

## Asia ex-Japan Policies - Director Elections

### Background and Overview

ISS is considering harmonizing the following voting guidelines with existing policies for other Asia ex-Japan markets.

#### Director Attendance – Bangladesh, Pakistan, and Sri Lanka

The ISS policy for director elections in Bangladesh and Pakistan currently applies a two-year look back period for director attendance, while in Sri Lanka, director attendance is not currently used as a factor in making vote recommendations.

The update strengthens the attendance requirement for directors for Bangladesh and Pakistan, while introducing an attendance requirement for Sri Lanka for the first time. In addition, the update harmonizes ISS policies on director attendance across various Asian markets, including acceptable reasons for absences.

The update takes into consideration attendance at board meetings only given that attendance at board committee meetings is not consistently disclosed in Bangladesh, Pakistan, and Sri Lanka.

#### Overboarding - India

In 2014, the Companies Act, 2013 was enacted which includes a provision limiting directorships to 10 listed companies (including private companies that are holding or subsidiary companies of listed companies). In addition, Clause 49 of the Listing Agreement was amended which includes the following provisions limiting the number of directorships:

- A person shall not serve as an independent director in more than seven listed companies; or
- Any person who is serving as an executive director in any listed company shall serve as an independent director in not more than three listed companies.

In view of the changes in the regulations, it is deemed timely to introduce an overboarding policy for India. The new policy would align ISS policy for India with policies for regional peers such as Hong Kong and Singapore.

### Key Changes Under Consideration

#### Director Attendance – Bangladesh, Pakistan, and Sri Lanka

ISS is considering the following changes to the policy on director attendance:

- Apply one-year look back period for director attendance;
- Exempt first-year on the board from the policy; and

- Clarify what ISS would consider as "acceptable reasons" for absence, including missing one out of three or fewer meetings.

In view of the abovementioned changes, ISS plans to update the voting guideline on director attendance, as follows:

Generally vote for the election of directors unless the nominee has attended less than 75 percent of board meetings over the most recent fiscal year, without a satisfactory explanation. Acceptable reasons for director absences are generally limited to the following:

- Medical issues/illness;
- Family emergencies;
- The director has served on the board for less than a year; and
- Missing only one meeting (when the total of all meetings is three or fewer).

### Overboarding - India

ISS is considering the introduction of a new policy that defines a director as "overboarded", and recommends against his or her election where that director sits on a total of more than six public company boards. ISS therefore plans to introduce the following voting guideline:

Generally vote for the election of directors unless the nominee sits on a total of more than six public company boards. ISS will consider a commitment by an overboarded director to step down from one or more boards at the next AGM of the company or companies in question, if that will bring the total number of boards to no more than six. Such commitment should be made in publicly available documents (i.e. meeting notice, circular, or annual report) disclosed prior to the AGM.

### Intent and Impact

#### Director Attendance

The proposed policy update is expected to result in AGAINST votes to 33 percent, 21 percent, and 15 percent of director nominees in Bangladesh, Pakistan, and Sri Lanka, respectively, as shown in the following table:

|                   | Total # of Directors | # of Directors with <75% board attendance | Percentage of Directors with <75% board attendance |
|-------------------|----------------------|---|--|
| <b>Bangladesh</b> | 42 <sup>1</sup>      | 14  | 33%  |
| <b>Pakistan</b>   | 72 <sup>2</sup>      | 15  | 21%  |
| <b>Sri Lanka</b>  | 181 <sup>3</sup>     | 28  | 15%  |

<sup>1</sup>from 12 profiled companies (out of 47 companies covered in 2016 YTD)

<sup>2</sup>from 9 profiled companies (out of 47 companies covered in 2016 YTD)

<sup>3</sup>from 55 profiled companies (out of 57 companies covered in 2016 YTD)

## Overboarding

The proposed policy is expected to result in AGAINST votes to 1.29 percent of director nominees in India, as shown in the following table:

|          | # of directors | # of directors considered overboarded <sup>1</sup> | % of directors considered overboarded |
|----------|----------------|--|---------------------------------------|
| Nominees | 1624           | 21   | 1.29                                  |

<sup>1</sup>sits on more than 6 public company boards

## Request for Comment

### Director Attendance

- Should ISS update the policy on director elections for Bangladesh, Pakistan, and Sri Lanka to apply a one-year look back period for director attendance?
- What other exemptions and acceptable reasons for absences, if any, should ISS consider?

### Overboarding

- Should ISS introduce the new policy on overboarding for India?
- If the policy is introduced, should the limit be aligned with local regulations at seven board seats or aligned with ISS policies for regional peers such as Hong Kong and Singapore at six board seats?

