



# 2019 Asia-Pacific Proxy Voting Guidelines Updates

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Benchmark Policy Changes for Japan, China, Hong Kong, India, Philippines, Singapore, South Korea, and Taiwan

**Effective for Meetings on or after February 1, 2019**

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## JAPAN

## Election of Directors

## Voting on Director Nominees in Uncontested Elections

Current ISS Policy, incorporating changes:	New ISS Policy:
<p><b>General Recommendation:</b> 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 structure<sup>1</sup>.</p> <p>1. <b>At companies with a statutory auditory structure:</b> vote for the election of directors, except:</p> <ul style="list-style-type: none"> <li>Top executive(s)<sup>2</sup> 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)<sup>3</sup>, unless an improvement<sup>4</sup> is observed;</li> <li>Top executive(s) if the board, after the shareholder meeting, will not include at least two outside directors;</li> <li>Top executive(s) at a company that has a controlling shareholder, where the board, after the shareholder meeting, will not include at least two independent directors based on ISS independence criteria for Japan;</li> </ul>	<p><b>General Recommendation:</b> 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 structure<sup>1</sup>.</p> <p>1. <b>At companies with a statutory auditory structure:</b> vote for the election of directors, except:</p> <ul style="list-style-type: none"> <li>Top executive(s)<sup>2</sup> 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)<sup>3</sup>, unless an improvement<sup>4</sup> is observed;</li> <li>Top executive(s) if the board, after the shareholder meeting, will not include at least two outside directors;</li> <li>Top executive(s) at a company that has a controlling shareholder, where the board, after the shareholder meeting, will not include at least two independent directors based on ISS independence criteria for Japan;</li> </ul>

<sup>1</sup> 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.

<sup>2</sup> 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).

<sup>3</sup> 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.

<sup>4</sup> Improvement is defined as ROE of five percent or greater for the most recent fiscal year.

<ul style="list-style-type: none"> <li>› An outside director nominee who attended less than 75 percent of board meetings during the year under review<sup>5</sup>; or</li> <li>› Top executive(s) who are responsible for not implementing a shareholder proposal which has received a majority<sup>6</sup> 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.</li> </ul> <p>2. <b>At companies with a U.S.-type three committee structure:</b> (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"> <li>› Where an outside director nominee is regarded as non-independent based on ISS independence criteria for Japan, and the board, after the shareholder meeting, is not majority independent;</li> <li>› <del>For meetings on or after Feb 1, 2019, t</del>Top executive(s) if at least one-third of the board members, after the shareholder meeting, will not be outside directors;<sup>7</sup> or</li> <li>› Where the company has a controlling shareholder, a director nominee sits on the nomination committee and is an insider, or non-independent outsider, when the board, after the shareholder meeting, does not include at least two independent directors based on ISS independence criteria for Japan.</li> </ul> <p>3. <b>At companies with a board with audit committee structure:</b> (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"> <li>› Where an outside director nominee who is also nominated as an audit committee member<sup>8</sup> is regarded as non-independent based on ISS independence criteria for Japan; <del>or</del></li> <li>› <del>For meetings on or after Feb 1, 2019, t</del>Top executive(s) if at least one-third of the board members, after the shareholder meeting, will not be outside directors.<sup>7</sup></li> </ul>	<ul style="list-style-type: none"> <li>› An outside director nominee who attended less than 75 percent of board meetings during the year under review<sup>5</sup>; or</li> <li>› Top executive(s) who are responsible for not implementing a shareholder proposal which has received a majority<sup>6</sup> 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.</li> </ul> <p>2. <b>At companies with a U.S.-type three committee structure:</b> (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"> <li>› Where an outside director nominee is regarded as non-independent based on ISS independence criteria for Japan, and the board, after the shareholder meeting, is not majority independent;</li> <li>› Top executive(s) if at least one-third of the board members, after the shareholder meeting, will not be outside directors; or</li> <li>› Where the company has a controlling shareholder, a director nominee sits on the nomination committee and is an insider, or non-independent outsider, when the board, after the shareholder meeting, does not include at least two independent directors based on ISS independence criteria for Japan.</li> </ul> <p>3. <b>At companies with a board with audit committee structure:</b> (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"> <li>› Where an outside director nominee who is also nominated as an audit committee member<sup>8</sup> is regarded as non-independent based on ISS independence criteria for Japan; or</li> <li>› Top executive(s) if at least one-third of the board members, after the shareholder meeting, will not be outside directors.</li> </ul>
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### Rationale for Change:

<sup>5</sup> 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.

<sup>6</sup> Many Japanese shareholder proposals are submitted as article amendments, which require supermajority support in order to pass.

<sup>7</sup> ~~To give companies time to recruit additional qualified outside director candidates, the policy will not be implemented until February 2019.~~

<sup>8</sup> Outside director nominees who are not nominated as audit committee members are not subject to this policy.

In 2018, ISS introduced a new policy calling for one-third of board members to be comprised of outside directors for companies that follow the U.S.-type three committee structure or the audit committee structure. A one-year transition until Feb. 1, 2019 was included, to give companies sufficient time to recruit qualified outside director candidates. This transition period has now passed.

### ISS Independence criteria for Japan

Current ISS criteria, incorporating changes:	New ISS criteria:
<p>Those outside director candidates falling into any of the following categories should be regarded as non-independent:</p> <ul style="list-style-type: none"> <li>› Individuals who work or worked at major shareholders of the company in question;</li> <li>› Individuals who work or worked at main lenders/banks to the company in question;</li> <li>› Individuals who work or worked at the lead underwriter(s) of the company in question;</li> <li>› Individuals who work or worked at business partners of the company in question and the transaction value is material from the recipient's perspective or is not disclosed;</li> <li>› Individuals who worked at the company's audit firm;</li> <li>› Individuals who offer or offered professional services such as legal advice, financial advice, tax advice or consulting services to the company in question; <del>or</del></li> <li>› Individuals who have a relative(s) working at the company in question; <del>or</del> <b>or</b></li> <li>› <b>Individuals who work or worked at companies whose shares are held by the company in question as "cross-shareholdings<sup>9</sup>."</b></li> </ul>	<p>Those outside director candidates falling into any of the following categories should be regarded as non-independent:</p> <ul style="list-style-type: none"> <li>› Individuals who work or worked at major shareholders of the company in question;</li> <li>› Individuals who work or worked at main lenders/banks to the company in question;</li> <li>› Individuals who work or worked at the lead underwriter(s) of the company in question;</li> <li>› Individuals who work or worked at business partners of the company in question and the transaction value is material from the recipient's perspective or is not disclosed;</li> <li>› Individuals who worked at the company's audit firm;</li> <li>› Individuals who offer or offered professional services such as legal advice, financial advice, tax advice or consulting services to the company in question;</li> <li>› Individuals who have a relative(s) working at the company in question; <del>or</del></li> <li>› Individuals who work or worked at companies whose shares are held by the company in question as "cross-shareholdings<sup>9</sup>."</li> </ul>

### Rationale for Change:

Shares held for purposes other than pure investment, including cross holding shares, may place the company's desire to strengthen its business relationships over its responsibility to create value for investors. Moreover, such practices reduce market discipline over management as management-friendly shareholders always support management resolutions and oppose shareholder proposals. In light of these potential conflicts, individuals representing cross-shareholding partner companies cannot be regarded as independent.

<sup>9</sup> Traditionally, Japanese companies have often held shares of other companies for reasons other than pure investment purposes, for instance, in order to strengthen business relationships. Cross-shareholdings here refer not only to mutual shareholdings but also unilateral holdings. Note: In order to give companies time to revisit the rationale of holding such shares, this criteria won't be implemented until February 2020.



## JAPAN, HONG KONG, KOREA, SINGAPORE, INDIA, AND ASIA-PACIFIC REGIONAL

## Social and Environmental Issues

## Global Approach

Current ISS Policy, incorporating changes:	New ISS Policy:
<p><b>General Recommendation:</b> Generally vote case-by-case, <del>taking into consideration</del> <b>examining primarily</b> whether implementation of the proposal is likely to enhance or protect shareholder value, <del>and in addition</del>. <b>The following factors will also</b> be considered:</p> <ul style="list-style-type: none"> <li>› If the issues presented in the proposal are more appropriately or effectively dealt with through legislation or government regulation;</li> <li>› If the company has already responded in an appropriate and sufficient manner to the issue(s) raised in the proposal;</li> <li>› Whether the proposal's request is unduly burdensome (scope or timeframe) or overly prescriptive;</li> <li>› The company's approach compared with any industry standard practices for addressing the issue(s) raised by the proposal;</li> <li>› <b>Whether there are significant controversies, fines, penalties, or litigation associated with the company's environmental or social practices;</b></li> <li>› If the proposal requests increased disclosure or greater transparency, whether <del>or not</del> reasonable and sufficient information is currently available to shareholders from the company or from other publicly available sources; and</li> <li>› If the proposal requests increased disclosure or greater transparency, whether <del>or not</del> implementation would reveal proprietary or confidential information that could place the company at a competitive disadvantage.</li> </ul>	<p><b>General Recommendation:</b> Generally vote case-by-case, examining primarily whether implementation of the proposal is likely to enhance or protect shareholder value. The following factors will be considered:</p> <ul style="list-style-type: none"> <li>› If the issues presented in the proposal are more appropriately or effectively dealt with through legislation or government regulation;</li> <li>› If the company has already responded in an appropriate and sufficient manner to the issue(s) raised in the proposal;</li> <li>› Whether the proposal's request is unduly burdensome (scope or timeframe) or overly prescriptive;</li> <li>› The company's approach compared with any industry standard practices for addressing the issue(s) raised by the proposal;</li> <li>› Whether there are significant controversies, fines, penalties, or litigation associated with the company's environmental or social practices;</li> <li>› If the proposal requests increased disclosure or greater transparency, whether reasonable and sufficient information is currently available to shareholders from the company or from other publicly available sources; and</li> <li>› If the proposal requests increased disclosure or greater transparency, whether implementation would reveal proprietary or confidential information that could place the company at a competitive disadvantage.</li> </ul>

Rationale for Change:

The update is being made to codify the factors that are already taken into consideration in ISS' case-by-case analyses of environmental and social (E&S) shareholder proposals. The update makes it more explicit that significant controversies, fines, penalties, or litigation are considered when evaluating E&S shareholder proposals. This global approach is also being added to the voting policy for India.

## TAIWAN

## Board of Directors

## Voting for Director and Supervisor Nominees in Uncontested Elections

Current ISS Policy, incorporating changes:	New ISS Policy:
<p><b>General Recommendation:</b> Vote against all directors and supervisors where the company employs the non-nomination system for election.</p> <p>When the company employs the nomination system, generally vote for all non-independent director <del>and supervisor</del> candidates, <b>unless:</b></p> <ul style="list-style-type: none"> <li>› The board is less than one-third independent under ISS' classification of directors; or</li> <li>› The names and background of representatives of statutory directors are not disclosed.</li> </ul> <p>Generally, vote for the independent director nominees, unless:</p> <p><b>Independence:</b></p> <ul style="list-style-type: none"> <li>› The nominee is deemed non-independent under ISS' classification;</li> <li>› The nominee has been a partner of the company's auditor within the last three years, <del>and</del> serves <del>in</del> the audit committee.</li> </ul> <p><b>Composition:</b></p> <ul style="list-style-type: none"> <li>› The nominee has attended less than 75 percent of board and key committee meetings over the most recent fiscal year, without a satisfactory explanation. The calculation of director attendance (or that of the representatives appointed by a legal entity which serves as a corporate director in the company) will not include meetings attended by alternate directors (or the proxy of those representatives). Acceptable reasons for director absences are generally limited to the following: <ul style="list-style-type: none"> <li>› Medical issues/illness;</li> <li>› Family emergencies;</li> </ul> </li> </ul>	<p><b>General Recommendation:</b> Vote against all directors and supervisors where the company employs the non-nomination system for election.</p> <p>When the company employs the nomination system, generally vote for all non-independent director candidates, unless:</p> <ul style="list-style-type: none"> <li>› The board is less than one-third independent under ISS' classification of directors; or</li> <li>› The names and background of representatives of statutory directors are not disclosed.</li> </ul> <p>Generally, vote for the independent director nominees, unless:</p> <p><b>Independence:</b></p> <ul style="list-style-type: none"> <li>› The nominee is deemed non-independent under ISS' classification;</li> <li>› The nominee has been a partner of the company's auditor within the last three years and serves on the audit committee.</li> </ul> <p><b>Composition:</b></p> <ul style="list-style-type: none"> <li>› The nominee has attended less than 75 percent of board and key committee meetings over the most recent fiscal year, without a satisfactory explanation. The calculation of director attendance (or that of the representatives appointed by a legal entity which serves as a corporate director in the company) will not include meetings attended by alternate directors (or the proxy of those representatives). Acceptable reasons for director absences are generally limited to the following: <ul style="list-style-type: none"> <li>› Medical issues/illness;</li> <li>› Family emergencies;</li> </ul> </li> </ul>



<ul style="list-style-type: none"> <li>› The director (or the representative) has served on the board for less than a year; and</li> <li>› Missing only one meeting (when the total of all meetings is three or fewer);</li> <li>› The nominee sits on more than six public company boards.</li> </ul> <p>In making any of the above recommendations 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><b>Accountability:</b></p> <ul style="list-style-type: none"> <li>› The nominee is a legal entity or a representative of a legal entity;</li> </ul> <p>Under extraordinary circumstances, vote against directors or supervisors, members of a committee, or the entire board, due to:</p> <ul style="list-style-type: none"> <li>› Material failures of governance, stewardship, risk oversight, or fiduciary responsibilities at the company;</li> <li>› Failure to replace management as appropriate; or</li> <li>› Egregious actions related to a director's or supervisor'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.</li> </ul> <p>When the company employs the nomination system, generally vote for all supervisor candidates, unless the names and background of representatives of statutory supervisors are not disclosed.</p>	<ul style="list-style-type: none"> <li>› The director (or the representative) has served on the board for less than a year; and</li> <li>› Missing only one meeting (when the total of all meetings is three or fewer);</li> <li>› The nominee sits on more than six public company boards.</li> </ul> <p>In making any of the above recommendations 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><b>Accountability:</b></p> <ul style="list-style-type: none"> <li>› The nominee is a legal entity or a representative of a legal entity;</li> </ul> <p>Under extraordinary circumstances, vote against directors or supervisors, members of a committee, or the entire board, due to:</p> <ul style="list-style-type: none"> <li>› Material failures of governance, stewardship, risk oversight, or fiduciary responsibilities at the company;</li> <li>› Failure to replace management as appropriate; or</li> <li>› Egregious actions related to a director's or supervisor'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.</li> </ul> <p>When the company employs the nomination system, generally vote for all supervisor candidates, unless the names and background of representatives of statutory supervisors are not disclosed.</p>
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### Rationale for Change:

In Taiwan, all listed company boards must have at least two independent directors and be at least one-fifth (20 percent) independent pursuant to the Securities and Exchange Act. All listed companies with TWD 2 billion or more paid-in capital must establish an audit committee consisting of at least three independent directors by the conclusion of their general elections of directors in 2019. The Taiwan Financial Supervisory Commission, meanwhile, plans to order all listed companies to set up an audit committee by the conclusion of their general elections of directors in 2022, and adopt a nomination system for all director elections, effective 2021. As of June 30, 2018, approximately 51 percent of all Taiwan listed companies had an audit committee in place.

Currently, only independent directors are required to be elected via the nomination system, where disclosure of nominees' profile must be made available to all shareholders in advance of the general meeting. This is in contrast to the so-called non-nomination system, which applies to non-independent directors and supervisors, where no disclosure is required in advance of the general meeting. As of the end of June 2018, approximately 33 percent of all Taiwan listed companies were still using the non-nomination system for non-independent director elections.

ISS' Benchmark Policy for Taiwan does not currently consider board independence levels or assess the criteria of non-independent director and supervisor candidates. Owing to the poor or non-existent disclosures under the non-nomination system, only company-classified independent director nominees in this market could be assessed against independence and board performance criteria. Such assessments of independence level and criteria have already been adopted in a number of other ISS policies across major peer markets in the Asian region.

### **Board independence:**

When compared with the independence level requirement of other markets (e.g. China, Hong Kong and Singapore, where the number of independent directors must represent at least one-third of the board; or U.S., where the number of independent directors must represent a majority of the board), the requirement in Taiwan remains comparatively lenient. Addressing this independence problem was previously put on hold to focus attention on the more widespread concerns related to the non-nomination system in Taiwan. In light of recent regulatory initiatives in Taiwan, the growing trend of establishing audit committees is expected to raise board independence levels. The Securities and Exchange Act stipulates that the audit committee shall be composed of at least three independent directors, which is higher than the minimum number of two independent directors required for basic board composition. Amidst such regulatory developments, Taiwan has made substantial progress in corporate governance practices and a majority of companies have now adopted the nomination system, which now calls for a more stringent set of standards.

### **Statutory directors and supervisors:**

A potential roadblock to assessing non-independent directors and supervisors' quality and performance in the review of their election is the existence of "statutory" directors and supervisors in Taiwan. Legal entities, such as governmental organizations and corporations, can serve as non-independent directors or supervisors, often referred to as a "statutory director" or "statutory supervisor." These legal entities can either appoint individuals as candidates or run for election themselves and then appoint representatives to perform their fiduciary duties after the election without further shareholder approval. As a result, it is not uncommon to see only the name of the legal entity being nominated for a board seat on the ballot and not the identity of the actual person who will serve on the board to represent that entity's interest, which limits shareholders' ability to assess the quality of these representatives. Such situations essentially contradict the requirements of the nomination system.

Against these backdrops, the introduction of a minimum board independence level and requirement on the disclosure of statutory director and supervisor representatives as determining factors in director and supervisor elections will bring the assessment criteria of boards of directors and supervisors in Taiwan on par with other major peer markets in the Asian region.

## Equity-based Compensation

Current ISS Policy, incorporating changes:	New ISS Policy:
<p><b>General Recommendation:</b> Vote case-by-case on <del>employee</del> restricted stocks <del>awards (RSA)</del> and/or employee stock warrant plans. Vote against the <del>employee</del> restricted stocks <del>RSA</del> plan and/or employee stock warrants plan if one or two of the following features are not met:</p> <ul style="list-style-type: none"> <li>Existing substantial shareholders are restricted in participation;</li> <li>Presence of challenging performance hurdles if <del>restricted stocks</del> awards are issued <del>or exercised</del> for free or at a deep discount; or</li> <li>Reasonable vesting period (at least two years) is set.</li> </ul> <p><b>Discussion</b></p> <p><del>RSAs were first introduced in Taiwan in 2012, following the new amendments to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers promulgated by the Financial Supervisory Commission (FSC). The amount of restricted stocks to be issued is capped at 5 percent of the number of shares outstanding under the law, and the restricted shares can be granted free of charge. In addition, companies are mandated to make the following disclosure on their RSA proposals:</del></p> <p><del>Equity-based compensation plans in Taiwan are regulated by the Regulations Governing the Offering and Issuance of Securities by Securities Issuers (Issues Regulations), which allows the issuance of employee restricted stock and employee stock warrants to employees. The Issues Regulations set a maximum dilution resulted from all outstanding equity-based compensation plans at 15 percent of the company's outstanding capital and restricts the participants of such plans to the companies' employees only. Other than that, the companies are given the discretion in determining other factors relevant to the plans, including but not limited to vesting conditions, vesting period and grant prices. In Taiwan, shareholder approval is only required for equity plans with an issue price or exercise price below market price.</del></p> <p><del>The Issues Regulations requires the disclosure of the following items in their proposals:</del></p> <ul style="list-style-type: none"> <li>Issue amount;</li> <li>Issue conditions (including issue price, vesting conditions, type of stocks, arrangements when the employees fail to meet the vesting conditions);</li> </ul>	<p><b>General Recommendation:</b> Vote case-by-case on employee restricted stocks and/or employee stock warrant plans. Vote against the employee restricted stocks plan and/or employee stock warrants plan if one or two of the following features are not met:</p> <ul style="list-style-type: none"> <li>Existing substantial shareholders are restricted in participation;</li> <li>Presence of challenging performance hurdles if awards are issued or exercised for free or at a deep discount; or</li> <li>Reasonable vesting period (at least two years) is set.</li> </ul> <p><b>Discussion</b></p> <p>Equity-based compensation plans in Taiwan are regulated by the Regulations Governing the Offering and Issuance of Securities by Securities Issuers (Issues Regulations), which allows the issuance of employee restricted stock and employee stock warrants to employees. The Issues Regulations set a maximum dilution resulted from all outstanding equity-based compensation plans at 15 percent of the company's outstanding capital and restricts the participants of such plans to the companies' employees only. Other than that, the companies are given the discretion in determining other factors relevant to the plans, including but not limited to vesting conditions, vesting period and grant prices. In Taiwan, shareholder approval is only required for equity plans with an issue price or exercise price below market price.</p> <p>The Issues Regulations requires the disclosure of the following items in their proposals:</p> <ul style="list-style-type: none"> <li>Issue amount;</li> <li>Issue conditions (including issue price, vesting conditions, type of stocks, arrangements when the employees fail to meet the vesting conditions);</li> <li>Qualifications of employees to be eligible for the schemes and the number of shares to be granted;</li> <li>Rationale for implementing the employee incentive program;</li> <li>Estimated accounting cost to the company, dilution effect on the company's EPS, and other shareholder rights.</li> </ul>

<ul style="list-style-type: none"><li>› Qualifications of employees to be eligible for <del>RSA</del> the schemes and the number of <del>shares</del> awards to be granted;</li><li>› Rationale for implementing the <del>RSA</del> employee incentive program;</li><li>› Estimated accounting cost to the company, dilution effect on the company's EPS, and other shareholder rights.</li></ul>	
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### Rationale for Change:

This change updates and streamlines policy language regarding equity-based compensation schemes under the Taiwan voting policy. The updated policy is an extension of the existing guidelines governing employee incentive schemes by expanding their scope to include employee stock warrants. Notwithstanding the fact that employee stock warrants were first introduced into Taiwan market in 2000 whilst the promulgation of employee restricted stocks happened much later in 2012, among the 347 employee incentive schemes covered by ISS as of June 30, 2018, less than 4.5 percent permit the use of employee stock warrants. There is no formal policy for employee stock warrants under the current Taiwan policy so the guidelines for restricted stocks have been adapted to cover their use based on the similarity between the award types. The policy is updated to formalize the voting guidelines for employee stock warrants and the policy language is streamlined to become applicable to both types of schemes.

As stipulated in the Issues Regulations by the Financial Supervisory Commission, only employees of the company are eligible to participate such incentive schemes. The English translation for restricted stocks plan is thus revised by adding a prefix of "employee" so as to reflect that only full-time employees of the company are entitled to receive such awards under the company's incentive schemes.

## HONG KONG

### Share Issuance Requests

#### General Issuance Mandate

Current ISS Policy, incorporating changes:	New ISS Policy:
<p><b>General Recommendation:</b> Generally vote for the general share issuance mandate for companies that:</p> <ul style="list-style-type: none"> <li>› Limit the <del>aggregate</del> issuance request <del>—that is, for the general issuance mandate and the share reissuance mandate combined—</del> to 10 percent or less of the relevant class of issued share capital;</li> <li>› Limit the discount to 10 percent of the market price of shares (rather than the maximum 20 percent permitted by the Listing Rules); and</li> <li>› Have no history of renewing the general issuance mandate several times within a period of one year <b>which may result in the share issuance limit exceeding 10 percent of the relevant class of issued share capital within the 12 month period.</b></li> </ul>	<p><b>General Recommendation:</b> Generally vote for the general share issuance mandate for companies that:</p> <ul style="list-style-type: none"> <li>› Limit the issuance request to 10 percent or less of the relevant class of issued share capital;</li> <li>› Limit the discount to 10 percent of the market price of shares (rather than the maximum 20 percent permitted by the Listing Rules); and</li> <li>› Have no history of renewing the general issuance mandate several times within a period of one year which may result in the share issuance limit exceeding 10 percent of the relevant class of issued share capital within the 12 month period.</li> </ul>

#### Rationale for Change:

Hong Kong companies routinely ask shareholders to grant the board of directors a 'general mandate to issue shares' without preemptive rights. This mandate, pursuant to the HK listing rules, allows companies to issue shares up to prescribed limits at a discount to market prices of up to 20 percent, unless a lower limit is specified. Most companies seek such authority once a year, but the general mandate can be renewed (or 'refreshed') at an EGM.

Hong Kong companies also often seek approval to authorize boards to reissue repurchased shares. These share reissuance mandates extend the number of shares that may be issued without preemptive rights under the general mandate to issue shares. According to the listing rules, companies are allowed to issue shares of up to 20 percent of existing capital without preemptive rights under the general issuance mandate, and to repurchase shares of up to 10 percent of issued capital. These rules essentially allow the issuance of a sizable number of shares that would represent up to 30 percent of issued capital in the manner of a general mandate that provides no opportunities to existing shareholders for review or scrutiny of the subscribers, among other details, before the issuance.

The resolutions for the general share issuance mandate and the reissuance of repurchased shares are put to shareholder vote under separate voting items, which means shareholders can vote differently on each of these issues. The current voting guidelines assess the general share issuance mandate and the reissuance of repurchased shares as an all-or-nothing exercise and apply an aggregate size limit of 10 percent, in a bid to also limit the extension allowed under the reissuance mandate. The policy change removes the all-or-nothing exercise when assessing general share issuance mandate and reissuance of repurchased shares.

## HONG KONG AND SINGAPORE

### Voting for Director Nominees in Uncontested Elections

#### Board Accountability – Newly-appointed or Partial-Year Committee Members

Current ISS Policy, incorporating changes:	New ISS Policy:
<p><b>General Recommendation:</b> Generally vote against all members<sup>1</sup> of the audit committee up for reelection if:</p> <ul style="list-style-type: none"> <li>› The non-audit fees paid to the auditor are excessive; or</li> <li>› The company did not disclose the audit fees and/or non-audit fees in the latest fiscal year.</li> </ul> <p><sup>1</sup>Except for directors newly-appointed to the committee or who served on the committee for a partial year, who are considered on a case-by-case basis.</p>	<p><b>General Recommendation:</b> Generally vote against all members<sup>1</sup> of the audit committee up for reelection if:</p> <ul style="list-style-type: none"> <li>› The non-audit fees paid to the auditor are excessive; or</li> <li>› The company did not disclose the audit fees and/or non-audit fees in the latest fiscal year.</li> </ul> <p><sup>1</sup>Except for directors newly-appointed to the committee or who served on the committee for a partial year, who are considered on a case-by-case.</p>

#### Rationale for Change:

This policy update provides a carve-out for newly-appointed committee members, or for members who did not serve on their committees for the entire previous year, to provide analyst discretion on holding committee members responsible for actions taken prior to their tenure on the committee. While this policy language is specific to the audit committee, this footnote is being added to other committee-related policies as well.

## Equity Compensation Plans

Current ISS Policy, incorporating changes:	New ISS Policy:
<p><b>General Recommendation:</b> Generally vote for an equity-based compensation plan unless:</p> <ul style="list-style-type: none"> <li>› The maximum dilution level for the scheme, <b>together with all outstanding schemes</b>, exceeds 5 percent of issued capital for a mature company and 10 percent for a growth company. However, ISS will support plans at mature companies with dilution levels <b>for all outstanding schemes of</b> up to 10 percent <b>if each individual plan includes</b> other positive features such as challenging performance criteria and meaningful vesting periods as these features partially offset dilution concerns by reducing the likelihood that options will become exercisable unless there is a clear improvement in shareholder value. In addition, ISS will support a plan's dilution limit that exceeds these thresholds if the annual grant limit under <b>all plans</b> is 0.5 percent or less for a mature company (1 percent or less for a mature company with clearly disclosed performance criteria) and 1 percent or less for a growth company.</li> <li>› The plan permits options to be issued with an exercise price at a discount to the current market price; or</li> <li>› Directors eligible to receive options or awards under the scheme are involved in the administration of the scheme and the administrator has the discretion over their awards.</li> </ul>	<p><b>General Recommendation:</b> Generally vote for an equity-based compensation plan unless:</p> <ul style="list-style-type: none"> <li>› The maximum dilution level for the scheme, together with all outstanding schemes, exceeds 5 percent of issued capital for a mature company and 10 percent for a growth company. However, ISS will support plans at mature companies with dilution levels for all outstanding schemes of up to 10 percent if each individual plan includes other positive features such as challenging performance criteria and meaningful vesting periods as these features partially offset dilution concerns by reducing the likelihood that options will become exercisable unless there is a clear improvement in shareholder value. In addition, ISS will support a plan's dilution limit that exceeds these thresholds if the annual grant limit under all plans is 0.5 percent or less for a mature company (1 percent or less for a mature company with clearly disclosed performance criteria) and 1 percent or less for a growth company.</li> <li>› The plan permits options to be issued with an exercise price at a discount to the current market price; or</li> <li>› Directors eligible to receive options or awards under the scheme are involved in the administration of the scheme and the administrator has the discretion over their awards.</li> </ul>

### Rationale for Change:

The policy change aligns the standalone policies for Hong Kong and Singapore markets with the ISS guidance for other markets in this region, that take into account the dilution of all of a company's equity-based compensation plans.

## Articles and Bye-law Amendments

Current ISS Policy, incorporating changes:	New ISS Policy:
<p><b>General Recommendation:</b> Vote case-by-case on proposed amendments to the Articles and Bye-Laws based on the details of the proposed amendments provided by the company.</p> <p>In the absence of adequate information that would specify the details of proposed amendments, generally vote against:</p> <ul style="list-style-type: none"> <li>› The proposed amendments;</li> <li>› The adoption of new Articles of Association; or</li> <li>› The replacement of the current constitutional document.</li> </ul> <p>Vote case-by-case on the adoption of new constitutional document with no previous reference.</p>	<p><b>General Recommendation:</b> Vote case-by-case on proposed amendments to the Articles and Bye-Laws based on the details of the proposed amendments provided by the company.</p> <p>In the absence of adequate information that would specify the details of proposed amendments, generally vote against:</p> <ul style="list-style-type: none"> <li>› The proposed amendments;</li> <li>› The adoption of new Articles of Association; or</li> <li>› The replacement of the current constitutional document.</li> </ul> <p>Vote case-by-case on the adoption of new constitutional document with no previous reference.</p>

### Rationale for Change:

it is a common practice for companies listed in Hong Kong and Singapore to provide a summary of the proposed amendments. Failure to provide a summary of the proposed amendments would be considered as contrary to the best practice in these markets.

Providing a summary of the proposed amendments benefits shareholders and the investing public and makes it easier for shareholders to make informed decisions. Based on the ISS policy survey (Question 20) 73 percent of respondents believed it is appropriate for ISS to issue a negative vote on article/bye-law amendment proposals that failed to clearly present which provisions are currently in force and which provisions are to be newly adopted.

While it is customary for Hong Kong listed companies to provide a summary of any proposed amendments to their articles or provide sufficient comparison between the existing and revised articles, the new policy will put a red flag on companies that failed to properly present the proposed changes to their respective articles.



## INDIA AND ASIA-PACIFIC REGIONAL POLICIES

### Board of Directors

#### Election of Directors- Accountability

Current ISS Policy, incorporating changes:	New ISS Policy:
<p><b>Problematic Audit-Related Practices:</b> Generally vote against all members of the audit committee up for reelection if:</p> <ul style="list-style-type: none"> <li>› The non-audit fees paid to the auditor are excessive<sup>1</sup>; or</li> <li>› The company did not disclose the audit fees and/or non-audit fees in the latest fiscal year.</li> </ul> <p><sup>1</sup>The non-audit fees have constituted more than 50 percent of the total auditor compensation during the fiscal year. ISS will make an exception if the excessive non-audit fees are in relation to special projects or due to unusual circumstances, and are not recurring in nature and are unlikely to create conflicts of interest.</p>	<p><b>Problematic Audit-Related Practices:</b> Generally vote against all members of the audit committee up for reelection if:</p> <ul style="list-style-type: none"> <li>› The non-audit fees paid to the auditor are excessive<sup>1</sup>; or</li> <li>› The company did not disclose the audit fees and/or non-audit fees in the latest fiscal year.</li> </ul> <p><sup>1</sup>The non-audit fees have constituted more than 50 percent of the total auditor compensation during the fiscal year. ISS will make an exception if the excessive non-audit fees are in relation to special projects or due to unusual circumstances, and are not recurring in nature and are unlikely to create conflicts of interest.</p>

#### Rationale for Change:

This policy update aligns the policies for Bangladesh, India, Malaysia, Philippines, Pakistan, Thailand, and Sri Lanka with other Asian markets and encourages issuers to improve the disclosure of the details of the auditor remuneration. It is the responsibility of the audit committee to ensure independent oversight of a company's financial reporting and internal control systems. Part of this responsibility is to ensure that non-audit services provided by the company's external auditor do not compromise the auditor's independence.

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