



INTERNATIONAL

SRI PROXY VOTING GUIDELINES UPDATES

2020 Policy Recommendations

Published December 31, 2019

[ISSGOVERNANCE.COM](https://www.issgovernance.com)

© 2019 | Institutional Shareholder Services and/or its affiliates

TABLE OF CONTENTS

Operational Items.....	3
Approval of Non-Financial Information Statement/Report.....	3
Appointment of Auditors and Auditor Fees.....	4
Board of Directors	5
Director Election.....	5
Attendance	5
Canadian Guidelines: Overboarding	8
European Guidelines: Director Terms.....	9
European Guidelines: Board Independence	10
European Guidelines: Cumulative Voting – Middle East and Africa (MEA)	13
Compensation	16
European Guidelines	16
Executive Compensation-Related Proposals	16
Equity-Based Compensation Guidelines: Employee Share Purchase Plans	18
Equity-Based Compensation Guidelines: Compensation-Related Voting Sanctions	18

Operational Items

Approval of Non-Financial Information Statement/Report

Current Social Advisory Services Policy, incorporating changes:	New Social Advisory Services Policy:
<p>Social Advisory Services Recommendation:</p> <p>Generally vote for the approval of mandatory non-financial information statement/report, unless the independent assurance services provider has raised material concerns about the information presented.</p>	<p>Social Advisory Services Recommendation:</p> <p>Generally vote for the approval of mandatory non-financial information statement/report, unless the independent assurance services provider has raised material concerns about the information presented.</p>

Rationale for Change:

EU Directive 2014/95 established some disclosure requirements of non-financial information, including about environmental-, social- and personnel-, human rights-, and corruption-related matters. According to the Directive, an independent assurance services provider must review non-financial information and provide an opinion on its comprehensiveness and accuracy. The Directive does not require nor forbid this statement of non-financial information to be submitted to shareholder vote.

This Directive has been transposed in all EU member states. To date, Spain is the sole EU market where the lawmaker requests this statement be approved by the general meeting.

This EU-wide policy establishes a framework for mandatory, regulated non-financial information statements, with a focus on disclosure quality rather than non-financial performance. The policy considers the required independent assurance services provider's opinion on the company's disclosure of non-financial information.

Appointment of Auditors and Auditor Fees

Current Social Advisory Services Policy, incorporating changes:	New Social Advisory Services Policy:
<p>Social Advisory Services Recommendation:</p> <p>Generally vote for the reelection of auditors and proposals authorizing the board to fix auditor fees, unless:</p> <ul style="list-style-type: none"> ▪ The name of the proposed auditors has not been published; ▪ There are serious concerns about the effectiveness of the auditors; ▪ The lead audit partner(s) has been linked with a significant auditing controversy; ▪ There is reason to believe that the auditor has rendered an opinion which is neither accurate nor indicative of the company's financial position; ▪ The lead audit partner(s) has previously served the company in an executive capacity or can otherwise be considered affiliated with the company; ▪ 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. <p>In circumstances where fees for non-audit services include fees related to significant one-time capital structure events, such as 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.</p> <p>For concerns relating to the audit procedures, independence of auditors, and/or name of auditors, Social Advisory Services will focus on the auditor election and/or the audit committee members. 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 the SRI policy would focus on the auditor election.</p>	<p>Social Advisory Services Recommendation:</p> <p>Generally vote for the reelection of auditors and proposals authorizing the board to fix auditor fees, unless:</p> <ul style="list-style-type: none"> ▪ The name of the proposed auditors has not been published; ▪ There are serious concerns about the effectiveness of the auditors; ▪ The lead audit partner(s) has been linked with a significant auditing controversy; ▪ There is reason to believe that the auditor has rendered an opinion which is neither accurate nor indicative of the company's financial position; ▪ The lead audit partner(s) has previously served the company in an executive capacity or can otherwise be considered affiliated with the company; ▪ 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. <p>In circumstances where fees for non-audit services include fees related to significant one-time capital structure events, such as 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.</p> <p>For concerns relating to the audit procedures, independence of auditors, and/or name of auditors, Social Advisory Services will focus on the auditor election and/or the audit committee members. 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 the SRI policy would focus on the auditor election.</p>

Rationale for Change:

Besides IPOs, emergence from bankruptcies, and spin-offs, M&A transactions (including dispositions) may also be considered one-time capital structure events. Even while some companies engage in M&A activities more frequently than others, it is believed they generally are significant, non-routine events that materially impact a company’s capital structure/organization to warrant the carve out. For companies that are in the business of acquiring and disposing assets on a regular basis, their M&A transactions may not be deemed as eligible for a carve out. Fees connected to re-domiciliation may also qualify as one-time fee. In all cases, disclosures will be scrutinized when determining the carve out eligibility.

There is no change to the Social Advisory Services disclosure requirement. Fees related to all one-time capital structure events are carved out only if there is adequate disclosure about the transactions and a clear breakdown of the fees.

Board of Directors

Director Election

Attendance

Current Social Advisory Services Policy, incorporating changes:	New Social Advisory Services Policy:
<p>Social Advisory Services Recommendation:</p> <p>Vote for management nominees in the election of directors, unless:</p> <ul style="list-style-type: none"> ▪ 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; or ▪ The board fails to meet minimum corporate governance standards, including board independence standards; ▪ There are specific concerns about the individual, such as criminal wrongdoing or breach of fiduciary responsibilities; or ▪ Absences at board <u>and key committee</u> meetings have not been explained (in countries where this information is disclosed). 	<p>Social Advisory Services Recommendation:</p> <p>Vote for management nominees in the election of directors, unless:</p> <ul style="list-style-type: none"> ▪ 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, including board independence standards; ▪ There are specific concerns about the individual, such as criminal wrongdoing or breach of fiduciary responsibilities; or ▪ Absences at board and key committee meetings have not been explained (in countries where this information is disclosed).

<p>Vote for employee and/or labor representatives if they sit on either the audit or compensation committee and are required by law to be on those committees.</p> <p>Vote against employee and/or labor representatives if they sit on either the audit or compensation committee, if they are not required to be on those committees.</p> <p>Diversity</p> <p>Social Advisory Services will evaluate gender diversity on boards in international markets when reviewing director elections, to the extent that disclosures and market practices permit.</p> <ul style="list-style-type: none"> Generally vote against or withhold from incumbent members of the nominating committee if the board lacks at least one woman. For Japan, if the company has an audit-committee-board structure or a traditional two-tier board structure as opposed to three committees, vote against incumbent representative directors if the board lacks at least one woman. For Canada, UK, and Australia, vote against or withhold from incumbent members of the nominating committee if: <ul style="list-style-type: none"> the board lacks at least one woman and one racially diverse director; and the board is not at least 30 percent diverse. If the company does not have a formal nominating committee, vote against or withhold from all incumbent members of the entire board of directors. <p>Vote for individual nominees unless there are specific concerns about the individual, such as criminal wrongdoing or breach of fiduciary responsibilities.</p> <p>Vote against individual directors if absences at board meetings have not been explained (in countries where this information is disclosed).</p> <p>Vote for employee and/or labor representatives if they sit on either the audit or compensation committee and are required by law to be on those committees.</p> <p>Vote against employee and/or labor representatives if they sit on either the audit or compensation committee, if they are not required to be on those committees.</p> <p>Material ESG Failures</p>	<p>Vote for employee and/or labor representatives if they sit on either the audit or compensation committee and are required by law to be on those committees.</p> <p>Vote against employee and/or labor representatives if they sit on either the audit or compensation committee, if they are not required to be on those committees.</p> <p>Diversity</p> <p>Social Advisory Services will evaluate gender diversity on boards in international markets when reviewing director elections, to the extent that disclosures and market practices permit.</p> <ul style="list-style-type: none"> Generally vote against or withhold from incumbent members of the nominating committee if the board lacks at least one woman. For Japan, if the company has an audit-committee-board structure or a traditional two-tier board structure as opposed to three committees, vote against incumbent representative directors if the board lacks at least one woman. For Canada, UK, and Australia, vote against or withhold from incumbent members of the nominating committee if: <ul style="list-style-type: none"> the board lacks at least one woman and one racially diverse director; and the board is not at least 30 percent diverse. If the company does not have a formal nominating committee, vote against or withhold from all incumbent members of the board. <p>Material ESG Failures</p> <p>Vote against or withhold from directors individually, on a committee, or potentially the entire board due to:</p> <ul style="list-style-type: none"> Material failures of governance, stewardship, risk oversight¹, or fiduciary responsibilities at the company, including failure to adequately manage or mitigate environmental, social and governance (ESG) risks; A lack of sustainability reporting in the company's public documents and/or website in conjunction with a failure to adequately manage or mitigate ESG risks;
---	--

<p>Vote against or withhold from directors individually, on a committee, or potentially the entire board due to:</p> <ul style="list-style-type: none"> Material failures of governance, stewardship, risk oversight¹, or fiduciary responsibilities at the company, including failure to adequately manage or mitigate environmental, social and governance (ESG) risks; A lack of sustainability reporting in the company's public documents and/or website in conjunction with a failure to adequately manage or mitigate environmental, social and governance (ESG) risks; Failure to replace management as appropriate; or Egregious actions related to the director(s)' service on the boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company. 	<ul style="list-style-type: none"> Failure to replace management as appropriate; or Egregious actions related to the director(s)' service on the boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.
---	--

Rationale for Change:

This update clarifies that Social Advisory Services takes into account both board and committee meeting attendance records.

Directors and committee members' attendance is a major concern for investors. Social Advisory Services recommends adverse votes for directors with absences at board and committee meetings, provided that such absences have not been explained. This only applies in countries where this information is disclosed. In the case this information is not disclosed (in the concerned markets), a vote against directors' elections will also be considered.

¹ Examples of failure of risk oversight include but are not limited to: bribery; large or serial fines or sanctions from regulatory bodies; significant environmental incidents including spills and pollution; large scale or repeat workplace fatalities or injuries; significant adverse legal judgments or settlements; or hedging of company stock.

Canadian Guidelines: Overboarding

Current Social Advisory Services Policy, incorporating changes:	New Social Advisory Services Policy:
<p>Social Advisory Services Recommendation:</p> <p>For director elections, Social Advisory Services will also take into consideration market-specific provisions which are listed below:</p> <p>...</p> <p>Overboarding-TSX</p> <p>Generally vote withhold for individual director nominees who:</p> <ul style="list-style-type: none"> ▪ Are non-CEO directors and serve on more than five public company boards; or ▪ Are CEOs of public companies who serve on the boards of more than two public companies besides their own – withhold only at their outside boards¹. <p>Transitioning directors: It is preferable for a director to step down from a board at the annual meeting to ensure orderly transitions, which may result in a director being temporarily overboarded (e.g. joining a new board in March but stepping off another board in June). Social Advisory Services will generally not count a board for policy application purposes when it is publicly-disclosed that the director will be stepping off that board at its next annual meeting. This disclosure must be included within the company's proxy circular to be taken into consideration. Conversely, Social Advisory Services will include the new boards that the director is joining even if the shareholder meeting with his or her election has not yet taken place.</p>	<p>Social Advisory Services Recommendation:</p> <p>For director elections, Social Advisory Services will also take into consideration market-specific provisions which are listed below:</p> <p>...</p> <p>Overboarding-TSX</p> <p>Generally vote withhold for individual director nominees who:</p> <ul style="list-style-type: none"> ▪ Are non-CEO directors and serve on more than five public company boards; or ▪ Are CEOs of public companies who serve on the boards of more than two public companies besides their own – withhold only at their outside boards¹. <p>Transitioning directors: It is preferable for a director to step down from a board at the annual meeting to ensure orderly transitions, which may result in a director being temporarily overboarded (e.g. joining a new board in March but stepping off another board in June). Social Advisory Services will generally not count a board for policy application purposes when it is publicly-disclosed that the director will be stepping off that board at its next annual meeting. This disclosure must be included within the company's proxy circular to be taken into consideration. Conversely, Social Advisory Services will include the new boards that the director is joining even if the shareholder meeting with his or her election has not yet taken place.</p>

Rationale for Change:

It is preferable for a director to step down from a board at the annual meeting to ensure orderly transitions. Therefore, flexibility is needed to address cases where directors have committed to step down from one or more outside boards and have disclosed this information leading up to the shareholder meeting.

¹ Although a CEO's subsidiary boards will be counted as separate boards, Social Advisory Services will not recommend a withhold vote for the CEO of a parent company board or any of the controlled (>50 percent ownership) subsidiaries of that parent but may do so at subsidiaries that are less than 50 percent controlled and boards outside the parent/subsidiary relationship.

European Guidelines: Director Terms

Current Social Advisory Services Policy, incorporating changes:	New Social Advisory Services Policy:
<p>Social Advisory Services Recommendation:</p> <p>For Belgium, France, Greece, the Netherlands, Spain, and Switzerland, vote against the election or re-election of any director when his/her term is not disclosed or when it exceeds four years and adequate explanation for noncompliance has not been provided.</p> <p>In these markets, the maximum board terms are either recommended best practice or required by legislation. Under best practice recommendations, companies should shorten the terms for directors when the terms exceed the limits suggested by best practices. The policy will be applied to all companies in these markets, for bundled as well as unbundled items.</p> <p>For general meetings held on or after Feb. 1, 2021, the above policy will be applied to all European companies, for bundled as well as unbundled items.</p> <p>Beyond that, as directors should be accountable to shareholders on a more regular basis, Social Advisory Services may consider moving to maximum board terms of less than four years in the future.</p> <p>Vote against article amendment proposals to extend board terms. In cases where a company's articles provide for a shorter limit and where the company wishes to extend director terms from three or fewer years to four years, for example, Social Advisory Services will recommend a vote against, based on the general principle that director accountability is maximized by elections with a short period of renewal.</p>	<p>Social Advisory Services Recommendation:</p> <p>For Belgium, France, Greece, the Netherlands, Spain, and Switzerland, vote against the election or re-election of any director when his/her term is not disclosed or when it exceeds four years and adequate explanation for noncompliance has not been provided.</p> <p>In these markets, the maximum board terms are either recommended best practice or required by legislation. Under best practice recommendations, companies should shorten the terms for directors when the terms exceed the limits suggested by best practices. The policy will be applied to all companies in these markets, for bundled as well as unbundled items.</p> <p>For general meetings held on or after Feb. 1, 2021, the above policy will be applied to all European companies, for bundled as well as unbundled items.</p> <p>Beyond that, as directors should be accountable to shareholders on a more regular basis, Social Advisory Services may consider moving to maximum board terms of less than four years in the future.</p> <p>Vote against article amendment proposals to extend board terms. In cases where a company's articles provide for a shorter limit and where the company wishes to extend director terms from three or fewer years to four years, for example, Social Advisory Services will recommend a vote against, based on the general principle that director accountability is maximized by elections with a short period of renewal.</p>

Rationale for Change:

Directors function as the representatives of shareholders throughout the year and are therefore a crucial avenue of ongoing influence on management. As a result, most institutional investors favor annual elections as board members should be accountable to shareholders on a regular basis. For many investors, annual director elections strengthen the ability to hold boards accountable and encourage board members to be more responsive to shareholder interests. According to the results of ISS' 2019 Global Policy Survey, for European companies, 52 percent of investors who responded favored annual board elections as a best practice when asked what the maximum acceptable length of time is that members of a European board should be able to serve without a shareholder vote on a director's election or re-election.

In Europe, directors are generally elected for terms of one to four years, with annual elections considered best practice. Board terms of more than four years have become exceptional and considered outdated. Germany and Austria are the only major European markets that see regular board terms of five years -- which is in line with the legal limits in both markets. In Germany, the Corporate Governance Code Commission proposed a standard board term of three years in the draft version of the German Code revised at the end of last year. Although many investors welcomed this new recommendation in the public consultation process, it was omitted in the final version of the new 2019 German Code due to concerns from corporations, and the five-year maximum term remains.

Board Terms in Europe (Common Practice in 15 Major Markets)

One year:	UK, Ireland, Switzerland, Sweden, Norway, Denmark, Finland	(recommended by Corp Gov Code in these markets, partly legal limit)
Two years:	Italy	(no code recommendation, but legal limit)
Three years:	France, Spain, Netherlands, Belgium, Greece	(recommended by Corp Gov Code, except for Spain where legal limit)
Four years:	Germany, Austria	(no code recommendation, but legal limit)

The current maximum in Social Advisory Services' International proxy voting guidelines is four years in those markets where the local European Corporate Governance Code recommends such a limit. In addition, while Switzerland is also mentioned as a market covered under the policy, the Swiss legal limit has now been set to one year. Since Germany and Austria are not covered in the current policy, Social Advisory Services had recommended in favor of five-year board terms in these two markets.

The policy update is to expand the expectation of a four-year maximum board term to all European companies (all markets) following a one-year transition period. Thus, the policy update would reduce the acceptable maximum limit on board terms for Germany and Austria from five to four years beginning in 2021. Further, the policy indicates that, beyond 2021, as directors should be accountable to shareholders on a more regular basis, Social Advisory Services may consider moving to maximum board terms of less than four years in the future.

European Guidelines: Board Independence

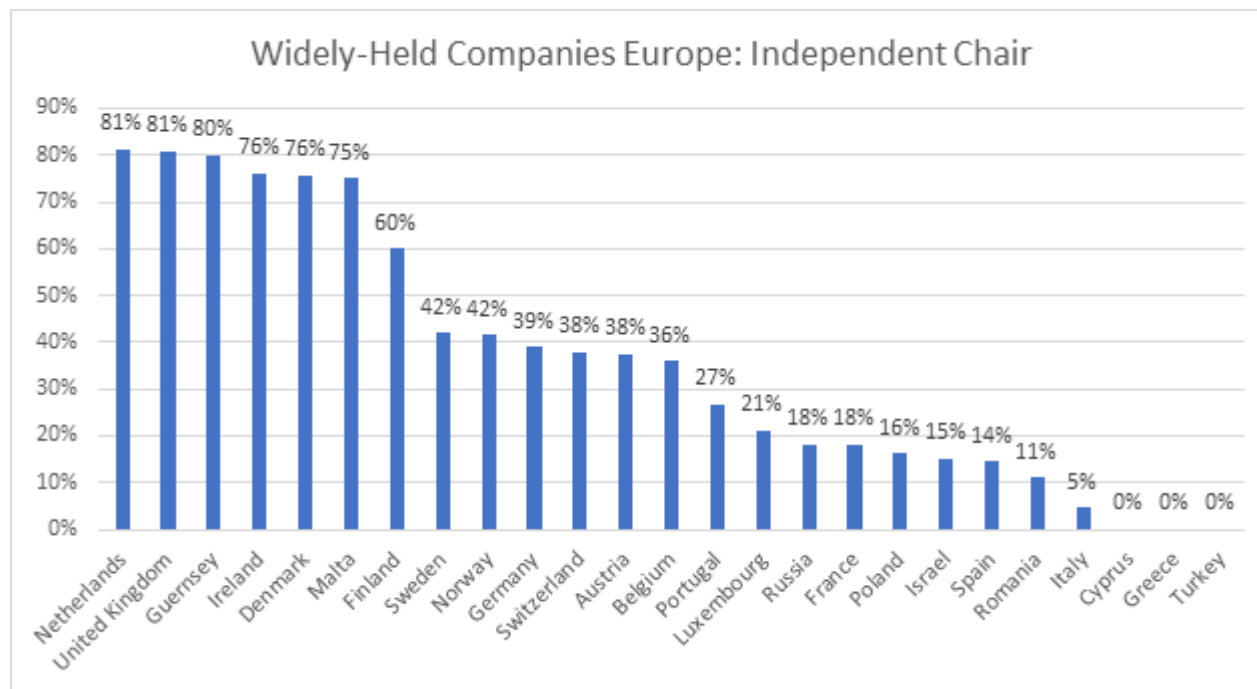
Current Social Advisory Services Policy, incorporating changes:	New Social Advisory Services Policy:
<p>Social Advisory Services Recommendation:</p> <p><u>Board Leadership</u></p> <p>Given the importance of board leadership, Social Advisory Services may consider that the chair of the board should be an independent non-executive director according to the Social Advisory Services' Classification of Directors.</p> <p>...</p>	<p>Social Advisory Services Recommendation:</p> <p><u>Board Leadership</u></p> <p>Given the importance of board leadership, Social Advisory Services may consider that the chair of the board should be an independent non-executive director according to the Social Advisory Services' Classification of Directors.</p> <p>...</p>

Definition of terms	Definition of terms
<p>'Widely-held companies' are determined based on their membership in a major index and/or the number of Social Advisory Services clients holding the securities. For Sweden, Norway, Denmark, and Finland, and Luxembourg, this is based on membership on a local blue-chip market index and/or MSCI EAFE companies. For Portugal, it is based on membership in the PSI-20 and/or MSCI EAFE index.</p>	<p>'Widely-held companies' are determined based on their membership in a major index and/or the number of Social Advisory Services clients holding the securities. For Sweden, Norway, Denmark, and Finland, this is based on membership on a local blue-chip market index and/or MSCI EAFE companies. For Portugal, it is based on membership in the PSI-20 and/or MSCI EAFE index.</p>

Rationale for Change:

This new reference suggests that the chair of a board should be an independent non-executive director. However, the addition of this expectation will not cause negative vote recommendations by Social Advisory Services if a board chair is not independent. The suggestion shall rather highlight the importance of board leadership given the dominant role of an independent board chair in many European markets. Furthermore, this addition shall sensitize the market that investors' expectations may rise and Board Chair Independence may become an SRI policy in the future.

Proportion of Widely-held European Companies with an Independent Chair in 2019 (according to ISS data):



Standards and best practice recommendations on the importance of having an independent board chair vary across different European markets. For instance, an independent board chair is best market practice in the Netherlands, UK, Ireland and Denmark. In other countries such as Finland, Sweden, Norway, Germany, Switzerland, and Austria roughly or almost half of the board chairs are independent. Finally, in countries such as Russia, France, Poland, Spain, and Italy only a small minority of companies have boards with an independent chair.

In Europe, the separation of the board chair and CEO roles is widely accepted as good governance practice (even though it is still not the norm in every country). The questions of the independence of the chair and board leadership remain open topics. Social Advisory Services policy for Europe provides that a board of directors or supervisory board and its major committees should contain a sufficient number of independent directors to allow for the exercise of independent judgment. Therefore, for European companies, Social Advisory Services may recommend against the election or reelection of any non-independent director, including the board chair, if his or her non-independence would lead to the board being considered insufficiently independent overall. However, in the future, Social Advisory Services may also recommend against the election or reelection of any non-independent board chair, irrespective of overall board independence.

Luxembourg: Historically, only Luxembourg companies that are part of the LuxX index (Luxembourg main index constituted of 10 companies) and/or MSCI EAFE companies were considered "widely-held companies". For other companies, *non widely-held* voting policies applied. Due to improved disclosure, Social Advisory

Services will now determine whether Luxembourg companies are to be considered "widely held" with the same process that it uses for the rest of Continental European companies.

European Guidelines: Cumulative Voting – Middle East and Africa (MEA)

Current Social Advisory Services Policy, incorporating changes:	New Social Advisory Services Policy:
<p>Social Advisory Services Recommendation:</p> <p>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.</p> <p>For MEA markets, in cases where:</p> <ul style="list-style-type: none"> ▪ Directors are proposed for (re)election through a cumulative voting system, or ▪ Director elections do not take place through a cumulative voting system, but the number of nominees up for (re)election exceeds the number of board vacancies, <p>when directors are elected through a cumulative voting system, or when the number of nominees exceeds the number of board vacancies,</p> <p>Social Advisory Services will recommend a vote on a case-by-case basis on directors, considering taking into consideration additional factors, for the purpose of to identifying the nominees best suited nominees to add value for shareholders. Positive vote recommendations will be issued preferentially in favor of the following categories of candidates:</p> <p>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.</p> <p>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:</p> <ul style="list-style-type: none"> ▪ Candidates who can be identified as representatives of minority shareholders of the company, or independent candidates, namely: 	<p>Social Advisory Services Recommendation:</p> <p>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.</p> <p>For MEA 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.</p> <p>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.</p> <p>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:</p> <ul style="list-style-type: none"> ▪ 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: <ul style="list-style-type: none"> ▪ 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.

<ul style="list-style-type: none"> ▪ Candidates who can be classified as independent according to SRI policy, or, failing that; ▪ Candidates explicitly classified as independent per the company's director classification. ▪ Candidates whose professional background may have the following benefits: <ul style="list-style-type: none"> ▪ 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. <p>Positive vote recommendations will be issued preferentially in favor of the following categories of candidates:</p> <ul style="list-style-type: none"> ▪ Candidates who can be identified as representatives of minority shareholders of the company, or independent candidates, namely: <ul style="list-style-type: none"> ▪ Candidates who can be classified as independent according to SRI policy, or, failing that; ▪ Candidates explicitly classified as independent per the company's director classification. ▪ Candidates whose professional background may have the following benefits: <ul style="list-style-type: none"> ▪ 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. 	<ul style="list-style-type: none"> ▪ Incumbent board members and candidates explicitly supported by the company's management. ...
---	---

<p>Incumbent board members and candidates explicitly supported by the company's management.</p> <p>...</p>	
---	--

Rationale for Change:

In UAE, Saudi Arabia, Qatar, Jordan, and Egypt, it is a common practice to have between 20 to 30 nominees presented for re/election to a board which, in most cases, would generally only allow for the election of an 11-member board. Cumulative voting is a system that strengthens the ability of minority shareholders to elect board members. However, current disclosure practice results in discrepancies of information regarding incumbent and non-incumbent candidates and triggers scenarios in which some of the candidates may not be elected only because of shortcomings in the companies' disclosure forms. The assessment of independence and professional background can therefore be very challenging given the absence of reliable sources for the analysis of such information.

This policy update establishes a framework to abstain from such elections in the absence of sufficient information to allow a comprehensive analysis of all proposed board candidates on equal terms, due to the lack of reliable sources to establish the independence and professional experience of the director nominees. Whereas the Europe, Middle East & Africa Regional policy currently provides a clear framework for the analysis and vote recommendation on director elections proposals taking place under cumulative voting, this update provides a more relevant regional policy for UAE, Saudi Arabia, Qatar, Jordan, and Egypt, given the specificities of these markets regarding disclosure practices. The policy update may indirectly improve disclosure practices in the respective markets, as abstention votes for all candidates will likely raise greater awareness for the need of timely and detailed information about director nominees prior to a board election.

Compensation

European Guidelines

Executive Compensation-Related Proposals

Current Social Advisory Services Policy, incorporating changes:	New Social Advisory Services Policy:
<p>Social Advisory Services Recommendation:</p> <p>Social Advisory Services will evaluate management proposals seeking ratification of a company's executive compensation-related items on a case-by-case basis, and, where relevant, will take into account the European Pay for Performance (EP4P) model³ outcomes within a qualitative review of a company's remuneration practices. Social Advisory Services will generally recommend a vote against a company's compensation-related proposal if such proposal fails to comply with one or a combination of several of the global principles and their corresponding rules:</p> <p>...</p> <ul style="list-style-type: none"> ▪ Avoid arrangements that risk "pay for failure": <ul style="list-style-type: none"> ▪ The board shall demonstrate good stewardship of investor's interests regarding executive compensation practices (principle being supported by Pay for Performance Evaluation). <ul style="list-style-type: none"> ▪ There shall be a clear link between the company's performance and variable awards. ▪ There shall not be significant discrepancies between the company's performance and real executive payouts. ▪ The level of pay for the CEO and members of executive management should not be excessive relative to peers, company performance, and market practices. ▪ Significant pay increases shall be explained by a detailed and compelling disclosure. 	<p>Social Advisory Services Recommendation:</p> <p>Social Advisory Services will evaluate management proposals seeking ratification of a company's executive compensation-related items on a case-by-case basis, and, where relevant, will take into account the European Pay for Performance (EP4P) model³ outcomes within a qualitative review of a company's remuneration practices. Social Advisory Services will generally recommend a vote against a company's compensation-related proposal if such proposal fails to comply with one or a combination of several of the global principles and their corresponding rules:</p> <p>...</p> <ul style="list-style-type: none"> ▪ Avoid arrangements that risk "pay for failure": <ul style="list-style-type: none"> ▪ The board shall demonstrate good stewardship of investor's interests regarding executive compensation practices (principle being supported by Pay for Performance Evaluation). <ul style="list-style-type: none"> ▪ There shall be a clear link between the company's performance and variable awards. ▪ There shall not be significant discrepancies between the company's performance and real executive payouts. ▪ The level of pay for the CEO and members of executive management should not be excessive relative to peers, company performance, and market practices. ▪ Significant pay increases shall be explained by a detailed and compelling disclosure. ▪ Termination payments¹ must not be in excess of (i) 24 months' pay or of (ii) any more restrictive provision pursuant to local legal requirements and/or market best practices.

<ul style="list-style-type: none"> ▪ Severance pay agreements Termination payments¹ must not be in excess of (i) 24 months' pay or of (ii) any more restrictive provision pursuant to local legal requirements and/or market best practices. ▪ Arrangements with a company executive regarding pensions and post-mandate exercise of equity-based awards must not result in an adverse impact on shareholders' interests or be misaligned with good market practices. ▪ Maintain an independent and effective compensation committee: <ul style="list-style-type: none"> ▪ No executives may serve on the compensation committee. ▪ In certain markets the compensation committee shall be composed of a majority of independent members, as per Social Advisory Services policies on director election and board or committee composition. ▪ Compensation committees should use the discretion afforded them by shareholders to ensure that rewards properly reflect business performance². <p>...</p>	<ul style="list-style-type: none"> ▪ Arrangements with a company executive regarding pensions and post-mandate exercise of equity-based awards must not result in an adverse impact on shareholders' interests or be misaligned with good market practices. ▪ Maintain an independent and effective compensation committee: <ul style="list-style-type: none"> ▪ No executives may serve on the compensation committee. ▪ In certain markets the compensation committee shall be composed of a majority of independent members, as per Social Advisory Services policies on director election and board or committee composition. ▪ Compensation committees should use the discretion afforded them by shareholders to ensure that rewards properly reflect business performance². <p>...</p>
---	--

Rationale for Change:

Termination Benefits: This policy incorporates the definition of termination benefits provided by the recommendation on the regime for the remuneration of directors of listed companies issued by the European Commission on April 30, 2009. This definition clarifies that all benefits paid out to a departing executive are included in the severance package.

Use of discretion: The current Social Advisory Services Continental European policy does not cover the use of discretion by remuneration committees/boards. While not widespread in Continental Europe, the formalization of the use of discretion is beginning to appear in remuneration policies giving investors the necessary framework to assess the role and actions of the remuneration committee and/or board.

¹ Termination payments¹ means any payment linked to early termination of contracts for executive or managing directors, including payments related to the duration of a notice period or a non-competition clause included in the contract.

² In cases where a remuneration committee uses its discretion to determine payments, it should provide a clear explanation of its reasons, which are expected to be clearly justified by the financial results and the underlying performance of the company.

The remuneration committee should disclose how it has taken into account any relevant environmental, social, and governance (ESG) matters when determining remuneration outcomes. Such factors may include (but are not limited to): workplace fatalities and injuries, significant environmental incidents, large or serial fines or sanctions from regulatory bodies and/or significant adverse legal judgments or settlements.

It is relatively rare that a remuneration committee chooses to amend the targets used for either the annual bonus or the LTIP following the start of the performance period, but where this has occurred, it is good practice for the company to demonstrate how the revised targets are in practice no less challenging than the targets which were originally set.

As EU member states are implementing the second Shareholder Rights Directive that prescribes a vote on remuneration policies and reports, this proposal introduces the UK/IE policy's framework into the Continental European policy regarding remuneration discretion, including a new section on disclosure of significant environmental, social, and governance risks that were factored into remuneration decisions. In recent years, there have been a number of cases where the remuneration committee has not disclosed how it has taken into account ESG risks or controversies. Like financial performance, it is expected that these matters will be reflected in the remuneration outcome when relevant, and if they are not disclosed but the company has had significant adverse legal judgments or settlements related to ESG matters, that a sufficient explanation is provided.

Equity-Based Compensation Guidelines: Employee Share Purchase Plans

Current Social Advisory Services Policy, incorporating changes:	New Social Advisory Services Policy:
<p>Social Advisory Services Recommendation:</p> <p>Generally vote for employee stock purchase plans if the number of shares allocated to the plan is 10 percent or less of the company's issued share capital.</p>	<p>Social Advisory Services Recommendation:</p> <p>Generally vote for employee stock purchase plans if the number of shares allocated to the plan is 10 percent or less of the company's issued share capital.</p>

Rationale for Change:

This change introduces a policy on authorization to issue shares reserved for saving-related plans for employees, filling a policy vacuum by implementing a rule that is applied in the U.S. market.

Equity-Based Compensation Guidelines: Compensation-Related Voting Sanctions

Current Social Advisory Services Policy, incorporating changes:	New Social Advisory Services Policy:
<p>Social Advisory Services Recommendation:</p> <p>Should a company be deemed to have egregious remuneration practices (as a result of one or a combination of several factors highlighted above) and has not followed market practice by submitting a resolution on executive compensation, vote against other "appropriate" resolutions as a mark of discontent against such practices:</p> <ul style="list-style-type: none"> • To have egregious remuneration practices; • To have failed to follow market practice by not submitting expected resolutions on executive compensation; or 	<p>Social Advisory Services Recommendation:</p> <p>Should a company be deemed:</p> <ul style="list-style-type: none"> • To have egregious remuneration practices; • To have failed to follow market practice by not submitting expected resolutions on executive compensation; or • To have failed to respond to significant shareholder dissent on remuneration-related proposals; <p>an adverse vote recommendation could be applied to any of the following on a case-by case basis:</p>

<p> ▪ To have failed to respond to significant shareholder dissent on remuneration-related proposals; An adverse vote recommendation could be applied to any of the following on a case-by case basis: <ul style="list-style-type: none"> ▪ The (re)election of the chair of the remuneration committee or, where relevant, any other members of the remuneration committee; ▪ The reelection of the board chair; ▪ The discharge of directors; or ▪ The annual report and accounts. Failure to propose a resolution on executive compensation to shareholders in a market where this is routine practice may, by itself, lead to one of the above adverse vote recommendations regardless of the companies' remuneration practices. This recommendation could be made in addition to other adverse recommendations under existing remuneration proposals (if any). </p>	<ul style="list-style-type: none"> ▪ The reelection of the chair of the remuneration committee or, where relevant, any other members of the remuneration committee; ▪ The reelection of the board chair; ▪ The discharge of directors; or ▪ The annual report and accounts. <p>This recommendation could be made in addition to other adverse recommendations under existing remuneration proposals (if any).</p>
---	---

Rationale for Change:

The EU 2017/828 directive on shareholder rights requires companies in all European markets to submit the executives' remuneration policy and the remuneration report to shareholder vote. It also introduces mandatory board responsiveness by requiring companies to disclose how the vote on the remuneration report was taken into account. Considering that say-on-pay votes will now be consistently submitted throughout the markets of the European Union, and that the revised directive extended board responsiveness to any vote (vs. previously: only in cases of "against" votes), it is now deemed market practice to consider shareholders' views on remuneration proposals.

This policy update addresses instances where a significant percentage of shareholders are systematically expressing dissent on pay issues with no reaction from the company or no visible change in the company's practices. It allows Social Advisory Services to ultimately hold the remuneration committee chair (or members, as the case may be) accountable for a lack of responsiveness on controversial pay issues when the shareholder vote has not been considered.

We empower investors and companies to build for long-term and sustainable growth by providing high-quality data, analytics, and insight.

GET STARTED WITH ISS SOLUTIONS

Email sales@issgovernance.com or visit [issgovernance.com](https://www.issgovernance.com) for more information.

Founded in 1985, the Institutional Shareholder Services group of companies ("ISS") is the world's leading provider of corporate governance and responsible investment solutions alongside fund intelligence and services, events, and editorial content for institutional investors, globally. ISS' solutions include objective governance research and recommendations; responsible investment data, analytics, and research; end-to-end proxy voting and distribution solutions; turnkey securities class-action claims management (provided by Securities Class Action Services, LLC); reliable global governance data and modeling tools; asset management intelligence, portfolio execution and monitoring, fund services, and media. Clients rely on ISS' expertise to help them make informed investment decisions.

This document and all of the information contained in it, including without limitation all text, data, graphs, and charts (collectively, the "Information") is the property of

Institutional Shareholder Services Inc. (ISS), its subsidiaries, or, in some cases third party suppliers.

The Information has not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body. None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), or a promotion or recommendation of, any security, financial product or other investment vehicle or any trading strategy, and ISS does not endorse, approve, or otherwise express any opinion regarding any issuer, securities, financial products or instruments or trading strategies.

The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information.

ISS MAKES NO EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION AND EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY, AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.

Without limiting any of the foregoing and to the maximum extent permitted by law, in no event shall ISS have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits), or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not by applicable law be excluded or limited.

© 2019 | Institutional Shareholder Services and/or its affiliates