



PROPOSED BENCHMARK POLICY CHANGES FOR 2020



Request for Feedback

Comment Period: Oct. 7 through Oct. 18, 2019

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Introduction

Institutional Shareholder Services Inc. announces the launch of its benchmark voting policy comment period. The open comment period, which will solicit views from governance stakeholders globally on a number of proposed voting policy changes for 2020, will run for two weeks, from October 7 through 5:00 p.m. ET on October 18.

To ensure ISS benchmark voting policy changes take into consideration a broad range of perspectives, including the views of institutional investors globally and those of the broader corporate governance community, ISS gathers input each year from asset owners and managers, companies, and other market constituents through a variety of channels and mediums. Following the release in recent weeks of the results of its 2019 global policy survey, ISS is now making available for public comment a number of proposed changes to ISS' benchmark voting policies for 2020, in draft form.

Through the comment period, ISS is requesting feedback from all interested market constituents on 17 proposed new policies or potential policy changes.

Comments received will be considered as ISS finalizes the updates to its benchmark voting policies to be applied for shareholder meetings taking place on or after Feb 1, 2020. ISS expects to announce its final 2020 benchmark policy changes during the first half of November.

To submit comments, please send via email to policy@issgovernance.com. Please indicate your name and organization. **All comments received will be published as received, unless otherwise requested in the body of the email submission.**

ISS welcomes comments on the following general questions for all proposed policy changes:

- ▶ **Question:** Do you support the proposed policy change?
- ▶ **Question:** Do you have any concerns with the proposed policy change?
- ▶ **Question:** If the change contemplates ISS making adverse vote recommendations, are they targeted appropriately?
- ▶ **Question:** If the change contemplates ISS making adverse vote recommendations, what mitigating factors should be considered?
- ▶ **Question:** Are there any other factors that ISS should consider when contemplating the proposed policy change?

United States

Problematic Governance Structure - Newly Public Companies

Current ISS Policy, incorporating proposed changes:	Proposed ISS Policy:
<p>Problematic Governance Structure - Newly public companies: For newly public companies¹, generally vote against or withhold from directors individually, committee members, or the entire board (except new nominees, who should be considered case-by-case) if, prior to or in connection with the company's public offering, the company or its board adopted the following bylaw or charter provisions that are considered to be materially adverse to shareholder rights, or implemented a multi-class capital structure in which the classes have unequal voting rights considering the following factors:</p> <ul style="list-style-type: none"> ▪ The level of impairment of shareholders' rights; ▪ The disclosed rationale; ▪ The ability to change the governance structure (e.g., limitations on shareholders' right to amend the bylaws or charter, or Supermajority vote requirements to amend the bylaws or charter); ▪ The ability of shareholders to hold directors accountable through annual director elections, or whether the board has a A classified board structure; or ▪ Other egregious provisions. ▪ Any reasonable sunset provision, and ▪ Other relevant factors <p>A reasonable sunset provision will be considered a mitigating factor.</p> <p>Unless the adverse provision and/or problematic capital structure is reversed or removed, vote case-by-case on director nominees in subsequent years.</p> <p>Problematic Capital Structure - Newly public companies: For newly public companies, generally vote against or withhold from the entire board (except new nominees, who should be considered case-by-case) if, prior to or in connection with the company's public offering, the company or its board implemented a</p>	<p>Problematic Governance Structure - Newly public companies: For newly public companies¹, generally vote against or withhold from directors individually, committee members, or the entire board (except new nominees, who should be considered case-by-case) if, prior to or in connection with the company's public offering, the company or its board adopted bylaw or charter provisions that are considered to be materially adverse to shareholder rights, considering the following factors:</p> <ul style="list-style-type: none"> ▪ Supermajority vote requirements to amend the bylaws or charter; ▪ A classified board structure; or ▪ Other egregious provisions. <p>A reasonable sunset provision will be considered a mitigating factor.</p> <p>Unless the adverse provision is reversed or removed, vote case-by-case on director nominees in subsequent years.</p> <p>Problematic Capital Structure - Newly public companies: For newly public companies, generally vote against or withhold from the entire board (except new nominees, who should be considered case-by-case) if, prior to or in connection with the company's public offering, the company or its board implemented a multi-class capital structure in which the classes have unequal voting rights without subjecting the multi-class capital structure to a reasonable time-based</p>

<p>multi-class capital structure in which the classes have unequal voting rights without subjecting the multi-class capital structure to a reasonable time-based sunset. In assessing the reasonableness of a time-based sunset provision, consideration will be given to the company’s lifespan, its post-IPO ownership structure and the board’s disclosed rationale for the sunset period selected. No sunset period of more than seven years from the date of the IPO will be considered to be reasonable.</p> <p>Continue to vote against or withhold from incumbent directors in subsequent years, unless the problematic capital structure is reversed or removed.</p> <p>¹ Newly public companies generally include companies that emerge from bankruptcy, spin-offs, direct listings, and those who complete a traditional initial public offering.</p>	<p>sunset. In assessing the reasonableness of a time-based sunset provision, consideration will be given to the company’s lifespan, its post-IPO ownership structure and the board’s disclosed rationale for the sunset period selected. No sunset period of more than seven years from the date of the IPO will be considered to be reasonable.</p> <p>Continue to vote against or withhold from incumbent directors in subsequent years, unless the problematic capital structure is reversed or removed.</p> <p>¹ Newly public companies generally include companies that emerge from bankruptcy, spin-offs, direct listings, and those who complete a traditional initial public offering.</p>
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Rationale for Proposed Change:

Background

The prevalence of multi-class capital structure companies with disparate voting rights has grown among newly-listed entities in the U.S. over the past several years. According to ISS data, in 2018, 14 percent of newly public companies included such a capital structure. Moreover, in each of the past four years, at least 10 percent of newly-public companies had dual class capital structures with unequal voting rights in place when they went public. Overall, approximately seven percent of Russell 3000 companies currently have a multi-class capital structure in place.

Companies that choose to come public with a multi-class capital structure may have provisions written into their charters to provide for a sunset of such structures and a switch to a one-share, one-vote structure. Most of these sunsets are either based upon an ownership trigger, or a time-based trigger. Alternatively, some multi-class companies may not provide for any sunset to the structure. According to figures by the Council of Institutional Investors, 23 companies had an Initial Public Offering in 2017 with a dual-class structure, with 15 in 2018, and 15 in the first half of 2019. Of these, only six of the IPO companies in 2017 had a time-based sunset, with five in 2018, and four so far in 2019. Time-based sunset requirements over this time period vary from as short as three years to as long as 10 years.

Investor sentiment varies regarding the use of multi-class share structures in principle, and the appropriate mechanism for unwinding them. One academic study indicates that benefits attributed to multi-class structures dissipate over time, which strengthens the case for sunset mechanisms.¹ Another study found that not only did valuation premiums for dual-class structure companies dissipate over time, they actually turned to discounts within six to nine years after the IPO.² According to ISS’ 2019 Global Policy Survey, for U.S. companies, ISS asked investors whether a time-based sunset requirement of no more than seven years was seen as appropriate. For those who provided an answer to the question, 55 percent of investor respondents agreed that a maximum seven-year sunset is appropriate.

¹ Lucian Bebchuck, Kobi Kastiel – *The Untenable Case for Perpetual Dual-Class Stock*

² Martijn Cremers, Beni Lauterbach, and Anete Pajuste – *The Life Cycle of Dual-Class Firms*

Intent and Impact

The proposed update is intended to provide clarity on policy application at newly-public companies by creating two distinct policies to address (1) problematic governance provisions and (2) multi-class capital structures with unequal voting rights. The change specifically creates a policy to address problematic capital structures at newly-public companies and provides a framework for addressing acceptable sunset structures. In line with the current implementation of the policy, the proposed update also clarifies and narrows the focus of the policy to certain highly problematic governance structures.

The impact of the proposed policy update on ISS' recommendations on directors is likely to be minimal. Some IPO companies with multi-class structures may choose to put in place reasonable time-based sunset requirements, but if these companies also elect to go public with classified boards and supermajority vote requirements to amend the governing documents, adverse vote recommendations on directors would still be issued under the existing IPO governance policy. As such, the proposed change is not expected to significantly lower the overall rate of adverse recommendations. On the other hand, it may be possible under the revised policy for an IPO company to receive no adverse recommendations if it has a reasonable time-based sunset on its dual class structure and provides for an annually elected board and has no supermajority vote requirements in place.

Independent Board Chair – Shareholder Proposals

Current ISS Policy, incorporating proposed changes:	Proposed ISS Policy:
<p>General Recommendation: Generally vote for shareholder proposals requiring that the board chair^{man's} position be filled by an independent director, taking into consideration the following:</p> <ul style="list-style-type: none"> ▪ The scope and rationale of the proposal; ▪ The company's current board leadership structure; ▪ The company's governance structure and practices; ▪ Company performance; and ▪ Any other relevant factors that may be applicable. <p>The following factors will increase the likelihood of a FOR recommendation:</p> <ul style="list-style-type: none"> ▪ A weak or poorly defined lead independent director role that fails to serve as an appropriate counterbalance to a combined CEO/chair role; ▪ The presence of an executive or non-independent chair in addition to the CEO; a recent recombination of the role of CEO and chair; and/or departure from a structure with an independent chair. ▪ Evidence that the board has failed to oversee and address material risks facing the company; 	<p>General Recommendation: Generally vote for shareholder proposals requiring that the board chair position be filled by an independent director, taking into consideration the following:</p> <ul style="list-style-type: none"> ▪ The scope and rationale of the proposal; ▪ The company's current board leadership structure; ▪ The company's governance structure and practices; ▪ Company performance; and ▪ Any other relevant factors that may be applicable. <p>The following factors will increase the likelihood of a FOR recommendation:</p> <ul style="list-style-type: none"> ▪ A weak or poorly defined lead independent director role that fails to serve as an appropriate counterbalance to a combined CEO/chair role; ▪ The presence of an executive or non-independent chair in addition to the CEO, a recent recombination of the role of CEO and chair, and/or departure from a structure with an independent chair; ▪ Evidence that the board has failed to oversee and address material risks facing the company;

<ul style="list-style-type: none"> ▪ A material governance failure, particularly if the board has failed to adequately respond to shareholder concerns or if the board has materially diminished shareholder rights; or ▪ Evidence that the board has failed to intervene when management’s interests are contrary to shareholders’ interests. <p>Regarding the scope of the proposal, consider whether the proposal is precatory or binding and whether the proposal is seeking an immediate change in the chairman role or the policy can be implemented at the next CEO transition.</p> <p>Under the review of the company's board leadership structure, ISS may support the proposal under the following scenarios absent a compelling rationale: the presence of an executive or non-independent chair in addition to the CEO; a recent recombination of the role of CEO and chair; and/or departure from a structure with an independent chair. ISS will also consider any recent transitions in board leadership and the effect such transitions may have on independent board leadership as well as the designation of a lead director role.</p> <p>When considering the governance structure, ISS will consider the overall independence of the board, the independence of key committees, the establishment of governance guidelines, board tenure and its relationship to CEO tenure, and any other factors that may be relevant. Any concerns about a company's governance structure will weigh in favor of support for the proposal.</p> <p>The review of the company's governance practices may include, but is not limited to, poor compensation practices, material failures of governance and risk oversight, related party transactions or other issues putting director independence at risk, corporate or management scandals, and actions by management or the board with potential or realized negative impact on shareholders. Any such practices may suggest a need for more independent oversight at the company thus warranting support of the proposal.</p> <p>ISS' performance assessment will generally consider one-, three-, and five-year TSR compared to the company's peers and the market as a whole. While poor performance will weigh in favor of the adoption of an independent chair policy,</p>	<ul style="list-style-type: none"> ▪ A material governance failure, particularly if the board has failed to adequately respond to shareholder concerns or if the board has materially diminished shareholder rights; or ▪ Evidence that the board has failed to intervene when management’s interests are contrary to shareholders’ interests.
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~~strong performance over the long term will be considered a mitigating factor when determining whether the proposed leadership change warrants support.~~

Rationale for Proposed Change:

Background

Calls for independent board chairs remain among the most common type of shareholder proposal offered for consideration at U.S. companies’ annual general meetings. ISS periodically includes questions related to this topic in its annual policy surveys – including both the 2018 and 2019 surveys – to keep abreast of evolving investor viewpoints and to refine its policy in relation to which factors to emphasize when analyzing these proposals. According to ISS’ 2019 Global Policy Survey, for U.S. companies, investors strongly favored incorporating factors such as poor responsiveness to shareholder concerns and risk oversight failures.

Intent and Impact

The proposed update largely codifies the existing ISS policy application. While ISS would maintain a holistic approach to evaluating these proposals, the proposed policy now explicitly states the types of factors that will be given substantial weight. Identification of such factors will generally result in ISS recommending support for these proposals. The overview of how ISS will analyze the scope and rationale of the proposal, the company’s current board leadership structure, the company’s governance structure and practices, company performance, and the overriding factors will be updated and subsequently relocated to ISS’ Policy FAQ document. The impact of the proposed update on ISS’ vote recommendations on shareholder proposals seeking an independent board chair is indeterminate at this time.

Specific question for this proposed change:

▶ **Question:** What other factors would your organization consider, if any, that should be taken into account and may increase the likelihood of supporting a shareholder proposal calling for an independent chair?

Share Repurchase Program Proposals

Current ISS Policy, incorporating proposed changes:	Proposed ISS Policy:
<p>General Recommendation: Vote for management proposals to institute open-market share repurchase plans in which all shareholders may participate on equal terms, or to grant the board authority to conduct open-market repurchases, in the absence of company-specific concerns regarding:</p> <ul style="list-style-type: none"> ▪ Greenmail, ▪ The use of buybacks to inappropriately manipulate incentive compensation metrics, 	<p>General Recommendation: Vote for management proposals to institute open-market share repurchase plans in which all shareholders may participate on equal terms, or to grant the board authority to conduct open-market repurchases, in the absence of company-specific concerns regarding:</p> <ul style="list-style-type: none"> ▪ Greenmail, ▪ The use of buybacks to inappropriately manipulate incentive compensation metrics,

<ul style="list-style-type: none"> ▪ Threats to the company's long-term viability, or ▪ Other company-specific factors as warranted. <p>Vote case-by-case on proposals to repurchase shares directly from specified shareholders, balancing the stated rationale against the possibility for the repurchase authority to be misused, such as to repurchase shares from insiders at a premium to market price.</p>	<ul style="list-style-type: none"> ▪ Threats to the company's long-term viability, or ▪ Other company-specific factors as warranted. <p>Vote case-by-case on proposals to repurchase shares directly from specified shareholders, balancing the stated rationale against the possibility for the repurchase authority to be misused, such as to repurchase shares from insiders at a premium to market price.</p>
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Rationale for Proposed Change:

Background

While most U.S. companies can and do implement share buyback programs via board resolutions without shareholder votes, there are exceptions to this rule. Certain financial institutions, for example, are required by their regulators to receive shareholder approval for buyback programs. In addition, certain U.S.-listed cross-market companies are required by the law of their country of incorporation to receive shareholder approval to grant the board the authority to repurchase shares. While some buyback critics express concerns that boards may authorize repurchases at the expense of R&D, CapEx or worker pay, shareholders generally support the use of buybacks as a way of returning cash without creating an immediate taxable event for shareholders who retain their shares, and as a form of market discipline to reduce the likelihood of uneconomic investments and empire-building acquisitions. The revised policy would provide safeguards against (1) the use of targeted share buybacks as greenmail or to reward company insiders by purchasing their shares at a price higher than they could receive in an open market sale, (2) the use of buybacks to boost EPS or other compensation metrics to increase payouts to executives or other insiders, and 3) repurchases that threaten a company's long-term viability (or a bank's capitalization level). In the absence of these abusive practices, support will generally be warranted for a grant of authority to the board to engage in a buyback.

Intent and Impact

This proposed policy update codifies the existing ISS approach, particularly with respect to the rare cases in which an "against" recommendation may be warranted. It is intended that this policy will apply to U.S. Domestic Issuers (DEF 14 filers) listed solely in the U.S., regardless of their country of incorporation. The proposed policy change may result in an increase in "FOR" recommendations at cross-market companies, as U.S. policy reflects the fact that U.S. shareholders are generally supportive of share buybacks if there is no specific cause for concern and are not accustomed to voting on the details of a buyback plan such as the number of shares, duration of the authority or maximum purchase price, as these are generally left to the board's discretion at most U.S. companies.

Specific question for this proposed change:

 **Question:** For companies solely listed in the U.S., would your organization consider other factors in determining whether or not to support a share buyback proposal (for example, the potential magnitude of the buyback as a percentage of outstanding shares, the duration of the authority, or maximum purchase price)? If yes, please specify.

Americas Regional and Brazil

Indemnification Proposals

Current ISS Policy, incorporating proposed changes:	Proposed ISS Policy:
<p>General Recommendation: Vote for proposals seeking indemnification and liability protection for company's directors, officers, and/or fiscal council members and employees directors and officers on a case-by-case basis.</p> <p>As part of the analysis, ISS will consider the company's disclosure regarding terms including, but not limited to, the following:</p> <ul style="list-style-type: none"> ▪ Safeguards to prevent potential conflict of interests, including the independence of the decision-making process for approval of indemnification coverage; ▪ The disclosure of a publicly-available, board approved indemnification policy; ▪ Clear description of acts and events that can and cannot be covered by the indemnity policy or contract; ▪ Information regarding potential financial impact of the indemnity policy or contracts to the company; ▪ Eligible beneficiaries of the policy, including the length of the post-employment period that will be covered by the policy or contract; ▪ Treatment of indemnity payments already made in the event of a final irreversible court ruling has determined that associated actions were outside the scope of indemnification coverage. <p>Vote against proposals to that would:</p> <ul style="list-style-type: none"> ▪ Allow indemnity coverage for current and/or former director, officers, and/or fiscal council members who have entered into leniency agreements with the country's authorities in the context of corruption investigations; ▪ Allow indemnity coverage of acts committed outside the normal exercise of duties of the administrator, acts performed in bad faith, malice, or fraud, or acts committed in detriment of the company's best interest; and ▪ Indemnify external auditors. 	<p>General Recommendation: Vote proposals seeking indemnification and liability protection for company's directors, officers, and/or fiscal council members and employees on a case-by-case basis.</p> <p>As part of the analysis, ISS will consider the company's disclosure regarding terms including, but not limited to, the following:</p> <ul style="list-style-type: none"> ▪ Safeguards to prevent potential conflict of interests, including the independence of the decision-making process for approval of indemnification coverage; ▪ The disclosure of a publicly-available, board approved indemnification policy; ▪ Clear description of acts and events that can and cannot be covered by the indemnity policy or contract; ▪ Information regarding potential financial impact of the indemnity policy or contracts to the company; ▪ Eligible beneficiaries of the policy, including the length of the post-employment period that will be covered by the policy or contract; ▪ Treatment of indemnity payments already made in the event of a final irreversible court ruling has determined that associated actions were outside the scope of indemnification coverage. <p>Vote against proposals that would:</p> <ul style="list-style-type: none"> ▪ Allow indemnity coverage for current and/or former director, officers, and/or fiscal council members who have entered into leniency agreements with the country's authorities in the context of corruption investigations; ▪ Allow indemnity coverage of acts committed outside the normal exercise of duties of the administrator, acts performed in bad faith, malice, or fraud, or acts committed in detriment of the company's best interest; and ▪ Indemnify external auditors.

Rationale for Proposed Change:

Background

Over the last few years, an increasing number of companies in Brazil have sought shareholder approval to establish indemnity provisions as the cost of civil liability insurance for directors and officers (D&O insurance), previously the most commonly used mechanism in Brazil for the protection of "administrators", has increased in light of ongoing and widespread corruption investigations. In response to the evolving market practices, the Brazilian Securities Regulator (CVM) issued two guidance documents (in 2016 and 2018) on indemnification practices, in the absence of hard laws regulating such practice.

Egregious governance practices have been seen in the Brazilian market and companies that have admitted to corrupt practices and entered into leniency agreements with Brazilian authorities have sought shareholder approval to indemnify former administrators who allegedly had knowledge of, or were involved in, some of the corruption activities and have collaborated with investigators.

Indemnity proposals present potential conflicts-of-interest, as company's directors can also be the beneficiaries of such coverage.

According to ISS' 2019 Global Policy Survey, both investor and non-investor respondents said the existence of a publicly-available, board-approved indemnification policy is considered a critical factor for companies that hope to address and mitigate potential concerns when seeking shareholder approval of indemnification related proposals. Other important factors cited by the survey respondents were the disclosure of information regarding the financial impact of such provisions and the disclosure of the decision-making process for approving such coverage.

Intent and Impact

The proposed policy update provides greater clarity on the analytical framework for indemnity proposals, which have become more prevalent in the Brazilian market on the heels of multiple ongoing corruption investigations. The previous Brazil Proxy Voting Guidelines and Americas Regional Guidelines stated a case-by-case vote recommendation for such proposals. The proposed policy update codifies the existing framework and clarifies the recommended disclosure of key terms to allow shareholders to make well-informed voting decisions. While the proposed policy update maintains the case-by-case analysis, it would provide additional information on the factors that would be considered in the analysis of such proposals. The proposed update is not expected to significantly impact ISS' vote recommendations for indemnification proposals.

Continental Europe

Director Terms

Current ISS Policy, incorporating proposed changes:	Proposed ISS Policy:
<p>Director Terms</p> <p>For Belgium, France, Greece, 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 non-compliance has not been provided. 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, ISS 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, ISS 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>Director Terms</p> <p>For Belgium, France, Greece, 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 non-compliance has not been provided. 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, ISS 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, ISS 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 Proposed Change:

Background

In Europe as with many other markets, director elections are one of the most important voting decisions of shareholders. 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 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 are 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. So, 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)
Three years:	Italy	(no code recommendation, but legal limit)
Four years:	France, Spain, Netherlands, Belgium, Greece	(recommended by Corp Gov Code, except for Spain where legal limit)
Five years:	Germany, Austria	(no code recommendation, but legal limit)

The current maximum in ISS' European proxy voting guidelines is four years, although only for five markets where the local 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, ISS currently recommends in favor of five-year board terms in these two markets.

Intent and Impact

The proposed 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 proposed 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 proposed policy indicates that beyond 2021, as directors should be accountable to shareholders on a more regular basis, ISS may consider moving to maximum board terms of less than four years in the future. Currently, only two German DAX 30 companies have board terms of less than five years. If German and Austrian companies continue to propose five-year terms and do not change their approach, the impact of this proposed policy change would be significant for ISS recommendations against director elections in these two markets when the policy goes into effect in 2021.

Board Gender Diversity

Current ISS Policy, incorporating proposed changes:	Proposed ISS Policy:
<p>2. BOARD OF DIRECTORS</p> <p>Non-Contested Director Elections</p> <p>XIII. Diversity</p> <p>Diversity: In terms of gender diversity, [supervisory] boards should adhere to domestic legal requirements or local best market practices or, in the absence thereof, be in line with European established practice.</p> <p>Generally vote against the chair of the nomination committee (or other directors on a case-by-case basis) when there are no female directors on the board of a widely-held company. Mitigating factors may be:</p> <ul style="list-style-type: none"> ▪ The presence of a female director on the board at the preceding annual meeting and a firm commitment, publicly available, to appoint at least one woman director to the board within a year; or ▪ Other relevant factors as applicable. 	<p>2. BOARD OF DIRECTORS</p> <p>Non-Contested Director Elections</p> <p>XIII. Diversity</p> <p>Diversity: In terms of gender diversity, [supervisory] boards should adhere to domestic legal requirements or local best market practices or, in the absence thereof, be in line with European established practice.</p> <p>Generally vote against the chair of the nomination committee (or other directors on a case-by-case basis) when there are no female directors on the board of a widely-held company. Mitigating factors may be:</p> <ul style="list-style-type: none"> ▪ The presence of a female director on the board at the preceding annual meeting and a firm commitment, publicly available, to appoint at least one woman director to the board within a year; or ▪ Other relevant factors as applicable.

Rationale for Proposed Change:

Background

Gender diversity at the board level has become the norm at companies traditionally associated with having better governance practices in Europe. The norms differ by country, but overall, ISS has observed an increase in gender diversity on boards, initially spurred by different forms of requirements from market regulators or legislators. Despite the fact that the European Commission's plan to introduce a minimum 40 percent female quota did not pass in 2012, in the following years individual countries have implemented various levels of guidance (as best practice provision or hard law requirement) to ensure boards would become more diverse in terms of gender. In countries like Austria, Belgium, France, Germany, Italy, Netherlands, Norway, Portugal, and United Kingdom, such guidance already exists. Although in countries like Denmark, Finland, Sweden, and Switzerland there are no specific guidelines on gender diverse board composition, the local code of best practice recommends that the board is sufficiently diverse and consists of male and female directors.

According to the results of ISS' 2019 Global Policy Survey, responses to ISS' question about the importance of gender diversity on boards showed that majorities of both investors and non-investors agreed with the view that board gender diversity is an essential attribute of effective board governance regardless of the company or its market.

Intent and Impact

Based on the foregoing, having a gender diverse board has become the norm and in a large number of countries even legally binding. When looking at the current average gender diversity on European boards, it is clear that increased gender diversity is the norm. Female representation on the board averages approximately 30 percent in Europe. Moreover, the number of companies with a board with no female representation is now a small minority at six percent.

Please also see the [related proposed policy change](#) for the UK and Ireland below.

Remuneration Committee Responsiveness

Current ISS Policy, incorporating proposed changes:	Proposed ISS Policy:
<p>General Recommendation: Should a company be deemed:</p> <ul style="list-style-type: none"> ▪ To have egregious remuneration practices (which has led to a negative recommendation on a given remuneration proposal, as a result of one or a combination of several factors highlighted above); ▪ and has not 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>vote against other "appropriate" resolutions as a mark of discontent against such practices.</p> <p>In addition to the recommendation under a given remuneration proposal (if any), an adverse vote recommendation could be applied, to any of the following on a case-by case basis:</p> <ol style="list-style-type: none"> 1. The reelection of the chair of the remuneration committee or, where relevant, any other members of the remuneration committee; 	<p>General Recommendation: 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>In addition to the recommendation under a given remuneration proposal (if any), an adverse vote recommendation could be applied, to any of the following on a case-by case basis:</p> <ol style="list-style-type: none"> 1. The reelection of the chair of the remuneration committee or, where relevant, any other members of the remuneration committee; 2. The reelection of the board chair;

Redlined = deleted; green = added

<p>2. The reelection of the board chair;</p> <p>23. The discharge of directors; or</p> <p>34. The annual report and accounts.</p> <p>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.</p>	<p>3. The discharge of directors; or</p> <p>4. The annual report and accounts.</p>
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Rationale for Proposed Change:

Background

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.

According to the results of ISS' 2019 Global Policy Survey regarding board responsiveness to remuneration proposals in Europe, a majority of both investor and non-investor respondents indicated that boards should take steps to be responsive to shareholders' concerns as expressed by low support to the remuneration proposal (even if the proposal passes), and report feedback to shareholders.

Intent and Impact

This proposed 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 ISS 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. The proposed update aligns the Continental European policy with the ISS UK/Ireland policy. The application of the proposed policy would remain on a case-by-case basis. Therefore, the impact on ISS' vote recommendations would remain limited.

Use of Discretion by Remuneration Committees

Current ISS Policy, incorporating proposed changes:	Proposed ISS Policy:
<p>General Recommendation: ISS 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 Model outcomes within a qualitative review of a company's remuneration practices. ISS 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> <p>4. Maintain an independent and effective compensation committee:</p> <p>4.1. No executives may serve on the compensation committee.</p> <p>4.2. In certain markets the compensation committee shall be composed of a majority of independent members, as per ISS policies on director election and board or committee composition.</p> <p>4.3. Compensation committees should use the discretion afforded them by shareholders to ensure that rewards properly reflect business performance¹.</p> <p>---</p> <p>¹ 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.</p> <p>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.</p>	<p>General Recommendation: ISS 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 Model outcomes within a qualitative review of a company's remuneration practices. ISS 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> <p>4. Maintain an independent and effective compensation committee:</p> <p>4.1. No executives may serve on the compensation committee.</p> <p>4.2. In certain markets the compensation committee shall be composed of a majority of independent members, as per ISS policies on director election and board or committee composition.</p> <p>4.3. Compensation committees should use the discretion afforded them by shareholders to ensure that rewards properly reflect business performance¹.</p> <p>---</p> <p>¹ 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.</p> <p>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.</p>

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.

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.

Rationale for Proposed Change:

Background

The current 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/board.

Intent and Impact

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 regarding remuneration discretion into the Continental European policy, 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, and if not, that a sufficient explanation is provided.

Please also see the [related proposed policy change](#) for the UK and Ireland below.

UK & Ireland

Board Gender Diversity

Current ISS Policy, incorporating proposed changes:	Proposed ISS Policy:
<p>2. BOARD OF DIRECTORS</p> <p>Director Elections</p> <p>Gender Diversity</p> <p>The 2018 UK Corporate Governance Code notes that both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.</p> <p>Generally vote against the chair of the nomination committee (or other directors on a case-by-case basis) when there are no female directors on the board of widely-held companies. Mitigating factors include:</p> <ul style="list-style-type: none"> ▪ The presence of a female director on the board at the preceding annual meeting and a firm commitment, publicly available, to appoint at least one woman director to the board within a year; or ▪ Other relevant factors as applicable. 	<p>2. BOARD OF DIRECTORS</p> <p>Director Elections</p> <p>Gender Diversity</p> <p>The 2018 UK Corporate Governance Code notes that both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.</p> <p>Generally vote against the chair of the nomination committee (or other directors on a case-by-case basis) when there are no female directors on the board of widely-held companies. Mitigating factors include:</p> <ul style="list-style-type: none"> ▪ The presence of a female director on the board at the preceding annual meeting and a firm commitment, publicly available, to appoint at least one woman director to the board within a year; or ▪ Other relevant factors as applicable.

Rationale for Proposed Change:

Background

Gender diversity at the board level has become the norm at companies traditionally associated with having better governance practices in Europe and the UK. The advantages of a diverse board are well established and promotion of diversity on UK boards is a part of mainstream conversation now. The Davies Review, launched in 2011, recommended that FTSE 100 boards should aim for a minimum of 25 percent female representation by 2015. In 2016, the Hampton-Alexander Review built on the success of the voluntary business-led approach of the Davies Review for Women on Boards, and recommended that FTSE 350 Companies should comprise 33

percent women by 2020. For FTSE 100 Index constituents, the scope was also extended to include Executive Committees and the Direct Reports to the Executive Committee. In 2017, the Review extended the 33 percent target for Executive Committee and the Direct Reports to the Executive Committee to the FTSE 250. The 2018 UK Corporate Governance Code notes that both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

Intent and Impact

The proposed new policy focuses on any publicly listed companies that have lagged behind in appointing even a single female director to the board. The proposed approach largely aligns with the ISS U.S. and proposed Continental European approaches, ensuring further global consistency. The proposed policy is expected to impact approximately 10 to 15 companies within the FTSE All-Share Index universe.

Use of Discretion by Remuneration Committees

Current ISS Policy, incorporating proposed changes:	Proposed ISS Policy:
<p>General Recommendation: Vote the resolution to approve the remuneration report on a case-by-case approach, where relevant taking into account the European Pay for Performance model outcomes with the qualitative review of a company's remuneration practices, paying particular attention as to whether:</p> <ul style="list-style-type: none"> ▪ Any increases, either to fixed or variable remuneration, for the year under review or the upcoming year were well-explained and not excessive; ▪ The bonus received and/or the proportion of the LTIP which vested was a fair reflection of the performance achieved; ▪ Performance targets are measured over an appropriate period and are sufficiently stretching; ▪ Targets for the bonus or the LTIP are disclosed in an appropriate level of detail; ▪ Any exit payments to good leavers were reasonable, with appropriate pro-rating (if any) applied to outstanding long-term share awards; ▪ Any special arrangements for new joiners were in line with good market practice; ▪ The remuneration committee exercised discretion appropriately; and 	<p>General Recommendation: Vote the resolution to approve the remuneration report on a case-by-case approach, where relevant taking into account the European Pay for Performance model outcomes with the qualitative review of a company's remuneration practices, paying particular attention as to whether:</p> <ul style="list-style-type: none"> ▪ Any increases, either to fixed or variable remuneration, for the year under review or the upcoming year were well-explained and not excessive; ▪ The bonus received and/or the proportion of the LTIP which vested was a fair reflection of the performance achieved; ▪ Performance targets are measured over an appropriate period and are sufficiently stretching; ▪ Targets for the bonus or the LTIP are disclosed in an appropriate level of detail; ▪ Any exit payments to good leavers were reasonable, with appropriate pro-rating (if any) applied to outstanding long-term share awards; ▪ Any special arrangements for new joiners were in line with good market practice; ▪ The remuneration committee exercised discretion appropriately; and

<ul style="list-style-type: none"> There are no issues in the report which would be of concern to shareholders. <p>Where the report contains multiple areas of non-compliance with good practice, the vote recommendation will reflect the severity of the issues identified. A small number of minor breaches may still result in an overall recommendation of a “For”, whereas a single, serious deviation may be sufficient to justify an ‘Against’ vote recommendation.</p> <p>The remuneration report serves as a way for shareholders to make their views known on the company's pay practices during the year under review, and the extent to which these were compliant with the remuneration policy as approved by shareholders. The elements of the report which ISS considers are described in more detail in the following section.</p> <p>.....</p>		<ul style="list-style-type: none"> There are no issues in the report which would be of concern to shareholders. <p>Where the report contains multiple areas of non-compliance with good practice, the vote recommendation will reflect the severity of the issues identified. A small number of minor breaches may still result in an overall recommendation of a “For”, whereas a single, serious deviation may be sufficient to justify an ‘Against’ vote recommendation.</p> <p>The remuneration report serves as a way for shareholders to make their views known on the company's pay practices during the year under review, and the extent to which these were compliant with the remuneration policy as approved by shareholders. The elements of the report which ISS considers are described in more detail in the following section.</p> <p>.....</p>	
Remuneration component	Good market practice	Remuneration component	Good market practice
...
Discretion	<p>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.</p> <p>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.</p>	Discretion	<p>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.</p> <p>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.</p>

	<p>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.</p>		<p>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.</p>
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Rationale for Proposed Change:

Background

The U.K. Investment Association’s Principles of Remuneration state that "Remuneration committees may consider including non-financial performance criteria in variable remuneration, for example relating to environmental, social and governance (ESG) objectives, or to particular operational or strategic objectives. ESG measures should be material to the business and quantifiable. In each case, the link to strategy and method of performance measurement should be clearly explained." Additionally, the Pension and Lifetime Savings Association (PLSA) Corporate Governance Policy and Voting Guidelines 2019 recommend considering "Where remuneration committees have failed to exercise discretion and pay awards fail to reflect wider circumstances such as serious corporate conduct issues which have arisen."

Intent and Impact

The proposed policy update expands ISS’ view on environmental, social and governance (ESG) risks within the remuneration framework. In recent years, there have been a number of cases where remuneration committees have not disclosed how they have taken into account ESG risks or controversies. Like financial performance, it is expected that these matters will be reflected in the remuneration outcome, and if not, that a sufficient explanation is provided.

EMEA Regional

Middle East & Africa (excluding South Africa), Turkey

Board Independence

Current ISS Policy, incorporating proposed changes:	Proposed ISS Policy:
<p>General Recommendation:</p> <p>Independence will be determined according to ISS' EMEA Regional Classification of Directors, if a nominee cannot be categorized, ISS will consider that person non-independent and include that nominee in the calculation of overall board independence.</p> <p>ISS will generally recommend against the election or reelection of non-independent directors (excluding the CEO) if overall board independence is less than one-third, excluding, where relevant, employee shareholder representatives.</p>	<p>General Recommendation:</p> <p>Independence will be determined according to ISS' EMEA Regional Classification of Directors, if a nominee cannot be categorized, ISS will consider that person non-independent and include that nominee in the calculation of overall board independence.</p> <p>ISS will generally recommend against the election or reelection of non-independent directors (excluding the CEO) if overall board independence is less than one-third, excluding, where relevant, employee shareholder representatives.</p>

Rationale for Proposed Change:

Background

The majority of Corporate Governance Codes in the region require that one-third of board members be independent. In addition, investors' interest in board independence has rapidly grown in recent years in Middle East and Africa markets.

Intent and Impact

Considering the evolution of market practices, the introduction of these new recommendations would reflect what is already recommended under the countries' laws/codes. This proposed policy update also allows greater alignment and harmonization of the policy application between the Middle East and Africa and European markets related to board independence and director elections.

For Middle East and Africa markets, the impact of negative ISS vote recommendations when accounting for the low level of independence would be moderate (approximately 17 percent of board elections for all markets). During 2018, 40 percent of board election proposals were opposed due to the non-disclosure of directors' names (the only existing vote driver for board members elections). For Turkey, where director elections are usually bundled, the impact of ISS negative vote recommendations due to the low independence level is expected to be around 12 percent of director elections for this market noting that lack of timely disclosure still

remains the main driver of negative vote recommendations. Currently, the one-third board independence recommendation applies only to widely-held Turkish companies. Upon the approval of this proposed policy update, non-widely-held companies will also be included in the scope of this policy.

UAE, Saudi Arabia, Egypt, Jordan, Qatar

Director Disclosure – Cumulative Voting

Current ISS Policy, incorporating proposed changes:	Proposed ISS Policy:
<p>Director Elections</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 conflict of interest; ▪ There are any records of abuses against minority shareholder interest; ▪ The board fails to meet minimum corporate governance standards; ▪ There are specific concerns about the individual, such as criminal wrongdoing or breach of fiduciary responsibilities; or ▪ Repeated absences at board meetings have not been explained (in countries where this information is disclosed). <p>Vote for employee and/or labour representatives if they sit on either the audit or compensation committee and are required by Law to be on these committees. Vote against employee and/or labour representatives if they sit on either the audit or compensation committee, if they are not required to be on these committees.</p> <p>Vote against the election of directors at all companies if the name of the nominee is not disclosed in a timely manner prior to the meeting.</p> <p>Cumulative Voting</p> <p>Under 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</p>	<p>Director Elections</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 conflict of interest; ▪ There are any records of abuses against minority shareholder interest; ▪ The board fails to meet minimum corporate governance standards; ▪ There are specific concerns about the individual, such as criminal wrongdoing or breach of fiduciary responsibilities; or ▪ Repeated absences at board meetings have not been explained (in countries where this information is disclosed). <p>Vote for employee and/or labour representatives if they sit on either the audit or compensation committee and are required by Law to be on these committees. Vote against employee and/or labour representatives if they sit on either the audit or compensation committee, if they are not required to be on these committees.</p> <p>Vote against the election of directors at all companies if the name of the nominee is not disclosed in a timely manner prior to the meeting.</p> <p>Cumulative Voting</p> <p>Under 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</p>

<p>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>ISS will recommend a Vote director election proposals on a case-by-case basis, considering additional factors, for the purpose of identifying the best suited nominees to add value for shareholders.</p> <p>In the absence of sufficient information regarding the candidates, generally vote abstain for all candidates as the disclosure provided by the company does not allow the assessment of independence and the support of any particular candidate above the others.</p> <p>If the level of information allows the assessment of the independence of proposed candidates, positive vote recommendations will generally be issued preferably 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 ISS' 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). 	<p>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>Vote director election proposals on a case-by-case basis, considering additional factors, for the purpose of identifying the best suited nominees to add value for shareholders.</p> <p>In the absence of sufficient information regarding the candidates, generally vote abstain for all candidates as the disclosure provided by the company does not allow the assessment of independence and the support of any particular candidate above the others.</p> <p>If the level of information allows the assessment of the independence of proposed candidates, vote recommendations will generally be issued preferably 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. ▪ 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).
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<ul style="list-style-type: none"> ▪ Bringing to the current board of director's 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>Under extraordinary circumstances, vote against individual directors, members of a committee, or the entire board, due to:</p> <ul style="list-style-type: none"> ▪ Material failure of governance, stewardship, risk oversight, or fiduciary responsibilities at the company; ▪ Failure to replace management as appropriate; or ▪ Egregious actions related to a director's service on other 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"> ▪ Bringing to the current board of director's 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>Under extraordinary circumstances, vote against individual directors, members of a committee, or the entire board, due to:</p> <ul style="list-style-type: none"> ▪ Material failure of governance, stewardship, risk oversight, or fiduciary responsibilities at the company; ▪ Failure to replace management as appropriate; or ▪ Egregious actions related to a director's service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.
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Rationale for Proposed Change:

Background

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 number of board seats 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 selected 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.

Intent and Impact

This proposed policy update seeks to establish 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 EMEA regional policy currently provides a clear framework for the analysis and vote recommendation on director elections proposals taking place under cumulative voting, this proposed 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 proposed 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.

Japan

Board Independence – Controlled Companies

Current ISS Policy, incorporating proposed changes:	Proposed ISS Policy:
<p>General Recommendation: ISS has three policies for director elections in Japan: one for companies with a statutory auditor board structure, one for companies with a U.S.-type three committee structure, and one for companies with a board with audit committee structure³.</p> <p>1. At companies with a statutory auditory structure: vote for the election of directors, except:</p> <ul style="list-style-type: none"> ▪ Top executive(s)⁴ at a company that has underperformed in terms of capital efficiency (i.e., when the company has posted average return on equity (ROE) of less than five percent over the last five fiscal years)⁵, unless an improvement⁶ is observed; ▪ Top executive(s) if the board, after the shareholder meeting, will not include at least two outside directors; ▪ Top executive(s) at a company that has a controlling shareholder, unless the board, after the shareholder meeting, will include at least two independent directors and at least one-third of the board members will be independent directors based on ISS independence criteria for Japan; 	<p>General Recommendation: ISS has three policies for director elections in Japan: one for companies with a statutory auditor board structure, one for companies with a U.S.-type three committee structure, and one for companies with a board with audit committee structure³.</p> <p>1. At companies with a statutory auditory structure: vote for the election of directors, except:</p> <ul style="list-style-type: none"> ▪ Top executive(s)⁴ at a company that has underperformed in terms of capital efficiency (i.e., when the company has posted average return on equity (ROE) of less than five percent over the last five fiscal years)⁵, unless an improvement⁶ is observed; ▪ Top executive(s) if the board, after the shareholder meeting, will not include at least two outside directors; ▪ Top executive(s) at a company that has a controlling shareholder, unless the board, after the shareholder meeting, will include at least two independent directors and at least one-third of the board members will be independent directors based on ISS independence criteria for Japan;

³ The director election policy for companies with a board with audit committee structure will be applied to the election of executive directors and supervisory directors at real estate investment trusts (REITs), to the extent that the information necessary to apply the policy is disclosed.

⁴ In most cases, the top executive will be the “shacho” (president). However, there are companies where the decision-making authority also rests with the “kaicho” (executive chairman) or “daihyo torishimariyaku” (representative director).

⁵ Exceptions may be considered for cases such as where the top executive has newly joined the company in connection with a bailout or restructuring. This policy will not be applied to companies which have been public for less than five years.

⁶ Improvement is defined as ROE of five percent or greater for the most recent fiscal year.

<ul style="list-style-type: none"> ▪ An outside director nominee who attended less than 75 percent of board meetings during the year under review⁷; or ▪ Top executive(s) who are responsible for not implementing a shareholder proposal which has received a majority⁸ of votes cast, or not putting a similar proposal on the ballot as a management proposal the following year (with a management recommendation of for), when that proposal is deemed to be in the interest of independent shareholders. <p>2. At companies with a U.S.-type three committee structure: (In addition to the guidelines for companies with a statutory auditor structure) vote for the election of directors, except:</p> <ul style="list-style-type: none"> ▪ Where an outside director nominee is regarded as non-independent based on ISS independence criteria for Japan, and the board, after the shareholder meeting, will not be majority independent; ▪ Top executive(s) if at least one-third of the board members, after the shareholder meeting, will not be outside directors; or ▪ Where the company has a controlling shareholder, a director nominee sits on the nomination committee and is an insider, or non-independent outsider, unless the board, after the shareholder meeting, will include at least two independent directors and at least one-third of the board members will be independent directors based on ISS independence criteria for Japan. <p>3. At companies with a board with audit committee structure: (In addition to the guidelines for companies with a statutory auditor structure) vote for the election of directors, except:</p> <ul style="list-style-type: none"> ▪ Where an outside director nominee who is also nominated as an audit committee member⁹ is regarded as non-independent based on ISS independence criteria for Japan; or 	<ul style="list-style-type: none"> ▪ An outside director nominee who attended less than 75 percent of board meetings during the year under review⁷; or ▪ Top executive(s) who are responsible for not implementing a shareholder proposal which has received a majority⁸ of votes cast, or not putting a similar proposal on the ballot as a management proposal the following year (with a management recommendation of for), when that proposal is deemed to be in the interest of independent shareholders. <p>2. At companies with a U.S.-type three committee structure: (In addition to the guidelines for companies with a statutory auditor structure) vote for the election of directors, except:</p> <ul style="list-style-type: none"> ▪ Where an outside director nominee is regarded as non-independent based on ISS independence criteria for Japan, and the board, after the shareholder meeting, will not be majority independent; ▪ Top executive(s) if at least one-third of the board members, after the shareholder meeting, will not be outside directors; or ▪ Where the company has a controlling shareholder, a director nominee sits on the nomination committee and is an insider, or non-independent outsider, unless the board, after the shareholder meeting, will include at least two independent directors and at least one-third of the board members will be independent directors based on ISS independence criteria for Japan. <p>3. At companies with a board with audit committee structure: (In addition to the guidelines for companies with a statutory auditor structure) vote for the election of directors, except:</p> <ul style="list-style-type: none"> ▪ Where an outside director nominee who is also nominated as an audit committee member⁹ is regarded as non-independent based on ISS independence criteria for Japan; or
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⁷ The attendance of inside directors is not disclosed in Japan. For companies with a three-committee structure and companies with an audit committee structure, ISS will require attendance of 75 percent or more of audit committee meetings as well as 75 percent or more of board meetings.

⁸ Many Japanese shareholder proposals are submitted as article amendments, which require supermajority support in order to pass.

⁹ Outside director nominees who are not nominated as audit committee members are not subject to this policy.

<ul style="list-style-type: none"> ▪ Top executive(s) if at least one-third of the board members, after the shareholder meeting, will not be outside directors; or ▪ Top executive(s) at a company that has a controlling shareholder, unless the board, after the shareholder meeting, will include at least two independent directors and at least one-third of the board members will be independent directors based on ISS independence criteria for Japan. 	<ul style="list-style-type: none"> ▪ Top executive(s) if at least one-third of the board members, after the shareholder meeting, will not be outside directors; or ▪ Top executive(s) at a company that has a controlling shareholder, unless the board, after the shareholder meeting, will include at least two independent directors and at least one-third of the board members will be independent directors based on ISS independence criteria for Japan.
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Rationale for Proposed Change:

Background

ISS is proposing to revise the Japan Proxy Voting Guidelines to add a new policy regarding the independence level for companies with a controlling shareholder that requires at least one-third of the board members to be independent outside directors. In 2019, ISS implemented a new policy requesting companies with a board with an audit committee structure or with a U.S.-type three-committee structure to have a board where at least one-third of the board members are outside directors. However, for companies with a controlling shareholder, one-third outsider representation may not be sufficient to protect the interests of minority shareholders. With the proposed change, ISS will recommend against top executive(s) at a company that has a controlling shareholder, unless the new board will include at least two independent directors and at least one-third of the board members will be independent directors based on ISS independence criteria for Japan.

Intent and Impact

Based on the ISS Japan research universe of approximately 3,000 companies covered, just over 400 companies have a controlling shareholder. With this more stringent approach, ISS is expecting to see negative recommendations rise from current levels, which are under half of those with a controlling shareholder, to nearly 80 percent of those with a controlling shareholder, or from about 6 percent of all Japanese companies to about 11 percent.

Specific question for this proposed change:

➤ **Question:** Does your organization consider it appropriate to give a grace period (or moratorium) before ISS implements the proposed policy change in order to give companies additional time to increase the proportion of independent outsider directors on controlled company boards? If a grace period is appropriate, when should the policy change be implemented?

India

Board Gender Diversity

Current ISS Policy, incorporating proposed changes:	Proposed ISS Policy:
<p>Gender Diversity</p> <p>Generally vote against the chair of the nomination committee (or other senior members of the nomination committee on a case-by-case basis) up for reelection if the board does not comply with board gender diversity regulations.</p> <p>In making the above recommendation on the election of directors, ISS generally will not recommend against the election of a CEO, managing director, executive chairman, or founder whose removal from the board would be expected to have a material negative impact on shareholder value.</p>	<p>Gender Diversity</p> <p>Generally vote against the chair of the nomination committee (or other senior members of the nomination committee on a case-by-case basis) up for reelection if the board does not comply with board gender diversity regulations.</p> <p>In making the above recommendation on the election of directors, ISS generally will not recommend against the election of a CEO, managing director, executive chairman, or founder whose removal from the board would be expected to have a material negative impact on shareholder value.</p>

Rationale for Proposed Change:

Background

Section 149 of the Companies Act and Regulation 17 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI LODR Regulations) require companies to appoint at least one woman director to the board. Enhancements in the corporate governance standards in India over the years include amendments to the SEBI LODR Regulations to add a requirement to have at least one woman independent director in the top 500 listed entities by market capitalization by April 1, 2019 and in the top 1,000 listed entities by April 1, 2020.

According to ISS' 2019 Global Policy Survey, applicable to companies in India, a majority of both investor and non-investor respondents indicated that shareholders should hold members of the nominating committee accountable for non-compliance with the board gender diversity regulations unless the company provides a compelling justification for non-compliance.

Intent and Impact

The proposed introduction of the gender diversity policy will align ISS India policy with the regulatory requirement and may encourage boards to increase women's participation on corporate boards. For the period January 1 to Sept. 23, 2019, most of the top 500 companies covered by ISS are compliant with the requirement of having at least one independent woman director. However, the non-compliance may increase once the requirement is expanded into the top 1,000 companies on April 1, 2020. As a result, the impact of the proposed policy update on ISS' vote recommendations after the applicability of this rule cannot be ascertained at this time.

South Korea

Director Accountability – Governance Failures

Current ISS Policy, incorporating proposed changes:	Proposed ISS Policy:
<p>General Recommendation:</p> <p>Under extraordinary circumstances, vote against individual directors, members of committees, or the entire board, due to:</p> <ul style="list-style-type: none"> ▪ Material failures¹ of governance, stewardship, risk oversight, or fiduciary responsibilities at the company; ▪ Failure to replace management or directors as appropriate; or ▪ Egregious actions² related to a director's service on other boards that raise substantial doubt about his/her ability to effectively oversee management and serve the best interests of shareholders at any company. <p>Generally vote against directors from all boards on which the individual serves for failure to remove a director from the board who has demonstrated a serious failure of accountability due to his/her egregious actions. convicted of wrongdoing from the board.</p> <p>¹ <i>Examples of material failure of governance include but are not limited to: indictment or conviction for embezzlement; bribery; large or serial fines or</i></p>	<p>General Recommendation:</p> <p>Under extraordinary circumstances, vote against individual directors, members of committees, or the entire board, due to:</p> <ul style="list-style-type: none"> ▪ Material failures¹ of governance, stewardship, risk oversight, or fiduciary responsibilities at the company; ▪ Failure to replace management or directors as appropriate; or ▪ Egregious actions² related to a director's service on other boards that raise substantial doubt about his/her ability to effectively oversee management and serve the best interests of shareholders at any company. <p>Generally vote against directors from all boards on which the individual serves for failure to remove a director from the board who has demonstrated a serious failure of accountability due to his/her egregious actions.</p> <p>¹ <i>Examples of material failure of governance include but are not limited to: indictment or conviction for embezzlement; bribery; large or serial fines or</i></p>

<p><i>sanctions from regulatory bodies; significant adverse legal judgments or settlement; or hedging of company stock.</i></p> <p><i>² Egregious actions encompass broader situations that include but are not limited to material failures of governance, stewardship, risk oversight, or fiduciary responsibilities. Examples of egregious actions include felony-level offenses that called for indictment or conviction, and the failure to remove such problematic director from the board. Typically, an individual's action deemed egregious is viewed as a more severe case which prohibits the individual from assuming a director seat on the board of any company.</i></p>	<p>sanctions from regulatory bodies; significant adverse legal judgments or settlement; or hedging of company stock.</p> <p>²Egregious actions encompass broader situations that include but are not limited to material failures of governance, stewardship, risk oversight, or fiduciary responsibilities. Examples of egregious actions include felony-level offenses that called for indictment or conviction, and the failure to remove such problematic director from the board. Typically, an individual's action deemed egregious is viewed as a more severe case which prohibits the individual from assuming a director seat on the board of any company.</p>
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Rationale for Proposed Change:

Background

In Korea, there have been numerous cases where senior executives – often the executive chairman, CEO or managing director – have been indicted or convicted of felony-level offenses directly related to their corporate role (such as bribery or embezzlement) but either continue to serve on the board, or return to the board after being pardoned by the government or serving their prison sentence. This is due to 1) the Korean Commercial Code, which doesn't stipulate any restrictions on board service by convicted directors, and 2) quiet collusion between chaebols and the government, which have allowed leeway for executive chairmen/CEOs to commit felony level offenses. In such cases, ISS often recommends votes against the election or re-election of the accused or convicted felon and against the other directors for failing to remove the director in question from the board.

Some institutional investors have indicated their interest in tracking these directors (both the offending directors and the board members who failed to remove them from the board) to other companies where they serve on boards and have urged ISS to consider recommendations against these nominees where warranted. According to ISS' 2019 Global Policy Survey, for companies in Korea, a majority of investor respondents indicated that either an indictment or a conviction would be considered material and relevant to assessment of the suitability of a director to serve on the board of any company. Further, regarding an executive director who has been indicted or convicted of criminal behavior, the plurality of investor and non-investor respondents indicated that a failure of a director nominee to act to remove the director is considered material to the suitability of the director nominee to serve on the board in the case of a conviction, not just an indictment.

Intent and Impact

As indicated above, ISS often recommends votes against the election or re-election of the accused or convicted felon and against the other directors for failing to remove the director in question from the board. The proposed policy update would expand the policy application to the boards of all Korean companies on which the individual serves, reflecting investors' feedback and the changing corporate governance environment in general. The proposed update is also intended to keep track of such directors (both the wrongdoers themselves and directors who failed to remove them) at other companies where they serve on boards.

Singapore

Share Repurchase Pricing Limit Proposals

Current ISS Policy, incorporating proposed changes:	Proposed ISS Policy:
<p>General Recommendation: Generally vote for resolutions authorizing the company to repurchase its own shares, unless:</p> <ul style="list-style-type: none"> ▪ the premium over the average trading price of the shares as implied by the maximum price limit for on-market repurchases paid exceeds 5 percent for on-market; and/or ▪ the premium over the average trading price of the shares as implied by the price limit for off-market repurchases exceeds 20 percent. 	<p>General Recommendation: Generally vote for resolutions authorizing the company to repurchase its own shares, unless:</p> <ul style="list-style-type: none"> ▪ the premium over the average trading price of the shares as implied by the price limit for on-market repurchases exceeds 5 percent; or ▪ the premium over the average trading price of the shares as implied by the price limit for off-market repurchases exceeds 20 percent.

Rationale for Proposed Change:

Background

Singapore regulations stipulate that off-market repurchases must be conducted under an equal access scheme, i.e., that all shareholders will be treated equally. Given that, companies should be allowed to have more flexibility in setting the price premium for off-market repurchases.

As of September 2019, out of 172 Singapore share repurchase mandate proposals reviewed by ISS during the year, approximately 55 percent of such proposals had a pricing limit set at a 20 percent premium to the average trading price of the shares. Hence, setting the off-market repurchase price limit at a 20 percent premium to the 5-day average trading price of the shares appears to be a common practice observed in Singapore-listed companies.

Intent and Impact

The proposed policy update increases the price limit to up to a 20 percent premium to the five-day average trading price of the shares for off-market repurchases. This proposed revision is to give companies flexibility in setting the repurchase price for off-market repurchases, after taking into account the shareholder protection mechanism offered by the existing laws and regulations in Singapore. The proposed policy update aligns the policy with the views of institutional investors and is also based on a review of existing market rules and regulations.

Taiwan

Article Amendment Proposals – Cash Dividend Distribution Plans

Current ISS Policy, incorporating proposed changes:	Proposed ISS Policy:
<p><i>Currently there is no specific policy with regard to cash dividends under Amendments to Articles of Association.</i></p> <p>General Recommendation: Generally vote against proposals for article amendments to grant the board full discretion to decide on the company's cash dividend distribution plan without shareholder approval. Such amendment will undermine shareholders' right to decide on cash dividend payments.</p> <p>Discussion: The Taiwan Company Act was revised in 2018 to allow companies to declare dividends semiannually or quarterly and to delegate greater authority to the board regarding the company's cash dividend distribution plan. The new provision under Article 240 of the Company Act specifies that companies may authorize in their Articles the right of the board to decide on the company's cash dividend distribution plan upon approval by a majority vote at a board meeting attended by two-thirds of all directors. However, stock dividend distribution plans still require shareholder approval.</p>	<p>General Recommendation: Generally vote against proposals for article amendments to grant the board full discretion to decide on the company's cash dividend distribution plan without shareholder approval. Such amendment will undermine shareholders' right to decide on cash dividend payments.</p> <p>Discussion: The Taiwan Company Act was revised in 2018 to allow companies to declare dividends semiannually or quarterly and to delegate greater authority to the board regarding the company's cash dividend distribution plan. The new provision under Article 240 of the Company Act specifies that companies may authorize in their Articles the right of the board to decide on the company's cash dividend distribution plan upon approval by a majority vote at a board meeting attended by two-thirds of all directors. However, stock dividend distribution plans still require shareholder approval.</p>

Rationale for Proposed Change:

Background

On July 6, 2018, Taiwan's Legislative Yuan (立法院) approved the revised Company Act which included amendments relating to the approval procedures for listed companies' cash dividend distribution plans. The revision of the Company Act, effective on Nov. 1, 2018, granted the board of directors greater authority and flexibility to decide on the company's cash dividend distribution plan. Article 228-1 states that listed companies may specify in their Articles a provision that allows the company to distribute cash dividends or declare loss appropriation more frequently, such as semiannually or quarterly upon board approval. Article 240 states that listed companies are allowed to stipulate in their Articles a provision to authorize the board to decide on the company's cash dividend distribution plan upon approval by a majority vote at a meeting of the board attended by two-thirds of all directors. Currently, shareholder approval is required for the company's dividend distribution plan either in cash or stock. Upon voluntary adoption of the new provision under Article 240 of the Company Act, the board may be authorized to decide on the company's cash dividend distribution plan, rendering such proposal merely a reporting item at shareholder meetings. Under such a circumstance, shareholders' right to approve the company's cash dividend payment is deemed to have been taken away.

According to ISS' 2019 Global Policy Survey, for companies in Taiwan, a majority of investor respondents indicated that ISS should recommend against a proposal to amend a Taiwanese company's articles of incorporation that would give the board full authority to decide on the company's cash dividend distribution plan.

Intent and Impact

In view of a significant number of companies during 2019 proxy season that proposed the provision in their articles authorizing the board to decide on the company's cash dividend distribution without shareholder approval, this proposed policy update establishes the voting guideline regarding article amendments that grant the board full authority in deciding the company's cash dividend distribution plan. The impact of the proposed policy update would significantly increase ISS' negative recommendations on these article amendment proposals.

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