



ASIA-PACIFIC

PROXY VOTING GUIDELINES UPDATES FOR 2020

Benchmark Policy Changes for Bangladesh, China, India,
Japan, Pakistan, South Korea, Singapore, and Taiwan

Effective for Meetings on or after February 1, 2020

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Bangladesh and Pakistan (Asia-Pacific Regional Policy)

Board of Directors

Director Election- Independence

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation: Generally vote for management nominees in the election of directors, except for the following:</p> <p>Independence</p> <p>Overall Board Independence: Per the independence standards in ISS' Classification of Directors, vote against non-independent director nominees:</p> <ul style="list-style-type: none"> ▪ For Malaysia and Thailand, if the board is less than one-third independent; ▪ For Sri Lanka and Pakistan, if independent directors represent less than the higher of two independent directors or one-third of the board; or ▪ For the Philippines, if independent directors represent less than the higher of three independent directors or one-third of the board;⁻ ▪ For Bangladesh, if the board is less than one-fifth independent. <p>.....</p>	<p>General Recommendation: Generally vote for management nominees in the election of directors, except for the following:</p> <p>Independence</p> <p>Overall Board Independence: Per the independence standards in ISS' Classification of Directors, vote against non-independent director nominees:</p> <ul style="list-style-type: none"> ▪ For Malaysia and Thailand, if the board is less than one-third independent; ▪ For Sri Lanka and Pakistan, if independent directors represent less than the higher of two independent directors or one-third of the board; or ▪ For the Philippines, if independent directors represent less than the higher of three independent directors or one-third of the board; ▪ For Bangladesh, if the board is less than one-fifth independent. <p>.....</p>

Rationale for Change:

Pakistan: The Code of Corporate Governance 2012 mandated the appointment of at least one independent director and recommended the board should be at least one-third independent. On Nov. 22, 2017, the Securities and Exchange Commission of Pakistan issued the Listed Companies (Code of Corporate Governance) Regulations, 2017 (2017 Code). The 2017 Code requires that the independent directors of each listed company shall not be less than two members or one third of the total members of the board, whichever is higher. Compliance with the 2017 Code is mandatory. This policy change aligns ISS policy with the local market requirements.

Bangladesh: The policy change aligns ISS policy with the Corporate Governance Code (2018 Code) published by the Bangladesh Securities and Exchange Commission (BSEC) on June 3, 2018. The 2018 Code requires that the independent directors should represent at least one-fifth of the board. Compliance with the 2018 Code is mandatory.

China

Board of Directors

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>Article 108 of the Company Act requires a company to have five to 19 directors on the board, whilst a 2001 China Securities Regulatory Commission (CSRC) guidance document requires that independent directors should represent at least one-third of the board, of which at least one independent director must be an accounting professional. Independent directors are subject to a maximum term of six years.</p> <p>Meeting attendance of independent directors is required to be disclosed by the Code of Corporate Governance 2002. Independent directors who do not join in a board of directors meeting in person for three consecutive times are required to step down and be replaced.</p>	<p>Article 108 of the Company Act requires a company to have five to 19 directors on the board, whilst a 2001 China Securities Regulatory Commission (CSRC) guidance document requires that independent directors should represent at least one-third of the board, of which at least one independent director must be an accounting professional. Independent directors are subject to a maximum term of six years.</p> <p>Meeting attendance of independent directors is required to be disclosed. Independent directors who do not join in a board of directors meeting in person for three consecutive times are required to step down and be replaced.</p>

Rationale for Change:

The China Securities Regulatory Commission (CSRC) released the revised Code of Corporate Governance for Listed Companies in China ("new CG Code") on Sept. 30, 2018, superseding the CG Code 2002. The requirement of disclosure of independent directors' meeting attendance no longer exists in the new CG Code. However, such requirement is mandatory in the No. 2 Standards for the Contents and Formats of Information Disclosure by Listed Companies—Contents and Formats of Annual Report (公开发行证券的公司信息披露内容与格式准则第2号——年度报告的内容与格式) released by the CSRC. Therefore, the sentence of "by the Code of Corporate Governance 2002" is being deleted to better align with the existing regulations.

Related-Party Transactions

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>ISS assesses related-party transactions on a case-by-case basis. However, all analyses are conducted from the point of view of long-term shareholder value for the company's existing shareholders.</p>	<p>ISS assesses related-party transactions on a case-by-case basis. However, all analyses are conducted from the point of view of long-term shareholder value for the company's existing shareholders.</p>

<p>As with many Asian markets, two types of related-party transactions are commonly seen in China – the non-recurring transaction and the recurring service provision agreement. Commonly seen related-party transactions include (but are not limited to):</p> <ul style="list-style-type: none"> ▪ Transactions involving the sale or purchase of goods; ▪ Transactions involving the sale or purchase of property and/or assets; ▪ Transactions involving the lease of property and/or assets; ▪ Transactions involving the provision or receipt of services or leases; ▪ Transactions involving the transfer of intangible items (e.g., research and development, trademarks, license agreements); ▪ Transactions involving the provision, receipt, or guarantee of financial services (including loans and deposit services); ▪ Transactions involving the assumption of financial/operating obligations; ▪ Transactions that include the subscription for debt/equity issuances; and ▪ Transactions that involve the establishment of joint-venture entities. <p>Discussion</p> <p>According to Article 5.1 of Guidelines for Introducing Independent Directors to the Board of Listed Companies by CSRC, 2001, independent directors must ratify any related-party transaction amounting to more than 5 percent of net assets or CNY 3 million, whilst at board meetings held to discuss such transactions interested directors must abstain from voting (Article 124 of the Company Act).</p> <p>Related-party transactions are regulated by Chapter 9 and 10 in the Listing Rules of Shanghai and Shenzhen stock exchanges, with definitions of related parties and associated transactions given in articles 10.1.1, 10.1.3, and 10.1.5. These rules require that related parties abstain from voting on defined related-party transactions at shareholder meetings.</p> <p>Articles 1274 to 1477 of the Code of Corporate Governance also include principles regarding the disclosure, pricing, and other issues involved in a typical related-party transaction.</p>	<p>As with many Asian markets, two types of related-party transactions are commonly seen in China – the non-recurring transaction and the recurring service provision agreement. Commonly seen related-party transactions include (but are not limited to):</p> <ul style="list-style-type: none"> ▪ Transactions involving the sale or purchase of goods; ▪ Transactions involving the sale or purchase of property and/or assets; ▪ Transactions involving the lease of property and/or assets; ▪ Transactions involving the provision or receipt of services or leases; ▪ Transactions involving the transfer of intangible items (e.g., research and development, trademarks, license agreements); ▪ Transactions involving the provision, receipt, or guarantee of financial services (including loans and deposit services); ▪ Transactions involving the assumption of financial/operating obligations; ▪ Transactions that include the subscription for debt/equity issuances; and ▪ Transactions that involve the establishment of joint-venture entities. <p>Discussion</p> <p>According to Article 5.1 of Guidelines for Introducing Independent Directors to the Board of Listed Companies by CSRC, 2001, independent directors must ratify any related-party transaction amounting to more than 5 percent of net assets or CNY 3 million, whilst at board meetings held to discuss such transactions interested directors must abstain from voting (Article 124 of the Company Act).</p> <p>Related-party transactions are regulated by Chapter 9 and 10 in the Listing Rules of Shanghai and Shenzhen stock exchanges, with definitions of related parties and associated transactions given in articles 10.1.1, 10.1.3, and 10.1.5. These rules require that related parties abstain from voting on defined related-party transactions at shareholder meetings.</p> <p>Articles 74 to 77 of the Code of Corporate Governance also include principles regarding the disclosure, pricing, and other issues involved in a typical related-party transaction.</p>
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Rationale for Change:

The China Securities Regulatory Commission (CSRC) released the revised Code of Corporate Governance for Listed Companies in China (new CG Code) on Sept. 30, 2018. In the new CG Code, clauses regarding related-party transactions have been renumbered to Articles 74 to 77. The sequence numbers mentioned is being aligned with the CG Code update.

India

Board of Directors

Board Composition – Overboarding, Gender Diversity

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>Composition:</p> <ul style="list-style-type: none"> ▪ The nominee has attended less than 75 percent of board and key committee (audit, compensation and nominating) meetings over the most recent fiscal year, without a satisfactory explanation. Acceptable reasons for director absences are generally limited to the following: <ul style="list-style-type: none"> ▪ Medical issues/illness; ▪ Family emergencies; ▪ The director has served on the board for less than a year; and ▪ Missing only one meeting (when the total of all meetings is three or fewer); ▪ The nominee sits on more than six¹ public (listed) company boards. <p>Gender Diversity</p>	<p>Composition:</p> <ul style="list-style-type: none"> ▪ The nominee has attended less than 75 percent of board and key committee (audit, compensation and nominating) meetings over the most recent fiscal year, without a satisfactory explanation. Acceptable reasons for director absences are generally limited to the following: <ul style="list-style-type: none"> ▪ Medical issues/illness; ▪ Family emergencies; ▪ The director has served on the board for less than a year; and ▪ Missing only one meeting (when the total of all meetings is three or fewer); ▪ The nominee sits on more than six¹ public (listed) company boards. <p>Gender Diversity</p>

¹ 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.

<p>Generally vote against the chair of the nomination committee (or other senior members of the nomination committee on a case-by-case basis) up for reelection if the board does not comply with board gender diversity regulations.</p> <p>In making the above recommendation on the election of directors, ISS generally will not recommend against the election of a CEO, managing director, executive chairman, or founder whose removal from the board would be expected to have a material negative impact on shareholder value.</p>	<p>Generally vote against the chair of the nomination committee (or other senior members of the nomination committee on a case-by-case basis) up for reelection if the board does not comply with board gender diversity regulations.</p> <p>In making the above recommendation on the election of directors, ISS generally will not recommend against the election of a CEO, managing director, executive chairman, or founder whose removal from the board would be expected to have a material negative impact on shareholder value.</p>
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Rationale for Change:

Overboarding:

In India, companies are classified into private and public companies based on various parameters including the size of share capital, transferability of shares, and number of shareholders. Public companies are further divided into listed or unlisted based on whether their shares are tradeable on a recognized stock exchange. Broadly this translates into the following – all listed companies are public but not all public companies are listed. This update clarifies that overboarding thresholds are computed based on the number of listed company directorships.

Gender Diversity:

Section 149 of the Companies Act and Regulation 17 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI LODR Regulations) require companies to appoint at least one woman to the board. Enhancements in the corporate governance standards in India over the years include amendments to the SEBI LODR Regulations to add a requirement to have at least one female independent director in the top 500 listed entities by market capitalization by April 1, 2019 and in the top 1,000 listed entities by April 1, 2020.

According to ISS' 2019 Global Policy Survey, applicable to companies in India, a majority of both investor and non-investor respondents indicated that shareholders should hold members of the nominating committee accountable for non-compliance with the board gender diversity regulations unless the company provides a compelling justification for non-compliance.

The introduction of the gender diversity policy will align ISS' India policy with the regulatory requirement and may encourage boards to increase women's participation on corporate boards.

Board Accountability

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>Accountability:</p> <p>Problematic Audit-Related Practices:</p> <p>Generally vote against all members of the audit committee up for reelection if:</p> <ul style="list-style-type: none"> ▪ The non-audit fees paid to the auditor are excessive²; or ▪ The company did not disclose the audit fees and/or non-audit fees in the latest fiscal year. <p>Generally vote against directors who are not liable to retire by rotation and whose continuation on the board will not be subject to shareholder review and approval going forward.</p> <p>Under extraordinary circumstances, vote against directors or supervisors, members of a committee, or the entire board, due to:</p> <ul style="list-style-type: none"> ▪ Material failures of governance, stewardship, risk oversight, or fiduciary responsibilities at the company; ▪ Failure to replace management as appropriate; or ▪ Egregious actions related to a director's or supervisor's service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company. 	<p>Accountability:</p> <p>Problematic Audit-Related Practices:</p> <p>Generally vote against all members of the audit committee up for reelection if:</p> <ul style="list-style-type: none"> ▪ The non-audit fees paid to the auditor are excessive²; or ▪ The company did not disclose the audit fees and/or non-audit fees in the latest fiscal year. <p>Generally vote against directors who are not liable to retire by rotation and whose continuation on the board will not be subject to shareholder review and approval going forward.</p> <p>Under extraordinary circumstances, vote against directors or supervisors, members of a committee, or the entire board, due to:</p> <ul style="list-style-type: none"> ▪ Material failures of governance, stewardship, risk oversight, or fiduciary responsibilities at the company; ▪ Failure to replace management as appropriate; or ▪ Egregious actions related to a director's or supervisor's service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.

² The non-audit fees have constituted more than 50 percent of the total auditor compensation during the fiscal year. ISS will make an exception if the excessive non-audit fees are in relation to special projects or due to unusual circumstances and are not recurring in nature and are unlikely to create conflicts of interest.

Rationale for Change:

Per Companies Act 2013, one-third of the total number of directors of a company must retire by rotation at each annual general meeting (excluding independent directors and other directors whose term is fixed and not subject to retirement by rotation).

Directors are appointed in India as follows:

- Non-executive non-independent directors generally do not have a fixed defined term. If they are liable to retire by rotation, their reelection will come up for shareholder approval on a periodic basis.
- Independent directors have a fixed defined term which is stated at the time of their (re)election. They are not liable to retire by rotation during their term.
- Executive directors have a fixed defined term which is stated at the time of their (re)election. However, unlike independent directors, they may or may not be liable to retire by rotation. Notwithstanding, given that they always have a defined term, their continuation will be subject to shareholder review at some time.

This implies that non-executive non-independent directors who are not liable to retire by rotation may get a permanent board seat as their continuation will not be subject to shareholder approval after their first election. Given that board entrenchment is a poor governance practice, ISS typically recommends against the election of such directors. This update codifies current practice and provides more clarity to market participants on this issue.

Classification of Directors

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>Executive Director</p> <ul style="list-style-type: none"> ▪ 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. <p>Non-Independent Non-Executive Director (NED)</p> <ul style="list-style-type: none"> ▪ 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; 	<p>Executive Director</p> <ul style="list-style-type: none"> ▪ 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. <p>Non-Independent Non-Executive Director (NED)</p> <ul style="list-style-type: none"> ▪ 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;

<ul style="list-style-type: none"> ▪ 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^{two} 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^{two} percent individually, but collectively own more than 10^{two} 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 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 employee or executive (five-year cooling off period); 	<ul style="list-style-type: none"> ▪ 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 two 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 two percent individually, but collectively own more than two 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 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 employee or executive (five-year cooling off period);
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<ul style="list-style-type: none"> 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. for Any additional relationship or principle considered to compromise independence under local corporate governance best practice guidance. <p>Independent NED</p> <ul style="list-style-type: none"> No material^[2] connection, either directly or indirectly, to the company (other than a board seat) or the dissenting significant shareholder. <p>Employee Representative</p> <ul style="list-style-type: none"> Represents employees or employee shareholders of the company (classified as “employee representative” but considered a non-independent NED). <p>Footnotes:</p> <p>[1] At least 10^{two} percent of the company's stock, unless market best practice dictates a lower ownership and/or disclosure threshold.</p> <p>[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.</p> <p>[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.</p> <p>[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</p>	<ul style="list-style-type: none"> 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. Any additional relationship or principle considered to compromise independence under local corporate governance best practice guidance. <p>Independent NED</p> <ul style="list-style-type: none"> No material^[2] connection, either directly or indirectly, to the company (other than a board seat) or the dissenting significant shareholder. <p>Employee Representative</p> <ul style="list-style-type: none"> Represents employees or employee shareholders of the company (classified as “employee representative” but considered a non-independent NED). <p>Footnotes:</p> <p>[1] At least two percent of the company's stock, unless market best practice dictates a lower ownership and/or disclosure threshold.</p> <p>[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.</p> <p>[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.</p> <p>[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</p>
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<p>transaction (and hence subject to the associated materiality test) rather than a professional relationship.</p> <p>[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.</p> <p>[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.</p>	<p>transaction (and hence subject to the associated materiality test) rather than a professional relationship.</p> <p>[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.</p>
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Rationale for Change:

Companies Act 2013 states that an independent director cannot hold, along with his or her relatives, more than two percent of total voting power of the company. Changing the threshold from 10 percent to two percent will help align the policy to regulatory standards.

In India, although there are statutory limits, director tenure is currently not a driver for ISS for assessing independence. The examples from other Asian countries are therefore not relevant and may be removed from the India policy document.

Remuneration

Director Commission and Executive Compensation

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation:</p> <p>Fees for non-executive directors</p>	<p>General Recommendation:</p> <p>Fees for non-executive directors</p>

<ul style="list-style-type: none"> ▪ For aggregate non-executive director remuneration, Ggenerally vote for resolutions regarding director fees unless there is a clear indication that directors are being rewarded for poor performance, or the fees are excessive relative to fees paid by other companies of similar size. ▪ For individual non-executive director remuneration, vote on a case-to-case basis depending on the role and contribution of the concerned director, company performance, the quantum of proposed remuneration, peer benchmarking, and the overall pay structure. <p>Executive Compensation</p> <p>Generally vote against the payment of remuneration in excess of the minimum remuneration and the waiver of recovery of excess remuneration paid to executives in the event of loss or inadequate profit unless compelling justification is provided in support of the proposal.</p> <p>Remuneration should motivate executives to achieve the company's strategic objectives, while ensuring that executive rewards reflect returns to long-term shareholders. Pay should not be excessive and remuneration committees should exercise due caution when considering pay increases. Any increases in total remuneration for executives should not be out of line with general increases at the company.</p> <p>ISS will vote on executive compensation proposals on a case-to-case basis, paying attention as to whether:</p> <ul style="list-style-type: none"> ▪ Quantum of pay and proposed hike is reasonable and commensurate with the size and scale of company ▪ Past remuneration has been aligned with performance ▪ Pay is benchmarked to industry/market peers ▪ Pay as a multiple of median employee pay is reasonable ▪ The proposed pay structure has sufficient degree of variable pay ▪ Terms of LTIP/stock option plans are disclosed ▪ The award levels for the different components of variable pay are clearly defined and capped ▪ Performance conditions have been stated 	<ul style="list-style-type: none"> ▪ For aggregate non-executive director remuneration, generally vote for resolutions regarding director fees unless there is a clear indication that directors are being rewarded for poor performance, or the fees are excessive relative to fees paid by other companies of similar size. ▪ For individual non-executive director remuneration, vote on a case-to-case basis depending on the role and contribution of the concerned director, company performance, the quantum of proposed remuneration, peer benchmarking, and the overall pay structure. <p>Executive Compensation</p> <p>Generally vote against the payment of remuneration in excess of the minimum remuneration and the waiver of recovery of excess remuneration paid to executives in the event of loss or inadequate profit unless compelling justification is provided in support of the proposal.</p> <p>Remuneration should motivate executives to achieve the company's strategic objectives, while ensuring that executive rewards reflect returns to long-term shareholders. Pay should not be excessive and remuneration committees should exercise due caution when considering pay increases. Any increases in total remuneration for executives should not be out of line with general increases at the company.</p> <p>ISS will vote on executive compensation proposals on a case-to-case basis, paying attention as to whether:</p> <ul style="list-style-type: none"> ▪ Quantum of pay and proposed hike is reasonable and commensurate with the size and scale of company ▪ Past remuneration has been aligned with performance ▪ Pay is benchmarked to industry/market peers ▪ Pay as a multiple of median employee pay is reasonable ▪ The proposed pay structure has sufficient degree of variable pay ▪ Terms of LTIP/stock option plans are disclosed ▪ The award levels for the different components of variable pay are clearly defined and capped ▪ Performance conditions have been stated
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<ul style="list-style-type: none"> ▪ Malus/clawback/deferred pay provisions are in place ▪ The board has unreasonable level of discretion and flexibility in deciding the final pay. <p>Discussion</p> <p>Under the Companies Act, 2013 (CA 2013), shareholder approval is required to pass the following remuneration-related proposals:</p> <ul style="list-style-type: none"> ▪ Remuneration by way of commission at a specified percentage of net profits to non-executive directors. Such approval may be sought on an individual basis, but is normally requested for non-executive directors as a group; ▪ Remuneration for one non-executive director when it exceeds 50 percent of the aggregate remuneration paid to all non-executive directors; ▪ Remuneration of a director or relative of a director appointed to an executive position in the company or in a subsidiary. Executive compensation is broken down into monthly cash salary, perquisites, and commission and/or bonuses; ▪ Revision in the remuneration package of an executive; and ▪ Remuneration paid/payable to an executive in excess of the prescribed limits in case of the company having no profits or inadequate profits. 	<ul style="list-style-type: none"> ▪ Malus/clawback/deferred pay provisions are in place ▪ The board has unreasonable level of discretion and flexibility in deciding the final pay. <p>Discussion</p> <p>Under the Companies Act, 2013 (CA 2013), shareholder approval is required to pass the following remuneration-related proposals:</p> <ul style="list-style-type: none"> ▪ Remuneration by way of commission at a specified percentage of net profits to non-executive directors; ▪ Remuneration for one non-executive director when it exceeds 50 percent of the aggregate remuneration paid to all non-executive directors; ▪ Remuneration of a director or relative of a director appointed to an executive position in the company or in a subsidiary. Executive compensation is broken down into monthly cash salary, perquisites, and commission and/or bonuses; ▪ Revision in the remuneration package of an executive; and ▪ Remuneration paid/payable to an executive in excess of the prescribed limits in case of the company having no profits or inadequate profits.
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Rationale for Change:

Non-executive directors in India are generally paid sitting fees and commissions. However, in certain cases, directors may be compensated through monthly salaries, consulting fees, or other related charges. The sitting fees are fixed and capped under Companies Act 2013. Shareholder approval is required for payment through any other mode. Further, recent amendment to the listing regulations now require companies to seek shareholder approval if the remuneration for one non-executive director exceeds 50 percent of the aggregate remuneration paid to all non-executive directors. This provision was inserted because there has been a growing trend of promoter or executive directors moving themselves to non-executive roles and continuing to draw high salaries from the company. Accordingly, there was a need for a separate carve-out for non-executive directors in the ISS voting policy.

For executive compensation, ISS policy has been to generally vote for most remuneration proposals, unless a specific waiver is being sought for excess remuneration. However, given the increasing size of operations, Indian companies have started scouting for leadership talent across global markets. In order to attract and incentivize

such talent, the pay structures are increasingly aligning with global market practices. This has resulted in an upward trend in CEO/executive pay levels in India. In some cases, companies have witnessed strong shareholder dissent against their remuneration policies, indicating that shareholders have become more discerning and are no longer willing to provide blind support to the management proposals. Multiple discussions with ISS clients have also yielded the same conclusion – that not all pay policies in India are reasonable and therefore must trigger further analysis based on, among other factors, the individual's work profile, company performance, and peer benchmarking.

Amend Articles of Association

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation: Vote case-by-case on amendments to the articles of association (AoA).</p> <p>Requests to amend a company's articles of association are usually motivated by changes in the company's legal and regulatory environment, although evolution of general business practice can also prompt amendments.</p> <p>When reviewing proposals to revise the existing articles or to adopt a new set of articles, ISS analyses the changes proposed according to what is in the best interest of shareholders.</p> <p>Generally vote against if the draft of the new AoA is not disclosed or if the proposed changes are not adequately highlighted in the shareholder notice.</p> <p>Generally vote for proposals where the changes are driven by regulatory or compliance considerations.</p>	<p>General Recommendation: Vote case-by-case on amendments to the articles of association (AoA).</p> <p>Requests to amend a company's articles of association are usually motivated by changes in the company's legal and regulatory environment, although evolution of general business practice can also prompt amendments.</p> <p>When reviewing proposals to revise the existing articles or to adopt a new set of articles, ISS analyses the changes proposed according to what is in the best interest of shareholders.</p> <p>Generally vote against if the draft of the new AoA is not disclosed or if the proposed changes are not adequately highlighted in the shareholder notice.</p> <p>Generally vote for proposals where the changes are driven by regulatory or compliance considerations.</p>

Rationale for Change:

The Articles of Association (AoA) of a company forms the backbone of the company's charter and contains regulations for management of the company, including the granting of special rights to certain classes of investors. In India, any amendments to the AoA require shareholder approval. The principles highlighted above are already being followed by the research team as part of the analysis.

However, on occasion there are specific clauses embedded in the AoA that may be detrimental to the interests of minority shareholders. These include special rights to non-promoters, permanent board seats for individuals, disproportionate influence and control of certain shareholders, and the inability to form quorum without certain directors. In cases where specific changes are being made, the analysis is generally restricted only to those items. However, if the company is making broad-based changes and adopting a new AoA, the entire AoA will need to be reviewed for harmful/detrimental provisions.

Audit

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation: Generally vote for the (re)appointment of auditors and authorizing the board to fix their remuneration, unless:</p> <ul style="list-style-type: none"> ▪ There are serious concerns about the accounts presented or the audit procedures used; ▪ The auditor is being changed without explanation; or ▪ Non-audit related fees are in excess of standard annual audit fees. <p>Discussion Shareholder approval of auditors and auditor remuneration is required by law. Mandatory rotation of auditors has been introduced in the CA 2013 – every five years for an individual auditor and every 10 years (or two terms of five consecutive years) for an audit firm. As per the disclosure requirements in the CA 2013, the breakdown of payments to auditors must be disclosed in the profit and loss account of the company as (a) auditor (i.e. statutory audit, certification, and tax audit); (b) for taxation matters; (c) for company law matters; (d) for management services; (e) for other services; and (f) for reimbursement of expenses or out-of-pocket expenses.</p> <p>In practice, unless the nature of the tax services was indicated as tax compliance/tax return preparation, ISS categorizes tax audit and taxation matters as other fees, which will be included in the computation of non-audit related fees. In addition, ISS categorizes reimbursement of expenses as audit-</p>	<p>General Recommendation: Generally vote for the (re)appointment of auditors and authorizing the board to fix their remuneration, unless:</p> <ul style="list-style-type: none"> ▪ There are serious concerns about the accounts presented or the audit procedures used; ▪ The auditor is being changed without explanation; or ▪ Non-audit related fees are in excess of standard annual audit fees. <p>Discussion Shareholder approval of auditors and auditor remuneration is required by law. Mandatory rotation of auditors has been introduced in the CA 2013 – every five years for an individual auditor and every 10 years (or two terms of five consecutive years) for an audit firm. As per the disclosure requirements in the CA 2013, the breakdown of payments to auditors must be disclosed in the profit and loss account of the company as (a) auditor (i.e. statutory audit, certification, and tax audit); (b) for taxation matters; (c) for company law matters; (d) for management services; (e) for other services; and (f) for reimbursement of expenses or out-of-pocket expenses.</p> <p>In practice, unless the nature of the tax services was indicated as tax compliance/tax return preparation, ISS categorizes tax audit and taxation matters as other fees, which will be included in the computation of non-audit related fees. In addition, ISS categorizes reimbursement of expenses as audit-</p>

<p>related fees based on the premise that these fees are expenses incurred by auditors in carrying out their audit functions.</p> <p>However, banks in India are not required under the prevailing banking laws to provide the itemized breakdown of audit and non-audit fees paid to the auditor.</p> <p>The practice of auditors providing non-audit services to companies is problematic. While large auditors may have effective internal barriers to protect against conflicts of interest, an auditor's ability to remain objective becomes questionable when fees paid to the auditor for non-audit services such as management consulting, general bookkeeping, and special situation audits exceed the standard annual audit fees.</p> <p>While ISS will consider the nature and scope of non-audit fees when assessing their magnitude, where non-audit fees have constituted more than 50 percent of total auditor compensation during the fiscal year, ISS will ordinarily not recommend support for the reelection of the audit firm. ISS will make exception to this policy if excessive non-audit fees are in relation to special projects or due to unusual circumstance, and are not recurring in nature and are unlikely to create conflicts of interest. An example of acceptable "non-audit" fees would be fees for a special audit in connection with an IPO.</p>	<p>related fees based on the premise that these fees are expenses incurred by auditors in carrying out their audit functions.</p> <p>However, banks in India are not required under the prevailing banking laws to provide the itemized breakdown of audit and non-audit fees paid to the auditor.</p> <p>The practice of auditors providing non-audit services to companies is problematic. While large auditors may have effective internal barriers to protect against conflicts of interest, an auditor's ability to remain objective becomes questionable when fees paid to the auditor for non-audit services such as management consulting, general bookkeeping, and special situation audits exceed the standard annual audit fees.</p> <p>While ISS will consider the nature and scope of non-audit fees when assessing their magnitude, where non-audit fees have constituted more than 50 percent of total auditor compensation during the fiscal year, ISS will ordinarily not recommend support for the reelection of the audit firm. ISS will make exception to this policy if excessive non-audit fees are in relation to special projects or due to unusual circumstance, and are not recurring in nature and are unlikely to create conflicts of interest. An example of acceptable "non-audit" fees would be fees for a special audit in connection with an IPO.</p>
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Rationale for Change:

Auditors in India are required to certify compliance with corporate governance norms. Further, their certification is also required when capital is raised and in reference of planned versus actual utilization of funds raised. Such certification charges, if separately disclosed, should be treated as audit fees instead of non-audit fees.

Related-Party Transactions

Current ISS Policy, incorporating changes:	New ISS Policy:
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<p>General Recommendation: Vote case-by-case on related party transactions after considering factors including, but not limited to, the following:</p> <ul style="list-style-type: none"> ▪ The parties on either side of the transaction; ▪ The nature of the asset to be transferred/service to be provided; ▪ The pricing of the transaction (and any associated professional valuation); ▪ The views of independent directors, where provided; ▪ Whether any entities party to the transaction (including advisers) are conflicted; ▪ The views of an independent financial adviser, where appointed; and ▪ The stated rationale for the transaction, including discussions of timing. <p>Generally vote against on perpetual arrangements where the transactions will not be subjected to further shareholder review going forward.</p> <p>For proposals on royalty payments, vote on a case-by-case basis based on disclosures provided.</p> <p>Discussion</p> <p>Transactions that a company may engage in with a related party as identified in the CA 2013 include:</p> <ul style="list-style-type: none"> ▪ Sale or purchase of goods or property of any kind; ▪ Lease of property of any kind; ▪ Avail or render of any services; and ▪ Appointment of a related party to any office or place of profit in the company, its subsidiary company or associate company. <p>A related-party transaction (RPT) requires prior shareholder approval by means of an special ordinary resolution when the company's paid-up share capital or the transaction value exceed the prescribed amount and that or when such transaction is not in the ordinary course of business or is in the ordinary course of business but not on an arm's length basis. Interested parties will be restricted from voting on in favor of such transactions. to be passed by a special ordinary resolution.</p>	<p>General Recommendation: Vote case-by-case on related party transactions after considering factors including, but not limited to, the following:</p> <ul style="list-style-type: none"> ▪ The parties on either side of the transaction; ▪ The nature of the asset to be transferred/service to be provided; ▪ The pricing of the transaction (and any associated professional valuation); ▪ The views of independent directors, where provided; ▪ Whether any entities party to the transaction (including advisers) are conflicted; ▪ The views of an independent financial adviser, where appointed; and ▪ The stated rationale for the transaction, including discussions of timing. <p>Generally vote against on perpetual arrangements where the transactions will not be subjected to further shareholder review going forward.</p> <p>For proposals on royalty payments, vote on a case-by-case basis based on disclosures provided.</p> <p>Discussion</p> <p>Transactions that a company may engage in with a related party as identified in the CA 2013 include:</p> <ul style="list-style-type: none"> ▪ Sale or purchase of goods or property of any kind; ▪ Lease of property of any kind; ▪ Avail or render of any services; and ▪ Appointment of a related party to any office or place of profit in the company, its subsidiary company or associate company. <p>A related-party transaction (RPT) requires prior shareholder approval by means of an ordinary resolution when the transaction value exceed the prescribed amount or when such transaction is not in the ordinary course of business or is not on an arm's length basis. Interested parties will be restricted from voting in favor of such transactions.</p>
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Rationale for Change:

The principles and metrics outlined above are part of the ISS Asia-Pacific Region Guidelines and are being used by the research team to analyse related-party transactions in Indian companies. Bringing them into the India policy will provide guidance to external market participants on the ISS approach towards such transactions.

Under the amended listing regulations in India, royalty payments exceeding five percent of annual consolidated turnover will be subject to shareholder review. ISS will analyze royalty payouts on a case-by-case basis based on the information provided by the company in its explanatory statements accompanying such proposals.

Earlier, regulations prohibited interested parties from voting on related party transactions. Recent changes permit interested parties to vote against related party transactions, but the restriction on voting in favor continue to apply. The policy is being amended to reflect this change.

Miscellaneous

Accept Financial Statements and Statutory Reports

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation: Generally, vote for approval of financial statements and statutory reports, unless:</p> <ul style="list-style-type: none"> ▪ There are concerns about the accounts presented or audit procedures used; or ▪ There has been an accounting fraud or material misstatement during the year. 	<p>General Recommendation: Generally, vote for approval of financial statements and statutory reports, unless:</p> <ul style="list-style-type: none"> ▪ There are concerns about the accounts presented or audit procedures used; or ▪ There has been an accounting fraud or material misstatement during the year.

Rationale for Change:

Acceptance of financial statements is the first agenda item in any annual general meeting in India. The policy is already being followed by the research team under the ISS Asia-Pacific Region Guidelines, but is not explicitly included in the India policy. Adopting it in this policy document will provide greater guidance to external market participants.

Dividend Distribution

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation: Generally vote for approval of dividends, unless:</p> <ul style="list-style-type: none"> ▪ The dividend payout ratio has been consistently below 30 percent without adequate explanation; or ▪ the the payout is excessive given the company's financial position. <p>Discussion</p> <p>Unless there are major concerns about the payout ratio, ISS will usually recommend approval of this item. Dividend payouts are generally low in India but vary significantly between industries. Dividend payout ratio below 30 percent will trigger further analysis, and the company's financial position, growth stage, and past dividend history, among others, will be examined.</p>	<p>General Recommendation: Generally vote for approval of dividends, unless the payout is excessive given the company's financial position.</p> <p>Discussion</p> <p>Unless there are major concerns about the payout ratio, ISS will usually recommend approval of this item.</p>

Rationale for Change:

In India, the current practice is to recommend voting for dividend payouts even when they are consistently below the 30 percent threshold. The policy is being updated to reflect this practice.

Japan

Board Independence – Controlled Companies

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>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 structure³.</p> <p>1. At companies with a statutory auditory structure: vote for the election of directors, except:</p> <ul style="list-style-type: none"> ▪ Top executive(s)⁴ 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)⁵, unless an improvement⁶ 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, unless the board, after the shareholder meeting, will include at least two independent directors and at least one-third of the board members will be independent directors based on ISS independence criteria for Japan; 	<p>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 structure³.</p> <p>1. At companies with a statutory auditory structure: vote for the election of directors, except:</p> <ul style="list-style-type: none"> ▪ Top executive(s)⁴ 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)⁵, unless an improvement⁶ 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, unless the board, after the shareholder meeting, will include at least two independent directors and at least one-third of the board members will be independent directors based on ISS independence criteria for Japan;

³ 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.

⁴ 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).

⁵ 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.

⁶ Improvement is defined as ROE of five percent or greater for the most recent fiscal year.

<ul style="list-style-type: none"> ▪ An outside director nominee who attended less than 75 percent of board meetings during the year under review⁷; or ▪ Top executive(s) who are responsible for not implementing a shareholder proposal which has received a majority⁸ 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. <p>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:</p> <ul style="list-style-type: none"> ▪ Where an outside director nominee is regarded as non-independent based on ISS independence criteria for Japan, and the board, after the shareholder meeting, will not be majority independent; ▪ Top executive(s) if at least one-third of the board members, after the shareholder meeting, will not be outside directors; or ▪ Where the company has a controlling shareholder, a director nominee sits on the nomination committee and is an insider, or non-independent outsider, unless the board, after the shareholder meeting, will include at least two independent directors and at least one-third of the board members will be independent directors based on ISS independence criteria for Japan. <p>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:</p> <ul style="list-style-type: none"> ▪ Where an outside director nominee who is also nominated as an audit committee member⁹ is regarded as non-independent based on ISS independence criteria for Japan; or 	<ul style="list-style-type: none"> ▪ An outside director nominee who attended less than 75 percent of board meetings during the year under review⁷; or ▪ Top executive(s) who are responsible for not implementing a shareholder proposal which has received a majority⁸ 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. <p>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:</p> <ul style="list-style-type: none"> ▪ Where an outside director nominee is regarded as non-independent based on ISS independence criteria for Japan, and the board, after the shareholder meeting, will not be majority independent; ▪ Top executive(s) if at least one-third of the board members, after the shareholder meeting, will not be outside directors; or ▪ Where the company has a controlling shareholder, a director nominee sits on the nomination committee and is an insider, or non-independent outsider, unless the board, after the shareholder meeting, will include at least two independent directors and at least one-third of the board members will be independent directors based on ISS independence criteria for Japan. <p>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:</p> <ul style="list-style-type: none"> ▪ Where an outside director nominee who is also nominated as an audit committee member⁹ is regarded as non-independent based on ISS independence criteria for Japan; or
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⁷ 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.

⁸ Many Japanese shareholder proposals are submitted as article amendments, which require supermajority support in order to pass.

⁹ Outside director nominees who are not nominated as audit committee members are not subject to this policy.

<ul style="list-style-type: none"> Top executive(s) if at least one-third of the board members, after the shareholder meeting, will not be outside directors. 	<ul style="list-style-type: none"> Top executive(s) if at least one-third of the board members, after the shareholder meeting, will not be outside directors.
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Rationale for Change:

ISS is revising the Japan Proxy Voting Guidelines to add a new policy regarding the independence level for companies with a controlling shareholder that requires at least one-third of the board members to be *independent* outside directors. In 2019, ISS implemented a new policy requesting companies with a board with an audit committee structure or with a U.S.-type three-committee structure to have a board where at least one-third of the board members are outside directors. However, for companies with a controlling shareholder, one-third outsider representation may not be sufficient to protect the interests of minority shareholders. With the change, ISS will recommend against top executive(s) at a company that has a controlling shareholder unless the new board includes at least two independent directors and at least one-third of the board members are independent directors based on ISS independence criteria for Japan.

ISS Independence Criteria for Japan

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>Those outside director candidates falling into any of the following categories should be regarded as non-independent:</p> <ul style="list-style-type: none"> Individuals who work or worked at major shareholders of the company in question; Individuals who work or worked at main lenders/banks to the company in question; Individuals who work or worked at the lead underwriter(s) of the company in question; Individuals who work or worked at business partners of the company in question and the transaction value is material from the recipient's perspective or is not disclosed; Individuals who worked at the company's audit firm; Individuals who offer or offered professional services such as legal advice, financial advice, tax advice or consulting services to the company in question; Individuals who have a relative(s) working at the company in question; or Individuals who worked at the company in question; or 	<p>Those outside director candidates falling into any of the following categories should be regarded as non-independent:</p> <ul style="list-style-type: none"> Individuals who work or worked at major shareholders of the company in question; Individuals who work or worked at main lenders/banks to the company in question; Individuals who work or worked at the lead underwriter(s) of the company in question; Individuals who work or worked at business partners of the company in question and the transaction value is material from the recipient's perspective or is not disclosed; Individuals who worked at the company's audit firm; Individuals who offer or offered professional services such as legal advice, financial advice, tax advice or consulting services to the company in question; Individuals who have a relative(s) working at the company in question; Individuals who worked at the company in question; or

<ul style="list-style-type: none"> Individuals who work or worked at companies whose shares are held by the company in question as "cross-shareholdings¹⁰." 	<ul style="list-style-type: none"> Individuals who work or worked at companies whose shares are held by the company in question as "cross-shareholdings¹⁰."
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Rationale for Change:

With an amendment to Japan's Corporate Law in 2014 (which came into force in 2015), former employees of the company can be designated as outside directors or outside statutory auditors of the company in question, on condition that 10 years or more have passed since their departure from the company. ISS has regarded those who worked at the company in question as affiliated outsiders, and in the Japanese version of ISS Proxy Voting Guidelines, the independence criterion has been included since then. However, the English version did not include it.

A transition period of one year was given for the criterion regarding cross-shareholding (see footnote below); the transition period has now passed.

Singapore

Board of Directors

Voting for Director Nominees in Uncontested Elections - Independence

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation: Generally vote for the re/election of directors, unless:</p> <p>Independence:</p>	<p>General Recommendation: Generally vote for the re/election of directors, unless:</p> <p>Independence:</p>

¹⁰ Traditionally, Japanese companies have often held shares of other companies for reasons other than pure investment purposes, for instance, in order to strengthen a business relationship. Cross-shareholdings here refer not only to mutual shareholdings but also unilateral holdings. *Note: In order to give companies time to revisit the rationale of holding such shares, this criteria won't be implemented until February 2020.*

<ul style="list-style-type: none"> ▪ The nominee has been a partner of the company's auditor within the last three years, and serves on the audit committee; ▪ Any non-independent director nominees where the board is less than one-third independent under ISS classification of directors; ▪ The nominee¹¹ is a member of the nomination committee and the board does not have a lead/senior independent director and/or the board is less than majority not at least one-half independent under the following scenarios: <ul style="list-style-type: none"> ▪ The chairman and the CEO is the same person; ▪ The chairman and the CEO are immediate family members¹²; ▪ The chairman is part of the management team; or ▪ The chairman is not an independent director. ▪ The nominee is an executive director serving on the audit, remuneration, and/or nomination committee; ▪ The nominee is a non-independent director serving as the chairman of the audit committee, remuneration committee, and/or nomination committee. 	<ul style="list-style-type: none"> ▪ The nominee has been a partner of the company's auditor within the last three years, and serves on the audit committee; ▪ Any non-independent director nominees where the board is less than one-third independent under ISS classification of directors; ▪ The nominee¹¹ is a member of the nomination committee and the board does not have a lead/senior independent director and/or the board is less than majority independent under the following scenarios: <ul style="list-style-type: none"> ▪ The chairman and the CEO is the same person; ▪ The chairman and the CEO are immediate family members¹²; ▪ The chairman is part of the management team; or ▪ The chairman is not an independent director. ▪ The nominee is an executive director serving on the audit, remuneration, and/or nomination committee; ▪ The nominee is a non-independent director serving as the chairman of the audit committee, remuneration committee, and/or nomination committee.
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Rationale for Change:

The 2018 Singapore Corporate Governance Code require independent directors to make up majority of the board if the chairman is not independent. This provision applies for financial years starting Jan. 1, 2019. This policy change aligns ISS voting guidelines with the 2018 Singapore Corporate Governance Code.

The nominating committee of a company is responsible for monitoring the balance and diversity of the board to maximize its effectiveness. Hence, the nominating committee members/chairman are to be held accountable if independent directors comprise less than majority of the board where the chairman is not independent.

¹¹ Except for directors newly-appointed to the committee or who served on the committee for a partial year, who are considered on a case-by-case.

¹² "Immediate family members" refer to the person's spouse, child, adopted child, step-child, sibling and parent.

Share Repurchase Pricing Limit Proposals

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation: Generally vote for resolutions authorizing the company to repurchase its own shares, unless:</p> <ul style="list-style-type: none"> ▪ the premium over the average trading price of the shares as implied by the maximum price limit for on-market repurchases paid exceeds 5 percent for on-market; and/or ▪ the premium over the average trading price of the shares as implied by the price limit for off-market repurchases exceeds 20 percent. 	<p>General Recommendation: Generally vote for resolutions authorizing the company to repurchase its own shares, unless:</p> <ul style="list-style-type: none"> ▪ the premium over the average trading price of the shares as implied by the price limit for on-market repurchases exceeds 5 percent; or ▪ the premium over the average trading price of the shares as implied by the price limit for off-market repurchases exceeds 20 percent.

Rationale for Change:

Singapore regulations stipulate that off-market repurchases must be conducted under an equal access scheme, i.e., that all shareholders must be treated equally. Given that, companies should be allowed to have more flexibility in setting the price premium for off-market repurchases.

As of September 2019, out of 172 Singapore share repurchase mandate proposals reviewed by ISS during the year, approximately 55 percent of such proposals had a pricing limit set at a 20 percent premium to the average trading price of the shares. Hence, setting the off-market repurchase price limit at a 20 percent premium to the five-day average trading price of the shares appears to be a common practice observed in Singapore-listed companies.

The policy update increases the price limit to up to a 20 percent premium to the five-day average trading price of the shares for off-market repurchases. This revision is to give companies flexibility in setting the repurchase price for off-market repurchases, after taking into account the shareholder protection mechanism offered by the existing laws and regulations in Singapore. The policy update aligns the policy with the views of institutional investors and is also based on a review of existing market rules and regulations.

South Korea

Director Accountability – Governance Failures

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation:</p> <p>Under extraordinary circumstances, vote against individual directors, members of committees, or the entire board, due to:</p> <ul style="list-style-type: none"> ▪ Material failures¹³ of governance, stewardship, risk oversight, or fiduciary responsibilities at the any any company on whose board a director serves; ▪ Failure to replace management or directors as appropriate; or ▪ Egregious actions¹⁴ related to a director's service on other boards that raise substantial doubt about his/her ability to effectively oversee management and serve the best interests of shareholders at any company. <p>Generally vote against directors from all boards on which the individual serves for failure to remove a director from the board who has demonstrated a serious failure of accountability due to his/her egregious actions. convicted of wrongdoing from the board.</p>	<p>General Recommendation:</p> <p>Under extraordinary circumstances, vote against individual directors, members of committees, or the entire board, due to:</p> <ul style="list-style-type: none"> ▪ Material failure¹³ of governance, stewardship, risk oversight, or fiduciary responsibilities at any company on whose board a director serves; ▪ Failure to replace management or directors as appropriate; or ▪ Egregious actions¹⁴ related to a director's service on other boards that raise substantial doubt about his/her ability to effectively oversee management and serve the best interests of shareholders at any company. <p>Generally vote against directors from all boards on which the individual serves for failure to remove a director from the board who has demonstrated a serious failure of accountability due to his/her egregious actions.</p>

Rationale for Change:

In Korea, there have been numerous cases where senior executives – often the executive chairman, CEO or managing director – have been indicted or convicted of felony-level offenses directly related to their corporate role (such as bribery or embezzlement) but either continue to serve on the board, or return to the board after being pardoned by the government or serving their prison sentence. This is due to the fact that the Korean Commercial Code doesn't stipulate any restrictions on board

¹³ Examples of material failure of governance include but are not limited to: indictment or conviction for embezzlement; bribery; large or serial fines or sanctions from regulatory bodies; significant adverse legal judgments or settlement; or hedging of company stock.

¹⁴ Egregious actions encompass broader situations that include but are not limited to material failures of governance, stewardship, risk oversight, or fiduciary responsibilities. Examples of egregious actions include felony-level offenses that called for indictment or conviction, and the failure to remove such problematic director from the board. Typically, an individual's action deemed egregious is viewed as a more severe case which prohibits the individual from assuming a director seat on the board of any company.

service by convicted directors, and the fact that there has been quiet collusion between chaebols and the government, which have allowed leeway for executive chairmen/CEOs to commit felony level offenses. In such cases, ISS often recommends votes against the election or re-election of the accused or convicted felon and against the other directors for failing to remove the director in question from the board.

Some institutional investors have indicated their interest in tracking these directors (both the offending directors and the board members who failed to remove them from the board) to other companies where they serve on boards and have urged ISS to consider recommendations against these nominees where warranted. According to ISS' 2019 Global Policy Survey, for companies in Korea, a majority of investor respondents indicated that either an indictment or a conviction would be considered material and relevant to assessment of the suitability of a director to serve on the board of any company. Further, regarding an executive director who has been indicted or convicted of criminal behavior, the plurality of investor and non-investor respondents indicated that a failure of a director nominee to act to remove the director is considered material to the suitability of the director nominee to serve on the board in the case of a conviction, not just an indictment.

The policy update would expand the policy application to the boards of all Korean companies on which the individual serves, reflecting investors' feedback and the changing corporate governance environment in general. The update is also intended to keep track of such directors (both the wrongdoers themselves and directors who failed to remove them) at other companies where they serve on boards.

Taiwan

Article Amendment Proposals – Cash Dividend Distribution Plans

Current ISS Policy, incorporating changes:	New ISS Policy:
<p><i>Currently there is no specific policy with regard to cash dividends under Amendments to Articles of Association.</i></p> <p>General Recommendation: Generally vote against proposals for article amendments to grant the board full discretion to decide on the company's cash dividend distribution plan without shareholder approval. Such amendment will undermine shareholders' right to decide on cash dividend payments.</p> <p>Discussion: The Taiwan Company Act was revised in 2018 to allow companies to declare dividends semiannually or quarterly and to delegate greater authority to the board regarding the company's cash dividend distribution plan. The new provision under Article 240 of the Company Act specifies that companies may authorize in their Articles the right of the board to decide on the company's cash dividend distribution plan upon approval by a majority vote at a board meeting</p>	<p>General Recommendation: Generally vote against proposals for article amendments to grant the board full discretion to decide on the company's cash dividend distribution plan without shareholder approval. Such amendment will undermine shareholders' right to decide on cash dividend payments.</p> <p>Discussion: The Taiwan Company Act was revised in 2018 to allow companies to declare dividends semiannually or quarterly and to delegate greater authority to the board regarding the company's cash dividend distribution plan. The new provision under Article 240 of the Company Act specifies that companies may authorize in their Articles the right of the board to decide on the company's cash dividend distribution plan upon approval by a majority vote at a board meeting</p>

attended by two-thirds of all directors. However, stock dividend distribution plans still require shareholder approval.

attended by two-thirds of all directors. However, stock dividend distribution plans still require shareholder approval.

Rationale for Change:

On July 6, 2018, Taiwan's Legislative Yuan approved the revised Company Act, which included amendments relating to the approval procedures for listed companies' cash dividend distribution plans. The revision of the Company Act, effective on Nov. 1, 2018, granted the board of directors greater authority and flexibility to decide on the company's cash dividend distribution plan. Article 240 states that listed companies are allowed to stipulate in their Articles a provision to authorize the board to decide on the company's cash dividend distribution plan upon approval by a majority vote at a meeting of the board attended by two-thirds of all directors. If a company adopts the new provision under Article 240 of the Company Act, shareholders' right to approve the company's cash dividend payment is deemed to have been taken away.

According to ISS' 2019 Global Policy Survey, for companies in Taiwan, a majority of investor respondents indicated that ISS should recommend against a proposal to amend a Taiwanese company's articles of incorporation that would give the board full authority to decide on the company's cash dividend distribution plan.

In view of the fact that a significant number of companies authorized the board to decide on the company's cash dividend distribution without shareholder approval during the 2019 proxy season, ISS is establishing a voting guideline to generally vote against proposals for article amendments to grant the board full discretion to decide on the company's cash dividend distribution plan without shareholder approval.

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