2019 Europe, Middle East and Africa (EMEA) Proxy Voting Guidelines Updates

Benchmark Policy Changes for U.K., Ireland, Continental Europe, Israel, Russia, and Kazakhstan

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U.K. AND IRELAND

Operational Items

Appointment of External Auditors

Current ISS Policy, incorporating changes:	New ISS Policy:
General Recommendation: Generally vote for proposals to ratify the appointment of the external auditors, unless: › There are serious concerns about the ~~procedures used by~~ effectiveness of the auditors; ~~or~~ › The auditors are being changed without explanation; or › The lead audit partner(s) has been linked with a significant auditing controversy. It is best practice in the UK to present the resolutions to appoint the external auditors and to fix their remuneration as two separate items. In line with the Pensions and Lifetime Savings Association position, where the tenure of the external auditor extends beyond ten years and there has not been a recent tender process and no plans to put the audit out to tender are reported, then the chairman of the audit committee may receive a negative voting recommendation when he or she is next standing for re-election. Where the auditor has resigned, the resignation letter should be posted on the company's website. If the company proposes a new auditor, or an auditor resigns and does not seek re-election, the company should offer an explanation to shareholders. If no explanation is provided, ISS recommends a vote against the election of the new auditor.	**General Recommendation:** Generally vote for proposals to ratify the appointment of the external auditors, unless: › There are serious concerns about the effectiveness of the auditors; › The auditors are being changed without explanation; or › The lead audit partner(s) has been linked with a significant auditing controversy. It is best practice in the UK to present the resolutions to appoint the external auditors and to fix their remuneration as two separate items. In line with the Pensions and Lifetime Savings Association position, where the tenure of the external auditor extends beyond ten years and there has not been a recent tender process and no plans to put the audit out to tender are reported, then the chairman of the audit committee may receive a negative voting recommendation when he or she is next standing for re-election. Where the auditor has resigned, the resignation letter should be posted on the company's website. If the company proposes a new auditor, or an auditor resigns and does not seek re-election, the company should offer an explanation to shareholders. If no explanation is provided, ISS recommends a vote against the election of the new auditor.

Rationale for Change:

In the aftermath of several recent high-profile corporate failures, the role of auditors has come under significant scrutiny from a number of stakeholder groups – included among these are institutional investors and market regulators. In the UK, the most notorious example occurred in January 2018, when a FTSE 250 company

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declared bankruptcy only months after its previous annual report had asserted that the group had sufficient capital to continue as a going concern for at least three years. This incident brought into sharper focus the need for better audit quality on publicly listed companies.

Separately, a resolution to reappoint an auditor at another publicly listed firm was overwhelmingly defeated (c. 78 percent of the votes cast were against) after accounting irregularities came to light. These developments evidence a growing investor focus on holding auditors to account for any perceived failures in audit quality.

ISS will note lead audit partners who have been linked with significant auditing controversies and, where they are engaged in the audit for other public companies, this track record will be raised for investor attention – even if no issues of concern have been identified at the subject company. This proposed approach was raised at the ISS' European policy roundtables and received broad support from institutional investor clients.

Board of Directors

Director Elections – Governance Failures

Current ISS Policy, incorporating changes:	New ISS Policy:
General Recommendation: Generally vote for the election or re-election of directors, unless: › Adequate disclosure has not been provided in a timely manner; › The board fails to meet minimum corporate governance standards – please see the following sections on independence classification and board and committee composition for further details of how this is interpreted in practice; or › There are specific concerns about the individual, such as his/her ability to commit sufficient time to the role. Under extraordinary circumstances, ISS will consider recommending a vote against individual directors for: › Material failures of governance, stewardship, or risk oversight; or › Egregious actions related to the director(s)'service on other boards that raise substantial doubt about that individual's ability to effectively oversee management and to serve the best interests of shareholders at any company. **Discussion**	**General Recommendation:** Generally vote for the election or re-election of directors, unless: › Adequate disclosure has not been provided in a timely manner; › The board fails to meet minimum corporate governance standards – please see the following sections on independence classification and board and committee composition for further details of how this is interpreted in practice; or › There are specific concerns about the individual, such as his/her ability to commit sufficient time to the role. Under extraordinary circumstances, ISS will consider recommending a vote against individual directors for: › Material failures of governance, stewardship, or risk oversight; or › Egregious actions related to the director(s)'service on other boards that raise substantial doubt about that individual's ability to effectively oversee management and to serve the best interests of shareholders at any company. **Discussion**

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

Rationale for Change:

This policy update expands upon the existing reference to "material failures of governance, stewardship, risk oversight"within the U.K./Ireland policy to include instances where these material failures occurred at issuers other than the subject company. This approach aligns the policy with other markets, including Europe, and received overwhelming support from investor respondents to the 2018 ISS Global Policy Survey.

Director Elections – Attendance

Current ISS Policy, incorporating changes:	**New ISS Policy:**
General Recommendation: ~~In terms of considering attendance,~~ ISS may recommend against the re-election of a director if~~, in the absence of a suitable explanation,~~ there have been repeated absences (less than 75 percent attendance) at board and committee meetings that have not been suitably explained. ~~attendance at board and committee meetings has been lower than 75 percent for two or more consecutive years~~. This applies to all directors, not just those with multiple outside directorships.	**General Recommendation:** ISS may recommend against the re-election of a director if there have been repeated absences (less than 75 percent attendance) at board and committee meetings that have not been suitably explained. This applies to all directors, not just those with multiple outside directorships.

Rationale for Change:

This change is to highlight for shareholder attention where there are recurring attendance issues over an extended period of time. There is no intent to significantly alter the existing approach to assessing director attendance.

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Remuneration

Remuneration Policy

Current ISS Policy, incorporating changes:

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

…

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

…

Policy component	Good market practice
Annual bonus	As set out in the Investment Association Principles, annual bonuses exist to reward contribution to the business during the year above the level expected for being in receipt of a salary. They should be clearly linked to business targets, ideally through the key performance indicators (KPIs) reported in the Strategic Report. Companies should explain the performance measures chosen. The GC100 and Investor Group states that the maximum amount of the short-term incentive that might be earned must be disclosed as well as the amounts that could be paid for reaching certain thresholds or targets. The target bonus should typically be set at no more than 50 percent of the maximum bonus potential; any payout above this level at target should be supported by a sufficiently robust explanation. In cases where a remuneration committee increases the maximum bonus opportunity, the performance targets should be made sufficiently more challenging to justify the additional reward that can be earned. Any increase in this limit from one

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	policy period to another should be fully explained. ISS does not typically support uncapped bonus schemes. Deferring a portion of the bonus into shares can create a greater alignment with shareholders, particularly where there is no long-term incentive, although the introduction of deferral should not of itself result in an increase to the overall quantum of the bonus. Dividends may be credited on deferred bonus shares held during the deferral period, but no further dividends should be paid on undelivered shares or options after the end of the designated deferral period. Provisions to pay a guaranteed annual bonus will attract a negative vote recommendation.
Long-term incentive plans (LTIPs)	In line with the Investment Association Principles, scheme and individual participation limits must be fully disclosed, and any change to the maximum award should be explained and justified. Any matching shares will be considered as part of the overall quantum. ~~Performance periods longer than three years and compulsory post-vesting holding periods are encouraged.~~ Firms should avoid operating multiple long-term schemes. Performance periods longer than three years are encouraged. Share awards should be subject to a total vesting and holding period of five years or more, in line with the recommendations of the Code.
Shareholding requirement	~~The Code advises that the remuneration committee should consider requiring directors to hold a minimum number of shares.~~ The Pensions and Lifetime Savings Association argues for minimum shareholding guidelines of 200 percent of basic salary. Unvested holdings in share incentive plans do not count towards fulfilment of the requirement. Post-employment shareholding requirements are becoming increasingly common. The Code states that the remuneration

	policy period to another should be fully explained. ISS does not typically support uncapped bonus schemes. Deferring a portion of the bonus into shares can create a greater alignment with shareholders, particularly where there is no long-term incentive, although the introduction of deferral should not of itself result in an increase to the overall quantum of the bonus. Dividends may be credited on deferred bonus shares held during the deferral period, but no further dividends should be paid on undelivered shares or options after the end of the designated deferral period. Provisions to pay a guaranteed annual bonus will attract a negative vote recommendation.
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Shareholding requirement	The Pensions and Lifetime Savings Association argues for minimum shareholding guidelines of 200 percent of basic salary. Unvested holdings in share incentive plans do not count towards fulfilment of the requirement. Post-employment shareholding requirements are becoming increasingly common. The Code states that the remuneration committee should develop a formal policy for post-

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	committee should develop a formal policy for post-employment shareholding requirements encompassing both unvested and vested shares.		employment shareholding requirements encompassing both unvested and vested shares.

Rationale for Change:

Annual Bonus: In recent years, investors have increased their focus on the level of bonus paid out vis-à-vis corporate performance. Many companies have continued to award relatively generous bonus payouts even cases of mediocre or poor performance, and this has resulted in a number of high dissent votes against remuneration proposals.

This policy update provides guidance as to ISS' expectations as to target level reward. Voting recommendations would not be set mechanistically around this point but would be considered alongside a number of other inputs, e.g. the overall quantum of the bonus and wider remuneration package, and historical pay-performance alignment and past remuneration committee behaviour, among other factors.

LTIPS: This policy change takes account of recent changes in market practice, as the majority of FTSE 350 companies now have a five-year release horizon for LTIP awards. This is typically structured as a performance period of three years, followed by a two-year holding period for any vesting shares. The 2018 UK Corporate Governance Code recommends a total vesting and holding period of five years as a minimum standard.

The policy update also recognises that post-employment shareholding requirements are increasingly popular – a trend that is expected to continue following the positive endorsement from the FRC in the 2018 version of the Code.

Remuneration Report

Current ISS Policy, incorporating changes:	New ISS Policy:
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 model 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;	**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 model 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;

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- 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.

…

Policy component	Good market practice
Long-Term Incentive plans (LTIPs)	Under the resolution to approve the remuneration report, ISS considers both the LTIP awards granted and those vested or lapsed during the year under review. When assessing the awards which ***vested***, the Investment Association Principles advise that remuneration committees should ensure that the result does not produce outcomes that are out of line with the overall performance of the company, its future prospects or the experience of its shareholders over the performance period. The definition of any performance measurement should be clearly disclosed. For ***awards*** granted in the year under review, the Investment Association Principles note that companies should disclose the potential value of awards due to individual scheme participants on full vesting, expressed by reference to the face value of shares or shares under option at point of grant, and expressed as a multiple of base salary. In this regard, the vesting levels for threshold and on-target performance should be in line with market norms, with threshold vesting generally being no higher than 25 percent. However, as much as 25 percent may be considered inappropriate if LTIP grants represent large multiples of salary.

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	When there has been a material decline in a company's share price, remuneration committees should consider reducing the size of LTIP awards at the time of grant. The lowering of targets should generally be reflected in a reduction of the amount that can vest and, similarly, any increase in award size should be linked to more challenging targets.		When there has been a material decline in a company's share price, remuneration committees should consider reducing the size of LTIP awards at the time of grant. The lowering of targets should generally be reflected in a reduction of the amount that can vest and, similarly, any increase in award size should be linked to more challenging targets.
The pay of the NEDs	Any increases to NED pay during the year under review will be considered alongside pay increases to executive directors and the broader workforce. The fees payable to NEDs should not be excessive relative to similarly-sized companies in the same sector.	The pay of the NEDs	Any increases to NED pay during the year under review will be considered alongside pay increases to executive directors and the broader workforce. The fees payable to NEDs should not be excessive relative to similarly-sized companies in the same sector.

Rationale for Change:

LTIP awards: If long-term incentive grant sizes are held constant in percentage of salary terms following a material decline in share price, this has the effect of driving up the underlying number of shares required to fund the award. Consequently, if the company's share price subsequently recovers from relative lows, this may result in significant gains which were not necessarily envisaged at the time of the award, and may not be reflective of underlying performance.

Remuneration committees should actively consider award sizes on an annual basis, particularly where there has been significant volatility in the share price.

The pay of NEDs: The UK and Ireland Proxy Voting Guidelines have not included an option to vote against the remuneration report in cases where non-executive directors' fees are considered excessive, relative to similarly-sized companies in the same sector. This update provides the flexibility to reflect on the magnitude of NED fees within the scope of the remuneration report.

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Approval of a new or amended LTIP

Current ISS Policy, incorporating changes:	New ISS Policy:
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; › The vesting levels for threshold and on target performance are in line with market norms, with threshold vesting generally no higher than 25 percent. However, as much as 25 percent may be considered inappropriate if LTIP grants represent large multiples of salary. › 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~~ scheme is operating within ~~the~~ dilution limits ~~of the company's share-based incentive schemes,~~ that are aligned to the relevant UK market standards. Namely, no more than 10 percent of the issued share capital should be issued under all incentive schemes in any rolling 10-year period, and no more than 5 percent of the issued share capital should be issued under executive (discretionary) schemes in any rolling 10-year period, in line with the guidelines established by the Investment Association; and › There are no issues with the plan which would be of concern to shareholders.	**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; › The vesting levels for threshold and on target performance are in line with market norms, with threshold vesting generally no higher than 25 percent. However, as much as 25 percent may be considered inappropriate if LTIP grants represent large multiples of salary. › 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 scheme is operating within dilution limits that are aligned to the relevant UK market standards. Namely, no more than 10 percent of the issued share capital should be issued under all incentive schemes in any rolling 10-year period, and no more than 5 percent of the issued share capital should be issued under executive (discretionary) schemes in any rolling 10-year period, in line with the guidelines established by the Investment Association; and › There are no issues with the plan which would be of concern to shareholders.

Rationale for Change:

This policy update provides a clarification that the dilution limits for new or amended long-term incentive plans should be set in line with Investment Association (IA) guidelines. This change removes any ambiguity about which limits should apply and references the relevant market guidance set by the IA, which are widely understood and implemented by most listed companies.

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Capital Structure

Authorise Issue of Equity with and without Pre-emptive Rights

Current ISS Policy, incorporating changes:	New ISS Policy:
General Recommendation: Generally vote for a resolution to authorise the issuance of equity, unless: › The general issuance authority exceeds one-third (33 percent) of the issued share capital. Assuming it is no more than one-third, a further one-third of the issued share capital may also be applied to a fully pre-emptive rights issue taking the acceptable aggregate authority to two-thirds (66 percent); or › The routine authority to disapply preemption rights exceeds 10 percent of the issued share capital, provided that any amount above 5 percent is to be used for the purposes of an acquisition or a specified capital investment. ISS will generally support resolutions seeking authorities in line with the Investment Association's Share Capital Management Guidelines and the Pre-Emption Group Statement of Principles[5]. ISS will support an authority to allot up to two-thirds of the existing issued share capital, providing that any amount in excess of one-third of existing issued shares would be applied to fully pre-emptive rights issues only. Under the Pre-Emption Group Principles, the routine authority to disapply pre-emption rights should not exceed more than 5 percent of ordinary share capital in any one year, with an overall limit of 7.5 percent in any rolling three-year period. Companies can seek shareholder approval for an authority up to 10 percent, provided that any amount in excess of the standard 5 percent is to be used only for purposes of an acquisition or a specified capital investment. A company which receives approval for an authority of this nature but is then subsequently viewed as abusing the authority ~~during the year~~ in a manner not in line with Pre-emption Group Principles – for example, by issuing shares up to 10 percent for purposes other than set out in the guidelines or by using a cash-box structure[6] to issue more than the authority approved at the previous AGM – is likely to receive a negative recommendation on the share issuance authorities ~~authority~~ at the following AGM.	**General Recommendation:** Generally vote for a resolution to authorise the issuance of equity, unless: › The general issuance authority exceeds one-third (33 percent) of the issued share capital. Assuming it is no more than one-third, a further one-third of the issued share capital may also be applied to a fully pre-emptive rights issue taking the acceptable aggregate authority to two-thirds (66 percent); or › The routine authority to disapply preemption rights exceeds 10 percent of the issued share capital, provided that any amount above 5 percent is to be used for the purposes of an acquisition or a specified capital investment. ISS will generally support resolutions seeking authorities in line with the Investment Association's Share Capital Management Guidelines and the Pre-Emption Group Statement of Principles[5]. ISS will support an authority to allot up to two-thirds of the existing issued share capital, providing that any amount in excess of one-third of existing issued shares would be applied to fully pre-emptive rights issues only. Under the Pre-Emption Group Principles, the routine authority to disapply pre-emption rights should not exceed more than 5 percent of ordinary share capital in any one year, with an overall limit of 7.5 percent in any rolling three-year period. Companies can seek shareholder approval for an authority up to 10 percent, provided that any amount in excess of the standard 5 percent is to be used only for purposes of an acquisition or a specified capital investment. A company which receives approval for an authority of this nature but is then subsequently viewed as abusing the authority in a manner not in line with Pre-emption Group Principles – for example, by issuing shares up to 10 percent for purposes other than set out in the guidelines or by using a cash-box structure[6] to issue more than the authority approved at the previous AGM – is likely to receive a negative recommendation on the share issuance authorities at the following AGM.

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

Rationale for Change:

UK corporate law gives existing shareholders the right to subscribe for shares on an equal basis with other shareholders, dependent on the number of shares they already own (a pre-emptive issue). Specific shareholder approval is required for any share issue not made on a pre-emptive basis. It is common for UK-listed companies to seek such shareholder approval on an annual basis, subject to certain limits. The Pre-Emption Group – a representative body made up of listed companies, investors and intermediaries – sets the market standards in the UK, with the vast majority of companies falling in line with the Group's guidance as to the preferred structure of these capital authorities.

The policy change codifies what is already applied in practice, removing the restrictive language "during the year" so that the analyst may take account of the company's practice over multiple years, if appropriate, and clarifying that an against recommendation would potentially be applied to all share issuance authorities, and not only the disapplication of pre-emption rights. This clarification is in line with the goal of the policy since companies may still circumvent pre-emption rights by way of cash box structures, so long as they have a general authority to issue shares.

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Smaller Companies

Accept Financial Statements and Statutory Reports

<table>
<tr><th>Current ISS Policy, incorporating changes:</th><th>New ISS Policy:</th></tr>
<tr><td>
General Recommendation: Generally vote for approval of financial statements and statutory reports, unless:

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

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

› The identity of all the directors, their board roles, committee memberships and independence classification;
› List of major shareholders; ~~and~~
› Attendance at board and committee meetings~~.;~~ and
› Details of compliance against a "recognised corporate governance code".
</td><td>
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› The identity of all the directors, their board roles, committee memberships and independence classification;
› List of major shareholders;
› Attendance at board and committee meetings and
› Details of compliance against a "recognised corporate governance code".
</td></tr>
</table>

Rationale for Change:

The London Stock Exchange amended the AIM Rules in March 2018 which amongst other things require AIM listed companies to provide a disclosure of compliance against a ‘recognised corporate governance code’. This particular change comes into effect from 28 September 2018. The amended Rules state that AIM-listed companies should provide details on their website of the corporate governance code that the company has decided to apply. The Rules go on to state that disclosure should also be provided as to how the company complies with the chosen code, or if no code has been adopted this should be stated together with its current corporate governance arrangements.

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Social and Environmental Issues

Global Approach

Current ISS Policy, incorporating changes:	New ISS Policy:
General Recommendation: Generally vote case-by-case, ~~taking into consideration~~ examining primarily whether implementation of the proposal is likely to enhance or protect shareholder value~~, and in addition~~. T~~t~~he following factors will ~~also~~ be considered: › If the issues presented in the proposal are more appropriately or effectively dealt with through legislation or government regulation; › If the company has already responded in an appropriate and sufficient manner to the issue(s) raised in the proposal; › Whether the proposal's request is unduly burdensome (scope or timeframe) or overly prescriptive; › The company's approach compared with any industry standard practices for addressing the issue(s) raised by the proposal; › Whether there are significant controversies, fines, penalties, or litigation associated with the company's environmental or social practices; › If the proposal requests increased disclosure or greater transparency, whether ~~or not~~ reasonable and sufficient information is currently available to shareholders from the company or from other publicly available sources; and › If the proposal requests increased disclosure or greater transparency, whether ~~or not~~ implementation would reveal proprietary or confidential information that could place the company at a competitive disadvantage.	**General Recommendation:** Generally vote case-by-case, examining primarily whether implementation of the proposal is likely to enhance or protect shareholder value. The following factors will be considered: › If the issues presented in the proposal are more appropriately or effectively dealt with through legislation or government regulation; › If the company has already responded in an appropriate and sufficient manner to the issue(s) raised in the proposal; › Whether the proposal's request is unduly burdensome (scope or timeframe) or overly prescriptive; › The company's approach compared with any industry standard practices for addressing the issue(s) raised by the proposal; › Whether there are significant controversies, fines, penalties, or litigation associated with the company's environmental or social practices; › If the proposal requests increased disclosure or greater transparency, whether reasonable and sufficient information is currently available to shareholders from the company or from other publicly available sources; and › If the proposal requests increased disclosure or greater transparency, whether implementation would reveal proprietary or confidential information that could place the company at a competitive disadvantage.

Rationale for Change:

The update is being made to codify the factors that are already taken into consideration in ISS' case-by-case analyses of environmental and social (E&S) shareholder proposals. The update makes it more explicit that significant controversies, fines, penalties, or litigation are considered when evaluating E&S shareholder proposals.

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CONTINENTAL EUROPE

Operational Items

Appointment of Auditors and Auditor Fees

Current ISS Policy, incorporating changes:	New ISS Policy:
General Recommendation: Generally vVote for proposals to ~~ratify~~ (re)appoint auditors and/or proposals authorizing the board to fix auditor fees, unless: › The name of the proposed auditors has not been published; › There are serious concerns about the ~~procedures used by~~ effectiveness of the auditors; › The lead audit partner(s) has been linked with a significant auditing controversy; › There is reason to believe that the auditor has rendered an opinion which is neither accurate nor indicative of the company's financial position; › ~~External auditors~~ The lead audit partner(s) hasve previously served the company in an executive capacity or can otherwise be considered affiliated with the company; › ~~Name of the proposed auditors has not been published;~~ › The auditors are being changed without explanation; or › For widely-held companies, fees for non-audit services exceed either 100 percent of standard audit-related fees or any stricter limit set in local best practice recommendations or law. In circumstances where fees for non-audit services include fees related to significant one-time capital structure events: initial public offerings, bankruptcy emergence, and spinoffs; and the company makes public disclosure of the amount and nature of those fees which are an exception to the standard "non-audit fee" category, then such fees may be excluded from the non-audit fees considered in determining the ratio of non-audit to audit fees. For concerns relating to the audit procedures, independence of auditors, and/or name of auditors, ISS will focus on the auditor election. For concerns relating to	**General Recommendation:** Generally vote for proposals to (re)appoint auditors and/or proposals authorizing the board to fix auditor fees, unless: › The name of the proposed auditors has not been published; › There are serious concerns about the effectiveness of the auditors; › The lead audit partner(s) has been linked with a significant auditing controversy; › There is reason to believe that the auditor has rendered an opinion which is neither accurate nor indicative of the company's financial position; › The lead audit partner(s) has previously served the company in an executive capacity or can otherwise be considered affiliated with the company; › The auditors are being changed without explanation; or › For widely-held companies, fees for non-audit services exceed either 100 percent of standard audit-related fees or any stricter limit set in local best practice recommendations or law. In circumstances where fees for non-audit services include fees related to significant one-time capital structure events: initial public offerings, bankruptcy emergence, and spinoffs; and the company makes public disclosure of the amount and nature of those fees which are an exception to the standard "non-audit fee" category, then such fees may be excluded from the non-audit fees considered in determining the ratio of non-audit to audit fees. For concerns relating to the audit procedures, independence of auditors, and/or name of auditors, ISS will focus on the auditor election. For concerns relating to fees paid to the auditors, ISS will focus on remuneration of auditors if this is a separate voting item, otherwise ISS would focus on the auditor election.

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fees paid to the auditors, ISS will focus on remuneration of auditors if this is a separate voting item, otherwise ISS would focus on the auditor election.	

Rationale for Change:

Similar to the U.K., in the aftermath of several recent high-profile corporate failures, the role of auditors has come under significant scrutiny from a number of stakeholder groups. For Continental Europe, several corporate scandals hit blue-chip companies that were undetected by the external auditor. These incidences brought into sharper focus the need for better audit quality on publicly-listed companies.

Stock (Scrip) Dividend Alternative

Current ISS Policy, incorporating changes:	New ISS Policy:
General Recommendation: Vote case-by-case on stock (scrip) dividend proposals, considering factors such as: › Whether the proposal allows for a cash option; and › If the proposal is in line with market standards.	**General Recommendation:** Vote case-by-case on stock (scrip) dividend proposals, considering factors such as: › Whether the proposal allows for a cash option; and › If the proposal is in line with market standards.

Rationale for Change:

The ISS European policy currently lacks provisions on stock (scrip) dividends. This policy update adapts the equivalent EMEA Regional policy to the European context and ratifies the way ISS has been analyzing stock (scrip) dividend proposals. Specifically, 'market standards' refer to proposals that establish discounted (or excessively discounted) stock dividends that conflict with market norms, making shareholders have to choose the stock alternative despite their preference for cash dividends.

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Board of Directors – Non-Contested Director Elections

Director Terms

Current ISS Policy, incorporating changes:	New ISS Policy:
General Recommendation: For **Belgium**, **France**, Greece, ~~Italy,~~ **Netherlands**, **Spain**, and **Switzerland**, vote against the election or re-election of any director when his/her term is not disclosed or when it exceeds four years and adequate explanation for non-compliance has not been provided. In these markets, the maximum board terms are either recommended best practice or required by legislation. Under best practice recommendations, companies should shorten the terms for directors when the terms exceed the limits suggested by best practices. The policy will be applied to all companies in these markets, for bundled as well as unbundled items. ~~Clients will also be advised to v~~Vote against article amendment proposals to extend board terms. In cases where a company's articles provide for a shorter limit and where the company wishes to extend director terms from three or fewer years to four years, for example, ISS will recommend a vote against, based on the general principle that director accountability is maximized by elections with a short period of renewal.	**General Recommendation:** For **Belgium**, **France**, **Greece, Netherlands**, **Spain**, and **Switzerland**, vote against the election or re-election of any director when his/her term is not disclosed or when it exceeds four years and adequate explanation for non-compliance has not been provided. In these markets, the maximum board terms are either recommended best practice or required by legislation. Under best practice recommendations, companies should shorten the terms for directors when the terms exceed the limits suggested by best practices. The policy will be applied to all companies in these markets, for bundled as well as unbundled items. Vote against article amendment proposals to extend board terms. In cases where a company's articles provide for a shorter limit and where the company wishes to extend director terms from three or fewer years to four years, for example, ISS will recommend a vote against, based on the general principle that director accountability is maximized by elections with a short period of renewal.

Rationale for Change:

While Greek law allows director terms of up to six years, the current local code of best practice recommends that "board members be submitted for election or re-election by shareholders every four years". The current code was released in October 2013 and a five-year period is considered sufficient time for Greek companies to have transitioned to this best practice; which increases director accountability.

Italian law (article 2383 of civil code) establishes the maximum director term at three years. This makes this policy irrelevant to Italian companies, which comply with the aforementioned legal requirements.

~~Redlined~~ = deleted; green = added

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Board Independence

<table>
<tr><th>Current ISS Policy, incorporating changes:</th><th>New ISS Policy:</th></tr>
<tr><td>Independence will be determined according to ISS' European Classification of Directors. If a nominee cannot be categorized, ISS will consider that person non-independent and include that nominee in the calculation.

Voting policies

<u>Widely-held companies</u>

A. Non-controlled companies

Generally vote against the election or reelection of any non-independent directors (excluding the CEO) if:

1. Fewer than 50 percent of the board members elected by shareholders – excluding, where relevant, employee shareholder representatives – would be independent; or
2. Fewer than one-third of all board members would be independent.

Greece and Portugal are excluded from Provision (1.) in the above-mentioned voting policy.

B. Controlled companies

Generally vote against the election or reelection of any non-independent directors (excluding the CEO) if less than one-third of the board members are independent.

<u>Non-widely held companies</u>

Generally vote against the election or reelection of any non-independent directors (excluding the CEO) if less than one-third of the board members are independent.

<s>Voting sanctions will be applied under this policy from February 2019.</s></td><td>Independence will be determined according to ISS' European Classification of Directors. If a nominee cannot be categorized, ISS will consider that person non-independent and include that nominee in the calculation.

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</table>

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Definition of terms 'Widely-held companies' are determined 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, this is based on membership on a local blue-chip market index and/or MSCI EAFE companies. For Portugal, it is based on membership in the PSI-20 and/or MSCI EAFE index. A company is considered to be controlled for the purposes of the above-mentioned voting policies if a shareholder, or multiple shareholders acting in concert, control a majority of the company's equity capital (i.e. 50 percent + one share). If a company is majority-controlled by virtue of a shareholder structure in which shareholders' voting rights do not accrue in accordance with their equity capital commitment (e.g. unequal or multi-class share structures), the company will not be classified as controlled unless the majority shareholder/majority shareholding group also holds a majority of the company's equity capital.	*Definition of terms* 'Widely-held companies' are determined 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, this is based on membership on a local blue- chip market index and/or MSCI EAFE companies. For Portugal, it is based on membership in the PSI-20 and/or MSCI EAFE index. A company is considered to be controlled for the purposes of the above-mentioned voting policies if a shareholder, or multiple shareholders acting in concert, control a majority of the company's equity capital (i.e. 50 percent + one share). If a company is majority-controlled by virtue of a shareholder structure in which shareholders' voting rights do not accrue in accordance with their equity capital commitment (e.g. unequal or multi-class share structures), the company will not be classified as controlled unless the majority shareholder/majority shareholding group also holds a majority of the company's equity capital.

Rationale for Change:

Non-widely held companies: Under the European Voting Guidelines, smaller companies (i.e. "non-widely held companies") are currently excluded from the voting policy on board independence. However, several local codes of best practice recommend that small companies maintain a minimum level of board independence. Most codes do not operate any distinction in terms of size, implying that all companies are subject to the same regime.

According to ISS' 2017-2018 Policy Application Survey, significant majorities of both corporate and investor respondents consider that board independence should be taken into account in non-widely held companies when evaluating director elections.

A one-year transition period delayed the application of this policy until February 2019. The transition period has now passed.

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Overboarded Directors

Current ISS Policy, incorporating changes:	New ISS Policy:
General Recommendation: In **Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, the Netherlands, Norway, Poland, Spain, Sweden**, 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 defined by the following guidelines: › Any person who holds more than five mandates at listed companies will be classified as overboarded. For the purposes of calculating this limit, a non-executive directorship counts as one mandate, a non-executive chairmanship counts as two mandates, and a position as executive director (or a comparable role) is counted as three mandates. › Also, any person who holds the position of executive director (or a comparable role) at one company and a non-executive chairman at a different company will be classified as overboarded.	**General Recommendation:** In **Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, the Netherlands, Norway, Poland, Spain, Sweden,** 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 defined by the following guidelines: › Any person who holds more than five mandates at listed companies will be classified as overboarded. For the purposes of calculating this limit, a non-executive directorship counts as one mandate, a non-executive chairmanship counts as two mandates, and a position as executive director (or a comparable role) is counted as three mandates. › Also, any person who holds the position of executive director (or a comparable role) at one company and a non-executive chairman at a different company will be classified as overboarded.

Rationale for Change:

ISS will apply its over-boarding policy to directors in Poland in order to introduce a higher level of consistency and harmonization of recommendations across the EU markets. Recommendation II.R.4 of the Polish corporate governance code, which was released in 2016, indicates that supervisory board members must be able to devote the time necessary to perform their duties, which implies that directors should not sit on an excessive number of public boards. Besides, Poland is the eighth largest economy in the EU, and on Sept. 24, 2018, FTSE Russell promoted Poland to the developed market status. Both factors make relevant the inclusion of Poland in the overboarding policy.

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Composition of Committees

Current ISS Policy, incorporating changes:	New ISS Policy:
General Recommendation: For widely- held companies, generally vote against the (re)election of any non-independent members of the audit committee if: › Fewer than 50 percent of the audit committee members, who are elected by shareholders in such capacity or another – excluding, where relevant, employee shareholder representatives – would be independent; or › Fewer than one-third of all audit committee members would be independent. For companies whose boards are legally required to have 50 percent of directors not elected by shareholders, the second criterion is not applicable. Generally vote against the election or reelection of the non-independent member of the audit committee designated as chairman of that committee. For widely-held companies in **Belgium**, the **Netherlands**, and **Switzerland**, vote against the (re)election of non-independent members of ~~the audit committee and/or~~ the remuneration committee if their (re)election would lead to a non-independent majority on that ~~the respective~~ committee. **For all companies**: In **Belgium**, **Denmark**, **Finland**, **France**, **Iceland, Luxembourg**, the **Netherlands**, **Norway**, **Spain**, **Sweden**, and **Switzerland**, vote against the (re)election of executives who serve on the company's audit or remuneration committee. ISS may recommend against if the disclosure is too poor to determine whether an executive serves or will serve on a committee. If a company does not have an audit or a remuneration committee, ISS may consider that the entire board fulfills the role of a committee. In such case, ISS may recommend against the executives, including the CEO, up for election to the board. ~~These policies apply only to companies for which ISS includes overall board independence as a factor in its analysis of board elections.~~	**General Recommendation: For widely-held companies**, generally vote against the (re)election of any non-independent members of the audit committee if: › Fewer than 50 percent of the audit committee members, who are elected by shareholders in such capacity or another – excluding, where relevant, employee shareholder representatives – would be independent; or › Fewer than one-third of all audit committee members would be independent. For companies whose boards are legally required to have 50 percent of directors not elected by shareholders, the second criterion is not applicable. Generally vote against the election or reelection of the non-independent member of the audit committee designated as chairman of that committee. For widely-held companies in **Belgium**, the **Netherlands**, and **Switzerland**, vote against the (re)election of non-independent members of the remuneration committee if their (re)election would lead to a non-independent majority on that committee. **For all companies:** In **Belgium, Denmark, Finland, France, Iceland, Luxembourg,** the **Netherlands, Norway, Spain, Sweden,** and **Switzerland**, vote against the (re)election of executives who serve on the company's audit or remuneration committee. ISS may recommend against if the disclosure is too poor to determine whether an executive serves or will serve on a committee. If a company does not have an audit or a remuneration committee, ISS may consider that the entire board fulfills the role of a committee. In such case, ISS may recommend against the executives, including the CEO, up for election to the board.

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Rationale for Change:

The current policy on audit committee independence is applicable to widely-held companies in Belgium, the Netherlands, and Switzerland. The updated policy extends its application to widely- held companies in all other countries in continental Europe.

It is now five years after the adoption of 2014/56/EU Directive on statutory audits of annual accounts and consolidated accounts that requires the audit committee to (i) be chaired by an independent director, (ii) be composed by a majority of independent members. Sufficient time has now elapsed for companies to meet that directive.

The inclusion of Iceland in this policy brings ISS policy in line with the Icelandic corporate governance code, which recommends that executives and employees of the company should not be members of the audit or remuneration committees.

Composition Nomination Committee

Current ISS Policy, incorporating changes:	New ISS Policy:
Vote for proposals in **Finland, Iceland,** ~~**Sweden,**~~ **Norway**, and ~~**Finland**~~ **Sweden** to elect or appoint a nominating committee consisting mainly of non-board members. Vote for shareholder proposals calling for disclosure of the names of the proposed candidates at the meeting, as well as the inclusion of a representative of minority shareholders in the committee. Vote against proposals where the names of the candidates (in the case of an election) or the principles for the establishment of the committee have not been disclosed in a timely manner.	Vote for proposals in **Finland, Iceland, Norway,** and **Sweden** to elect or appoint a nominating committee consisting mainly of non-board members. Vote for shareholder proposals calling for disclosure of the names of the proposed candidates at the meeting, as well as the inclusion of a representative of minority shareholders in the committee. Vote against proposals where the names of the candidates (in the case of an election) or the principles for the establishment of the committee have not been disclosed in a timely manner.

Rationale for Change:

This change aligns ISS' European guidelines with the Icelandic corporate governance code, which recommends that the nomination committee be composed of a majority of non-board members.

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Capital Structure

Share Issuance Requests – General Issuances

Current ISS Policy, incorporating changes:	New ISS Policy:
General Recommendation: Vote for issuance authorities with pre-emptive rights to a maximum of 50~~100~~ percent over currently issued capital and as long as the share issuance authorities' periods are clearly disclosed (or implied by the application of a legal maximum duration) and in line with market-specific practices and/or recommended guidelines (e.g. issuance periods limited to 18 months for the **Netherlands**). ~~**Starting in Feb 2019, the maximum will be 50 percent.**~~ Vote for issuance authorities without pre-emptive rights to a maximum of 10~~20~~ percent (or a lower limit if local market best practice recommendations provide) of currently issued capital as long as the share issuance authorities' periods are clearly disclosed (or implied by the application of a legal maximum duration) and in line with market-specific practices and/or recommended guidelines (e.g. issuance periods limited to 18 months for the **Netherlands**). ~~**Starting in Feb 2019, the maximum will be 10 percent.**~~	**General Recommendation:** Vote for issuance authorities with pre-emptive rights to a maximum of 50 percent over currently issued capital and as long as the share issuance authorities' periods are clearly disclosed (or implied by the application of a legal maximum duration) and in line with market-specific practices and/or recommended guidelines (e.g. issuance periods limited to 18 months for the **Netherlands**). Vote for issuance authorities without pre-emptive rights to a maximum of 10 percent (or a lower limit if local market best practice recommendations provide) of currently issued capital as long as the share issuance authorities' periods are clearly disclosed (or implied by the application of a legal maximum duration) and in line with market-specific practices and/or recommended guidelines (e.g. issuance periods limited to 18 months for the **Netherlands**).

Rationale for Change:

General share issuance requests under both authorized and conditional capital systems allow companies to issue shares to raise funds for general financing purposes. Approval of such authorization requests gives companies sufficient flexibility to carry out ordinary business activities without having to bear the expense of calling shareholder meetings for every issuance.

Issuances can be carried out with or without preemptive rights. Preemptive rights permit shareholders to share proportionately in any new issuances of stock. These rights guarantee existing shareholders the first opportunity to purchase shares of new issuances of stock in the class they own in an amount equal to the percentage of the class they already own. ISS' current approach is that issuance authorities of more than 100 percent (50 percent in France) can lead to excessive cash calls on shareholders, requiring them to provide the funds necessary to maintain their relative positions in the company or to accept substantial dilution. Corporate law in many countries recognizes preemptive rights and requires shareholder approval to waive such rights.

When companies make issuance requests without preemptive rights, shareholders suffer dilution because of such issuances. Therefore, authorizations should be limited to a fixed number of shares or a percentage of capital at the time of issuance. While conventions regarding this type of authority vary widely among countries, currently ISS routinely approves issuance requests without pre-emptive rights for up to 20 percent of a company's outstanding capital in Continental Europe (10 percent in France).

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However, trends among institutional investors are changing globally. More and more investors have tightened their internal voting guidelines and a majority of them only support general share issuances if the maximal dilution is 10 percent (without preemptive rights) or 50 percent (with preemptive rights), respectively. Especially in Europe where this policy is applicable, many investors in larger markets like the UK, France, or Germany already follow a stricter approach.

This policy update was adopted last year and included a one-year transition period prior to implementation. The transition period has now passed.

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