination system for election. When the company employs the nomination system, generally vote for all non-independent director and supervisor candidates. Generally vote for the independent director nominees, unless: › The nominee is deemed non-independent under ISS classification; › The nominee is a legal entity or a representative of a legal entity[13]; › The nominee has attended less than 75 percent of board and key committee meetings over the most recent fiscal year, without a satisfactory explanation. The calculation of director attendance (or that of the representatives appointed by a legal entity which serves as a corporate director in the company) will not include meetings attended by alternate directors (or the proxy of those representatives). Acceptable reasons for director absences are generally limited to the following: › Medical issues/illness; › Family emergencies; › The director (or the representative) has served on the board for less than a year; and › Missing only one meeting (when the total of all meetings is three or fewer);	**General Recommendation:** Vote against all directors and supervisors where the company employs the non-nomination system for election. When the company employs the nomination system, generally vote for all non-independent director and supervisor candidates. Generally vote for the independent director nominees, unless: › The nominee is deemed non-independent under ISS classification; › The nominee is a legal entity or a representative of a legal entity[13] › The nominee has attended less than 75 percent of board and key committee meetings over the most recent fiscal year, without a satisfactory explanation. The calculation of director attendance (or that of the representatives appointed by a legal entity which serves as a corporate director in the company) will not include meetings attended by alternate directors (or the proxy of those representatives). Acceptable reasons for director absences are generally limited to the following: › Medical issues/illness; › Family emergencies; › The director (or the representative) has served on the board for less than a year; and › Missing only one meeting (when the total of all meetings is three or fewer);

[13] Pursuant to Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies under the Securities and Exchange Act, a legal entity can only serve as non-independent director in a company.

› The nominee sits on more than six[14] public company boards[15]; or › The nominee has been a partner of the company's auditor within the last three years[16], and serves in the audit committee.	› The nominee sits on more than six[14] public company boards[15]; or › The nominee has been a partner of the company's auditor within the last three years[16], and serves in the audit committee.

Rationale for Change:

This policy update is to clarify that the number in the footnote refers to external public boards. Article 4 of Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies states that "No independent director of a public company may concurrently serve as an independent director of more than three other public companies."

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[14] A commitment to reduce the number of boards to six or fewer by the next annual meeting will be considered. The commitment would need to be disclosed prior to the AGM in the relevant meeting materials, such as the meeting notice, circular, or annual report.

[15] Any independent directors shall not sit on more than three **other** public boards as independent director, according to Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies under the Securities and Exchange Act.

[16] Pursuant to Securities and Exchange Act, all independent directors will automatically become the members of the company's audit committee, if any, which should be 100-percent independent.

ASIA-PACIFIC REGIONAL GUIDELINES – PHILIPPINES

Board of Directors

Director Elections

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:

General Recommendation:
For Philippines, vote for the election of a board-nominated candidate unless:
› He/she has attended less than 75 percent of board and key committee meetings over the most recent year, without satisfactory explanation. Acceptable reasons for director absences are generally limited to the following:
  › Medical issues/illness;
  › Family emergencies;
  › The director has served on the board for less than a year; and
  › Missing only one meeting (when the total of all meetings is three or fewer).
› He/she is a non-independent director nominee and independent directors represent less than the higher of three independent directors or ~~30 percent~~ one-third of the board.
~~In accordance with local standards, in determining whether the required percentage of independent directors is satisfied, the total number of directors is multiplied by 30 percent and the product is rounded down to the nearest whole number. For example, a thirteen-director board with three independent satisfies the board independent requirement, even though the board is only 21.4 percent independent.~~
In making these recommendations, ISS generally will not recommend against the election of a CEO/president, executive chairman, or founder who is integral to the company.
	General Recommendation:
	For Philippines, vote for the election of a board-nominated candidate unless:
	› He/she has attended less than 75 percent of board and key committee meetings over the most recent year, without satisfactory explanation. Acceptable reasons for director absences are generally limited to the following:
	  › Medical issues/illness;
	  › Family emergencies;
	  › The director has served on the board for less than a year; and
	  › Missing only one meeting (when the total of all meetings is three or fewer).
	› He/she is a non-independent director nominee and independent directors represent less than the higher of three independent directors or one-third of the board.
	In making these recommendations, ISS generally will not recommend against the election of a CEO/president, executive chairman, or founder who is integral to the company.

Rationale for Change:

This change aligns the director election policy in the Philippines with that of other Asia Pacific markets, as well as with updated local regulations. The Code of Corporate Governance for Publicly Listed Companies 2016, released by the Securities and Exchange Commission (SEC), requires that independent directors represent the higher of three independent directors or one-third of the board.

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