

MIDDLE EAST and NORTH AFRICA

Proxy Voting Guidelines
Benchmark Policy Recommendations

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TABLE OF CONTENTS

Coverage.....	4
Introduction.....	4
1. Operational Items	7
Financial Results/Director and Auditor Reports	7
Appointment of Auditors and Auditor Fees.....	7
Appointment of Internal Statutory Auditors	7
Allocation of Income.....	7
Stock (Scrip) Dividend Alternative	8
Amendments to Articles of Association (Bylaws)	8
Donations.....	8
Change in Company Fiscal Term	8
Lower Disclosure Threshold for Stock Ownership	8
Amend Quorum Requirements.....	8
Transact Other Business	8
2. Board of Directors	9
Director Elections.....	9
Board Independence	9
Audit Committee Independence	9
Cumulative Voting	10
ISS Classification of Directors – Middle East and North Africa	11
Contested Director Elections	12
Discharge of Directors	12
Director, Officer, and Auditor Indemnification and Liability Provisions	13
Board Structure.....	13
3. Capital Structure	14
Share Issuance Requests.....	14
General Issuances.....	14
Specific Issuances	14
Increases in Authorized Capital	14
Reduction of Capital	14
Capital Structures	14
Preferred Stock	15
Debt Issuance Requests.....	15
Pledging of Assets for Debt.....	15
Increase in Borrowing Powers	15
Share Repurchase Plans.....	15
Reissuance of Repurchased Shares.....	16
Capitalization of Reserves for Bonus Issues/Increase in Par Value	16
4. Compensation	16
Compensation Plans	16
Director Compensation.....	16
5. Other Items	17
Reorganizations/Restructurings	17
Mergers and Acquisitions	17
Mandatory Takeover Bid Waivers	18

Reincorporation Proposals	18
Expansion of Business Activities	18
Related-Party Transactions	18
Antitakeover Mechanisms	18
Shareholder Proposals	18
6. Social and Environmental Issues.....	19
Global Approach	19

Coverage

This policy document applies to companies in Middle East and North Africa (MENA) countries. Currently, ISS coverage includes the following countries: Bahrain, Egypt, Jordan, Kuwait, Qatar, Lebanon, Oman, Saudi Arabia, Tunisia, Morocco, and the United Arab Emirates. This is not an exhaustive list and may expand based on our institutional clients' portfolio holdings.

Introduction

This document outlines the voting guidelines for the Middle East and North Africa (MENA) region as a standalone policy designated to the countries of the region, introduced in 2020. Previously, the MENA countries formed a part of the markets covered by the EMEA regional voting guidelines; however, this region is evolving in terms of regulations and practices with regards to corporate governance. In order to provide an in-depth policy framework which best presents the unique characteristics of the MENA region, a separate policy has been created.

The MENA region is experiencing rapid economic growth. Countries across the region have been recently considered as significant international destinations for investment, and several countries have reformed their capital market rules aiming to attract investments. Gulf countries in particular have begun to pay greater attention to the role of foreign direct investments to restructure local economies. The changes are seen mostly in macro-economic plans targeting enhancement of investment for future years. In core markets such as the Kingdom of Saudi Arabia, the government has released its economic transformation program 2030 seeking to align the Saudi market with its emerging and developed market peers aiming to diversify its heavily oil-dependent revenue economy and promote long-term growth. A similar plan was introduced in Egypt, known as Egypt Vision 2030 focusing on sustainable economic development by establishing a diversified economy. In UAE, the vision 2021 aims to create a knowledge-based economy through development of important infrastructure pillars such as education and healthcare system.

Governance is now seen in the MENA region as an important factor and component of its development tools. It has experienced a significant expansion where companies throughout the region are focusing on improving corporate governance practices as a strategic target within their plans for growth and profitability. Therefore, local regulations have been adapting and evolving in response of the growing demand for information surrounding corporate governance and guidance for companies.

While a large number of MENA companies are state and family-owned businesses historically characterized by a low level of public disclosure, there has been an observation of significant improvement in the level of disclosure across the region. Disclosure on corporate governance in particular has been rising over the recent fiscal years. Several recent regulatory changes have taken place in order to be in line with international best practices with regards to disclosure and transparency to shareholders and investors, which is being reflected in companies' practices. This topic remains a priority target area in the region.

Generally, the legal framework of corporate governance is outlined by local Companies Laws, governance codes and other relevant regulations such as, but not limited to, capital market laws and listing rules. The application of the corporate governance codes varies among the region. The approach "comply or explain" is implemented in some MENA countries whereas corporate governance rules are mandatory in other markets. Generally, local regulations and governance codes recommend that companies shall disclose the company's financial accounts and annual reports as well as information about corporate governance practices for shareholders to be able to make informed decisions. Practically, listed companies in the region disclose information about board of directors' composition, attendance at board and committee meetings, external auditors, board remuneration and related party transactions which are particularly common in the MENA region considering their shareholder ownership structure.

In those instances, capital ownership disclosure is being regulated in most of MENA countries. Disclosure of ownership stakes representing 5 or more of the share capital is being required to be publicly disclosed in the majority

of MENA markets. Ongoing periodic disclosure of change in ownership and other capital related information is recommended to be publicly available.

Legal and regulatory requirements are typically enshrined in a company's bylaws (articles of association) which is the constitutional document covering the governance of the company. At the typical AGM, shareholders will be asked to approve the following:

- Approval of board and auditor's Reports;
- Approval of financial statements;
- Allocation of income;
- Election of directors;
- Approval of directors' remuneration;
- Auditors' election and determination of its remuneration;
- Approval of related party transactions; and
- Approval of donations (in some markets).

Sometimes non-routine items can be submitted for shareholder approval (depending on the country) such as:

- Share issuance authorities;
- Amendments to articles of associations;
- Debt issuance requests; and
- Mergers and acquisitions.

This document is intended to provide investors with an insight into how ISS analyses companies in the MENA region. ISS will apply this policy as a guideline, but analysts will take a holistic view of the company's situation, and consider any explanation for non-standard practice, when determining voting recommendations. For proposals which typically appear on an infrequent basis at MENA meetings, and which are not covered in this document, ISS will refer to the [EMEA Regional Policy](#) as a framework for analysis.

ISS voting policies are based on Global Voting Principles which include four key tenets – accountability, stewardship, independence, and transparency – which underlie our approach to developing recommendations on both management and shareholder proposals at publicly traded companies. How we interpret this is described below:

Accountability - Boards should be accountable to shareholders, the owners of the companies, by holding regular board elections, and providing sufficient information for shareholders to be able to assess directors and board composition. Directors should respond to investor input such as that expressed through vote results on management and shareholder proposals, as well as any other shareholder communications. Shareholders should have meaningful rights on structural provisions. In addition, shareholders' voting rights should be proportional to their economic interest in the company; each share should have one vote.

Stewardship - A company's governance, social, and environmental practices should meet or exceed the standards of its market regulations and general practices and should take into account relevant factors that may impact significantly the company's long-term value creation.

Independence - Boards should be sufficiently independent so as to ensure that they are able and motivated to effectively supervise management's performance and remuneration, for the benefit of all shareholders. Boards should include an effective independent leadership position and sufficiently independent committees that focus on key governance concerns such as audit, compensation, and the selection and evaluation of directors.

Transparency - Companies should provide sufficient and timely information that enables shareholders to understand key issues, make informed vote decisions, and effectively engage with companies on substantive matters that impact shareholders' long-term interests in the company.

These values form the basis for research analysis to guide our work to assist institutional investors in meeting their fiduciary requirements, with respect to voting. The objective is to promote long-term shareholder value creation and risk mitigation at institutional investors' portfolio firms through support of responsible global corporate governance practices.

1. Operational Items

Financial Results/Director and Auditor Reports

➤ **General Recommendation:** Vote for approval of financial statements and director and auditor reports, unless:

- There are concerns about the accounts presented or audit procedures used; or
- The company is not responsive to shareholder questions about specific items that should be publicly disclosed.

Generally, vote for approval of the corporate governance and/or the board report, unless information about corporate governance practices to be included in those reports has not been publicly disclosed by the company in a timely manner.

Appointment of Auditors and Auditor Fees

➤ **General Recommendation:** Vote for the (re)election of auditors and/or proposals authorizing the board to fix auditor fees, unless:

- There are serious concerns about the procedures used by the auditor;
- There is reason to believe that the auditor has rendered an opinion which is neither accurate nor indicative of the company's financial position;
- External auditors have previously served the company in an executive capacity or can otherwise be considered affiliated with the company;
- The name(s) of the proposed auditors has not been published;
- The auditors are being changed without explanation; or
- For widely-held companies, fees for non-audit services exceed either 100 percent of standard audit-related fees or any stricter limit set in local best practice recommendations or law.

In circumstances where fees for non-audit services include fees related to significant one-time capital structure events (initial public offerings, bankruptcy emergencies, and spinoffs) and the company makes public disclosure of the amount and nature of those fees, which are an exception to the standard "non-audit fee" category, then such fees may be excluded from the non-audit fees considered in determining the ratio of non-audit to audit fees.

For concerns related to the audit procedures, independence of auditors, and/or name of auditors, ISS may recommend against the auditor (re)election. For concerns related to fees paid to the auditors, ISS may recommend against remuneration of auditors if this is a separate voting item; otherwise, ISS may recommend against the auditor election.

Appointment of Internal Statutory Auditors

➤ **General Recommendation:** Vote for the appointment or (re)election of statutory auditors, unless:

- There are serious concerns about the statutory reports presented or the audit procedures used;
- Questions exist concerning any of the statutory auditors being appointed; or
- The auditors have previously served the company in an executive capacity or can otherwise be considered affiliated with the company.

Allocation of Income

➤ **General Recommendation:** Vote for approval of the allocation of income, unless:

- The dividend payout ratio has been consistently below 30 percent without adequate explanation; or
- The payout is excessive given the company's financial position.

Stock (Scrip) Dividend Alternative

- ▷ **General Recommendation:** Vote for most stock (scrip) dividend proposals.

Vote against proposals that do not allow for a cash option unless management demonstrates that the cash option is harmful to shareholder value.

Amendments to Articles of Association (Bylaws)

- ▷ **General Recommendation:** Vote for proposals seeking the approval of amendments to the articles of association (bylaws) unless:
- The current version of the bylaws and proposed amendments are not publicly available in a timely manner; or
 - On balance, the proposed amendments are not in shareholders' interest.

This policy applies to both bundled and unbundled proposals to amend bylaws.

Donations

- ▷ **General Recommendation:** Vote for proposals seeking the approval of donations for the fiscal year under review unless:
- The amount of donations for the fiscal year in review is not publicly available at the time of analysis; or
 - There are controversies surrounding the company's use of donations.

Vote for proposals seeking the approval of donations for the upcoming fiscal year unless:

- The company does not provide a cap for the amount of future donations, and there is no disclosure regarding donations being made under the fiscal year in review; or
- There are controversies surrounding the company's use of donations.

Change in Company Fiscal Term

- ▷ **General Recommendation:** Vote for resolutions to change a company's fiscal term unless a company's motivation for the change is to postpone its AGM.

Lower Disclosure Threshold for Stock Ownership

- ▷ **General Recommendation:** Vote against resolutions to lower the stock ownership disclosure threshold below 5 percent unless specific reasons exist to implement a lower threshold.

Amend Quorum Requirements


- ▷ **General Recommendation:** Vote proposals to amend quorum requirements for shareholder meetings on a case-by-case basis.

Transact Other Business

- ▷ **General Recommendation:** Vote against other business when it appears as a voting item.

2. Board of Directors

Director Elections

 **General Recommendation:** Vote for management nominees in the election of directors, unless:

- Adequate disclosure has not been provided in a timely manner;
- There are clear concerns over questionable finances or restatements;
- There have been questionable transactions with conflicts of interest;
- There are any records of abuses against minority shareholder interests;
- The board fails to meet minimum corporate governance standards;
- There are specific concerns about the individual, such as criminal wrongdoing or breach of fiduciary responsibilities; or
- Repeated absences at board and committee meetings (less than 75 percent attendance) have not been explained (in countries where this information is disclosed).

Vote against the election of directors at all companies if the name of the nominee is not disclosed in a timely manner prior to the meeting.

Board Independence

Independence will be determined according to ISS' Middle East and North Africa 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.

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.

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.

Audit Committee Independence

Vote against proposals seeking the election of non-independent members of the audit committee if:

- Fewer than one-third of all audit committee members, excluding, where relevant, employee shareholder representatives, would be independent; or
- A non-independent member is being presented for election or reelection as the audit committee chair.

This policy applies to bundled and unbundled items.

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.

Cumulative Voting

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.

For MENA 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.

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.

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:

- Candidates who can be identified as representatives of minority shareholders of the company, or independent candidates.
- Candidates whose professional background may have the following benefits:
 - 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).
 - Bringing to the current board of directors relevant experience in areas linked to the company's business, evidenced by current or past board memberships or management functions at other companies.
- Incumbent board members and candidates explicitly supported by the company's management.

Governance Failures

Under extraordinary circumstances, vote against individual directors, members of a committee, or the entire board, due to:

- Material failure of governance, stewardship, risk oversight (including, but not limited to, environmental, social, and climate change issues), or fiduciary responsibilities at the company;
- Failure to replace management as appropriate; or
- Egregious actions related to a director's service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.

[Please see the ISS Middle East and North Africa Classification of Directors on the following page.]

ISS Classification of Directors – Middle East and North Africa

Executive Director

- Employee or executive of the company;
- Any director who is classified as a non-executive, but receives salary, fees, bonus, and/or other benefits that are in line with the highest-paid executives of the company^[6].

Non-Independent Non-Executive Director (NED)

- Any director who is attested by the board to be a non-independent NED;
- Any director specifically designated as a representative of a significant shareholder of the company;
- Any director who is also an employee or executive of a significant shareholder of the company;
- Any director who is nominated by a dissenting significant shareholder, unless there is a clear lack of material^[5] connection with the dissident, either currently or historically;
- Beneficial owner (direct or indirect) of at least 10 percent of the company's stock, either in economic terms or in voting rights (this may be aggregated if voting power is distributed among more than one member of a defined group, e.g., family members who beneficially own less than 10 percent individually, but collectively own more than 10 percent), unless market best practice dictates a lower ownership and/or disclosure threshold (and in other special market-specific circumstances);
- Government representative;
- Currently provides (or a relative^[1] provides) professional services^[2] to the company, to an affiliate of the company, or to an individual officer of the company or of one of its affiliates in excess of \$10,000 per year;
- Represents customer, supplier, creditor, banker, or other entity with which company maintains transactional/commercial relationship (unless company discloses information to apply a materiality test^[3]);
- Any director who has conflicting or cross-directorships with executive directors or the chairman of the company^[6];
- Relative^[1] of a current or former executive of the company or its affiliates;
- A new appointee elected other than by a formal process through the General Meeting (such as a contractual appointment by a substantial shareholder);
- Founder/co-founder/member of founding family but not currently an employee;
- Former executive (five-year cooling off period) ^[6];
- Years of service is generally not a determining factor unless it is recommended best practice in a market and/or in extreme circumstances, in which case it may be considered.^[4]
- Any additional relationship or principle considered to compromise independence under local corporate governance best practice guidance.^[7]

Independent NED

- No material^[5] connection, either direct or indirect, to the company (other than a board seat) or to a significant shareholder.

Employee Representative

- Represents employees or employee shareholders of the company (classified as "employee representative" but considered a non-independent NED).

Footnotes

^[1] "Relative" follows the definition of "immediate family members" which covers spouses, parents, children, stepparents, step-children, siblings, in-laws, and any person (other than a tenant or employee) sharing the household of any director, nominee for director, executive officer, or significant shareholder of the company.

^[2] Professional services can be characterized as advisory in nature and generally include the following: investment banking/financial advisory services; commercial banking (beyond deposit services); investment services; insurance services; accounting/audit services; consulting services; marketing services; and legal services. The case of participation in a banking syndicate by a non-lead bank should be considered a transaction (and hence subject to the associated materiality test) rather than a professional relationship.

[3] A business relationship may be material if the transaction value (of all outstanding transactions) entered into between the company and the company or organization with which the director is associated is equivalent to either 1 percent of the company's turnover or 1 percent of the turnover of the company or organization with which the director is associated. OR, A business relationship may be material if the transaction value (of all outstanding financing operations) entered into between the company and the company or organization with which the director is associated is more than 10 percent of the company's shareholder equity or the transaction value, (of all outstanding financing operations), compared to the company's total assets, is more than 5 percent.

[4] For example, in continental Europe, directors with a tenure exceeding 12 years will be considered non-independent. In the United Kingdom, Ireland, Hong Kong, and Singapore, directors with a tenure exceeding nine years will be considered non-independent, unless the company provides sufficient and clear justification that the director is independent despite his/her long tenure.

[5] For purposes of ISS' director independence classification, "material" will be defined as a standard of relationship financial, personal, or otherwise that a reasonable person might conclude could potentially influence one's objectivity in the boardroom in a manner that would have a meaningful impact on an individual's ability to satisfy requisite fiduciary standards on behalf of shareholders.

[6] For purposes of independence classification of directors incorporated in the Middle East and Africa region, this criterion will be taken into account in accordance with market best practice and disclosure standards and availability.

[7] For MEA markets, directors' past services as statutory auditor/partner of the statutory audit firm will be taken into account, with cooling-off periods in accordance with local market best practice.

Contested Director Elections

➤ **General Recommendation:** For contested elections of directors, e.g. the election of shareholder nominees or the dismissal of incumbent directors, ISS will make its recommendation on a case-by-case basis, determining which directors are best suited to add value for shareholders.

The analysis will generally be based on, but not limited to, the following major decision factors:

- Company performance relative to its peers;
- Strategy of the incumbents versus the dissidents;
- Independence of directors/nominees;
- Experience and skills of board candidates;
- Governance profile of the company;
- Evidence of management entrenchment;
- Responsiveness to shareholders;
- Whether a takeover offer has been rebuffed;
- Whether minority or majority representation is being sought.

When analyzing a contested election of directors, ISS will generally focus on two central questions: (1) Have the dissidents proved that board change is warranted? and (2) if so, are the dissident board nominees likely to effect positive change (i.e., maximize long-term shareholder value).

Discharge of Directors


➤ **General Recommendation:** Generally vote for the discharge of directors, including members of the management board and/or supervisory board, *unless* there is reliable information about significant and compelling controversies as to whether the board is fulfilling its fiduciary duties, as evidenced by:

- A lack of oversight or actions by board members that invoke shareholder distrust related to malfeasance or poor supervision, such as operating in private or company interest rather than in shareholder interest; or

- Any legal proceedings (either civil or criminal) aiming to hold the board responsible for breach of trust in the past or related to currently alleged actions yet to be confirmed (and not only the fiscal year in question), such as price fixing, insider trading, bribery, fraud, and other illegal actions; or
- Other egregious governance issues where shareholders will bring legal action against the company or its directors.


For markets that do not routinely request discharge resolutions (e.g. common law countries or markets where discharge is not mandatory), investors may voice concern in other appropriate agenda items, such as approval of the annual accounts or other relevant resolutions, to enable shareholders to express discontent with the board.

Director, Officer, and Auditor Indemnification and Liability Provisions

-  **General Recommendation:** Vote proposals seeking indemnification and liability protection for directors and officers on a case-by-case basis.

Vote against proposals to indemnify external auditors.

Board Structure

-  **General Recommendation:** Vote for proposals to fix board size.

Vote against the introduction of classified boards and mandatory retirement ages for directors.

Vote against proposals to alter board structure or size in the context of a fight for control of the company or the board.

3. Capital Structure

Share Issuance Requests

General Issuances

- **General Recommendation:** Vote for issuance requests with preemptive rights to a maximum of 100 percent over currently issued capital.

Vote for issuance requests without preemptive rights to a maximum of 20 percent of currently issued capital.

Specific Issuances

- **General Recommendation:** Vote on a case-by-case basis on all requests, with or without preemptive rights.

Increases in Authorized Capital

- **General Recommendation:** Vote for non-specific proposals to increase authorized capital up to 100 percent over the current authorization unless the increase would leave the company with less than 30 percent of its new authorization outstanding.

Vote for specific proposals to increase authorized capital to any amount, unless:

- The specific purpose of the increase (such as a share-based acquisition or merger) does not meet ISS guidelines for the purpose being proposed; or
- The increase would leave the company with less than 30 percent of its new authorization outstanding after adjusting for all proposed issuances.

Vote against proposals to adopt unlimited capital authorizations.

Reduction of Capital

- **General Recommendation:** Vote for proposals to reduce capital for routine accounting purposes unless the terms are unfavorable to shareholders.

Vote proposals to reduce capital in connection with corporate restructuring on a case-by-case basis.

Capital Structures

- **General Recommendation:** Vote for resolutions that seek to maintain or convert to a one-share, one-vote capital structure.

Vote against requests for the creation or continuation of dual-class capital structures or the creation of new or additional super-voting shares.

Preferred Stock

- ▶ **General Recommendation:** Vote for the creation of a new class of preferred stock or for issuances of preferred stock up to 50 percent of issued capital unless the terms of the preferred stock would adversely affect the rights of existing shareholders.

Vote for the creation/issuance of convertible preferred stock as long as the maximum number of common shares that could be issued upon conversion meets ISS guidelines on equity issuance requests.

Vote against the creation of a new class of preference shares that would carry superior voting rights to the common shares.

Vote against the creation of blank check preferred stock unless the board clearly states that the authorization will not be used to thwart a takeover bid.

Vote proposals to increase blank check preferred authorizations on a case-by-case basis.

Debt Issuance Requests

- ▶ **General Recommendation:** Vote non-convertible debt issuance requests on a case-by-case basis, with or without preemptive rights.

Vote for the creation/issuance of convertible debt instruments as long as the maximum number of common shares that could be issued upon conversion meets ISS guidelines on equity issuance requests.

Vote for proposals to restructure existing debt arrangements unless the terms of the restructuring would adversely affect the rights of shareholders.

Pledging of Assets for Debt

- ▶ **General Recommendation:** Vote proposals to approve the pledging of assets for debt on a case-by-case basis.

Increase in Borrowing Powers

- ▶ **General Recommendation:** Vote proposals to approve increases in a company's borrowing powers on a case-by-case basis.

Share Repurchase Plans

- ▶ **General Recommendation:** Generally vote for market repurchase authorities (share repurchase programs) if the terms comply with the following criteria:
- A repurchase limit of up to 10 percent of outstanding issued share capital;
 - A holding limit of up to 10 percent of a company's issued share capital in treasury ("on the shelf"); and
 - A duration of no more than five years, or such lower threshold as may be set by applicable law, regulation, or code of governance best practice.

Authorities to repurchase shares in excess of the 10 percent repurchase limit will be assessed on a case-by-case basis. ISS may support such share repurchase authorities under special circumstances, which are required to be publicly disclosed by the company, provided that, on balance, the proposal is in shareholders' interests. In such cases, the authority must comply with the following criteria:

- A holding limit of up to 10 percent of a company's issued share capital in treasury ("on the shelf"); and
- A duration of no more than 18 months.


In markets where it is normal practice not to provide a repurchase limit, evaluate the proposal based on the company's historical practice. However, companies should disclose such limits and, in the future, a vote against may be warranted at companies that fail to do so. In such cases, the authority must comply with the following criteria:

- A holding limit of up to 10 percent of a company's issued share capital in treasury ("on the shelf"); and
- A duration of no more than 18 months.


In addition, vote against any proposal where:

- The repurchase can be used for takeover defenses;
- There is clear evidence of abuse;
- There is no safeguard against selective buybacks; and/or
- Pricing provisions and safeguards are deemed to be unreasonable in light of market practice.

Reissuance of Repurchased Shares

-  **General Recommendation:** Vote for requests to reissue any repurchased shares unless there is clear evidence of abuse of this authority in the past.

Capitalization of Reserves for Bonus Issues/Increase in Par Value


-  **General Recommendation:** Vote for requests to capitalize reserves for bonus issues of shares or to increase par value.

4. Compensation

Compensation Plans

-  **General Recommendation:** Vote compensation plans on a case-by-case basis.

Director Compensation

-  **General Recommendation:** Vote for proposals to award cash fees to non-executive directors unless:
- The board fees paid for the fiscal year under review are not disclosed in a timely manner;
 - The proposed amounts are excessive relative to similarly sized companies in the same market/sector, with no justification provided by the company; or

- There is significant concern on the company's past practices regarding directors' remuneration.

In case there is a significant increase in fees with limited or no justification, vote on the proposal on a case-by-case basis.


Vote non-executive director compensation proposals that include both cash and share-based components on a case-by-case basis.

Vote proposals that bundle compensation for both non-executive and executive directors into a single resolution on a case-by-case basis.


Vote against proposals to introduce retirement benefits for non-executive directors.

5. Other Items

Reorganizations/Restructurings

 **General Recommendation:** Vote reorganizations and restructurings on a case-by-case basis.

Mergers and Acquisitions

 **General Recommendation:** Vote case-by-case on mergers and acquisitions taking into account the following:

For every M&A analysis, ISS reviews publicly available information as of the date of the report and evaluates the merits and drawbacks of the proposed transaction, balancing various and sometimes countervailing factors including:

- Valuation - Is the value to be received by the target shareholders (or paid by the acquirer) reasonable? While the fairness opinion may provide an initial starting point for assessing valuation reasonableness, ISS places emphasis on the offer premium, market reaction, and strategic rationale.
- Market reaction - How has the market responded to the proposed deal? A negative market reaction will cause ISS to scrutinize a deal more closely.
- Strategic rationale - Does the deal make sense strategically? From where is the value derived? Cost and revenue synergies should not be overly aggressive or optimistic, but reasonably achievable. Management should also have a favorable track record of successful integration of historical acquisitions.
- Conflicts of interest - Are insiders benefiting from the transaction disproportionately and inappropriately as compared to non-insider shareholders? ISS will consider whether any special interests may have influenced these directors and officers to support or recommend the merger.
- Governance - Will the combined company have a better or worse governance profile than the current governance profiles of the respective parties to the transaction? If the governance profile is to change for the worse, the burden is on the company to prove that other issues (such as valuation) outweigh any deterioration in governance.

Vote against if the companies do not provide sufficient information upon request to make an informed voting decision.

Mandatory Takeover Bid Waivers

- ▷ **General Recommendation:** Vote proposals to waive mandatory takeover bid requirements on a case-by-case basis.

Reincorporation Proposals

- ▷ **General Recommendation:** Vote reincorporation proposals on a case-by-case basis.

Expansion of Business Activities

- ▷ **General Recommendation:** Vote for resolutions to expand business activities unless the new business takes the company into risky areas.

Related-Party Transactions

- ▷ **General Recommendation:** In evaluating resolutions that seek shareholder approval on related-party transactions (RPTs), vote on a case-by-case basis, considering factors including, but not limited to, the following:

- The parties on either side of the transaction;
- The nature of the asset to be transferred/service to be provided;
- The pricing of the transaction (and any associated professional valuation);
- The views of independent directors (where provided);
- The views of an independent financial adviser (where appointed);
- Whether any entities party to the transaction (including advisers) is conflicted; and
- The stated rationale for the transaction, including discussions of timing.

If there is a transaction that ISS deemed problematic and that was not put to a shareholder vote, ISS may recommend against the election of the director involved in the related-party transaction or the full board.

Antitakeover Mechanisms

- ▷ **General Recommendation:** Generally vote against all antitakeover proposals, unless they are structured in such a way that they give shareholders the ultimate decision on any proposal or offer.

Shareholder Proposals

- ▷ **General Recommendation:** Vote all shareholder proposals on a case-by-case basis.


Vote for proposals that would improve the company's corporate governance or business profile at a reasonable cost.

Vote against proposals that limit the company's business activities or capabilities or result in significant costs being incurred with little or no benefit.

6. Social and Environmental Issues

Global Approach

Issues covered under the policy include a wide range of topics, including consumer and product safety, environment and energy, labour covered standards and human rights, workplace and board diversity, and corporate political issues. While a variety of factors goes into each analysis, the overall principle guiding all vote recommendations focuses on how the proposal may enhance or protect shareholder value in either the short term or long term.

 **General Recommendation:** Generally vote case-by-case, examining primarily whether implementation of the proposal is likely to enhance or protect shareholder value. The following factors will be considered:

- If the issues presented in the proposal are more appropriately or effectively dealt with through legislation or government regulation;
- If the company has already responded in an appropriate and sufficient manner to the issue(s) raised in the proposal;
- Whether the proposal's request is unduly burdensome (scope or timeframe) or overly prescriptive;
- The company's approach compared with any industry standard practices for addressing the issue(s) raised by the proposal;
- Whether there are significant controversies, fines, penalties, or litigation associated with the company's environmental or social practices;
- If the proposal requests increased disclosure or greater transparency, whether reasonable and sufficient information is currently available to shareholders from the company or from other publicly available sources; and
- If the proposal requests increased disclosure or greater transparency, whether implementation would reveal proprietary or confidential information that could place the company at a competitive disadvantage.

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