



# EUROPE, MIDDLE EAST, AND AFRICA (EMEA)

## PROXY VOTING GUIDELINES UPDATES FOR 2020

Benchmark Policy Changes for U.K. & Ireland, Continental Europe, Russia & Kazakhstan, Middle East, and Africa (excluding South Africa)

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Effective for Meetings on or after February 1, 2020

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## UK & Ireland

### Board of Directors

#### Director Elections - Board Gender Diversity

| Current ISS Policy, incorporating changes:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | New ISS Policy:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
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| <p><b>Gender Diversity</b></p> <p>The 2018 UK Corporate Governance Code notes that both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.</p> <p>Generally vote against the chair of the nomination committee (or other directors on a case-by-case basis) when there are no female directors on the board of widely-held companies. Mitigating factors include:</p> <ul style="list-style-type: none"> <li>▪ The presence of a female director on the board at the preceding annual meeting and a firm commitment, publicly available, to appoint at least one female director to the board within a year; or</li> <li>▪ Other relevant factors as applicable.</li> </ul> | <p><b>Gender Diversity</b></p> <p>The 2018 UK Corporate Governance Code notes that both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.</p> <p>Generally vote against the chair of the nomination committee (or other directors on a case-by-case basis) when there are no female directors on the board of widely-held companies. Mitigating factors include:</p> <ul style="list-style-type: none"> <li>▪ The presence of a female director on the board at the preceding annual meeting and a firm commitment, publicly available, to appoint at least one female director to the board within a year; or</li> <li>▪ Other relevant factors as applicable.</li> </ul> |

#### Rationale for Change:

Gender diversity at the board level has become the norm at companies traditionally associated with having better governance practices in Europe and the UK. The advantages of a diverse board are well established and promotion of diversity on UK boards is a part of mainstream conversation now. The Davies Review, launched in 2011, recommended that FTSE 100 boards should aim for a minimum of 25 percent female representation by 2015. In 2016, the Hampton-Alexander Review built on the success of the voluntary business-led approach of the Davies Review for Women on Boards, and recommended that FTSE 350 Companies should comprise 33 percent women by 2020. For FTSE 100 Index constituents, the scope was also extended to include Executive Committees and the Direct Reports to the Executive Committee. In 2017, the Review extended the 33 percent target for Executive Committee and the Direct Reports to the Executive Committee to the FTSE 250. The 2018 UK Corporate Governance Code notes that both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, and cognitive and personal strengths.

## Director Elections – Tenure (Chair)

| Current ISS Policy, incorporating changes:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | New ISS Policy:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
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| <p>On tenure, one of the conditions the Code includes to determine independence is whether a director has served on the board for more than nine years from the date of his or her first election. ISS follows the Pensions and Lifetime Savings Association position that if a non-executive director has served concurrently with an executive director for over nine years, that director should no longer be deemed to be independent. If a non-executive director has served for fifteen years on the board, ISS considers their independence has been impaired.</p> <p>The 2018 UK Corporate Governance Code states that the chair should not remain in post beyond nine years from the date of their first appointment to the board. The Code further states that this period can be extended for a limited time, particularly in those cases where the chair was an existing non-executive director on appointment, to facilitate effective succession planning and the development of a diverse board.</p> <p>ISS will consider the re-election of the chair on a case-by-case basis, taking into account such factors as succession planning, diversity, and board independence, in addition to tenure.</p> | <p>On tenure, one of the conditions the Code includes to determine independence is whether a director has served on the board for more than nine years from the date of his or her first election. ISS follows the Pensions and Lifetime Savings Association position that if a non-executive director has served concurrently with an executive director for over nine years, that director should no longer be deemed to be independent. If a non-executive director has served for fifteen years on the board, ISS considers their independence has been impaired.</p> <p>The 2018 UK Corporate Governance Code states that the chair should not remain in post beyond nine years from the date of their first appointment to the board. The Code further states that this period can be extended for a limited time, particularly in those cases where the chair was an existing non-executive director on appointment, to facilitate effective succession planning and the development of a diverse board.</p> <p>ISS will consider the re-election of the chair on a case-by-case basis, taking into account such factors as succession planning, diversity, and board independence, in addition to tenure.</p> |

### Rationale for Change:

The updated UK Corporate Governance Code was published in July 2018 and became effective from accounting periods starting from 1 January 2019. The 2018 UK Code recommends that "the chair should not remain in post beyond nine years from the date of their first appointment to the board. To facilitate effective succession planning and the development of a diverse board, this period can be extended for a limited time, particularly in those cases where the chair was an existing non-executive director on appointment".

ISS' current UK & Ireland voting guidelines include a position on the tenure of NEDs, but not the board chair. The updated policy clarifies ISS view on the tenure of the chair specifically, in that tenure will not be considered in isolation but rather as one of several key indicators relevant to the re-election of board chairs.

## Board and Committee Composition

| Current ISS Policy, incorporating changes:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | New ISS Policy:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
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| <p><b>General Recommendation:</b> Generally vote against any non-independent non-executive director whose presence on the board, audit or remuneration committee renders the board or committee insufficiently independent, unless:</p> <ul style="list-style-type: none"> <li>▪ The company discloses details of how the issue of concern will be resolved by the next AGM.</li> </ul> <p>Non-independent non-executive directors serving on the nomination committee are assessed on a case-by-case basis.</p> <p><b>Discussion:</b></p> <p>ISS will typically support the election and re-election of non-independent directors to the board if the overall board and committee composition is in line with the Code's requirements and they do not sit on the Audit and Remuneration committees.</p> <p><b>For all companies <del>in the FTSE 350</del> with a premium listing</b>, in line with the Code, at least half the <b>board</b> excluding the <del>chairman</del> should comprise non-executive directors determined by the board to be independent.</p> <p><b>For companies in the FTSE 350</b>, <del>the</del> <b>audit</b> committee should comprise at least three non-executive directors, and all members should be independent. The <del>company board chairman</del> should not be a member of the audit committee. The <b>remuneration</b> committee should also comprise at least three non-executive directors and again, all members should be independent. In addition, the <del>company board chairman</del> may also be a member of, but not chair the remuneration committee if he or she was considered independent on appointment as <del>chairman</del>. A majority of the <b>nomination</b> committee should be independent non-executive directors.</p> | <p><b>General Recommendation:</b> Generally vote against any non-independent non-executive director whose presence on the board, audit or remuneration committee renders the board or committee insufficiently independent, unless:</p> <ul style="list-style-type: none"> <li>▪ The company discloses details of how the issue of concern will be resolved by the next AGM.</li> </ul> <p>Non-independent non-executive directors serving on the nomination committee are assessed on a case-by-case basis.</p> <p><b>Discussion:</b></p> <p>ISS will typically support the election and re-election of non-independent directors to the board if the overall board and committee composition is in line with the Code's requirements and they do not sit on the Audit and Remuneration committees.</p> <p><b>For all companies with a premium listing</b>, in line with the Code, at least half the <b>board</b> excluding the chair should comprise non-executive directors determined by the board to be independent.</p> <p><b>For companies in the FTSE 350</b>, the <b>audit</b> committee should comprise at least three non-executive directors, and all members should be independent. The board chair should not be a member of the audit committee. The <b>remuneration</b> committee should also comprise at least three non-executive directors and again, all members should be independent. In addition, the board chair may also be a member of, but not chair the remuneration committee if he or she was considered independent on appointment as chair. A majority of the <b>nomination</b> committee should be independent non-executive directors.</p> <p><b>For companies in the FTSE All Share below the FTSE 350</b>, the board should establish <b>audit</b> and <b>remuneration</b> committees with at least two members on</p> |

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| <p><del>For companies in the FTSE All Share below the FTSE 350 should have at least two independent non-executive directors on the board, not including the company chairman.</del> The board should establish <b>audit</b> and <b>remuneration</b> committees with at least two members on each committee, all of whom should be independent non-executive directors. The <b>company board chairman</b> may be a member of, but not chair, of <b>either the remuneration</b> committee in addition to the independent non-executive directors, provided he or she was considered independent on appointment as <b>chairman</b>. A majority of the <b>nomination</b> committee should be independent non-executive directors.</p> <p>.....</p> | <p>each committee, all of whom should be independent non-executive directors. The board chair may be a member of, but not chair, of the remuneration committee in addition to the independent non-executive directors, provided he or she was considered independent on appointment as chair. A majority of the <b>nomination</b> committee should be independent non-executive directors.</p> <p>.....</p> |
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**Rationale for Change:**

The latest version of the UK Corporate Governance Code was published in July 2018 and became effective for accounting periods starting from 1 January 2019. A key change in the 2018 Code is the removal of separate standards for "larger" (FTSE 350) and "smaller" (below FTSE 350) companies in certain areas of board composition. Specifically, all companies with a premium listing are now expected to have boards which are at least 50 percent independent, excluding the chair. Previous versions of the Code provided an exemption for smaller companies, which were only required to have two independent NEDs on their boards to remain compliant.

In addition, board chairs are no longer be permitted to sit on the audit committee under the new Code, again eliminating a long-standing exemption for smaller companies. See related policy changes under the [Smaller Companies](#) section.

## Remuneration

### Remuneration Policy - Pension Contribution Rates; Service Contracts

| Current ISS Policy, incorporating changes:                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                        | New ISS Policy:                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                        |
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| <p><b>General Recommendation:</b> Vote the resolution to approve the remuneration policy on a case-by-case approach, paying particular attention as to whether:</p> <p>....</p> <p>The binding vote on the remuneration policy is forward-looking and in most cases will apply for three years. Therefore, many shareholders will want to ensure that the policy takes into account good market practice in a number of key areas.</p> |                                                                                                                                                                                                                                                                                                                                                                                                                                        | <p><b>General Recommendation:</b> Vote the resolution to approve the remuneration policy on a case-by-case approach, paying particular attention as to whether:</p> <p>....</p> <p>The binding vote on the remuneration policy is forward-looking and in most cases will apply for three years. Therefore, many shareholders will want to ensure that the policy takes into account good market practice in a number of key areas.</p> |                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Policy component                                                                                                                                                                                                                                                                                                                                                                                                                       | Good market practice                                                                                                                                                                                                                                                                                                                                                                                                                   | Policy component                                                                                                                                                                                                                                                                                                                                                                                                                       | Good market practice                                                                                                                                                                                                                                                                                                                                                                                                                   |
| The start and end date of the policy                                                                                                                                                                                                                                                                                                                                                                                                   | The GC100 and Investor Group guidance states that investors are generally in favour of the remuneration policy coming in to effect immediately following approval at the general meeting. It also notes that investors generally expect to see companies put forward their policy for approval every three years. ISS will consider the start date of each policy and its duration based upon the explanation provided by the company. | The start and end date of the policy                                                                                                                                                                                                                                                                                                                                                                                                   | The GC100 and Investor Group guidance states that investors are generally in favour of the remuneration policy coming in to effect immediately following approval at the general meeting. It also notes that investors generally expect to see companies put forward their policy for approval every three years. ISS will consider the start date of each policy and its duration based upon the explanation provided by the company. |
| Base salaries                                                                                                                                                                                                                                                                                                                                                                                                                          | The remuneration committee should explain its policy for setting and reviewing salary levels. The GC100 and Investor Group guidance states that there is a requirement to disclose the maximum that might be paid. This must be explained in monetary terms or any other way appropriate to the company <del>(for example, a percentage of salary).</del>                                                                              | Base salaries                                                                                                                                                                                                                                                                                                                                                                                                                          | The remuneration committee should explain its policy for setting and reviewing salary levels. The GC100 and Investor Group guidance states that there is a requirement to disclose the maximum that might be paid. This must be explained in monetary terms or any other way appropriate to the company.                                                                                                                               |
| Benefits and pensions                                                                                                                                                                                                                                                                                                                                                                                                                  | Companies must describe the benefits provided to directors, which are expected to be in line with standard UK practice and which should not be                                                                                                                                                                                                                                                                                         | Benefits and pensions                                                                                                                                                                                                                                                                                                                                                                                                                  | Companies must describe the benefits provided to directors, which are expected to be in line with standard UK practice and which should not be                                                                                                                                                                                                                                                                                         |



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|                                                                 | <p>excessive. The maximum participation level should be stated, and not be uncapped.</p> <p>The Code states that the pension contribution rates for executive directors, or payments in lieu, should be aligned with those available to the workforce. A similar <del>provision</del> guideline is included within the Investment Association Principles, which state that the pension provision for executives should, where possible, be in line with the general approach to the employees as a whole.</p> <p>ISS' position is that the pension arrangements for new joiners should be aligned with those of the wider workforce, and companies should actively disclose whether or not this is the case. For incumbent directors, companies should seek to align the contribution rates with the workforce over time, recognising that many investors in the UK will expect this to be achieved in the near-term.</p> <p>Companies must give a clear explanation of pension-related benefits, including the approach taken to making payments in lieu of retirement benefits or defined benefit arrangements. No element of variable pay should be pensionable.</p> |                                                                 | <p>excessive. The maximum participation level should be stated, and not be uncapped.</p> <p>The Code states that the pension contribution rates for executive directors, or payments in lieu, should be aligned with those available to the workforce. A similar guideline is included within the Investment Association Principles, which state that the pension provision for executives should, where possible, be in line with the general approach to the employees as a whole.</p> <p>ISS' position is that the pension arrangements for new joiners should be aligned with those of the wider workforce, and companies should actively disclose whether or not this is the case. For incumbent directors, companies should seek to align the contribution rates with the workforce over time, recognising that many investors in the UK will expect this to be achieved in the near-term.</p> <p>Companies must give a clear explanation of pension-related benefits, including the approach taken to making payments in lieu of retirement benefits or defined benefit arrangements. No element of variable pay should be pensionable.</p> |
| .....                                                           | .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | .....                                                           | .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Executive directors' service contracts, including exit payments | Executive directors should have service contracts in place with notice periods set at one year or less. If it is necessary to offer longer notice or contract periods to new directors recruited from outside, such periods should reduce to one year or less after the initial period. All termination payments should be subject to phased payment and mitigation.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Executive directors' service contracts, including exit payments | Executive directors should have service contracts in place with notice periods set at one year or less. If it is necessary to offer longer notice or contract periods to new directors recruited from outside, such periods should reduce to one year or less after the initial period. All termination payments should be subject to phased payment and mitigation.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |

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|  | <p>Exit payments should be linked to the fixed pay due for the notice period, with no guaranteed entitlement to any unearned variable pay.</p> <p>The vesting of outstanding long-term awards should be pro-rated for performance and time <b>served as an executive</b>. Guidance from the Investment Association states that severance payments arising from poor corporate performance should not extend beyond fixed pay and benefits.</p> |  | <p>Exit payments should be linked to the fixed pay due for the notice period, with no guaranteed entitlement to any unearned variable pay.</p> <p>The vesting of outstanding long-term awards should be pro-rated for performance and time served as an executive. Guidance from the Investment Association states that severance payments arising from poor corporate performance should not extend beyond fixed pay and benefits.</p> |
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**Rationale for Change:**

**Base Salary:** Editorial change only for concision and clarity.

**Pension:** Accounts for evolving market practice and investor sentiment subsequent to the publication of the 2018 UK Code. The Code recommends that pension contribution rates should be aligned to the wider workforce. The Investment Association has stated that companies must set a "credible plan" to pay all executive directors the same pension contributions as the majority of their workforce by the end of 2022, and that any pension contribution above 25 percent of base salary would be at particular risk of shareholder disquiet.

The policy clarifies ISS' position on pension contributions ahead of the 2020 proxy season, which for many UK companies will feature a remuneration policy resolution. For new joiners, the pension contribution should be aligned to that of the workforce. Existing pension arrangements with sitting executives would be assessed on a case-by-case basis, taking into account any explanations provided by the relevant company. Although ISS would not, in 2020, normally issue a negative recommendation on a remuneration policy due to an existing pension arrangement with an incumbent director(s), companies with exceptionally generous provisions relative to the market should be aware of investor sentiment and set out a clear plan to reduce this over time.

**Service Contracts:** The amended policy implies that any outstanding long-term incentive awards should be pro-rated for time when a director transitions from an executive to a non-executive role.

## Remuneration Report: Bonus Target Disclosures, Service Contracts, Use of Discretion by Remuneration Committees

| Current ISS Policy, incorporating changes:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | New ISS Policy:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
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| <p><b>General Recommendation:</b> 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:</p> <ul style="list-style-type: none"> <li>▪ Any increases, either to fixed or variable remuneration, for the year under review or the upcoming year were well-explained and not excessive;</li> <li>▪ The bonus received and/or the proportion of the LTIP which vested was a fair reflection of the performance achieved;</li> <li>▪ Performance targets are measured over an appropriate period and are sufficiently stretching;</li> <li>▪ Targets for the bonus or the LTIP are disclosed in an appropriate level of detail;</li> <li>▪ Any exit payments to good leavers were reasonable, with appropriate pro-rating (if any) applied to outstanding long-term share awards;</li> <li>▪ Any special arrangements for new joiners were in line with good market practice;</li> <li>▪ The remuneration committee exercised discretion appropriately; and</li> <li>▪ There are no issues in the report which would be of concern to shareholders.</li> </ul> <p>Where the report contains multiple areas of non-compliance with good practice, the vote recommendation will reflect the severity of the issues identified. A small number of minor breaches may still result in an overall recommendation of a "For", whereas a single, serious deviation may be sufficient to justify an "Against" vote recommendation.</p> <p>The remuneration report serves as a way for shareholders to make their views known on the company's pay practices during the year under review, and the extent to which these were compliant with the remuneration policy as</p> | <p><b>General Recommendation:</b> 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:</p> <ul style="list-style-type: none"> <li>▪ Any increases, either to fixed or variable remuneration, for the year under review or the upcoming year were well-explained and not excessive;</li> <li>▪ The bonus received and/or the proportion of the LTIP which vested was a fair reflection of the performance achieved;</li> <li>▪ Performance targets are measured over an appropriate period and are sufficiently stretching;</li> <li>▪ Targets for the bonus or the LTIP are disclosed in an appropriate level of detail;</li> <li>▪ Any exit payments to good leavers were reasonable, with appropriate pro-rating (if any) applied to outstanding long-term share awards;</li> <li>▪ Any special arrangements for new joiners were in line with good market practice;</li> <li>▪ The remuneration committee exercised discretion appropriately; and</li> <li>▪ There are no issues in the report which would be of concern to shareholders.</li> </ul> <p>Where the report contains multiple areas of non-compliance with good practice, the vote recommendation will reflect the severity of the issues identified. A small number of minor breaches may still result in an overall recommendation of a "For", whereas a single, serious deviation may be sufficient to justify an "Against" vote recommendation.</p> <p>The remuneration report serves as a way for shareholders to make their views known on the company's pay practices during the year under review, and the extent to which these were compliant with the remuneration policy as</p> |

| <p>approved by shareholders. The elements of the report which ISS considers are described in more detail in the following section.</p> <p>.....</p> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | <p>approved by shareholders. The elements of the report which ISS considers are described in more detail in the following section.</p> <p>.....</p> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
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| Report component                                                                                                                                    | Good market practice                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Report component                                                                                                                                    | Good market practice                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| ...                                                                                                                                                 | ...                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | ...                                                                                                                                                 | ...                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Annual bonus                                                                                                                                        | <p>The annual bonus earned for the year under review should be explained in a fashion which allows shareholders to clearly link performance with pay. Any increases in the maximum from one year to the next should be explicitly justified. The lowering of targets should generally be accompanied by a reduction in the bonus potential.</p> <p><del>There is an increasing expectation among investors that bonus targets will be disclosed retrospectively. Targets for both financial and non-financial targets should be disclosed in an appropriate level of detail, preferably with a full target range (e.g. threshold, target and maximum) set out.</del></p> <p>ISS <del>may</del> <b>will normally</b> recommend a vote against a remuneration report where bonus targets are not disclosed <del>retrospectively, and there is no commitment to disclosure in the future.</del> <b>Targets for both financial and non-financial targets objectives should be disclosed</b> presented in an appropriate level of detail, preferably with a full target range (e.g. threshold, target and maximum) set out.</p> <p><b>It is now standard market practice for such disclosure to be provided no more than one year after the end of the relevant performance year, immediately following the reporting year.</b> If a remuneration committee believes that bonus target disclosure – even on a retrospective basis – is difficult for reasons of</p> | Annual Bonus                                                                                                                                        | <p>The annual bonus earned for the year under review should be explained in a fashion which allows shareholders to clearly link performance with pay. Any increases in the maximum from one year to the next should be explicitly justified. The lowering of targets should generally be accompanied by a reduction in the bonus potential.</p> <p>ISS will normally recommend a vote against a remuneration report where bonus targets are not disclosed. Targets for both financial and non-financial objectives should be presented in an appropriate level of detail, preferably with a full target range (e.g. threshold, target and maximum) set out.</p> <p>It is now standard market practice for such disclosure to be provided immediately following the reporting year. If a remuneration committee believes that bonus target disclosure – even on a retrospective basis – is difficult for reasons of commercial sensitivity, it should explain the rationale for its decision, when such considerations will fall away and provide a commitment to disclosure at that time. Any company choosing to disclose one or more years in arrears would be out of step with wider market practice and may attract a negative vote recommendation.</p> |

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|-------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                 | <p>commercial sensitivity, it should explain the rationale for its decision, when such considerations will fall away and provide a commitment to disclosure at that time. <b>Any company choosing to disclose one or more years in arrears would be out of step with wider market practice and may attract a negative vote recommendation. <del>Where consideration of commercial sensitivities may prevent a fuller disclosure of specific short-term targets at the start of the performance period, shareholders expect to be informed of the main performance parameters, both corporate and personal.</del></b></p> <p>The payment of a 'one-off' special bonus is likely to attract a negative vote recommendation. ISS will not typically support transaction-related bonuses.</p> |                                                 | <p>The payment of a 'one-off' special bonus is likely to attract a negative vote recommendation. ISS will not typically support transaction-related bonuses.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <p>Any exit payments to departing directors</p> | <p>Exit payments to departing directors should not go beyond those to which the director is entitled under the terms of his or her service contract or the rules of the relevant incentive schemes. Ex gratia or special payments on termination are not supported. "Good leaver" treatment should only apply to those who are genuinely good leavers. Appropriate pro-rating should be applied to outstanding long-term share awards.</p> <p><b>In general, formal notice should be served no later than the day on which the departing executive's leaving date is announced. If a company chooses not to serve notice at this time, it should explain its reasoning for this in the subsequent remuneration report.</b></p>                                                            | <p>Any exit payments to departing directors</p> | <p>Exit payments to departing directors should not go beyond those to which the director is entitled under the terms of his or her service contract or the rules of the relevant incentive schemes. Ex gratia or special payments on termination are not supported. "Good leaver" treatment should only apply to those who are genuinely good leavers. Appropriate pro-rating should be applied to outstanding long-term share awards.</p> <p>In general, formal notice should be served no later than the day on which the departing executive's leaving date is announced. If a company chooses not to serve notice at this time, it should explain its reasoning for this in the subsequent remuneration report.</p> |
| <p>Discretion</p>                               | <p>In cases where a remuneration committee uses its discretion to determine payments, it should provide a clear explanation of its reasons, which are expected to be clearly justified by the financial results and the underlying performance of the company.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | <p>Discretion</p>                               | <p>In cases where a remuneration committee uses its discretion to determine payments, it should provide a clear explanation of its reasons, which are expected to be clearly justified by the financial results and the underlying performance of the company.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                      |

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|--|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  | <p>The remuneration committee should disclose how it has taken into account any relevant environmental, social, and governance (ESG) matters when determining remuneration outcomes. Such factors may include (but are not limited to): workplace fatalities and injuries, significant environmental incidents, large or serial fines or sanctions from regulatory bodies and/or significant adverse legal judgments or settlements.</p> <p>It is relatively rare that a remuneration committee chooses to amend the targets used for either the annual bonus or the LTIP following the start of the performance period, but where this has occurred, it is good practice for the company to demonstrate how the revised targets are in practice no less challenging than the targets which were originally set.</p> | <p>The remuneration committee should disclose how it has taken into account any relevant environmental, social, and governance (ESG) matters when determining remuneration outcomes. Such factors may include (but are not limited to): workplace fatalities and injuries, significant environmental incidents, large or serial fines or sanctions from regulatory bodies and/or significant adverse legal judgments or settlements.</p> <p>It is relatively rare that a remuneration committee chooses to amend the targets used for either the annual bonus or the LTIP following the start of the performance period, but where this has occurred, it is good practice for the company to demonstrate how the revised targets are in practice no less challenging than the targets which were originally set.</p> |
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**Rationale for Change:**

**Bonus Target Disclosures:** Evolution of market practice in this area since new reporting requirements came into force from October 2013 onwards have meant that very few companies do not disclose their bonus targets on an immediately retrospective basis. Companies that choose to withhold immediate disclosure frustrate investors' ability to assess the alignment of bonus outcomes with performance. An overwhelming majority of UK publicly-listed companies disclose their bonus targets without facing any issues around commercial sensitivity, and several companies that previously reported on a one or two-year trailing basis have since aligned themselves to best practice. As such, any company wishing to disclose one or more years in arrears would be viewed sceptically, and a compelling explanation would be expected for this significant departure from market practice.

**Use of Discretion by Remuneration Committees:** The U.K. Investment Association's Principles of Remuneration state that "Remuneration committees may consider including non-financial performance criteria in variable remuneration, for example relating to environmental, social and governance (ESG) objectives, or to particular operational or strategic objectives. ESG measures should be material to the business and quantifiable. In each case, the link to strategy and method of performance measurement should be clearly explained." Additionally, the Pension and Lifetime Savings Association (PLSA) Corporate Governance Policy and Voting Guidelines 2019 recommend to consider "Where remuneration committees have failed to exercise discretion and pay awards fail to reflect wider circumstances such as serious corporate conduct issues which have arisen."

The policy update expands ISS' view on environmental, social and governance (ESG) risks within the remuneration framework. In recent years, there have been a number of cases where remuneration committees have not disclosed how they have taken into account ESG risks or controversies. Like financial performance, it is expected that these matters will be reflected in the remuneration outcome, and if not, that a sufficient explanation is provided.

**Service Contracts:** In 2019, there were several exit scenarios where a full payment-in-lieu-of-notice was made to a departing executive, despite the fact that the executive's leaving date had been announced well in advance of the exit. This results in an unnecessary overpayment to the departing director and a time-in-service credit for outstanding LTIPs. The policy change formalises ISS' views on this scenario.

## Smaller Companies

### Director Elections- Board and Committee Composition

| Current ISS Policy, incorporating changes:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | New ISS Policy:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
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| <p>The requirements for FTSE Fledgling companies are the same as for FTSE SmallCap companies, as set out in the core policy. This means that <del>the board should include a minimum of two independent non-executive directors.</del> <b>at least half the board, excluding the chair, should comprise non-executive directors determined by the board to be independent.</b> The <b>audit</b> and <b>remuneration</b> committees should be fully independent and should include a minimum of two independent non-executives. <del>For the board and the audit and remuneration committees, the board chairman cannot count as one of the independent directors.</del> The majority of the members of the <b>nomination</b> committee should be independent.</p> <p>The chairman may sit on <del>all the remuneration committees</del> <b>(but not the audit committee)</b> provided that he/she continues to be considered independent.</p> | <p>The requirements for FTSE Fledgling companies are the same as for FTSE SmallCap companies, as set out in the core policy. This means that at least half the <b>board</b>, excluding the chair, should comprise non-executive directors determined by the board to be independent. The <b>audit</b> and <b>remuneration</b> committees should be fully independent and should include a minimum of two independent non-executives. The majority of the members of the <b>nomination</b> committee should be independent.</p> <p>The chair may sit on the remuneration committees (but not the audit committee) provided that he/she continues to be considered independent.</p> |

### Rationale for Change:

The latest version of the UK Corporate Governance Code was published in July 2018 and became effective for accounting periods starting from 1 January 2019. A key change in the 2018 Code is the removal of separate standards for "larger" (FTSE 350) and "smaller" (below FTSE 350) companies in certain areas of board composition. Specifically, all companies with a premium listing are now expected to have boards which are at least 50 percent independent, excluding the chair. Previous versions of the Code provided an exemption for smaller companies, which were only required to have two independent NEDs on their boards to remain compliant.

In addition, board chairs are no longer permitted to sit on the audit committee under the new Code, again eliminating a previous exemption for smaller companies.

## Other Points to Note – Deletion of Entire Section

| Current ISS Policy, incorporating changes:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | New ISS Policy: |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| <p><del><b>Board Diversity</b></del></p> <p><del>ISS research includes commentary on the company's approach to diversity. The Pensions and Lifetime Savings Association expects companies to include a description of the board's policy on diversity, including professional, international and gender diversity, any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives.</del></p> <p><del><b>Board Director acts as Company Secretary</b></del></p> <p><del>The Code states that the company secretary should be responsible for advising the board through the chairman on all governance matters, and investors typically expect this role to be filled by a non-board member.</del></p> |                 |

### Rationale for Change:

The inclusion of the gender diversity policy under the Director Elections sections renders this separate “point to note” unnecessary. The section on Company Secretaries is also being removed as it is a minor issue with no implication on voting recommendations.



## Continental Europe

### Operational Items

#### Approval of Non-Financial Information Statement/Report

| Current ISS Policy, incorporating changes:                                                                                                                                                                                                      | New ISS Policy:                                                                                                                                                                                                                                 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>General Recommendation:</b> Generally vote for the approval of mandatory non-financial information statement/report, unless the independent assurance services provider has raised material concerns about the information presented.</p> | <p><b>General Recommendation:</b> Generally vote for the approval of mandatory non-financial information statement/report, unless the independent assurance services provider has raised material concerns about the information presented.</p> |

#### Rationale for Change:

EU Directive 2014/95 established some disclosure requirements of non-financial information, including about environmental-, social- and personnel-, human rights-, and corruption-related matters. According to the Directive, an independent assurance services provider must review non-financial information and provide an opinion on its comprehensiveness and accuracy. The Directive does not require nor forbid this statement of non-financial information to be submitted to shareholder vote.

This Directive has been transposed in all EU member states. To date, Spain is the sole EU market where the lawmaker requests this statement be approved by the general meeting.

This EU-wide policy establishes a framework for mandatory, regulated non-financial information statements, with a focus on disclosure quality rather than non-financial performance. The policy considers the required independent assurance services provider's opinion on the company's disclosure of non-financial information.

## Board of Directors- Non-Contested Director Elections

### Attendance

| Current ISS Policy, incorporating changes:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | New ISS Policy:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>General Recommendation:</b> Vote for management nominees in the election of directors, unless:</p> <ul style="list-style-type: none"> <li>▪ Adequate disclosure has not been provided in a timely manner;</li> <li>▪ There are clear concerns over questionable finances or restatements;</li> <li>▪ There have been questionable transactions with conflicts of interest;</li> <li>▪ There are any records of abuses against minority shareholder interests;</li> <li>▪ The board fails to meet minimum corporate governance standards;</li> <li>▪ There are specific concerns about the individual, such as criminal wrongdoing or breach of fiduciary responsibilities; and</li> <li>▪ Repeated absences at board and key committee meetings have not been explained (in countries where this information is disclosed).</li> </ul> | <p><b>General Recommendation:</b> Vote for management nominees in the election of directors, unless:</p> <ul style="list-style-type: none"> <li>▪ Adequate disclosure has not been provided in a timely manner;</li> <li>▪ There are clear concerns over questionable finances or restatements;</li> <li>▪ There have been questionable transactions with conflicts of interest;</li> <li>▪ There are any records of abuses against minority shareholder interests;</li> <li>▪ The board fails to meet minimum corporate governance standards;</li> <li>▪ There are specific concerns about the individual, such as criminal wrongdoing or breach of fiduciary responsibilities; and</li> <li>▪ Repeated absences at board and key committee meetings have not been explained (in countries where this information is disclosed).</li> </ul> |

### Rationale for Change:

This update clarifies that ISS will be tracking both board and committee meeting attendance records.

Directors and committee members' attendance is a major concern for investors and information around directors' attendance for board and committees is expected to be disclosed in European markets. Based on ISS' current European and EMEA policy, an adverse vote will apply towards directors with repeated absences at board meetings, provided that such absences have not been explained. This only applies in countries where this information is disclosed. In the case this information is not disclosed (in the concerned markets), a vote against directors' elections will also be considered.

## Director Terms

| Current ISS Policy, incorporating changes:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | New ISS Policy:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
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| <p>For <b>Belgium, France, Greece, Netherlands, Spain, and Switzerland</b>, 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.</p> <p>For general meetings held on or after Feb. 1, 2021, the above policy will be applied to all European companies, for bundled as well as unbundled items.</p> <p>Beyond that, as directors should be accountable to shareholders on a more regular basis, ISS may consider moving to maximum board terms of less than four years in the future.</p> <p>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.</p> | <p>For <b>Belgium, France, Greece, Netherlands, Spain, and Switzerland</b>, 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.</p> <p>For general meetings held on or after Feb. 1, 2021, the above policy will be applied to all European companies, for bundled as well as unbundled items.</p> <p>Beyond that, as directors should be accountable to shareholders on a more regular basis, ISS may consider moving to maximum board terms of less than four years in the future.</p> <p>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.</p> |

### Rationale for Change:

Directors function as the representatives of shareholders throughout the year and are therefore a crucial avenue of ongoing influence on management. As a result, most institutional investors favor annual elections as board members should be accountable to shareholders on a regular basis. For many investors, annual director elections strengthen the ability to hold boards accountable and encourage board members to be more responsive to shareholder interests. According to the results of ISS' 2019 Global Policy Survey, for European companies, 52 percent of investors who responded favored annual board elections as a best practice when asked what the maximum acceptable length of time is that members of a European board should be able to serve without a shareholder vote on a director's election or re-election.

In Europe, directors are generally elected for terms of one to four years, with annual elections considered best practice. Board terms of more than four years have become exceptional and considered outdated. Germany and Austria are the only major European markets that see regular board terms of five years -- which is in line with the legal limits in both markets. In Germany, the Corporate Governance Code Commission proposed a standard board term of three years in the draft version of the German

Code revised at the end of last year. Although many investors welcomed this new recommendation in the public consultation process, it was omitted in the final version of the new 2019 German Code due to concerns from corporations, and the five-year maximum term remains.

#### Board Terms in Europe (Common Practice in 15 Major Markets)

|              |                                                            |                                                                     |
|--------------|------------------------------------------------------------|---------------------------------------------------------------------|
| One year:    | UK, Ireland, Switzerland, Sweden, Norway, Denmark, Finland | (recommended by Corp Gov Code in these markets, partly legal limit) |
| Three years: | Italy                                                      | (no code recommendation, but legal limit)                           |
| Four years:  | France, Spain, Netherlands, Belgium, Greece                | (recommended by Corp Gov Code, except for Spain where legal limit)  |
| Five years:  | Germany, Austria                                           | (no code recommendation, but legal limit)                           |

The current maximum in ISS' European proxy voting guidelines is four years in those markets where the local Corporate Governance Code recommends such a limit. In addition, while Switzerland is also mentioned as a market covered under the policy, the Swiss legal limit has now been set to one year. Since Germany and Austria are not covered in the current policy, ISS had recommended in favor of five-year board terms in these two markets.

The policy update is to expand the expectation of a four-year maximum board term to all European companies (all markets) following a one-year transition period. Thus, the policy update would reduce the acceptable maximum limit on board terms for Germany and Austria from five to four years beginning in 2021. Further, the policy indicates that, beyond 2021, as directors should be accountable to shareholders on a more regular basis, ISS may consider moving to maximum board terms of less than four years in the future.

#### Board Independence - Widely-held companies: Board Leadership and Luxembourg Inclusion

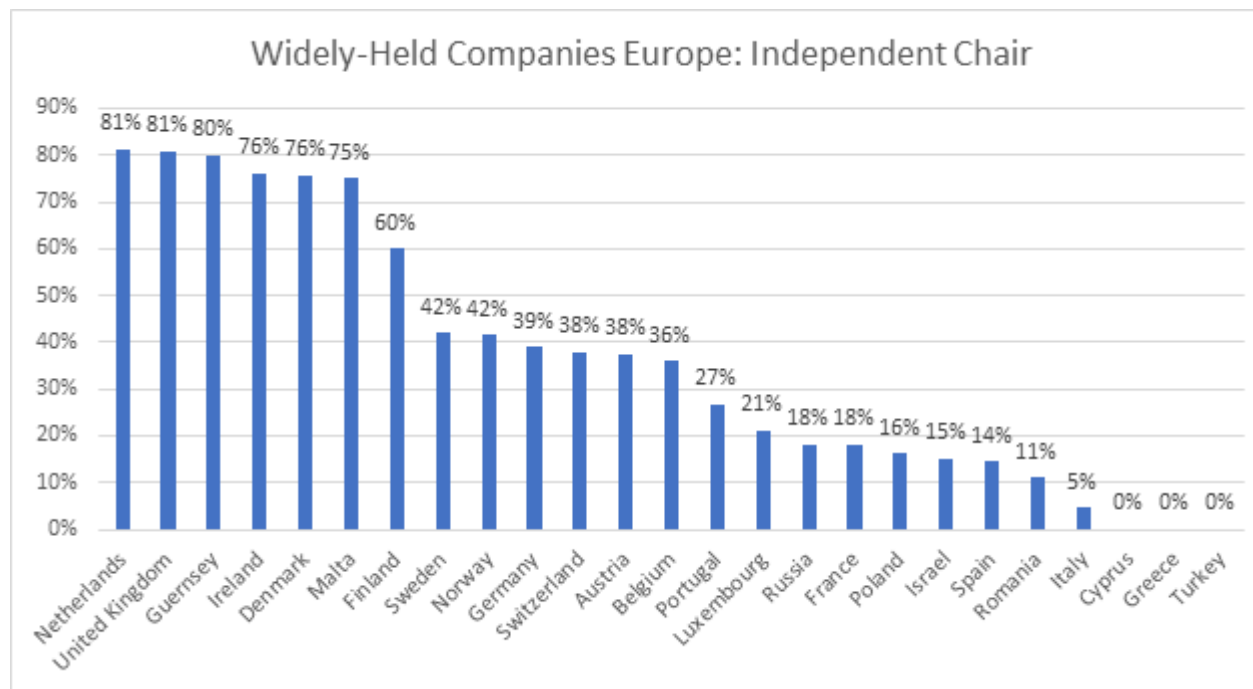
| Current ISS Policy, incorporating changes:                                                                                                                                                                                                | New ISS Policy:                                                                                                                                                                                                                           |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b><u>Widely-held companies</u></b></p> <p><a href="#">Board Independence</a></p> <p>A. Non-controlled companies</p> <p>Generally vote against the election or reelection of any non-independent directors (excluding the CEO) if:</p> | <p><b><u>Widely-held companies</u></b></p> <p><a href="#">Board Independence</a></p> <p>A. Non-controlled companies</p> <p>Generally vote against the election or reelection of any non-independent directors (excluding the CEO) if:</p> |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
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| <p>1. Fewer than 50 percent of the board members elected by shareholders – excluding, where relevant, employee shareholder representatives – would be independent; or</p> <p>2. Fewer than one-third of all board members would be independent.</p> <p>B. Controlled companies</p> <p>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.</p> <p><u>Board Leadership</u></p> <p>Given the importance of board leadership, ISS may consider that the chair of the board should be an independent non-executive director according to the ISS' Classification of Directors.</p> <p>.....</p> <p><i>Definition of terms</i></p> <p>'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, and 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.</p> | <p>1. Fewer than 50 percent of the board members elected by shareholders – excluding, where relevant, employee shareholder representatives – would be independent; or</p> <p>2. Fewer than one-third of all board members would be independent.</p> <p>B. Controlled companies</p> <p>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.</p> <p><u>Board Leadership</u></p> <p>Given the importance of board leadership, ISS may consider that the chair of the board should be an independent non-executive director according to the ISS' Classification of Directors.</p> <p>.....</p> <p><i>Definition of terms</i></p> <p>'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, and Finland, 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.</p> |
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**Rationale for Change:**

**Board leadership:** This new reference suggests that the chair of a board should be an independent non-executive director. However, the addition of this expectation will not cause negative vote recommendations by ISS if a board chair is not independent. The suggestion shall rather highlight the importance of board leadership given the dominant role of an independent board chair in many European markets. Furthermore, this addition shall sensitize the market that investors' expectations may rise and Board Chair Independence may become an ISS policy in the future.

**Proportion of Widely-held European Companies with an Independent Chair in 2019 (according to ISS data):**



Standards and best practice recommendations on the importance of having an independent board chair vary across different European markets. For instance, an independent board chair is best market practice in the Netherlands, UK, Ireland and Denmark. In other countries such as Finland, Sweden, Norway, Germany, Switzerland, and Austria roughly or almost half of the board chairs are independent. Finally, in countries such as Russia, France, Poland, Spain, and Italy only a small minority of companies have boards with an independent chair.

In Europe, the separation of the board chair and CEO roles is widely accepted as good governance practice (even though it is still not the norm in every country). The questions of the independence of the chair and board leadership remain open topics. ISS European policy provides that a board of directors or supervisory board and its major committees should contain a sufficient number of independent directors to allow for the exercise of independent judgment. Therefore, for European companies, ISS may recommend against the election or reelection of any non-independent director, including the board chair, if his or her non-independence would lead to the board being considered insufficiently independent overall. However, in the future, ISS may also recommend against the election or reelection of any non-independent board chair, irrespective of overall board independence.

**Luxembourg:** Historically, only Luxembourg companies that are part of the LuxX index (Luxembourg main index constituted of 10 companies) and/or MSCI EAFE companies were considered "widely-held companies". For other companies, *non widely-held* voting policies applied. Due to improved disclosure, ISS will now determine whether Luxembourg companies are to be considered "widely held" with the same process that it uses for the rest of Continental European companies.

## Board Gender Diversity

| Current ISS Policy, incorporating changes:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | New ISS Policy:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>2. BOARD OF DIRECTORS</b></p> <p><b>Non-Contested Director Elections</b></p> <p><b>XIII. Diversity</b></p> <p><b>Diversity:</b> In terms of gender diversity, [supervisory] boards should adhere to domestic legal requirements or local best market practices or, in the absence thereof, be in line with European established practice.</p> <p>Generally vote against the chair of the nomination committee (or other directors on a case-by-case basis) when there are no female directors on the board of a widely-held company. Mitigating factors may be:</p> <ul style="list-style-type: none"> <li>▪ The presence of a female director on the board at the preceding annual meeting and a firm commitment, publicly available, to appoint at least one female director to the board within a year; or</li> <li>▪ Other relevant factors as applicable.</li> </ul> | <p><b>2. BOARD OF DIRECTORS</b></p> <p><b>Non-Contested Director Elections</b></p> <p><b>XIII. Diversity</b></p> <p><b>Diversity:</b> In terms of gender diversity, [supervisory] boards should adhere to domestic legal requirements or local best market practices or, in the absence thereof, be in line with European established practice.</p> <p>Generally vote against the chair of the nomination committee (or other directors on a case-by-case basis) when there are no female directors on the board of a widely-held company. Mitigating factors may be:</p> <ul style="list-style-type: none"> <li>▪ The presence of a female director on the board at the preceding annual meeting and a firm commitment, publicly available, to appoint at least one female director to the board within a year; or</li> <li>▪ Other relevant factors as applicable.</li> </ul> |

### Rationale for Change:

Gender diversity at the board level has become the norm at companies traditionally associated with having better governance practices in Europe. The norms differ by country, but overall, there has been an increase in gender diversity on boards, initially spurred by different forms of requirements from market regulators or legislators. Despite the fact that the European Commission's plan to introduce a minimum 40 percent female quota did not pass in 2012, in the following years individual countries have implemented various levels of guidance (as best practice provision or hard law requirement) to ensure boards would become more diverse in terms of gender. In countries like Austria, Belgium, France, Germany, Italy, Netherlands, Norway, Portugal, Spain, and the UK, such guidance already exists. Although in countries like Denmark, Finland, Sweden, and Switzerland there are no specific guidelines on gender diverse board composition, the local code of best practice recommends that the board is sufficiently diverse and consists of male and female directors.

According to the results of ISS' 2019 Global Policy Survey, responses to a question about the importance of gender diversity on boards showed that majorities of both investors and non-investors agreed with the view that board gender diversity is an essential attribute of effective board governance regardless of the company or its market.

Based on the foregoing, having a gender diverse board has become the norm and in a large number of countries even legally required. When looking at the current average gender diversity on European boards, it is clear that increased gender diversity is the norm. Female representation on the board averages approximately 30 percent in Europe. Moreover, the number of companies with a board with no female representation is now a small minority at six percent.

Please also see the [related policy change](#) for the UK and Ireland.

## Compensation

### Executive Compensation-Related Proposals: Termination Payments, Use of Discretion by Remuneration Committees

| Current ISS Policy, incorporating changes:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | New ISS Policy:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
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| <p><b>General Recommendation:</b> ISS will evaluate management proposals seeking ratification of a company's executive compensation-related items on a case-by-case basis, and where relevant, will take into account the European Pay for Performance Model outcomes within a qualitative review of a company's remuneration practices. ISS will generally recommend a vote against a company's compensation-related proposal if such proposal fails to comply with one or a combination of several of the global principles and their corresponding rules:</p> <p>.....</p> <p>3. Avoid arrangements that risk "pay for failure": [...]</p> <p>3.2. <del>Severance pay agreements</del> <b>Termination payments<sup>1</sup></b> must not be in excess of (i) 24 months' pay or of (ii) any more restrictive provision pursuant to local legal requirements and/or market best practices. [...]</p> <p>4. Maintain an independent and effective compensation committee:</p> <p>4.1. No executives may serve on the compensation committee.</p> | <p><b>General Recommendation:</b> ISS will evaluate management proposals seeking ratification of a company's executive compensation-related items on a case-by-case basis, and where relevant, will take into account the European Pay for Performance Model outcomes within a qualitative review of a company's remuneration practices. ISS will generally recommend a vote against a company's compensation-related proposal if such proposal fails to comply with one or a combination of several of the global principles and their corresponding rules:</p> <p>.....</p> <p>3. Avoid arrangements that risk "pay for failure": [...]</p> <p>3.2. Termination payments<sup>1</sup> must not be in excess of (i) 24 months' pay or of (ii) any more restrictive provision pursuant to local legal requirements and/or market best practices. [...]</p> <p>4. Maintain an independent and effective compensation committee:</p> <p>4.1. No executives may serve on the compensation committee.</p> |

<sup>1</sup> 'Termination payments' means any payment linked to early termination of contracts for executive or managing directors, including payments related to the duration of a notice period or a non-competition clause included in the contract.



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| <p>4.2. In certain markets the compensation committee shall be composed of a majority of independent members, as per ISS policies on director election and board or committee composition.</p> <p>4.3. Compensation committees should use the discretion afforded them by shareholders to ensure that rewards properly reflect business performance<sup>2</sup>.</p> | <p>4.2. In certain markets the compensation committee shall be composed of a majority of independent members, as per ISS policies on director election and board or committee composition.</p> <p>4.3. Compensation committees should use the discretion afforded them by shareholders to ensure that rewards properly reflect business performance<sup>2</sup>.</p> |
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### Rationale for Change:

**Termination Benefits:** This policy incorporates the definition of termination benefits provided by the recommendation on the regime for the remuneration of directors of listed companies issued by the European Commission on April 30, 2009. This definition clarifies that all benefits paid out to a departing executive are included in the severance package.

**Use of discretion:** The current Continental European policy does not cover the use of discretion by remuneration committees/boards. While not widespread in Continental Europe, the formalization of the use of discretion is beginning to appear in remuneration policies giving investors the necessary framework to assess the role and actions of the remuneration committee and/or board.

As EU member states are implementing the second Shareholder Rights Directive that prescribes a vote on remuneration policies and reports, this proposal introduces the UK/IE policy's framework into the Continental European policy regarding remuneration discretion, including a new section on disclosure of significant environmental, social, and governance risks that were factored into remuneration decisions. In recent years, there have been a number of cases where the remuneration committee has not disclosed how it has taken into account ESG risks or controversies. Like financial performance, it is expected that these matters will be reflected in the remuneration outcome when relevant, and if they are not disclosed but the company has had significant adverse legal judgments or settlements related to ESG matters, that a sufficient explanation is provided.

Please also see the [related policy change](#) for UK and Ireland.

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<sup>2</sup> In cases where a remuneration committee uses its discretion to determine payments, it should provide a clear explanation of its reasons, which are expected to be clearly justified by the financial results and the underlying performance of the company.  
The remuneration committee should disclose how it has taken into account any relevant environmental, social, and governance (ESG) matters when determining remuneration outcomes. Such factors may include (but are not limited to): workplace fatalities and injuries, significant environmental incidents, large or serial fines or sanctions from regulatory bodies and/or significant adverse legal judgments or settlements.  
It is relatively rare that a remuneration committee chooses to amend the targets used for either the annual bonus or the LTIP following the start of the performance period, but where this has occurred, it is good practice for the company to demonstrate how the revised targets are in practice no less challenging than the targets which were originally set.

## Compensation-Related Voting Sanctions: Remuneration Committee Responsiveness

| Current ISS Policy, incorporating changes:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | New ISS Policy:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
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| <p><b>General Recommendation:</b> Should a company be deemed: <del>to have egregious remuneration practices (as a result of one or a combination of several factors highlighted above) and has not followed market practice by submitting a resolution on executive compensation, vote against other "appropriate" resolutions as a mark of discontent against such practices.</del></p> <ul style="list-style-type: none"> <li>▪ To have egregious remuneration practices;</li> <li>▪ To have failed to follow market practice by not submitting expected resolutions on executive compensation; or</li> <li>▪ To have failed to respond to significant shareholder dissent on remuneration-related proposals;</li> </ul> <p>an adverse vote recommendation could be applied to any of the following on a case-by case basis:</p> <ol style="list-style-type: none"> <li>1. The <del>(re)</del>election of the chair of the remuneration committee or, where relevant, any other members of the remuneration committee;</li> <li>2. The reelection of the board chair;</li> <li><del>2-3.</del> 3. The discharge of directors; or</li> <li><del>3-4.</del> 4. The annual report and accounts.</li> </ol> <p><del>Failure to propose a resolution on executive compensation to shareholders in a market where this is routine practice may, by itself, lead to one of the above adverse vote recommendations regardless of the companies' remuneration practices.</del></p> <p>This recommendation could be made in addition to other adverse recommendations under existing remuneration proposals (if any).</p> | <p><b>General Recommendation:</b> Should a company be deemed:</p> <ul style="list-style-type: none"> <li>▪ To have egregious remuneration practices;</li> <li>▪ To have failed to follow market practice by not submitting expected resolutions on executive compensation; or</li> <li>▪ To have failed to respond to significant shareholder dissent on remuneration-related proposals;</li> </ul> <p>an adverse vote recommendation could be applied to any of the following on a case-by case basis:</p> <ol style="list-style-type: none"> <li>1. The reelection of the chair of the remuneration committee or, where relevant, any other members of the remuneration committee;</li> <li>2. The reelection of the board chair;</li> <li>3. The discharge of directors; or</li> <li>4. The annual report and accounts.</li> </ol> <p>This recommendation could be made in addition to other adverse recommendations under existing remuneration proposals (if any).</p> |

**Rationale for Change:**

The EU 2017/828 directive on shareholder rights requires companies in all European markets to submit the executives' remuneration policy and the remuneration report to shareholder vote. It also introduces mandatory board responsiveness by requiring companies to disclose how the vote on the remuneration report was taken into account. Considering that say-on-pay votes will now be consistently submitted throughout the markets of the European Union, and that the revised directive extended board responsiveness to any vote (vs. previously: only in cases of "against" votes), it is now deemed market practice to consider shareholders' views on remuneration proposals.

This policy update addresses instances where a significant percentage of shareholders are systematically expressing dissent on pay issues with no reaction from the company or no visible change in the company's practices. It allows ISS to ultimately hold the remuneration committee chair (or members, as the case may be) accountable for a lack of responsiveness on controversial pay issues when the shareholder vote has not been considered. The update aligns the Continental European policy with the ISS UK/Ireland policy.

**Employee Share Purchase Plans**

| Current ISS Policy, incorporating changes:                                                                                                                                                        | New ISS Policy:                                                                                                                                                                                   |
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| <p><b>General Recommendation:</b> Generally vote for employee stock purchase plans if the number of shares allocated to the plan is 10 percent or less of the company's issued share capital.</p> | <p><b>General Recommendation:</b> Generally vote for employee stock purchase plans if the number of shares allocated to the plan is 10 percent or less of the company's issued share capital.</p> |

**Rationale for Change:**

This change introduces a policy on authorization to issue shares reserved for saving-related plans for employees, filling a policy vacuum by implementing a rule that is applied in the U.S. market.

## Russia and Kazakhstan

### Appointment of Auditors and Auditor Fees

| Current ISS Policy, incorporating changes:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | New ISS Policy:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
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| <p><b>General Recommendation:</b> Vote for the (re)election of auditors and/or proposals authorizing the board to fix auditor fees, unless:</p> <ul style="list-style-type: none"> <li>▪ There are serious concerns about the procedures used by the auditor;</li> <li>▪ There is reason to believe that the auditor has rendered an opinion which is neither accurate nor indicative of the company's financial position;</li> <li>▪ External auditors have previously served the company in an executive capacity or can otherwise be considered affiliated with the company;</li> <li>▪ <del>The name</del> Name of the proposed auditors has not been published; or</li> <li>▪ The auditors are being changed without explanation.</li> </ul> <p><del>For concerns related to the audit procedures, independence of auditors, and/or name of auditors, ISS may recommend against the auditor (re)election. For widely-held companies, vote against authorization of auditor fees, or against the election of auditors if the authorization of auditor fees is not presented as a separate item, if:</del></p> <ul style="list-style-type: none"> <li>▪ Non-audit fees exceed audit-related fees (or any stricter limit under local law or best practice); or</li> <li>▪ For general meetings held on or after Feb. 1, 2021, if audit fees are not disclosed.</li> </ul> <p>In circumstances where fees for non-audit services include fees related to significant one-time capital (re)structure events, such as, but not limited to: initial public offerings, bankruptcy emergence, and spinoffs; and the company provides public disclosure of the amount and nature of those fees which are an exception to the standard "non-audit fee" category, such fees may be excluded from the non-audit fees considered in determining the ratio of non-audit to audit fees.</p> | <p><b>General Recommendation:</b> Vote for the (re)election of auditors and/or proposals authorizing the board to fix auditor fees, unless:</p> <ul style="list-style-type: none"> <li>▪ There are serious concerns about the procedures used by the auditor;</li> <li>▪ There is reason to believe that the auditor has rendered an opinion which is neither accurate nor indicative of the company's financial position;</li> <li>▪ External auditors have previously served the company in an executive capacity or can otherwise be considered affiliated with the company;</li> <li>▪ The name of the proposed auditors has not been published; or</li> <li>▪ The auditors are being changed without explanation.</li> </ul> <p>For widely-held companies, vote against the authorization of auditor fees, or against the election of auditors if the authorization of auditor fees is not presented as a separate item, if:</p> <ul style="list-style-type: none"> <li>▪ Non-audit fees exceed audit-related fees (or any stricter limit under local law or best practice); or</li> <li>▪ For general meetings held on or after Feb. 1, 2021, if audit fees are not disclosed.</li> </ul> <p>In circumstances where fees for non-audit services include fees related to significant one-time capital (re)structure events, such as, but not limited to: initial public offerings, bankruptcy emergence, and spinoffs; and the company provides public disclosure of the amount and nature of those fees which are an exception to the standard "non-audit fee" category, such fees may be excluded from the non-audit fees considered in determining the ratio of non-audit to audit fees.</p> |

### Rationale for Change:

In the absence of disclosure of itemized audit fees, ISS will recommend against the auditor appointment or proposal to approve auditor remuneration after a one-year transition period. The transition period is to allow the market to adjust to the new expectation. Furthermore, the current policy does not provide any specific requirements for the ratio between non-audit and audit-related fees paid to the auditor as one of the distinctive criteria for defining auditor's independence. Introducing such policy for Russian and Kazakhstan markets will assist in maintaining global consistency and will enable ISS to assess auditor independence more coherently and in a more defined way, without incentivizing lowered transparency by the companies.

## EMEA Regional

These guidelines cover all markets in Europe, the Middle East, and Africa (EMEA) that are not covered under a separate market-specific or region-specific ISS policy. Therefore, markets covered by this document exclude UK, Ireland, Israel, Russia, Kazakhstan, and South Africa, and all markets that are covered under ISS' European Policy.

## Board of Directors

### Director Elections – Attendance

| Current ISS Policy, incorporating changes:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | New ISS Policy:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
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| <p>Vote for management nominees in the election of directors, unless:</p> <ul style="list-style-type: none"> <li>▪ Adequate disclosure has not been provided in a timely manner;</li> <li>▪ There are clear concerns over questionable finances or restatements;</li> <li>▪ There have been questionable transactions with conflict of interest;</li> <li>▪ There are any records of abuses against minority shareholder interest;</li> <li>▪ The board fails to meet minimum corporate governance standards;</li> <li>▪ There are specific concerns about the individual, such as criminal wrongdoing or breach of fiduciary responsibilities; or</li> <li>▪ Repeated absences at board <b>and committee meetings (less than 75 percent attendance)</b> have not been explained (in countries where this information is disclosed).</li> </ul> | <p>Vote for management nominees in the election of directors, unless:</p> <ul style="list-style-type: none"> <li>▪ Adequate disclosure has not been provided in a timely manner;</li> <li>▪ There are clear concerns over questionable finances or restatements;</li> <li>▪ There have been questionable transactions with conflict of interest;</li> <li>▪ There are any records of abuses against minority shareholder interest;</li> <li>▪ The board fails to meet minimum corporate governance standards;</li> <li>▪ There are specific concerns about the individual, such as criminal wrongdoing or breach of fiduciary responsibilities; or</li> <li>▪ Repeated absences at board <b>and committee meetings (less than 75 percent attendance)</b> have not been explained (in countries where this information is disclosed).</li> </ul> |

**Rationale for Change:**

The vast majority of Sub-Saharan markets provide detailed information around directors' attendance for board and committees. This information is disclosed in most European markets and approximately 70 percent of companies in the main African markets - (Nigeria, Kenya, Botswana, Namibia); and respectively in 91 percent and 81 percent of companies in Oman and Saudi Arabia. Based on ISS' current EMEA policy, an adverse vote will apply towards directors with repeated absences at board meetings, provided that such absences have not been adequately explained. This only applies in countries where this information is disclosed. If this information is not disclosed (in the concerned markets), a recommendation against directors' elections will also be considered.

Directors and committee members' attendance is a major concern for investors, especially for Sub-Saharan Africa where this information has been disclosed by companies for several years now. This update clarifies that ISS will be tracking both board and committee meeting attendance and codifies the threshold of 75 percent.

**Director Elections – Overall Board Independence and Audit Committee Independence (Middle East, Africa (ex-South Africa), Turkey)**

| Current ISS Policy, incorporating changes:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | New ISS Policy:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
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| <p><b>Board Independence</b></p> <p>Independence will be determined according to ISS' EMEA Regional Classification of Directors, if a nominee cannot be categorized, ISS will consider that person non-independent and include that nominee in the calculation of overall board independence.</p> <p>ISS will generally recommend against the election or reelection of non-independent directors (excluding the CEO) if overall board independence is less than one-third, excluding, where relevant, employee shareholder representatives.</p> <p>Vote for employee and/or labour representatives if they sit on either the audit or compensation committee and are required by Law to be on these committees. Vote against employee and/or labour representatives if they sit on either the audit or compensation committee, if they are not required to be on these committees.</p> <p><b>Audit Committee Independence</b></p> | <p><b>Board Independence</b></p> <p>Independence will be determined according to ISS' EMEA Regional Classification of Directors, if a nominee cannot be categorized, ISS will consider that person non-independent and include that nominee in the calculation of overall board independence.</p> <p>ISS will generally recommend against the election or reelection of non-independent directors (excluding the CEO) if overall board independence is less than one-third, excluding, where relevant, employee shareholder representatives.</p> <p>Vote for employee and/or labour representatives if they sit on either the audit or compensation committee and are required by Law to be on these committees. Vote against employee and/or labour representatives if they sit on either the audit or compensation committee, if they are not required to be on these committees.</p> <p><b>Audit Committee Independence</b></p> |

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| <p>Vote against proposals seeking the election of non-independent members of the audit committee if:</p> <ul style="list-style-type: none"> <li>Fewer than one-third of all audit committee members, excluding, where relevant, employee shareholder representatives, would be independent; or</li> <li>A non-independent member is being presented for election or reelection as the audit committee chair.</li> </ul> <p>This policy applies to bundled and unbundled items.</p> <p>Vote against the (re)election of executives who serve on the company's audit committee. ISS may also recommend against if the disclosure is insufficient to determine whether an executive serves or will serve on the audit committee. If a company does not have an audit committee, ISS may consider that the entire board fulfills the role of the committee, and recommend against any executives, including the CEO, on the ballot.</p> | <p>Vote against proposals seeking the election of non-independent members of the audit committee if:</p> <ul style="list-style-type: none"> <li>Fewer than one-third of all audit committee members, excluding, where relevant, employee shareholder representatives, would be independent; or</li> <li>A non-independent member is being presented for election or reelection as the audit committee chair.</li> </ul> <p>This policy applies to bundled and unbundled items.</p> <p>Vote against the (re)election of executives who serve on the company's audit committee. ISS may also recommend against if the disclosure is insufficient to determine whether an executive serves or will serve on the audit committee. If a company does not have an audit committee, ISS may consider that the entire board fulfills the role of the committee, and recommend against any executives, including the CEO, on the ballot.</p> |
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### Rationale for Change:

**Board Independence:** The majority of Corporate Governance Codes in the region require that one-third of board members be independent. In addition, investors' interest in board independence has rapidly grown in recent years in Middle East and Africa markets.

Considering the evolution of market practices, this policy update harmonizes ISS policy with the countries' laws/codes.

Previously, the one-third board independence recommendation applied only to widely-held Turkish companies. Now, non-widely-held companies will also be included in the scope of this policy.

**Audit Committee Composition:** Audit Committee elections are seen annually in Sub-Saharan Africa and in several middle eastern markets (UAE, Saudi Arabia). Currently the EMEA policy does not provide a framework for vote recommendations or analysis of these proposals. A certain number of Middle East and Africa markets have quite detailed local governance recommendations on audit committee independence, as well as disclosure requirements regarding audit committee composition, charters and policies, and past and current memberships and functions. In addition, institutional shareholders have indicated concerns regarding audit committee independence in some markets.

The majority of Corporate Governance Codes in the region require audit committees to be (i) chaired by an independent director, (ii) be composed by a majority of independent members and (iii) include at least one member with specific financial/accounting expertise.

This policy update brings ISS' EMEA Regional policy in line with market requirements regarding audit committee independence and seeks to address the growing concerns of institutional investors regarding audit committee independence. Updating the policy with regards to audit committee independence will also allow ISS to reflect current level of disclosure on directors and local governance recommendations in the concerned markets.

### Director Elections – Director Disclosure - Cumulative Voting (UAE, Saudi Arabia, Egypt, Jordan, Qatar)

| Current ISS Policy, incorporating changes:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | New ISS Policy:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
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| <p><b>Cumulative Voting</b></p> <p>Under a cumulative voting system, each share represents a number of votes equal to the size of the board that will be elected. These votes may be apportioned equally among the candidates or, if a shareholder wishes to exclude some nominees, among the desired candidates.</p> <p>For MEA markets, when directors are elected through a cumulative voting system, or when the number of nominees exceeds the number of board vacancies, <del>in cases where:</del></p> <ul style="list-style-type: none"> <li><del>▪ Directors are proposed for (re)election through a cumulative voting system, or</del></li> <li><del>▪ Director elections do not take place through a cumulative voting system, but the number of nominees up for (re)election exceeds the number of board vacancies:</del></li> </ul> <p><del>ISS will recommend a vote on a case-by-case basis on directors, taking into consideration, considering additional factors, for the purpose of to identifying the nominees best suited nominees to add value for shareholders.</del></p> <p>Generally vote to abstain from all candidates if the disclosure provided by the company is not sufficient to allow the assessment of independence and the support of all proposed candidates on equal terms.</p> <p>If the disclosure is sufficient to allow an assessment of the independence of proposed candidates, generally vote in favor of the following types of candidates:</p> | <p><b>Cumulative Voting</b></p> <p>Under a cumulative voting system, each share represents a number of votes equal to the size of the board that will be elected. These votes may be apportioned equally among the candidates or, if a shareholder wishes to exclude some nominees, among the desired candidates.</p> <p>For MEA markets, when directors are elected through a cumulative voting system, or when the number of nominees exceeds the number of board vacancies, vote case-by-case on directors, taking into consideration additional factors to identify the nominees best suited to add value for shareholders.</p> <p>Generally vote to abstain from all candidates if the disclosure provided by the company is not sufficient to allow the assessment of independence and the support of all proposed candidates on equal terms.</p> |



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| <p><del>positive vote recommendations will generally be issued preferably in favor of the following categories of candidates:</del></p> <ul style="list-style-type: none"> <li>▪ Candidates who can be identified as representatives of minority shareholders of the company, or independent candidates, <del>namely:</del> <ul style="list-style-type: none"> <li><del>—Candidates who can be classified as independent according to ISS' policy, or, failing that,</del></li> <li><del>—Candidates explicitly classified as independent per the company's director classification.</del></li> </ul> </li> <li>▪ Candidates whose professional background may have the following benefits:           <ul style="list-style-type: none"> <li>▪ Increasing the diversity of incumbent directors' professional profiles and skills (thanks to their financial expertise, international experience, executive positions/directorships at other listed companies, or other relevant factors).</li> <li>▪ Bringing to the current board of director's relevant experience in areas linked to the company's business, evidenced by current or past board memberships or management functions at other companies.</li> </ul> </li> <li>▪ Incumbent board members and candidates explicitly supported by the company's management.</li> </ul> | <p>If the disclosure is sufficient to allow an assessment of the independence of proposed candidates, generally vote in favor of the following types of candidates:</p> <ul style="list-style-type: none"> <li>▪ Candidates who can be identified as representatives of minority shareholders of the company, or independent candidates.</li> <li>▪ Candidates whose professional background may have the following benefits:           <ul style="list-style-type: none"> <li>▪ Increasing the diversity of incumbent directors' professional profiles and skills (thanks to their financial expertise, international experience, executive positions/directorships at other listed companies, or other relevant factors).</li> <li>▪ Bringing to the current board of director's relevant experience in areas linked to the company's business, evidenced by current or past board memberships or management functions at other companies.</li> </ul> </li> <li>▪ Incumbent board members and candidates explicitly supported by the company's management.</li> </ul> |
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**Rationale for Change:**

In UAE, Saudi Arabia, Qatar, Jordan, and Egypt, it is a common practice to have between 20 to 30 nominees presented for re/election to a board which, in most cases, would generally only allow for the election of an 11-member board. Cumulative voting is a system that strengthens the ability of minority shareholders to elect board members. However, current disclosure practice results in discrepancies of information regarding incumbent and non-incumbent candidates and triggers scenarios in which some of the candidates may not be elected only because of shortcomings in the companies' disclosure forms. The assessment of independence and professional background can therefore be very challenging given the absence of reliable sources for the analysis of such information.

This policy update establishes a framework to abstain from such elections in the absence of sufficient information to allow a comprehensive analysis of all proposed board candidates on equal terms, due to the lack of reliable sources to establish the independence and professional experience of the director nominees. Whereas the Europe, Middle East & Africa Regional policy currently provides a clear framework for the analysis and vote recommendation on director elections proposals taking place under cumulative voting, this update provides a more relevant regional policy for UAE, Saudi Arabia, Qatar, Jordan, and Egypt, given the specificities of these

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markets regarding disclosure practices. The policy update may indirectly improve disclosure practices in the respective markets, as abstention votes for all candidates will likely raise greater awareness for the need of timely and detailed information about director nominees prior to a board election.

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