Proxy Voting Guidelines
Benchmark Policy Changes for 2023-2024

Effective for Meetings on or after October 16, 2023
Published October 13, 2023
# TABLE OF CONTENTS

South Africa ................................................................. 3

- Board of Directors ......................................................... 3
- Audit Committee Elections .............................................. 3
- Remuneration .............................................................. 6
- Approval of Implementation Report ................................. 6
South Africa

Board of Directors

Audit Committee Elections

<table>
<thead>
<tr>
<th>Current ISS Policy:</th>
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<tr>
<td><strong>General Recommendation:</strong> Vote for the re-election of the audit committee and/or audit committee members, unless:</td>
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<td>▪ Committee member elections are bundled into a single voting item, and the committee includes one or more non-independent NEDs;</td>
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<td>▪ Committee members are elected individually, and the audit committee member is a non-independent NED;</td>
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<td>▪ The board chair is a member of the audit committee, in line with the position stated in King IV. ISS will only apply this provision to large, widely held companies;</td>
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<td>▪ There are adverse vote recommendations on an audit committee member’s election to the Board at the same shareholder meeting due to serious concerns identified on matters that are not related to his or her role on the audit committee; or</td>
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<td>▪ Repeated absences (less than 75 percent attendance) at committee meetings have not been explained;</td>
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<td>▪ There are serious concerns about the accounts presented, the audit procedures used, or some other feature for which the audit committee has responsibility.</td>
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In addition, (i) where the tenure of the external auditor extends beyond 10 years and there is no public commitment to rotate their audit firm within a year, or (ii) a new auditor has been reappointed before the conclusion of a five-year cool-off period\(^1\), generally vote against the chair of the audit committee (or, if not identified, the most tenured member)\(^1\). This voting sanction may be extended to the reappointment of the auditor if no action has been taken in the subsequent year.

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Discussion
Companies (other than those covered by the Banks Act) must establish an audit committee of at least three members, which must be elected by shareholders at the AGM (CA s94).

In line with the Independent Regulatory Board for Auditors’ (IRBA) Mandatory Audit Firm Rotation (MAFR) rule, effective for financial years commencing on or after 1 April 2023, companies which have auditors serving for more than ten years are required to appoint new auditors.¹

Footnotes:
1. Audit firms become eligible for reappointment after a cooling-off period of five years. Applicable during the first year of effectivity of the IRBA mandate only, if companies have joint auditors and both have audit tenure of ten years or more, only one audit firm is required to rotate at the effective date and the remaining audit firm will be granted an additional two years before rotation is required.
2. The policy will come into effect for meetings held on or after 1 October 2022, for companies that have already identified or appointed their auditors for the financial year starting on or after 1 April 2023.

Rationale for Change:
The Independent Regulatory Board for Auditors (IRBA), as mandated by the South African government under the Auditing Profession Act, regulates the audit of public interest entities in South Africa. On 2 June 2017, the IRBA implemented a new mandatory audit firm rotation rule [see LINK for the rule, and LINK for the FAQ] that, effective for financial years commencing on or after 1 April 2023, audit firm rotation is required every 10 years. The change was introduced in order to strengthen the independence of auditors, particularly “following the audit failures globally and locally”, with IRBA noting that “long tenure and close relationships can lead to complacency, unconscious bias or familiarity that has the potential to create situations where independence is at the least perceived to be impeded and at worst lead to an inappropriate audit opinion”. However, on 31 May 2023, the Supreme Court of Appeal (SCA) issued a ruling [see LINK for the ruling] that the mandate is beyond the IRBA’s legislative authority and could therefore not be imposed. In response, on 1 June 2023, the IRBA acknowledged the SCA’s judgement but maintains that the rotation of audit firms strengthens the independence of the auditor [see LINK for the response and LINK for the quarterly news].

Given the SCA ruling, the ISS’ South Africa Policy is being updated to remove all references to the audit firm rotation being mandatory. The voting guideline for auditors’ tenure is, however, unchanged, i.e. an adverse vote recommendation may be considered on the election/re-election of the audit committee chair should the auditor tenure be over 10 years without a disclosed succession plan or a sufficiently mitigating circumstance. This is following the IRBA’s independence guidelines and recommendation, as
well as acknowledging the fact that a number of publicly listed companies have already rotated their audit firms prior to April 2023. The latter, as well as the significant shareholder dissents seen on the reappointment of tenured auditors, suggest that the rotation of audit firms has become the recommended market practice.
## Remuneration

### Approval of Implementation Report

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<td><strong>General Recommendation:</strong> When assessing the implementation report, ISS generally recommends a vote against if the level of disclosure regarding the application of the policy is below what is required for shareholders to make an informed judgment. In the event of satisfactory disclosure, ISS recommends a vote for the approval of the implementation report on a case-by-case approach, paying particular attention as to whether:</td>
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<td>- Large increases in fixed remuneration have been implemented which have not been adequately explained;</td>
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<td>- The company has made bonus payments, but these have not been clearly linked to performance (including guaranteed bonuses or transaction bonuses);</td>
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<td>- The company has made ex-gratia payments or one-off special awards to executives during the year which have not been adequately explained;</td>
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<td>- The performance conditions for long-term incentive schemes, where applicable, are not disclosed, or are not considered sufficiently challenging or relevant;</td>
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<td>- Significant termination-related or restraint of trade payments have been made to executive directors, and the reasons for these are not disclosed or, where they are disclosed, do not adequately justify the size of the payment;</td>
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<td>- Discretion has been used during the year in a manner not considered consistent with shareholder interests, or the application of the policy is in any way not considered aligned with shareholder interests, with particular attention given to any payments or decisions which have been made outside of the policy framework previously communicated to shareholders.</td>
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<td>- There are other significant governance concerns regarding remuneration practices.</td>
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In circumstances where a company has demonstrated a significant shift towards good practice, it may be appropriate for ISS to recommend support for the implementation report resolution, notwithstanding the presence of some historical issues of concern.

In cases where a serious breach of good practice is identified, and typically where issues have been raised over a number of years, the chair of the remuneration
committee (or, where relevant, other members of the remuneration committee) may receive a negative voting recommendation.

**Discussion**
The King IV report recommends that companies provide shareholders with an annual, non-binding vote on the remuneration policy (Part 5.4, Recommended Practice #37). The policy should set out all elements of remuneration that are offered to executive management. The JSE Listings Requirements (LR s.3.84(k)) mandate that this advisory vote is put to shareholders at each AGM.

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**Rationale for Change:**
The additional policy point grants ISS the necessary flexibility to address concerns regarding egregious remuneration practices. Specifically, this allows ISS to carry out more holistic review of formulaic pay outcomes in the context of stakeholder experience and corporate governance practices, particularly if there is any misalignment of interests that would be a concern for shareholders. Among the key scenarios covered by this provision are companies who report increased workplace fatalities and injuries with insufficient remedial actions, significant environmental incidents, large or serial fines or sanctions from regulatory bodies and/or significant adverse legal judgements or settlements.
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