

## Non- Independent Chairman of Key Committee (Hong Kong/Singapore)

### Background and Overview

The ISS policy for director elections in Hong Kong and Singapore currently does not consider the independence of the chairman of the audit committee, remuneration committee and nomination committee. Therefore, there are no restrictions in ISS policy for non-independent directors to chair these committees.

The role of a committee chairman in leading key committees to make objective decisions regarding audit matters, director and senior executive compensation as well as their appointments and dismissals, is critical to shareholder value. Therefore, it is reasonable to consider the independence of the committee chairman. The change would also align ISS' policy on board committees with the provisions of the Hong Kong and Singapore corporate governance codes.

Under the code provisions in Hong Kong and Singapore, only independent directors should chair the audit committee, remuneration committee and nomination committee (Rule 3.21 and Rule 3.25 of the Hong Kong Listing Rules; Guideline 12.1, Guideline 7.1, Guideline 4.1 of the Singapore Code of Corporate Governance). However, there is an exception in the Hong Kong listing rules whereby the nomination committee may be chaired by a non-independent director who also serves as the chairman of the board (Code A.5.1 of Hong Kong Corporate Governance Code).

### Key Changes Under Consideration

ISS is currently considering the introduction of a new policy that assesses the independence of the chairmen of key committees, namely the audit committee, remuneration committee and nomination committee. In 2016, ISS plans to introduce the following voting guideline under the section on election of directors regarding this issue.

Generally vote for the re/election of directors, unless:

#### **For Hong Kong**

#### **Independence Considerations**

##### *Committee Independence/Formulation*

- The nominee is a non-independent director serving as the chairman of the audit committee, remuneration committee, and/or nomination committee (except for non-independent directors serving as chairman of the nomination committee who also serve as the chairman of the board).

When the board does not have a formal audit committee, remuneration committee and/or nomination committee, vote against if:

- The nominee is an executive director and the board is not majority independent;
- The nominee is a non-independent chairman of the board.

## **For Singapore**

### **Independence Considerations**

#### *Committee Independence/Formulation*

- The nominee is a non-independent director serving as the chairman of the audit committee, remuneration committee, and/or nomination committee.

When the board does not have a formal audit committee, remuneration committee and/or nomination committee, vote against if:

- The nominee is an executive director;
- The nominee is a non-independent chairman of the board.

### **Intent and Impact**

The proposed policy change targeting the independence of committee chairmen will align ISS' policy with Hong Kong and Singapore code provisions. This would also apply to independent committee chairmen who are reclassified as non-independent directors under ISS classification of directors.

The proposed policy is expected to result in a small number of AGAINST votes. This is partly due to the fact that listed companies in Hong Kong and Singapore have a classified board structure, which means not all directors have to stand for reelection in a given year.

### **Request for Comment**

- Should ISS introduce the new policy to assess the independence of the chairman of the audit committee, remuneration committee and nomination committee?
- If the policy is introduced, should votes against non-independent director nominees be recommended due to their present chairmanship of a key committee?
- If the policy is introduced but the issue of non-independent chairmanship of key committees should not result in negative recommendations on board elections, how should the issue be addressed?