

International

SRI Proxy Voting Guideline Updates

2015 Policy Recommendations

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CANADA

BOARD OF DIRECTORS

Unilateral Adoption of an Advance Notice Provision

Current Recommendation: None

Key Changes: Adopt a policy to enhance board accountability in cases where an advance notice policy has been adopted and is effective, but subsequent shareholder approval for the policy has not been requested or obtained.

 **New Recommendation:** Generally withhold from individual directors, committee members, or the entire board as appropriate in situations where an advance notice policy has been adopted by the board but has not been included on the voting agenda at the next shareholders' meeting.

Continued lack of shareholder approval of the advanced notice policy in subsequent years may result in further withhold recommendations.

Rationale for Update: Institutional shareholders' concerns related to advance notice requirements continue to increase in light of certain problematic provisions included within these bylaws/policies, which could potentially interfere with a shareholder's ability to nominate director candidates to the board of directors. The ability for shareholders to put forward potential nominees for election to the board is a fundamental right and should not be amended by management or the board without shareholders' approval, or, at a minimum, with the intention of receiving shareholder approval at the next annual or annual/special meeting of shareholders. As such, the board of directors, as elected representatives of shareholders' interests, and as the individuals primarily responsible for corporate governance matters, should be held accountable for allowing such policies to become effective without further shareholder approval. Furthermore, disclosures regarding these policies should be made available to shareholders (similar to shareholder proposal deadline disclosures or majority voting policy disclosures) because they are substantive changes that may impact shareholders' ability to nominate director candidates. Failure to provide such disclosure is not in shareholders' best interests.

CAPITAL/RESTRUCTURING

Private Placement Issuances

Current Recommendation: Vote case-by-case on private placement issuances taking into account:

- › Whether other resolutions are bundled with the issuance;
- › The financial consequences for the company if the issuance is not approved.

Generally vote for private placement proposals if:

- › The issuance represents no more than 30 percent of the company's outstanding shares;
- › The use of the proceeds from the issuance is disclosed.

Key Changes:

- › To adopt a clearly defined case-by-case approach and indicate additional criteria that are considered when evaluating private placement issuances.

**New Recommendation:** Vote case-by-case on private placement issuances taking into account:

- › Whether other resolutions are bundled with the issuance;
- › Whether the rationale for the private placement issuance is disclosed;
- › Dilution to existing shareholders' position:
 - › issuance that represents no more than 30 percent of the company's outstanding shares on a non-diluted basis is considered generally acceptable;
- › Discount/premium in issuance price to the unaffected share price before the announcement of the private placement;
- › Market reaction: The market's response to the proposed private placement since announcement; and
- › Other applicable factors, including conflict of interest, change in control/management, evaluation of other alternatives.

Generally vote for the private placement issuance if it is expected that the company will file for bankruptcy if the transaction is not approved or the company's auditor/management has indicated that the company has going concern issues.

Rationale for Update:

The update clarifies Social Advisory Services' case-by-case approach by including more detailed information regarding the current analytical criteria considered. Specifically, the updated policy is intended to provide clear guidance on examining two specific situations in which companies put forward private placement resolutions for shareholder approval. The first situation includes those companies which are undergoing serious financial issues and require immediate financing in order to continue as a going concern. In such cases, the rationale of the urgent need for financing to avoid bankruptcy will generally override other criteria under examination. The second situation includes companies which require private placement approval for other financing purposes, in which case all the criteria listed under the updated policy will be examined on a case-by-case basis.

EUROPE

MULTIPLE BALLOT ITEMS

Impact of the Florange Act (France)- Double Voting Rights

Current Recommendation: Not applicable

Key Changes: Adopt policies to encourage the continuation of one-share, one vote voting rights at French companies whose bylaws are currently silent on the issue, through:

- › The support of management and shareholder proposals prohibiting double-voting rights, and
- › By recommending against the reelection of directors; else the approval of discharge, else the approval of annual reports and accounts if the company does not have a bylaw amendment on its ballot, or commit to submitting such a bylaw for shareholder approval. This policy will apply for meetings on or after Feb 1, 2015 until April 2, 2016.

 **New Recommendation:** For French companies that:

- › Did not have a bylaw allowing for double voting rights before the enactment of the Law of 29 March 2014 (Florange Act); and
- › Do not currently have a bylaw prohibiting double-voting rights; and either
 - › Do not have on their ballot for shareholder approval a bylaw amendment to prohibit double-voting, submitted by either management or shareholders; or
 - › Have not made a public commitment to submit such a bylaw amendment to shareholder vote before April 3, 2016;

Then, on a case-by-case basis, Social Advisory Services may recommend against the following types of proposals:

- › The reelection of directors or supervisory board members; or
- › The approval of the discharge of directors; or
- › If neither reelection of directors/supervisory board members nor approval of discharge is considered appropriate, then the approval of the annual report and accounts.

Rationale for Update:

Under the Florange Act (Loi Florange), registered shares held for two years will automatically acquire double-voting rights, thereby breaching the widely subscribed-to one-share, one-vote principle. Prior to this act, French companies were allowed to grant double-voting rights to registered shareholders after a minimum of two years only when they had a bylaw provision specifically allowing for it.

Companies whose bylaws already allowed for double voting rights before the enactment of the Florange Act are exempt from this policy. For companies whose bylaws are silent on voting rights, action is necessary to preclude the automatic granting of double voting rights by a shareholder-approved bylaw amendment. Bylaw amendments in France, either in the form of a management proposal or as a shareholder proposal, require the approval of two-thirds of voting rights to be enacted. 2015 is the last full year when French listed companies whose bylaws are silent can amend their bylaws to retain the one-share, one-vote principle, before the automatic introduction of double-voting rights. The two-year holding period triggering the automatic acquisition of double-voting rights started on April 3, 2014. This means that French companies that did not already prohibit double-voting rights in their bylaws have to submit such bylaws amendment by April 2, 2016, in order to give shareholders the option of approving an opt out of the legal granting of such double-voting rights.

OPERATIONAL ITEMS

Appointment of Auditors and Auditor Fees

Current Recommendation:

Vote for proposals to ratify 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;
- › Name of the proposed auditors has not been published;
- › The auditors are being changed without explanation; or
- › Non-audit-related fees are substantial.

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

For concerns related to the audit procedures, independence of auditors, and/or name of auditors, Social Advisory Services may vote against the auditor (re) election. For concerns related to fees paid to the auditors, Social Advisory Services may vote against remuneration of auditors if this is a separate voting item; otherwise Social Advisory Services may recommend against the auditor election. Where firms have failed to disclose audit and/or non-audit fees, Social Advisory Services may recommend votes against members of the audit committee up for election.

Key Changes:

Expand the factors that are specifically taken into account related to audit/non-audit fees under the current policy to include breaches of local recommendations and/or legislation on non-audit fees as grounds for against recommendations.



New Recommendation: Vote for proposals to ratify 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;
- › Name of the proposed auditors has not been published;
- › The auditors are being changed without explanation; or
- › For companies on the local main index or MSCI-EAFE index, fees for non-audit services exceed either 100 percent of standard audit-related fees or any stricter limit set in local best practice recommendations or law.

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

For concerns relating to the audit procedures, independence of auditors, and/or name of auditors, Social Advisory Services will focus on the auditor election. For concerns relating to fees paid to the auditors, Social Advisory Services will focus on remuneration of auditors if this is a separate voting item, otherwise Social Advisory Services would focus on the auditor election.

Rationale for Update:

The issue of addressing non-audit fee quotients in best practice recommendations is in discussion throughout Europe, with the most recent change in Portugal with a new best practice recommendation that non-audit fees should not exceed 30 percent of total fees.

The updated policy ensures the alignment of Social Advisory Services' guidelines with evolving market standards.

BOARD OF DIRECTORS

Non-Contested Director Elections (Continental Europe)

Board Independence

Current Recommendation:

Note that this section is subject to an exception for companies with a majority shareholder. This exception is presented at the end of this subsection.

For **Austria, Belgium, France, Germany, Hungary, the Netherlands, Spain, and Switzerland**, vote against the election or reelection of any non-independent directors (excluding the CEO) if the proposed board is not at least 50 percent independent. If a nominee cannot be categorized, Social Advisory Services will consider that person non-independent and include that nominee in the calculation. The policy will apply to widely held companies in these markets.

For **Denmark, Norway, Finland, Sweden, and Luxembourg**, Social Advisory Services will apply the same policy only for those companies that are part of a local main index market index and/or the MSCI-EAFE index.

For widely held companies in **Austria and Germany** that must by law include labor representatives who are by definition not independent, Social Advisory Services will require that a minimum of one-third of the total board be independent. For **Swedish, Norwegian, and Danish** local main index and/or MSCI-EAFE companies, as well as widely-held **Hungarian** companies, with labor representatives, the above policy will apply to shareholder-elected board members. In addition,

Social Advisory Services will require that one-third of the total board (shareholder-elected members and labor representatives) be independent non-executive directors.

In **Portugal**, companies that belong to the PSI-20 and/or MSCI-EAFE index will be required to have at least 25 percent of the board independent, as recommended by the Code of Corporate Governance issued by the Portuguese Securities Exchange. Social Advisory Services will recommend a vote against the entire slate of candidates (bundled elections) or a vote against the election of any non-independent directors (unbundled elections) if board independence level does not meet the recommended 25-percent threshold.

In **Italy**, for companies that are part of a local main index market index and/or MSCI-EAFE index with a controlling shareholder, companies will be required to have a board consisting of at least one-third independent members (33 percent), and, for all other companies, at least half of the board should be independent (50 percent).

For **Greece**, vote against the election or reelection of any non-independent directors if the proposed board is not at least one-third independent (as defined by Social Advisory Services' director classification guidelines). If elections are bundled and the proposed board is not at least one-third independent, vote against the entire slate. If a nominee cannot be categorized, Social Advisory Services will assume that person is non-independent and include that nominee in the calculation. This policy will be applied to widely held companies incorporated in Greece.

Exception for Companies with a Majority Shareholder (Excludes Italy and Portugal)

For companies with a majority shareholder, generally vote against the election or reelection of any non-independent directors (excluding the CEO) if the level of independence on the board will be lower than minority shareholders' percentage of equity ownership, or if the board will be less than one-third independent (whichever is higher).

Minority shareholders' ownership percentage is calculated by subtracting the majority shareholder's equity ownership percentage from 100 percent. Majority control is defined in terms of economic interest and not voting rights, and is considered to be any shareholder or group of shareholders acting collectively that control at least 50 percent + 1 share of the company's equity capital.

This independence threshold is applied to controlled widely held companies or main index-listed/MSCI-EAFE member companies which would otherwise fall under a 50-percent independence guideline as described in the Board Independence Policy.

Carve Out: In markets where the local corporate governance code addresses board independence at controlled companies, Social Advisory Services will generally recommend against the election or reelection of any non-independent directors (excluding the CEO) if the level of independence on the board is lower than the local code recommendation, but in any case if the level of board independence is below one-third.

Key Changes:

- › Redraft the current board independence policy on widely-held companies and on companies with a majority shareholder.
- › Harmonize the board independence policy for widely held companies (unless there is a majority shareholder), when, according to legal requirements, directors are not elected by shareholders (exceptions for Greece and Portugal).
- › For Italy, expand the board independence policy to apply to all widely held companies, not just the main index market or MSCI-EAFE index companies.
- › For Portugal, increase the minimum independence threshold for the board of directors from 25 percent to one-third.



New Recommendation: Independence will be determined according to Social Advisory Services' Classification of Directors. If a nominee cannot be categorized, Social Advisory Services will consider that person non-independent and include that nominee in the calculation.

The following policies would be applied to all widely held companies¹, unless there is a majority shareholder:

- › For all markets (except Greece or Portugal), vote against the election or reelection of any non-independent directors (excluding the CEO) if:
 - › Fewer than 50 percent of the board members elected by shareholders would be independent, or
 - › Fewer than one-third of board members, including those who, in accordance with local law(s) requiring their mandatory board membership, are not elected by shareholders, would be independent.
- › In Italy, at least half of the board should be independent (50 percent). Issuers with a controlling shareholder will be required to have a board consisting of at least one-third independent members (33 percent). This applies to individual director appointments (co-options). In the case of complete board renewals that are regulated by the Italian slate system (“voto di lista”), board independence will be one of the factors for determining which list of nominees Social Advisory Services considers best suited to add value for shareholders based, as applicable, on Social Advisory Services European policies.
- › For companies incorporated in Portugal or Greece, at least one-third of the board will be required to be independent. Social Advisory Services will recommend a vote against the entire slate of candidates (in the case of bundled elections), or a vote against the election of any non-independent directors (in the case of unbundled elections) if board independence level does not meet the minimum recommended one-third threshold.

For companies with a majority shareholder (excluding Italy and Portugal):

- › Generally vote against the election or reelection of any non-independent directors (excluding the CEO) if the level of independence on the board will be lower than minority shareholders' percentage of equity ownership, or, in any case, if the board will be less than one-third independent (whichever is higher).
- › Minority shareholders' ownership percentage is calculated by subtracting the majority shareholder's equity ownership percentage from 100 percent. Majority control is defined in terms of economic interest and not voting rights, and is considered to be any shareholder or group of shareholders acting collectively that control at least 50 percent + 1 share of the company's equity capital. This independence threshold is applied to controlled widely held companies or main index-listed/MSCI-EAFE member companies which would otherwise fall under a 50-percent independence guideline as described in the Board Independence Policy.
- › However, in markets where the local corporate governance code addresses board independence at controlled companies, Social Advisory Services will generally recommend against the election or reelection of any non-independent directors (excluding the CEO) if the level of independence on the board is lower than the local code recommendation, but in any case, if the level of board independence will be less than one-third.

Rationale for Update:

¹ Widely held companies are interpreted as:

- › Generally, based on their membership in a major index and/or the number of ISS clients holding the securities;
- › For Sweden, Norway, Denmark, Finland, and Luxembourg: based on local blue chip market index and/or MSCI EAFE companies;
- › For Portugal, based on their membership in the PSI-20 and/or MSCI-EAFE index.

The new policy harmonizes the European policy for board independence at widely held companies for all markets (except for Greece and Portugal) to a general minimum of 50 percent, except where there are legal requirements for non-shareholder elected board members such as employee representatives, or controlling shareholders who may reasonably be expected to have representation in line with their ownership. In such circumstances, the minimum independence level will be no less than one-third. For companies incorporated in Greece and Portugal, the minimum required level of independence is also set at one-third.

For the French market, this policy update also takes into account the recent legal change requiring certain companies to include employee board representatives. The new policy is consistent with the independence standard that is currently applied to companies in European markets where employee board representatives are required by law, and at the same time, explicitly articulates that a 50-percent independence standard would be maintained for board members that are elected by shareholders.

Under the updated policy, directors who are not elected by shareholders due to a mandatory legal requirement (not only employee representatives but, for instance, government representatives) would explicitly be carved out of the calculation for shareholder-elected directors and only counted toward the one-third basic independence threshold for the entire board.

For Portugal, the update reflects a recent change to the Portuguese Code of Best Practice and would harmonize the policy in Portugal with other European markets. Whereas the Portuguese Code formerly recommended a minimum 25-percent independence for boards of directors, the new version states that boards should include "an appropriate number of independent members, taking into account the governance model, the size of the company, its shareholder structure, and the relevant free float. [...]" The Code update has rendered the current carve-out for Portugal outdated. The new one-third independence policy for Portugal is consistent with the minimum independence threshold applied to other European markets.

For Italy, the update to expand the board independence policy to apply to all widely held companies is a component of Social Advisory Services' longer-term goal of harmonizing its approach to the various European markets to the greatest extent possible.

CAPITAL STRUCTURE

Share Issuance Requests

Impact of the Florange Act (France) - General Issuances: Anti-takeover Measures

Current Policy Recommendation:

Vote for issuance authorities with preemptive rights to a maximum of 100 percent over currently issued capital and as long as the share issuance authorities' periods are clearly disclosed (or implied by the application of a legal maximum duration) and in line with market-specific practices and/or recommended guidelines (e.g. issuance periods limited to 18 months for the **Netherlands**).

Vote for issuance authorities without preemptive rights to a maximum of 20 percent (or a lower limit if local market best practice recommendations provide) of currently issued capital as long as the share issuance authorities' periods are clearly disclosed (or implied by the application of a legal maximum duration) and in line with market-specific practices and/or recommended guidelines (e.g. issuance periods limited to 18 months for the **Netherlands**).

For **French** companies, vote for general issuance requests with preemptive rights, or without preemptive rights but with a binding “priority right,” for a maximum of 50 percent over currently issued capital.

For **French** companies, generally vote for general authorities to issue shares without preemptive rights up to a maximum of 10 percent of share capital.

Key Changes (France):

Adopt policies to encourage the continuation of specific shareholder approval on anti-takeover measures and protect shareholders from anti-takeover measures, through:

- › The support of management and shareholder proposals introducing bylaw amendment requiring specific shareholders approval on anti-takeover measures, and
- › By recommending against any general issuances authorities unless the company specifies that it cannot be used for anti-takeover purposes. In 2015, this policy is being limited to French CAC40 companies.



New Recommendation: Vote for issuance authorities with preemptive rights to a maximum of 100 percent over currently issued capital and as long as the share issuance authorities’ periods are clearly disclosed (or implied by the application of a legal maximum duration) and in line with market-specific practices and/or recommended guidelines (e.g. issuance periods limited to 18 months for the **Netherlands**).

Vote for issuance authorities without preemptive rights to a maximum of 20 percent (or a lower limit if local market best practice recommendations provide) of currently issued capital as long as the share issuance authorities’ periods are clearly disclosed (or implied by the application of a legal maximum duration) and in line with market-specific practices and/or recommended guidelines (e.g. issuance periods limited to 18 months for the **Netherlands**).

For **French** companies, vote for general issuance requests with preemptive rights, or without preemptive rights but with a binding “priority right,” for a maximum of 50 percent over currently issued capital.

For **French** companies, generally vote for general authorities to issue shares without preemptive rights up to a maximum of 10 percent of share capital.

Generally vote against any general share issuance authorities (with or without preemptive rights) if they can be used for antitakeover purposes without shareholders' approval.

Rationale for Update:

Under the French Florange Act, boards will now legally be allowed to use any kind of antitakeover measures without prior shareholder approval, unless the company's bylaws specifically provide otherwise. 2015 is the first year that French companies will have the ability, or need, to propose amendments to their bylaws to opt out of these Florange Act provisions which will otherwise automatically introduce the effectively unlimited use of anti-takeover provisions without specific shareholder approval. Such bylaw amendments are the main way in which shareholders may maintain requirements for shareholder approval in many situations when the decision taken by the board and/or the use of the delegation given by the shareholders to the board could stop or prevent an offer to the potential detriment of shareholders.

Companies may also provide shareholders with some protection from unlimited use of antitakeover measures by choosing to state in proposals for general share capital issuance authorities that the authority will not be used during a takeover period.

The targeted application of Social Advisory Services' policy on antitakeover measures in 2015 to CAC40 companies only gives effectively one additional year to smaller companies to respond to the impact stemming from the Florange Act.

ASIA-PACIFIC

REMUNERATION

Equity Compensation Plans (Hong Kong and Singapore)

Current Recommendation for Hong Kong

Social Advisory Services will recommend voting against an option scheme if:

- › The maximum dilution level for the scheme exceeds Social Advisory Services guidelines of 5 percent of issued capital for a mature company and 10 percent for a growth company. However, Social Advisory Services will support plans at mature companies with dilution levels up to 10 percent if the plan includes other positive features such as challenging performance criteria and meaningful vesting periods as these features partially offset dilution concerns by reducing the likelihood that options will become exercisable unless there is a clear improvement in shareholder value; or
- › Directors eligible to receive options under the scheme are involved in the administration of the scheme and the administrator has the discretion over their awards¹.

Current Recommendation for Singapore:

Social Advisory Services has historically recommended voting against a proposed option plan if the maximum dilution level for the plan exceeds Social Advisory Services guidelines of 5 percent of issued capital for a mature company and 10 percent for a growth company. Social Advisory Services has also recommended voting against stock option plans that allow for the granting of options with an exercise price at a discount to the current market price.

Social Advisory Services will recommend voting against an option plan if:

- › The maximum dilution level for the scheme exceeds Social Advisory Services guidelines of 5 percent of issued capital for a mature company and 10 percent for a growth company. However, Social Advisory Services will support plans at mature companies with dilution levels up to 10 percent if the plan includes other positive features such as challenging performance criteria and meaningful vesting periods as these features partially offset dilution concerns by reducing the likelihood that options will become exercisable unless there is a clear improvement in shareholder value;
- › The plan permits options to be issued with an exercise price at a discount to the current market price; or
- › Directors eligible to receive options under the scheme are involved in the administration of the scheme and the administrator has the discretion over their awards¹.

This rationale recognizes the benefit of well-structured option plans at plans at mature companies, provided that performance criteria are sufficiently robust.

Key Changes:

- › Incorporate annual grant limits when reviewing the dilution limits of equity compensation plans.
- › Harmonize the policies for Hong Kong and Singapore.



New Recommendation: Generally vote for an equity-based compensation plan unless:

- › The maximum dilution level for the scheme exceeds 5 percent of issued capital for a mature company and 10 percent for a growth company. However, Social Advisory Services will support plans at mature companies with dilution levels up to 10 percent if the plan includes other positive features such as challenging performance criteria and meaningful vesting periods as these features partially offset dilution concerns by reducing the likelihood that options will become exercisable unless there is a clear improvement in shareholder value. In addition, Social Advisory Services will support a plan's dilution limit that exceeds these thresholds if the annual grant limit under the plan is 0.5 percent or less for a mature company (1 percent or less for a mature company with clearly disclosed performance criteria) and 1 percent or less for a growth company.
- › The plan permits options to be issued with an exercise price at a discount to the current market price; or
- › Directors eligible to receive options or awards under the scheme are involved in the administration of the scheme and the administrator has the discretion over their awards.²

Rationale for Update:

Companies in Hong Kong and Singapore typically have equity compensation plans with dilution limits ranging from 10 to 15 percent, which often are above the allowable limit of 5 percent (for mature companies without disclosed performance criteria) or 10 percent (for growth companies) under Social Advisory Services policy. However, a number of companies have responded to investor concerns of excessive dilution by imposing an annual dilution limit. The updated policy is in line with this market development, recognizing companies for adopting best practice, and incentivizing companies to reduce the risk of excessive dilution in any given year.

SHARE ISSUANCE REQUESTS

General Issuance Mandate (Hong Kong and Singapore)

Current Recommendation:

General Issuances:

Vote for issuance authorities with pre-emptive rights to a maximum of 100 percent over currently issued capital and as long as the share issuance authorities' periods are clearly disclosed (or implied by the application of a legal maximum duration) and in line with market-specific practices and/or recommended guidelines (e.g. issuance periods limited to 18 months for the Netherlands).

² Equity awards granted or taken in lieu of cash fees generally would not be considered discretionary awards.

Vote for issuance authorities without pre-emptive rights to a maximum of 20 percent (or a lower limit if local market best practice recommendations provide) of currently issued capital as long as the share issuance authorities' periods are clearly disclosed (or implied by the application of a legal maximum duration) and in line with market-specific practices and/or recommended guidelines (e.g. issuance periods limited to 18 months for the Netherlands).

For French companies, vote for general issuance requests with pre-emptive rights, or without pre-emptive rights but with a binding "priority right," for a maximum of 50 percent over currently issued capital.

For French companies, generally vote for general authorities to issue shares without preemptive rights up to a maximum of 10 percent of share capital.

Key Changes: Include market-specific provisions for Hong Kong and Singapore

New Recommendation:

General Issuances:

Vote for issuance authorities with pre-emptive rights to a maximum of 100 percent over currently issued capital and as long as the share issuance authorities' periods are clearly disclosed (or implied by the application of a legal maximum duration) and in line with market-specific practices and/or recommended guidelines (e.g. issuance periods limited to 18 months for the Netherlands).

Vote for issuance authorities without pre-emptive rights to a maximum of 20 percent (or a lower limit if local market best practice recommendations provide) of currently issued capital as long as the share issuance authorities' periods are clearly disclosed (or implied by the application of a legal maximum duration) and in line with market-specific practices and/or recommended guidelines (e.g. issuance periods limited to 18 months for the Netherlands).

For French companies, vote for general issuance requests with pre-emptive rights, or without pre-emptive rights but with a binding "priority right," for a maximum of 50 percent over currently issued capital.

For French companies, generally vote for general authorities to issue shares without preemptive rights up to a maximum of 10 percent of share capital.

For Hong Kong companies, generally vote for the general issuance mandate for companies that:

- › Limit the aggregate issuance request – that is, for the general issuance mandate and the share reissuance mandate combined – to 10 percent or less of the relevant class of issued share capital;
- › Limit the discount to 10 percent of the market price of shares; and
- › Have no history of renewing the General Issuance Mandate several times within a period of one year.

For companies listed on the Mainboard of the Singapore Exchange, generally vote for a general issuance of equity or equity-linked securities without preemptive rights when the share issuance limit is not more than 10 percent of the company's issued share capital and 50 percent with preemptive rights.

For companies listed on the Catalist market of the SGX, generally vote for a general issuance of equity or equity-linked securities without preemptive rights when the share issuance limit is not more than 20 percent of the company's issued share capital and 100 percent with preemptive rights.

Discussion

Companies should have flexibility to issue shares, but the granting of a general authority to issue shares creates risks of dilution to shareholders. Therefore, the need for flexibility must be balanced with providing reasonable protection for shareholder interests. For companies in Hong Kong, some issuers with different classes of shares (Mainland-listed A shares, unlisted Domestic shares, and Hong Kong-listed H shares) seek a general issuance mandate for a specific class of shares only. The above-mentioned policy clarifies that the 10 percent limit under the general issuance mandate is applied to the relevant class of shares.

For companies in Singapore, the listing manual of the SGX allows companies to seek an annual mandate for the issuance of ordinary shares up to 50 percent of issued capital for issuance with preemptive rights and 20 percent without preemptive rights for Mainboard-listed companies and 100 percent with preemptive rights and 50 percent without preemptive rights for Catalist-listed companies. Most companies seek such a mandate every year, to prevent the need to convene a shareholder meeting for each share issuance, however small.

Many investors view the maximum issuance limit provided under the SGX listing manual to be too high, a view echoed during ISS' policy roundtables held in Hong Kong and Singapore. There was a general consensus among the participants on the 10 percent limit for Mainboard-listed companies and 20 percent limit for Catalist-listed companies, while some believe that a more stringent standard is appropriate. The 10 percent limit for Mainboard-listed companies under the Social Advisory Services policy is in line with the policy currently applied on Hong Kong companies. The 10 percent limit is also the maximum limit allowed under local regulations in Malaysia and Thailand.

The Catalist market is primarily for start-up companies and thus companies listed on Catalist are likely to need to rely more heavily on equity financing than Mainboard-listed companies. As such, a higher dilution limit is justified, but the 50 percent limit for share issuance without preemptive rights allowed under the listing manual creates significant risk of dilution. The 20 percent cap for Catalist-listed companies should be sufficient to meet most capital needs, and companies could always seek specific approval for issuance exceeding this limit. Additionally, this limit is in line with Social Advisory Services' policy in applicable markets that includes a 20 percent share issuance limit regarding general issuances without preemptive rights.

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