

Executive Summary

Global Proxy Voting Guidelines Updates and Process

2019 ISS Benchmark Policy Changes

Effective for Meetings on or after February 1, 2019

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SUMMARY OF ISS' POLICY DEVELOPMENT PROCESS

Each year, ISS conducts a robust, inclusive, and transparent global policy review process to update the ISS benchmark proxy voting guidelines for the upcoming year.

The policy update process begins with an internal review of emerging issues, relevant regulatory changes and notable trends seen across global, regional or individual markets. Based on information gathered throughout the year (particularly feedback from investors and companies during and after proxy season), ISS internal policy committees examine various governance and other voting topics across global markets. As part of this process, we also examine relevant academic research, other empirical studies, and commentary by market participants. To gain further insights from a broad range of market participants, ISS then conducts policy surveys, convenes roundtable discussions, and posts draft policy proposals for an open review and comment period. After this broad input and extensive review process, the final policy updates are proposed, reviewed by the ISS Global Policy Board and approved for the following year. For most markets, updated policies are announced in November of each year and apply to meetings held on and after February 1 of the following year. Different timings apply to a small number of markets that have off-cycle main proxy seasons.

As part of the annual review process, ISS also works with institutional investor clients who use ISS research to help implement their own customized approaches to proxy voting, or who may use various specialty (or thematic) policies. ISS helps clients apply more than 400 specific custom policies that reflect clients' unique corporate governance philosophies and investment strategies. ISS helps clients to develop and implement their own voting policies based on their organizations' specific mandates and requirements, or who may wish to use specialized policies. ISS solutions include special policies for socially responsible investors, faith-based investors, Taft-Hartley funds and their external asset managers, and public employee pension funds. The research and vote recommendations issued under these policies look at different factors and may differ from those under the ISS benchmark voting policies.

Key Strengths of the ISS Policy Development Process

Industry-Leading Transparency: ISS promotes openness and transparency in the development of its proxy voting policies. A description of the policy development and application process, and copies of all ISS guidelines and a number of FAQ (Frequently Asked Questions) documents, appears on our website under the Policy Gateway section.

Robust Engagement with Market Constituents: Listening to diverse viewpoints is critical to effective policy review, development and application processes. ISS' analysts regularly interact with institutional investors, company directors and other issuer representatives, shareholder proposal proponents, and other parties to gain deeper insight into critical issues. This ongoing dialogue enriches our analysis and informs our research and recommendations to clients. The policy review process also includes policy surveys and an open comment period on proposed policy changes which are open to all interested market constituents.

Global Expertise: ISS' policy development process is rooted in global expertise. ISS' network of global offices provides access to regional and local market experts for the Americas, Europe/Middle East/Africa (EMEA), and Asia-Pacific regions.

2018-2019 Outreach

Policy Surveys

On July 30, 2018, ISS launched two policy surveys. The high-level Governance Principles Survey covered a number of topical corporate governance areas, including auditors and audit committees, director accountability and track records, gender diversity on boards, and the "one-share, one-vote principle." This survey closed on Aug. 28. The second, more

detailed Policy Application Survey was split into three regions, which sought feedback on many areas related to the application and development of new and existing policies. This three-part survey covered a wide variety of topics including, but not limited to, independent chair shareholder proposals in the U.S.; ISS' quantitative pay-for-performance screens for US and Canada; director tenure and independence classification in Latin America; board chair accountability in contentious executive pay situations in the U.K.; non-executive director pay in Europe; board elections in the Middle East; cross-shareholdings and director affiliation in Japan; board independence in Taiwan; share issuance authorities in Hong Kong; and auditor fees and audit committees in India and certain Asia Pacific regional markets. The Policy Application Survey remained open until Sept. 21 to allow respondents sufficient time to consider the many issues raised. All surveys were available publicly and attracted input from investors and companies, as well as from a range of other market constituents.

We received 669 total responses to the Governance Principles survey, which represents an increase of 11 percent from the previous year's Governance Principles survey. That included 109 institutional investor respondents and an additional two responses from organizations that represent or provide services to institutional investors bringing the total investor responses to 111. Responses were also received from a total of 558 non-investors. At 470, responses from companies were the most prevalent, followed by 40 from consultants/advisors to companies, 37 corporate directors, and, 11 from academics, trade associations, and other organizations.

As in past years, the largest number of respondents – more than 400 in all – represented organizations based in the United States. Europe, including the U.K. (with 94 respondents), and Canada (with 53 respondents) were well-represented as well.

For the Policy Application Survey, we received 175 responses to this year's Americas Regional Policy Application Survey, of which 33 were from institutional investors and one organization representing them, and 142 from non-investors including companies, consultants/advisors to companies, corporate directors, and one organization representing certain types of companies. Respondents were based across the globe, with the bulk located in the U.S. (86 percent). Responses also came from organizations based in Canada (8 percent), and the U.K. & Ireland (4 percent), and other countries.

We received 53 responses to this year's Europe, Middle East, and Africa Regional Policy Application Survey, of which 25 were from institutional investors and an organization representing them, and 28 from non-investors including companies, consultants/advisors to companies, corporate directors, and one organization representing certain types of companies. Eleven of the respondents represented organizations based in the U.S., 10 were from organizations based in the U.K, and 24 were from organizations based in Continental European countries.

We also received 43 responses to this year's Asia-Pacific Regional Policy Application Survey, of which 20 were from institutional investors and an organization representing them, and 23 from non-investors, most of which were from companies followed by corporate directors and consultants/advisors to companies. Most of the respondents (48 percent) represented organizations based in the Asia-Pacific region. The second biggest number of respondents (36 percent) came from organizations based in the U.S.

With respect to the three regional policy applications surveys, we received a total of 271 responses in aggregate which included 78 responses from investors and 193 responses from non-investors.

Policy Roundtables/Feedback

In the U.S., ISS held four roundtable discussions with various market constituents as follows:

- › On Sept. 17, 2018, a telephonic roundtable with three institutional investors and one corporate director covered auditor ratification and audit committees, shareholder proposals seeking an independent board chair, director track record and accountability, board refreshment and board gender diversity.

- › On Sept. 20, 2018, a telephonic roundtable with seven institutional investors and one corporate director covered outlier director pay, CEO/median employee pay ratio disclosure, evergreen provisions in equity plans, and compensation at externally managed companies.
- › In-person roundtable with 13 institutional investors in New York City on Oct. 16, 2018 and 12 institutional investors in Boston on Oct. 23, 2018. Each of these roundtables included discussions on board gender diversity; director track record and accountability; excessive director pay; the potential use of Economic Value Added (EVA) measures in the ISS pay-for-performance model; the alternative calculation of vote results to adjust for unequal voting rights structures; and board responsiveness regarding environmental and social shareholder proposals.

In Canada, ISS held a telephonic roundtable discussion on Oct. 4, 2018 with six institutional investors, which covered board gender diversity, forward-looking compensation improvements, and EVA integration into the pay for performance analysis. Also, on Nov. 1, 2018, an in-person roundtable discussion with 27 institutional investors was held in Toronto. Topics covered included board gender diversity, forward-looking compensation improvements, and the potential use of Economic Value Added (EVA) measures in the ISS pay for performance model.

In Europe, three separate in-person roundtable discussions were held with institutional investors in September.

- › On Sept. 25, 2018, in Edinburgh and on Sept. 26, 2018 in London, ISS held a policy roundtable discussion with 21 institutional investors (representing eight organizations) and 29 institutional investors (representing 26 organizations), respectively, covering potential policy developments around board chair tenure, audit quality and accountability and pre-emption rights notably in light of recent developments of the UK corporate governance framework and audit quality issues in UK, and ESG integration into voting policy and engagement.
- › On Sept. 28, 2018, ISS held a policy roundtable discussion with 20 institutional investors (representing 18 organizations) in Paris covering policy applications following the implementation of the Sapin II act, recent developments of the French corporate governance framework, audit quality issues in Europe, and ESG integration into voting policy and engagement.

In Japan, one-on-one meetings were held with 15 institutional investors over the July to September time period to discuss director independence criteria, board diversity, balance sheet management, and approach to shareholder proposals, among other topics applicable to Japan.

In addition, ISS participated in numerous one-on-one and other discussions throughout the year with institutional investors and/or issuers and other stakeholders in the U.S., Canada, UK, Continental Europe, Japan, Asia and Australia.

Public Comment Period on Proposed Policy Changes

On Oct. 18, 2018, ISS opened its public comment period on proposed policy changes and invited institutional investors, corporate issuers, and any other interested constituents to comment on draft changes to ISS' 2019 proxy voting policies on all significant proposed policy changes. The comment period, which ran through Nov. 1, 2018, sought feedback on nine proposed updates to ISS' benchmark policy guidelines. The draft policy updates for the U.S. market addressed board gender diversity. For Canada, feedback was sought on expanding the current board gender diversity policy to cover a broader universe of "widely-held" companies listed on the Toronto Stock Exchange (TSX). For both the U.S. and Canada, ISS sought feedback on the potential use of Economic Value Added (EVA) metrics to assess company performance in executive compensation evaluations. For the U.K. and Ireland policy, ISS requested comments on its proposed plan to note any lead audit partners who have been linked with significant auditing controversies. In Europe, ISS sought input on extending the current ISS European Voting Guidelines on majority audit committee independence to all countries in Continental Europe covered under the European Voting Guidelines. For Asia-Pacific markets, the proposed policies included the introduction of minimum board independence and disclosure requirements in Taiwan and the introduction of excessive non-audit fee and disclosure guidelines for the India and Asia-Pacific Regional policies. In Japan, ISS sought comment on its suggestion to regard directors and statutory auditors who work (or worked) at companies whose shares are cross-held by the company in question as affiliated outsiders. In Brazil and

Americas Regional policies, ISS sought comment on its proposal to consider a director as non-independent after 12 or more years of consecutive board service.

As of Nov. 2, 2018, ISS received a total of 25 comments: 12 from institutional investors/investor groups, and 13 from corporate issuers, compensation consultants, and other non-investors. A summary of the comments is included in Appendix A. Comments from respondents who did not request confidential treatment of their submissions are posted on ISS' website under the Policy Gateway.

UPCOMING MILESTONES

November-December 2018:

- › *Dec. 7:* Publication of updated ISS benchmark policies (proxy voting guidelines) for 2019 on ISS website.
- › *Dec. 31:* Publication of updated Frequently Asked Questions ("FAQ") documents on ISS website.

January-February 2019:

- › *January:* ISS will evaluate new U.S. shareholder proposals anticipated for 2019 and update its U.S. Proxy Voting Guidelines as needed.
- › *February 1:* The updated 2019 ISS benchmark policies (proxy voting guidelines) will take effect for meetings occurring on or after this date.

SUMMARY OF POLICY UPDATES

ISS' Global Benchmark Proxy Voting Guidelines consider global and market-specific regulations and best practices (such as those found in listing rules, local codes of best practice, etc.), investors' growing demand for transparency in corporate reporting, and direct input from institutional investor clients and other market constituents in addressing topics such as board structure, director accountability, corporate governance standards, executive compensation, shareholder rights, corporate transactions, and social/environmental issues. The updates contained in this document reflect changes to proxy voting policies within ISS's three research regions – the Americas, Europe/Middle East/Africa (EMEA), and Asia-Pacific. These changes have been based on significant engagement and outreach with multiple constituents, along with a thorough analysis of regulatory changes, best practice codes, emerging governance and voting trends, and academic research.

The 2019 policy updates are grouped by region with separate documents addressing Americas, EMEA, and Asia-Pacific policy changes. These updates are available through the ISS Policy Gateway. The significant policy updates for the upcoming year include:

- › Director Elections – Board Gender Diversity (U.S.)
- › Director Elections – Board Gender Diversity (Canada)
- › Director Elections – Director Independence-Tenure (Latin America)
- › Auditor Ratification – Lead Engagement Partner (UK/Ireland and Europe)
- › Director Elections – Audit Committee Independence (Europe)
- › Director and Supervisor Elections – Board Independence & Disclosure (Taiwan)
- › Director Elections – Director Independence (Japan)
- › Director Elections – Auditor Fees/Audit Committees (India and Asia Pacific Regional)

ISS is also making a number of minor edits and changes to ensure the guidelines take account of recent changes in market practice or to clarify current ISS practice. The full text of the updates, along with detailed results from the policy surveys and posted comments during the open comment period, are all available on ISS' website in the Policy Gateway.

Pay-For-Performance Model – after assessing the use of Economic Value Added (EVA) data in Financial Performance Assessment screens for the U.S. and Canada, ISS will be making no methodology change for 2019.

The ISS 2019 Global Policy Updates will be effective for meetings that occur on or after Feb. 1, 2019.

The main updates are summarized below.

Americas Updates

Director Elections – Board Gender Diversity (U.S.)

Many shareholders are increasingly voicing concerns about U.S. companies that have no female representation on their boards. According to the results of the ISS 2018 Governance Principles policy survey, only three percent of the investor respondents answered that they do not consider the lack of board gender diversity to be problematic. Furthermore, a number of studies have found board gender diversity to be positively associated with better company performance. The presence of at least one female director on a board has become the market norm.

Beginning in 2018, ISS proxy research reports began noting where a company's board lacked gender diversity. However, no adverse ISS voting recommendations were issued for this reason.

ISS is now announcing a new voting policy on directors for companies with no female directors serving on their boards, with a year's grace period before implementation. The new policy will be effective for meetings on or after Feb. 1, 2020, and will be applicable for companies in either the Russell 3000 or S&P 1500 indices. After the year-long grace period, which will allow boards who wish to do so to recruit qualified women candidates, adverse voting recommendations may be issued against nominating committee chairs at boards with no gender diversity. ISS will generally issue recommendations against the election of the chair of the nominating committee, but on a case-by-case basis, the elections of other directors who are responsible for the board nomination process may be impacted (for example, at companies with no formal nominating committee). In exceptional circumstances, the policy would allow the absence of board gender diversity to be temporarily explained and excused.

Director Elections – Board Gender Diversity (Canada)

Lack of board gender diversity continues to be a high-profile corporate governance concern in the Canadian market as investor pressure on boards has grown in the wake of robust disclosure requirements that came into effect for the 2015 proxy season. These disclosure requirements appear to have moved many larger TSX-listed reporting issuers (in particular, Composite Index companies) to add more women to their boards.

For the 2018 proxy season, ISS introduced its Canadian board gender diversity policy for S&P/TSX Composite Index companies. Under this policy, which came into effect on Feb. 1, 2018, if: i) the company has not adopted a formal written gender diversity policy*; and ii) no female directors serve on the board; then ISS will generally recommend withhold votes for the Chair of the Nominating Committee or Chair of the committee designated with the responsibility of a nominating committee, or the chair of the board if no nominating committee has been identified or no chair of such committee has been identified. This policy does not apply to companies with four or fewer directors, to companies that have become publicly-listed within the current or prior fiscal year or companies that have graduated from the TSX Venture exchange within the current or prior fiscal year.

**As per the disclosure requirements by the Canadian Securities Regulators, the issuer should disclose whether it has adopted a written policy relating to the identification and nomination of women directors. The policy, if adopted, should describe a short summary of its objectives and key provisions; the measures taken to ensure that the policy has been effectively implemented; annual and cumulative progress by the issuer in achieving the objectives of the policy, and whether and, if so, how the board or its nominating committee measures the effectiveness of the policy.*

ISS is expanding the scope of its Canadian board gender diversity policy to cover a broader universe of "widely-held" companies listed on the Toronto Stock Exchange (TSX) commencing in 2019. The term "widely-held" refers to Composite Index companies as well as other companies that ISS designates as such based on the number of ISS clients that hold a company's securities. The expanded policy would come into effect for shareholder meetings held on or after Feb. 1, 2019.

Director Elections – Director Independence – Tenure (Latin America)

Under the current ISS Voting Guidelines for both Brazil and Americas Regional (Latin American markets, excluding Brazil), director tenure is not a determining factor in making director independence classifications. In recent years however, a number of markets covered by these policies (mainly Argentina, Brazil, and Peru) have implemented a mix of both hard and soft laws that either cap tenure for independent directors or suggest that "excessive" tenure may compromise a director's independence. Most notably, Brazil's Corporate Governance Code now recommends that independent directors should not serve an excessive number of terms, without defining what would be considered "excessive". Meanwhile, Argentina's securities regulator (CNV) announced in April 2018 a regulation deeming directors as non-independent after serving a tenure of 10 consecutive years.

Under the updated classification of directors, beginning in Feb. 2019, any director who has served on the board for 12 or more years will be considered non-independent. If local best practices recommends a lower tenure limit, that limit will be applied.

The change to ISS' classification of directors is in response to the recent developments in various markets covered by the Brazil and Americas Regional Policies. The 12-year tenure cap on independence seeks to balance the importance of board refreshment with allowing independent board members to build company-specific knowledge.

ISS' Pay-for-Performance Model – no methodology change for 2019, update on potential use of Economic Value Added (EVA) data in Financial Performance Assessment screen (U.S. and Canada)

ISS has been assessing the potential use of EVA data in the Financial Performance Assessment screen of its pay-for-performance model and invited feedback on this. The topic was discussed at client roundtables and in one-to-one client discussions, and comments were also received through the policy surveys and public comment period. Many institutional investors expressed agreement with the direction taken by ISS to explore the potential of economic performance (EVA) factors to add insight into company performance beyond market performance (TSR) and accounting performance (GAAP) measures, and that further consideration of the additional insight that EVA could bring to investors as part of financial performance analysis would be welcome. To that end and for informational purposes, EVA metrics will be featured in ISS research reports on a phased-in basis over the 2019 U.S. and Canadian annual meeting season. Some respondents and commenters felt that ISS should not replace GAAP performance data with EVA performance measures in the Financial Performance Assessment (FPA) screen at this time. Feedback received indicates that investors would like more time to fully understand the EVA methodology and its potential to add additional insight to pay-for-performance evaluation.

ISS will therefore not be introducing EVA measures into the quantitative pay-for-performance model for 2019 and will continue using accounting performance (GAAP measures) in the Financial Performance Assessment for the 2019 proxy

season. We will continue to explore the potential for future use of EVA to add additional insight as part of financial performance analysis.

European, Middle East and African Updates

Auditor Ratification – Lead Engagement Partner (UK/Ireland and Europe)

In the UK and across continental Europe, a number of recent high-profile corporate failures and accounting scandals have occurred at large, widely-held public companies. These incidents have raised questions about the efficacy of the financial statements and the need for improved audit quality and stronger boardroom oversight. Within this context, the role and performance of auditors has come under increased scrutiny, and there are emerging signs of investors' willingness to hold auditors directly accountable for perceived failures in audit quality.

For its UK/Ireland and European policies, in 2019, ISS will track significant audit quality issues, with a focus on accounting controversies, at the lead engagement partner level, wherever such information is available for UK, Irish and European companies. Where the information is available, ISS research reports will note any lead audit partners who have been linked with significant auditing controversies and, where they are engaged in the audit for other public companies, this connection will be raised for investor attention – even if no audit concerns have been identified at the subject company. A negative recommendation on auditor ratification may be applied in the most severe cases, e.g. where the lead audit partner has previously been linked with a corporate failure scenario or other material destruction of shareholder value arising from fraud or other accounting issues.

This update, to a large extent, clarifies ISS' current approach when evaluating auditor ratification proposals.

Director Elections – Audit Committee Independence (Continental Europe)

Audit committees play a decisive role in contributing to a high-quality statutory audit. The 2014 European audit directive (2014/56/EU) requires that “a majority of the members of the audit committee shall be independent of the audited entity. The chairman of the audit committee shall be appointed by its members or by the supervisory body of the audited entity, and shall be independent of the audited entity”. Those independence requirements have been progressively transposed in most local European regulations or codes and can be considered as a common standard.

Under current ISS European Voting Guidelines, the policy requiring majority independent audit committees is applicable to Belgium, the Netherlands and Switzerland, but not to other countries covered. The policy update extends the current ISS European Voting Guidelines on majority audit committee independence to all countries in Continental Europe covered under the European Voting Guidelines by taking into account audit committee members who are elected by shareholders. In addition, the update strengthens the policy by requiring the chairman of the audit committee to be independent.

The updated policy aligns the European Voting Guidelines with an increasingly shared standard and establish a common approach in Continental Europe. It is also aligned with investor views on this topic of growing concern, as highlighted in ISS' 2018 Governance Principles survey and the discussions held during policy roundtable discussions with institutional investors in Europe and the UK.

Asia-Pacific Updates

Director and Supervisor Elections – Board Independence & Disclosure (Taiwan)

ISS' Taiwan Policy for boardroom elections at Taiwan-listed companies does not currently consider the level of board independence or assess non-independent director and supervisor candidates.

Board Independence: Pursuant to regulation, all listed companies in Taiwan must have at least two independent directors and boards must be at least 20 percent independent, which falls below the one-third independence requirement of other markets in the region (e.g. China, Hong Kong and Singapore). Furthermore, pursuant to regulation, all listed companies with at least TWD 2 billion paid-in capital must establish an audit committee composed of at least three independent directors by 2019 while companies with smaller capital sizes are required to complete such requirements by 2022. This widespread establishment of audit committees is expected to raise overall board independence levels.

Statutory directors and supervisors: In Taiwan, legal entities, such as governmental organizations and corporations, can also serve as non-independent directors or supervisors, often referred to as a "statutory director" or a "statutory supervisor." These legal entities can either appoint individuals as candidates or run for election themselves and appoint representatives to perform their fiduciary duties after the election without shareholder approval. As such, 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 representative.

Furthermore, new regulations released in 2018 required all listed companies to adopt a nomination system for the election of directors and supervisors beginning in 2021. 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 non-nomination system, which applies to non-independent directors and supervisors, where no disclosure is required in advance of the general meeting.

Amidst these regulatory initiatives regarding the nomination system and audit committees, an upward trend in the independence levels of Taiwanese boards has been seen in recent years.

ISS is updating its Taiwan policy for director and supervisor elections by introducing a minimum one-third board independence level and requirements for the disclosure of statutory director and supervisor representatives.

Under the updated policy, when the company employs the nomination system, ISS will generally recommend a vote for all non-independent director candidates, unless:

- › The board is less than one-third independent under ISS classification of directors; and/or
- › The names and background of representatives of statutory director candidates are not disclosed.

Further, ISS will generally recommend a vote for all supervisor candidates when the company employs the nomination system, unless the names and background of representatives of statutory supervisor candidates are not disclosed.

The introduction of the minimum independence level and requirements for the disclosure of statutory director and supervisor candidate representatives in director and supervisor elections in Taiwan generally aligns the ISS Taiwan policy with the viewpoints expressed by institutional investors during ISS' policy development process this year.

Director Elections – Director Independence (Japan)

Under common Japanese market practice, shares held by companies for purposes other than pure investment, including cross holdings, are usually aimed at strengthening business relationships. Such practices reduce market discipline over corporate executives as management-friendly shareholders will generally always support company-backed proposals and oppose shareholder proposals. Therefore, directors and statutory auditors representing cross-shareholding partner companies cannot be regarded as independent.

Japan's Corporate Governance Code, updated in June 2018, calls on companies to revisit their rationale for owning such cross holding shares with an eye toward their cost of capital and risk-return profiles. Cash tied up in such cross shareholdings cannot be allocated either for investments in the core business or for return to shareholders, causing

capital efficiency to deteriorate. It has long been noted that Japanese companies' low capital efficiency largely accounts for the long-term underperformance of shareholder returns.

ISS is implementing a new independence criterion for Japanese directors and statutory auditors. ISS will regard both directors and statutory auditors who work (or worked) at companies whose shares are held by the company in question as "cross-shareholding shares", as non-independent directors. Cross-shareholdings here refer not only to mutual shareholdings but also unilateral holdings. This updated director classification is in line with institutional investor views received through ISS' policy development process this year.

This new independence criterion will be applied after a one-year transition period to be effective February 2020 to give companies time, if they wish, to revisit their rationales for holding such shares or to unwind such investments.

Director Elections – Auditor Fees/Audit Committees (India and Asia Pacific Regional)

One generally accepted principle of global corporate governance best practice 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 the independence of the company's statutory external auditor. The payment of excessive fees for services from the auditor not directly related to the audit function is recognized as potentially posing a conflict of interest that could impair the auditor's independent judgement. Further, failure to disclose sufficient information regarding the fees paid to the auditor in the last fiscal year raises concerns that the company is not being transparent about its relationship with its auditor.

ISS is updating the policies for the India and Asia-Pacific Regional policies for the election of directors to hold audit committee members accountable if the company is considered to have paid excessive non-audit fees or if the company did not disclose sufficient information about the fees paid to its auditors. The non-audit fees will generally be considered excessive if the non-audit fees have constituted more than 50 percent of the total auditor compensation during the fiscal year. In cases of payment of excessive non-audit fees or inadequate disclosure on the details of the auditor remuneration, ISS will issue negative vote recommendations on the election of audit committee members who appear on the ballot.

In the case of India, a partial application of the policy was adopted in 2018 in view of recent regulatory changes regarding the ratification of auditors. India's Companies Act of 2013 was recently amended such that companies are no longer required to ratify the appointment of statutory auditors on an annual basis at their AGMs. Audit firms in India generally serve up to two terms of five consecutive years. While some companies put to vote the appointment of statutory auditors and/or their remuneration, other companies opted not to put any auditor-related proposal on ballot as the auditors are serving their respective terms. The updated policy will apply whether or not the appointment of the auditor and/or its remuneration is on the ballot.

The updated policy with respect to holding audit committees accountable for excessive non-audit fees and poor disclosure of auditor fees reflects the results from both investor and non-investor respondents through ISS' Asia-Pacific regional policy survey this year. Moreover, the updated policy will generally align the policies for Bangladesh, India, Malaysia, Philippines, Pakistan, Thailand, and Sri Lanka with other ISS Asian market policies.

Technical Updates

We also made a number of technical changes to the Policy Guidelines. These updates were made to codify current ISS practice, add criteria to consider when evaluating an item, harmonize policy with other markets, bring policies into effect that were announced last year but delayed for a grace period, and/or add or subtract markets based on local market changes. Appendix B provides a full list of these technical policy updates.

OFF-CYCLE MARKETS

Australia/New Zealand Policy Update

ISS updated its Australia and New Zealand benchmark policy guidelines for meetings on or after Oct. 1, 2018. Policy updates included the following:

- › *Director Independence:* With respect to ISS' director independence definition, the materiality levels for Australia and New Zealand were tightened to use the same, lower threshold for all transactions, no longer dependent on the size of the adviser (of which the director is a major shareholder, partner or employee) providing the services;
- › *Uncontested Director Elections:* ISS' Australia policies on audit, risk, and governance failures as it relates to uncontested director elections were updated to reflect the concerns and findings of the Royal Commission and taking into account audit and risk committee failures at banks; and
- › *Remuneration:* ISS' Australia policies for the review of the Remuneration Report and for the review of Incentive Plans were updated to address the concerns surrounding the changes in some remuneration structures in Australia, mainly by underperforming companies.

For details, a copy of the Australia and New Zealand benchmark policy changes can be found [here](#).

APPENDIX A – SUMMARY OF COMMENTS FROM COMMENT PERIOD

The comment period is an important part of ISS' policy development process, which provides an opportunity for consideration of feedback on proposed ISS key policy changes from institutional investors, corporate issuers, and other market constituents.

Board Gender Diversity

Both investors and companies were strongly supportive of the direction of the proposed ISS policy. One investor said, "Our expectation is that all companies should recognise that board gender diversity is a business imperative now." Most investors supported the one-year transition period, but one commenter wanted ISS to start implementing the new policy in 2019 because "the urgency of the issue requires immediate action." Some commenters suggested that ISS should escalate to recommending against the full nominating committee if there was still no gender diversity on the board after a year or two. In terms of how long a company should be given to rectify a lack of diversity on its board, comments range from six months to the time of the next boardroom vacancy. Aggravating factors that commenters identified included having a director on multiple boards with no diversity, a non-independent woman with a close association with controlling shareholders, failure to take advantage of vacancy on the board to appoint a woman, ignoring high levels of support for shareholder proposals related to increasing gender diversity on the board, and others. One commenter suggested that ISS should consider ethnic diversity as well as gender diversity.

The comments received about the Canadian Board Gender Diversity policy supported ISS' proposed expansion of the existing policy beyond the Composite Index to widely-held companies. Some investors urged ISS to go farther to expand the policy beyond one female director in the future, for example to mirror the 30% Club of Canada's target of 30% female representation on both the board and in executive management positions by 2022. One commenter did not agree with ISS' plan to exempt newly-listed companies or smaller companies because the organization asserted that having female representation on the board could lead to value creation and therefore should not be applicable only to larger or more established companies. One commenter suggested that companies in sectors with statistically fewer women in management should be given a little more time to comply, given that it demonstrated a strong effort to appoint a woman to the board by having woman board observers or a specific diversity program in place.

Other Governance Topics

Investors were supportive of the proposals to begin considering the level of board independence in evaluating director elections at Taiwanese companies, to begin using a tenure limit for determining independence of board members in Brazil and the Americas, and to factor in cross-holdings in both directions in determining independence of directors and statutory auditors in Japan. We only received comments on these policy changes from investors. Some commenters disagreed slightly on details of implementation, such as whether or not to allow a one-year grace period.

After recent high-profile corporate failures and accounting scandals at large, public companies, investors were very supportive of the proposal to note any lead audit partners and/or firms who have been linked with significant auditing controversies and raise their involvement at other public companies for investor attention. Some non-investors cautioned that information about the lead auditor would be welcome but information about the auditing firm would not be helpful. One company said that the information would not be an area of concern if the controversy happened outside of its sector. Commenters generally welcomed ISS adopting a similar approach in any jurisdiction where the information is available to help ensure consistency on this policy across all jurisdictions.

Investors welcomed the extension of the current ISS European Voting Guidelines on majority audit committee independence to all countries in Continental Europe covered under the European Voting Guidelines. Some investors wanted ISS to go farther and expect an audit committee to be comprised entirely of independent non-executive directors. One investor said that exceptions could be made in the case where the chair is deemed non-independent because of tenure only but the company has a good succession plan in place. In situations where the composition of

the new committee had not been announced, investors generally suggested that ISS recommend voting against the remaining non-independent directors.

Commenters generally supported ISS's proposal to hold audit committee members in India and the Asia-Pacific region accountable if the company is considered to have paid excessive non-audit fees or if the company did not disclose sufficient information about the fees paid to its auditors. Some commenters felt that ISS should sanction only the chair of the audit committee. One investor would prefer that ISS sanction the company by voting against the resolution on auditor remuneration or the ratification of auditors, then move to recommend against the chair of the audit committee if such resolutions were not on the ballot. Some commenters felt that non-Indian Asian markets may need a little more time to comply with these requirements, so policy application should not begin in those markets until 2020.

APPENDIX B – FULL LIST OF TECHNICAL POLICY UPDATES

The following table lays out minor or technical revisions to ISS policy guidelines for 2019.

Market	Topic	Policy Change
U.S.	Director Accountability	Taking steps to discourage the practice of management seeking to ratify certain existing shareholder rights in order to block a shareholder proposal that seeks more favorable shareholder rights.
U.S.	Reverse Stock Splits	Broadening the wording of the U.S. reverse stock split language to allow analysts to take a case-by-case approach for companies that are not listed on major stock exchange and may have a legitimate need to carry out a reverse stock split.
U.S.	Director Performance Evaluation	Strengthens the existing policy by explicitly including five-year total shareholder returns as an evaluation factor.
U.S.	Chronic Poor Attendance	Codifies the approach taken when faced with chronic poor attendance by directors, which is defined as three or more consecutive years of poor attendance without a reasonable explanation for the absenteeism. Revised policy may also be applied in certain non-consecutive situations, such as poor attendance the previous year and three out of the four prior years.
Canada	Overboarding	Removes the attendance factor from the Canadian overboarding policy and revises the overboarding thresholds to harmonize Canadian and U.S. overboarding thresholds. This policy change was announced last year and is taking effect in 2019 after a one-year grace period.
Most Markets	Environmental & Social Shareholder Proposal Analysis Approach	Adds the criteria of whether there are significant controversies associated with the company's environmental or social practices as a factor to consider when analyzing shareholder proposals that do not fall under a more specific policy guideline.
Hong Kong	General Share Issuance Mandate	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 to 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 & Singapore	Article & Bylaw Amendment	Defines the provision of a summary of the proposed amendments to their articles of association and/or by-laws as "best practice" in these markets.
Taiwan	Equity-based Compensation	Expands the scope of the Equity Based Compensation policy guidelines to include employee restricted stocks and/or employee stock warrants.
Hong Kong, Singapore	Election of directors, non-contested	Creates a carve-out for newly-appointed committee members, or for members who did not serve on their committees for the entire previous year. Considered on a case-by-case basis for problematic governance practices.

Hong Kong, Singapore	Equity Incentive Plans	Adds several phrases to Hong Kong and Singapore Equity Compensation Plans to better align with international voting guidelines for equity incentive plans.
Brazil	NED Equity Compensation	Adds flexibility to the Brazil compensation plan policy to allow analysts to vote against NED equity compensation plans that do not have adequate safeguards against self-dealing.
Brazil	Management Compensation – Brazil	Update the Management Compensation policy for Brazil to provide greater transparency on such approach, indicating that the vote recommendation will take into consideration the existence of a compelling rationale presented by the company.
Brazil	Director Elections – Unbundled Elections	Includes policy framework for analysis of unbundled elections. When the election is unbundled and the overall board independence level falls short of the minimum recommended under ISS policy guidelines, ISS will support the independent candidates, as well as the chairman and recommend against non-independent nominees.
Americas Regional	Capital Structure – Share Issuance Requests	Updates Capital Structure – Share Issuance Requests guidelines to include a framework to address capitalization proposals regarding shelf registration programs to be analyzed on a case-by-case basis for Latin American companies (Argentina, Colombia, Chile, Mexico and Peru).
Americas Regional	Other Items – Charitable Donations	Adds a policy under Other Items that provides a framework to analyze the approval of corporate donations. The approval of corporate donations is seen on the agenda of some Colombian companies. While the policy will largely affect Colombia, this update will apply to the Americas Regional policy, which covers all markets in the Latin American region, with the exception of Brazil.
UK and Ireland	Board Accountability	Changes language in Director Election guidelines to include instances where "material failures of governance, stewardship, risk oversight" have occurred at other issuers outside of the subject company. This approach aligns the UK/Ireland policy with other markets.
UK and Ireland	Director Attendance	Changes wording in director attendance guidelines to highlight where there are recurring attendance issues over a period of time.
UK and Ireland	Long-Term Incentive Plans Dilution Limits	A minor clarification that the dilution limits for new or amended LTIPs should be set in line with Investment Association (IA) guidelines.
UK and Ireland	Post-Vesting LTIP Holding Periods	Changes language in Remuneration Policy: LTIPs to take account of recent changes in market practice, as the majority of FTSE 350 companies now have a five-year release horizon for LTIP awards. This is typically structured as a performance period of three years, followed by a two-year holding period for any vesting shares.
UK and Ireland	Remuneration Policy: Target Bonus	Adds language to the Remuneration Policy: Annual Bonus section to give guidance as to ISS' expectations that the target bonus should typically be set at no more than 50% of the maximum bonus potential.

UK and Ireland	Smaller Companies: Accept Financial Statements and Statutory Reports	Adds the language: "Details of compliance against a "recognised corporate governance code" to list of minimum disclosure requirements to "Smaller Companies: Accept Financial Statements and Statutory Reports" guidelines to reflect new AIM rules.
UK and Ireland	Share Issuance Authorities	Slightly changes language of Share Issuance Authorities guidelines to clarify current ISS expectation that a company issue share issuances in line with Pre-emption Group Principles.
UK and Ireland	Remuneration Report: NED Fees	Adds language to Remuneration Report: NED Fees guidelines to allow for the flexibility to reflect on the quantum of NED fees within the scope of the remuneration report.
UK and Ireland	Remuneration Report: LTIP Awards	Adds language to the Remuneration Report: LTIPs guidelines to reduce unintended consequences in long-term incentive grants in cyclical businesses and/or those sectors whose underlying performance is driven by external factors.
Continental Europe	Stock (Scrip) Dividend Alternative	Adapts the equivalent EMEA policy to the European context and codifies the way ISS has been analyzing stock (scrip) dividend proposals. Gives analyst the basis for recommending against excessively discounted stock dividend proposals.
Continental Europe	Composition of Committees	Includes Iceland in the composition of committee policy guidelines to vote against the (re)election of executives who serve on the company's audit or remuneration committee.
Continental Europe	Composition Nomination Committee	Includes Iceland in the nomination committee policy guidelines to vote for proposals to elect or appoint a nominating committee consisting mainly of non-board members.
Continental Europe	Capital Increase Thresholds	Applies change that was confirmed last year (but delayed for a one-year grace period) to change guidelines for voting for issuance authorities with pre-emptive rights to a maximum of 50 percent (previously 100 percent) over currently issued capital. Changes guidelines for voting for issuance authorities without pre-emptive rights to a maximum of 10 (previously 20) percent.
Poland	Overboarding	Applies director overboarding policy to Poland. Harmonizes policy across EU markets.
Greece	Director Length of Mandate	Adds Greece to list and removes Italy from list of markets included in recommendation to 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. Italian law establishes the maximum director term at three years.

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