



RiskMetrics Group

International Corporate Governance Policy

2009 Updates

November 25, 2008

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RiskMetrics International Corporate Governance Policy 2009 Updates

Effective for Meetings on or after Feb. 1, 2009
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These policy updates present changes and clarifications to RiskMetrics Group’s (“RMG”) International benchmark guidelines for 2009. If new issues arise, such as shareholder proposals or regulatory developments, prior to the next formal update, RMG will adopt policies to cover such issues on an as-needed basis.

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BOARD

Corporate Governance Issue:

RiskMetrics Classification of Directors (International Policy)

Current Policy Position: The RMG Director Classification Criteria for 2009 remain unchanged from 2008. They are included here for reference.

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RiskMetrics Classification of Directors - International Policy 2009

Executive Director

- Employee or executive of the company;
- Any director who is classified as a non-executive, but receives salary, fees, bonus, and/or other benefits that are in line with the highest-paid executives of the company.

Non-Independent Non-Executive Director (NED)

- Any director who is attested by the board to be a non-independent NED;
- Any director specifically designated as a representative of a significant shareholder of the company;
- Any director who is also an employee or executive of a significant shareholder of the company;
- Beneficial owner (direct or indirect) of at least 10% of the company's stock, either in economic terms or in voting rights (this may be aggregated if voting power is distributed among more than one member of a defined group, e.g., family members who beneficially own less than 10% individually, but collectively own more than 10%), unless market best practice dictates a lower ownership and/or disclosure threshold (and in other special market-specific circumstances);
- Government representative;
- Currently provides (or a relative^[1] provides) professional services^[2] to the company, to an affiliate of the company, or to an individual officer of the company or of one of its affiliates in excess of \$10,000 per year;
- Represents customer, supplier, creditor, banker, or other entity with which company maintains transactional/commercial relationship (unless company discloses information to apply a materiality test^[3]);
- Any director who has conflicting or cross-directorships with executive directors or the chairman of the company;
- Relative^[1] of a current employee of the company or its affiliates;
- Relative^[1] of a former executive of the company or its affiliates;
- A new appointee elected other than by a formal process through the General Meeting (such as a contractual appointment by a substantial shareholder);
- Founder/co-founder/member of founding family but not currently an employee;
- Former executive (5 year cooling off period);
- Years of service is generally not a determining factor unless it is recommended best practice in a market and/or in extreme circumstances, in which case it may be considered.^[4]

Independent NED

- No material^[5] connection, either directly or indirectly, to the company other than a board seat.

Employee Representative

- Represents employees or employee shareholders of the company (classified as "employee representative" but considered a non-independent NED).

Footnotes:

^[1] "Relative" follows the U.S. SEC's definition of "immediate family members" which covers spouses, parents, children, stepparents, step-children, siblings, in-laws, and any person (other than a tenant or employee) sharing the household of any director, nominee for director, executive officer, or significant shareholder of the company.

^[2] Professional services can be characterized as advisory in nature and generally include the following: investment banking/financial advisory services; commercial banking (beyond deposit services); investment services; insurance services; accounting/audit services; consulting services; marketing services; and legal services. The case of participation in a banking syndicate by a non-lead bank should be considered a transaction (and hence subject to the associated materiality test) rather than a professional relationship.

^[3] If the company makes or receives annual payments exceeding the greater of \$200,000 or five percent of the recipient's gross revenues (the recipient is the party receiving the financial proceeds from the transaction).

^[4] For example, in continental Europe, directors with a tenure exceeding 12 years will be considered non-independent. In the United Kingdom and Ireland, directors with a tenure exceeding nine years will be considered non-independent, unless the company provides sufficient and clear justification that the director is independent despite his long tenure.

^[5] For purposes of ISS' director independence classification, "material" will be defined as a standard of relationship (financial, personal or otherwise) that a reasonable person might conclude could potentially influence one's objectivity in the boardroom in a manner that would have a meaningful impact on an individual's ability to satisfy requisite fiduciary standards on behalf of shareholders.

Corporate Governance Issue: Discharge of Directors (Europe)

Current Policy Position: Currently, RMG recommends a vote for the discharge of board and management, unless:

- There are serious questions about actions of the board or management for the year in question; or
- Legal action is being taken against the board by other shareholders.

In addition, RMG generally recommends a vote against proposals to remove approval of discharge of board and management from the agenda.

New Policy Position: RMG will generally recommend voting for the discharge of directors, including members of the management board and/or supervisory board, *unless* there is reliable information about significant and compelling controversies that the board is not fulfilling its fiduciary duties warranted on a case-by-case basis by:

- A lack of oversight or actions by board members which invoke shareholder distrust related to malfeasance or poor supervision, such as operating in private or company interest rather than in shareholder interest; or
- Any legal issues (e.g. civil/criminal) aiming to hold the board responsible for breach of trust in the past or related to currently alleged actions yet to be confirmed (and not only the fiscal year in question), such as price fixing, insider trading, bribery, fraud, and other illegal actions; or
- Other egregious governance issues where shareholders will bring legal action against the company or its directors.

For markets which do not routinely request discharge resolutions (e.g. common law countries or markets where discharge is not mandatory), analysts may voice concern in other appropriate agenda items, such as approval of the annual accounts or other relevant resolutions, to enable shareholders to express discontent with the board.

RiskMetrics will make a proactive effort in communicating and explaining the implications of this policy to companies.

Rationale for Update: Having noted a paradigm change in shareholder behavior to exercise their rights, RiskMetrics acknowledges the fact that shareholders have increasingly noticed the value of discharge resolutions in terms of corporate governance. Next to director elections, dismissal of board members and remuneration packages, the discharge resolution is one of the most prominent, but still undervalued expressions of shareholder content/discontent. This policy aims to adjust the awareness for this important shareholder right.



Corporate Governance Issue: Contested Director Elections (International)

Current Policy Position: Currently, RMG generally recommends a vote against shareholder nominees, unless they demonstrate a clear ability to contribute positively to board deliberations.

For shareholder nominees, RMG places the persuasive burden on the nominee or the proposing shareholder to prove that they are better suited to serve on the board than management's nominees. Serious consideration of shareholder nominees will be given only if there are clear and compelling reasons for the nominee to join the board. These nominees must also demonstrate a clear ability to contribute positively to board deliberations;

some nominees may have hidden or narrow agendas and may unnecessarily contribute to divisiveness among directors.

New Policy Position: For contested elections of directors, e.g. the election of shareholder nominees or the dismissal of incumbent directors, RMG will make its recommendation on a case-by-case basis, determining which directors are best suited to add value for shareholders.

The analysis will generally be based on, but not limited to, the following major decision factors:

- Company performance relative to its peers;
- Strategy of the incumbents versus the dissidents;
- Independence of directors/nominees;
- Experience and skills of board candidates;
- Governance profile of the company;
- Evidence of management entrenchment;
- Responsiveness to shareholders;
- Whether a takeover offer has been rebuffed;
- Whether minority or majority representation is being sought.

When analyzing a contested election of directors, RMG will generally focus on two central questions: (1) Have the dissidents proved that board change is warranted? And (2) if so, are the dissident board nominees likely to effect positive change (i.e., maximize long-term shareholder value).

This policy applies to core and non-core companies.

Rationale for Update: Once fairly infrequent, contested elections, sometimes called proxy contests, have become increasingly common in recent years as large shareholders, frustrated by poor returns and unresponsive boards, have sought to challenge the *status quo*. Even when dissidents do not achieve board seats, studies indicate that at least some of their objectives are often achieved because the response to a proxy contest, or one that was narrowly averted, usually includes new strategic initiatives, a restructuring program, governance changes, or selected management changes. Based on these considerations, the proposed policy provides a framework for the analysis of contested elections, with the goal of increasing long-term value for shareholders.



Corporate Governance Issue:

Election of Former CEO as Chairman of the Board (Europe)

Current Policy Position: RMG does not currently have a policy on this issue, beyond the requirement in some markets that at least half the board be composed of independent non-executive directors.

New Policy Position: RMG will generally recommend a vote against the election or re-election of a former CEO as Chairman to the supervisory board or board of directors at core companies in Germany, the U.K. and the Netherlands. In markets such as Germany, where the general meeting only elects the nominees and, subsequently, the new board's chairman, RMG will generally recommend a vote against the election or re-election of a former CEO, unless the company has publicly confirmed prior to the general meeting that he will not proceed to become chairman of the board.

Considerations should be given to any of the following exceptional circumstances on a CASE-BY-CASE basis if:

- There are compelling reasons that justify the election or re-election of a former CEO as chairman; or

- The former CEO is proposed to become the board's chairman only on an interim or temporary basis; or
- The former CEO is proposed to be elected as the board's chairman for the first time after a reasonable cooling-off period; or
- The board chairman will not receive a level of compensation comparable to the company's executives nor assume executive functions in markets where this is applicable.

Rationale for Update: This new policy is intended to reflect local best practice requirements as well as the position of our institutional investor clients throughout Europe. In Germany, the U.K. and the Netherlands, local best practice codes recommend that a CEO should not go on to become chairman of the supervisory board or board of directors of the same company. Therefore, the new policy supports good corporate governance practices through independent oversight of the board.



Corporate Governance Issue:

Board Independence (Denmark, Norway, Belgium, Ireland)

Current Policy Position: For the markets of Germany, France, Switzerland, and the Netherlands, RMG recommends AGAINST the election or reelection of any non-independent directors (excluding the CEO) if the proposed board is not at least 50 percent independent (as defined by RMG director categorization guidelines). If a nominee cannot be categorized, RMG assumes that person is non-independent and includes that nominee in the calculation. The policy applies to core companies in these four markets. For the markets of Finland, Sweden, Belgium, Ireland, and Luxembourg, RMG applies the same policy to recommend AGAINST non-independent directors if there is not majority independence, but only for those companies that are part of the MSCI EAFE index (policy created 2006, German policy modified 2008). In Spain, RMG recommends voting against non-independent directors (excluding the CEO) for all core companies where the board is not at least one-third (33 percent) independent (policy created 2008).

Carve-outs: For all markets, if a company is family-controlled or has a majority shareholder, RMG applies an independence rule that is proportionate to the economic interest of the controlling family or majority shareholder. NOTE: Controlled-company is defined based on economic interest and not voting power (policy created 2006).

For the larger German companies where the board must consist of labor representatives by law, RMG requires that one-third of the total board be independent (policy created 2006, modified in 2008).

In addition, for Swedish MSCI EAFE companies with labor representatives on the board of directors, RMG applies Criterion (1) above, PLUS require that one-third of the total board (shareholder-elected members and labor representatives) be independent non-executive directors (policy created/specified/clarified in 2007).

RMG communicates to the markets in question well ahead of proxy season that no alerts will be sent even if the company provides further background information on the nominees after the RMG analysis is sent out.

For the European core companies not covered by this policy, language is included in RMG analyses indicating the preference for a board that is at least 50 percent independent.

[Editorial Note: The existing policy above and the proposed policy below are a synthesis of the main RMG policy and all of the relevant carve-outs introduced until 2008. The new policy below reflects existing board independence policies, in addition to the proposed new policies for Denmark, Norway, Belgium, and Ireland.]

New Policy Position: For the markets of Belgium, Germany, France, Switzerland, and the Netherlands, RMG will recommend AGAINST the election or reelection of any non-independent directors (excluding the CEO) if

the proposed board is not at least 50 percent independent (as defined by RMG's director categorization guidelines). If a nominee cannot be categorized, RiskMetrics will assume that person is non-independent and include that nominee in the calculation. The policy will apply to core companies in these five markets.

For the markets of Denmark, Norway, Finland, Sweden, Luxembourg, RiskMetrics will apply the same policy to recommend AGAINST non-independent directors if there is not majority independence, but only for those companies that are part of the MSCI EAFE index.

In Ireland, RMG will apply the same policy to recommend AGAINST non-independent directors if there is not majority independence, but only for those companies that are constituents of ISE 20.

In Spain, RiskMetrics will recommend voting against non-independent directors (excluding the CEO) for all core companies where the board is not at least one-third (33 percent) independent.

Carve-outs: For all markets, if a company is family-controlled or has a majority shareholder, RMG will apply an independence rule that is proportionate to the economic interest of the controlling family or majority shareholder. NOTE: Controlled-company is defined based on economic interest and not voting power.

For the larger German companies where the board must consist of labor representatives by law, RMG will require that one-third of the total board be independent.

For Norwegian and Swedish MSCI EAFE companies, the above policy will apply to shareholder elected board members. In addition, RMG will require that one-third of the total board (shareholder-elected members and labor representatives) be independent non-executive directors.

In Ireland, for companies below the ISE 20, companies will be required to have at least two independent NEDs on the board, as required by the Combined Code of Corporate Governance, as applied in Ireland. In instances where this is not the case, RMG will consider voting against the non-independent members of the board.

RMG will communicate to the markets in question well ahead of proxy season that no alerts will be sent even if the company provides further background information on the nominees after the RMG analysis has been sent out.

For the European core companies not covered by this policy, language will be included in RMG analyses indicating the preference for a that is at least 50 percent independent.

Rationale for Update: The new policy is intended to increase RMG's requirements for board independence in Denmark, Norway, Belgium, and Ireland, inline with RMG board independence requirements for a number of other European markets.

Regarding the changes concerning Norway and Denmark, the same policy is already applied in France, Switzerland, the Netherlands, Finland, Sweden, Belgium, Ireland, Luxembourg, and Germany. We consider the two markets to have sufficient provisions in their Corporate Governance Codes, and sufficient disclosure, to warrant their inclusion in the existing policy.

Regarding the changes concerning Belgium, the policy is already applied in France, Switzerland, the Netherlands, and Germany. We consider the market to have sufficient provisions in its Corporate Governance Code, and sufficient disclosure, to warrant its inclusion in the existing policy. The proposed policy is also intended to be more consistent with RMG policy for EAFE and Bel20 index companies. A majority of core companies already has board independence of at least 50 percent. Moreover, as this policy already applies in the Netherlands, the broadened policy will harmonize policies within the Benelux area.



Corporate Governance Issue:

Names of Director Nominees Not Disclosed (Latin America, Turkey, Indonesia)

Current Policy Position: For Latin American markets, Turkey, and Indonesia, RiskMetrics does not currently recommend against the election or reelection of board members, when the names of the nominees are not disclosed in advance of the meeting.

New Policy Position: For Latin American markets, Turkey, and Indonesia - for companies that are part of each respective market's main blue chip (large cap) index - RMG will recommend a vote AGAINST the election of directors if the name of the nominee is not disclosed in a timely manner prior to the meeting.

Rationale for Update: RiskMetrics clients holding securities in these countries often mistakenly believe that they are able to direct votes to individual director nominees (often times the independent nominees). However, in reality, when the names of nominees are not disclosed in advance of the meeting, and when director elections are bundled as a single voting item, foreign shareholders voting by proxy typically only have an all-or-nothing choice: vote against the director elections, or vote for, thus supporting all nominees regardless of their identity and level of independence.

In order to avoid "penalizing the market," i.e. to avoid vote recommendations against 100 percent of director elections, the policy will initially be targeted at companies that are part of each respective market's main blue chip index. Membership in a blue chip index is easy to identify consistently across all markets. Such large cap companies are also more likely to have foreign institutional shareholders. As a result, they should be held to a higher standard of disclosure.



Corporate Governance Issue:

Names of Director Nominees Not Disclosed (Russia)

Current Policy Position: Currently, for Russia, RMG recommends a vote FOR proposals to elect directors, even when the names of the nominees have not been disclosed.

New Policy Position: For Russia, RMG will recommend a vote AGAINST proposals to elect directors, if the names of the nominees have not been disclosed in a timely manner in advance of the meeting. This policy will apply to all companies in Russia.

Rationale for Update: RMG considers voting on director elections to be one of the most important decisions made by shareholders. Public disclosure of the names of board nominees has become quite prevalent in Russia in recent years, as companies tend to use the Internet as a tool to publish meeting materials, in addition to traditional channels. Usually, companies compile lists of nominees weeks or even months prior to the general meeting. Based on these considerations, there is no reason for shareholders to accept non-disclosure of nominee names at any Russian company.



Corporate Governance Issue:

Names of Director Nominees Not Disclosed (Taiwan)

Current Policy Position: Currently, for Taiwan, RMG recommends voting for proposals to elect directors even when the names/IDs of the nominees have not been disclosed. This appears as a bundled item (one resolution only), "Elect Directors," both in the company's agenda and in the RMG analysis.

New Policy Position: For Taiwan, RMG will recommend a vote AGAINST the election of directors if the names of the nominees, or director/shareholder ID numbers which can substitute for nominee names, have not been disclosed in a timely manner in advance of the meeting. This policy will apply to all companies in Taiwan.

Rationale for Update: RMG considers voting on director elections to be one of the most important decisions made by shareholders. While disclosure of the names and IDs of board nominees in Taiwan is still generally below par, obtaining such information - while still difficult - is not impossible. Currently, shareholders are able to get nominee names/IDs for some of the core companies and non-core companies. Based on these considerations, there is no reason for shareholders to accept non-disclosure of nominee names at any Taiwanese company.



Corporate Governance Issue:

Election of Corporate Assembly or Committee of Representatives (Denmark, Norway)

Current Policy Position: Currently, RMG requires that the names of all nominees be disclosed. If the names are not available at the time the RMG analysis is published, RMG will recommend a vote against the board.

New Policy Position: In Norwegian and Danish companies where shareholders are not given a vote on elections to the supervisory board, RiskMetrics will evaluate the board in the same manner as existing policy, but signal our director independence policy to the Nominating Committee that elects the board, e.g. the Corporate Assembly (*Bedriftsforsamling*) or Committee of Representatives (*Forstanderskap* or *Repræsentantskab*).

Thus, if at least 50 percent of the board is not independent (as defined by RMG director classification criteria), RMG will recommend a vote against the reelection of members to the committee that elects shareholder representatives to the board. If the election of the committee is bundled, RMG will recommend a vote against the entire slate if not at least 50 percent of the board is independent. If a member of the board of directors cannot be categorized, we will assume that person is non-independent and include the nominee in calculating the level of independence. Also, RMG will similarly vote against if less than one-third of the board including labor representatives is not independent. RMG will apply this policy for those companies that are part of the MSCI EAFE index.

Rationale for Update: The proposed policy is designed to require majority independent boards in Danish and Norwegian companies that are part of the MSCI EAFE index. The proposed addendum will ensure that the policy is applied to all companies in the index, not just the ones where shareholders directly elect the board at general meetings.



Corporate Governance Issue:

Overboarding of Directors (France)

Current Policy Position: Currently, RMG does not recommend a vote against directors serving on an excessive number of boards in the French market. In continental Europe, RMG already applies an overboarding policy in the German market. For Germany, RMG will recommend a vote against supervisory board nominees if they hold more than a total of five supervisory board or foreign board of directors seats and serve in an executive role (i.e., on a management board) at another company.

New Policy Position: For the French market, RMG will recommend a vote AGAINST any nominee if:

- The nominee is a non-executive corporate officer and holds more than five directorship positions in listed companies outside the group, i.e. a total of six directorships; or
- The nominee is an executive corporate officer and holds more than three directorships in listed companies outside the group, i.e. a total of four directorships.

This new policy will apply only for the core companies.

Rationale for Update: The new policy is intended to capture the practice of overboarding (director serving on too many boards) in the French market. The concept that directors should not serve on an excessive number of boards has gained more support as a legitimate governance concern, in France and in Europe at large. In fact, a common view among investors is that a director will not be an effective monitor on any board if he serves on numerous boards. Finally, the proposed policy reflects emerging best practices in France, including the recommendations of the AFG.



Corporate Governance Issue: Director Terms (France)

Current Policy Position: Currently, RMG recommends a vote against the election of any director who will serve for a term exceeding four years.

New Policy Position: RMG will generally recommend a vote against the election of any director who will serve for a term exceeding four years. However, in determining vote recommendations on the (re-) election of directors, RMG will evaluate a director's term exceeding four years (except for the CEO) on a case-by-case basis, taking into account the following factors:

- Composition of the board and its committees (e.g. independence as defined by RMG criteria);
- Board functioning (attendance, evaluation);
- Company disclosure on internal rules and/or a resignation schedule to organize staggered (re)elections of the board members in order to avoid too many reappointments coming up for simultaneous review; and
- The company's overall governance practices.

Rationale for Update: The new policy introduces additional factors for evaluating the election of directors whose proposed term would exceed four years. The new policy is designed to ensure that a director's term exceeding four years is not the sole reason to recommend a vote against his election or re-election. Finally, the new policy provides a safe harbor for the CEO, to match a similar safe harbor in RMG's board independence policy.



Corporate Governance Issue: Former Audit Partners on Audit Committees (Hong Kong, Singapore)

Current Policy Position: Under current policy, for both Hong Kong and Singapore, RMG recommends against the election or re-election of a director, where he or she is non-independent due to being a former partner of the company's auditor, and is on the audit committee of the company. RMG does not currently apply a cooling off period for former audit partners.

New Policy Position: Where independent directors represent at least one-third of the board, RMG will recommend a vote for the election of a board-nominated candidate, unless he or she has been a partner of the company's auditor within the last three years, and is on the audit committee of the company.

And, where independent directors represent less than one-third of the board, RMG will generally recommend against the election of a nominee if he or she has been a partner of the company's auditor within the last three years, and is on the audit committee of the company.

Rationale for Update: This policy revision introduces a cooling off period to the analysis of former audit firm partners sitting on a company's audit committee. It facilitates flexibility when classifying directors, and recognizes that there may be a sufficient period of time between leaving an audit firm and joining a company's board. This policy was revised following comments from and consultation with institutional investors in the two markets.



Corporate Governance Issue:
Executives on Nominating Committee (Malaysia)

Current Policy Position: Currently, for Malaysia, RMG recommends a vote AGAINST the election of a management nominee, if the nominee is an executive director and is a member of the audit or remuneration committees.

New Policy Position: For Malaysia, RMG will recommend a vote AGAINST the election of a management nominee, if the nominee is an executive director and is a member of the audit, remuneration, or nomination committees.

Rationale for Update: The updated policy highlights the importance of having an independent nomination committee and as such, this committee should be composed of non-executive directors. The new policy is intended to align itself with the best practice code in Malaysia and similar existing international policies.



Corporate Governance Issue:
Compensation Committee Independence (Israel)

Current Policy Position: Under current policy, RMG recommends a vote against affiliated or inside directors on the Audit Committee, as Israel has strict standards on this issue. However, RMG does not otherwise apply international guidelines.

New Policy Position: For Israeli companies that are listed on a United States exchange and thus annually file Form 20-F, RMG will recommend AGAINST the election of non-independent directors who sit on a company's compensation committee. In addition, in the event that the board lacks a compensation committee, RMG will vote AGAINST non-independent directors serving on the board.

Rationale for Update: A majority (67 percent) of core companies analyzed by RMG for Israel regularly file Forms 20-F and 6-K in the United States. Therefore, disclosure is usually extensive, and covers board independence and key committee composition. Furthermore, disclosure is comprehensive regarding compensation and sufficient data exists to run RMG's US compensation model. The new policy will hold 20-F filers to the standards established in RMG's standard international policy. These standards include the establishment of an independent compensation committee.



Corporate Governance Issue: Director Attendance (Korea)

Current Policy Position: Under current policy, RMG recommends that shareholders vote AGAINST the election of any outside directors who have attended less than 75 percent of board meetings. Currently this policy applies only to core companies in Korea.

New Policy Position: RMG will recommend a vote AGAINST the re-election of any outside directors who have attended less than 75 percent of board meetings. This policy applies to all companies in Korea.

Rationale for Update: Based on improved disclosure by companies and improved practices, this updated policy will require that all outside directors attend at least 75 percent of board meetings in any given fiscal year for all Korean companies. This is also in line with best practice recommendations that directors attend all board meetings.

COMPENSATION

Corporate Governance Issue: European Compensation Guidelines (Europe)

Current Policy Position: Currently, RMG generally recommends voting against a company's remuneration policy when:

- The potential dilution from equity-based compensation plans exceeds RMG guidelines;
- Restricted stock plans and matching share plans do not include sufficiently challenging performance criteria and vesting periods;
- The remuneration report was not made available to shareholders in a timely manner;
- Other concerns exist with respect to the disclosure or structure of the bonus or other aspects of the remuneration policy.

New Policy Position: The assessment of compensation should strictly follow the RMG Global Principles on Executive Compensation, which are detailed below. These principles are supported by recommended guidelines published by the EU Commission.

RMG may recommend a vote against compensation-related resolutions in cases where boards have failed to demonstrate good stewardship of investors' interests regarding executive compensation practices.

(A) The RMG Global Principles on Executive Compensation underlie market-specific policies in all markets:

1. Maintain appropriate pay-for-performance alignment with emphasis on long-term shareholder value.
2. Avoid arrangements that risk "pay for failure".
3. Maintain an independent and effective compensation committee.
4. Provide shareholders with clear, comprehensive compensation disclosures.
5. Avoid inappropriate pay to non-executive directors.

In applying the Five Global Principles, RMG has formulated European Compensation Guidelines which take into account local market practices. The Guidelines provide a clear framework of compensation best practices in keeping with fast-evolving European market-specific best practice recommendations for policies and packages that are becoming more innovative and robust.

(B) Implementation of guidelines for European markets say-on-pay proposals:

RMG will evaluate management proposals seeking ratification of a European company's compensation policy on a case-by-case basis.

In support of the new EU recommended guidelines, RMG believes that seeking annual shareholder approval for a company's compensation policy is a positive corporate governance provision.

RMG will generally recommend a vote against a company's compensation related proposal due to one or a combination of several of the following factors:

- The proposed compensation policy/report was not made available to shareholders in a timely manner;
- The level of disclosure of the proposed compensation policy is below what local market best practice standards dictate;
- Concerns exist with respect to the disclosure or structure of the bonus or other aspects of the remuneration policy such as pensions, severance terms, and discretionary payments;
- Concerns exist surrounding the company's long-term incentive plan(s), including but not limited to, dilution, vesting period, and performance conditions:
 - The potential dilution from equity-based compensation plans exceeds RMG guidelines (the dilution must not exceed 5% for mature companies or 10% for growth companies);
 - Any short or long term compensation plan do not include a maximum award limit. For example, in the Netherlands and the UK, we expect plans to include individual award limit;
 - There is not a clear link between the a company's performance and share awards;
 - Long Term Share Plans do not include sufficiently challenging performance criteria and vesting periods (a minimum three-year vesting period).

Performance standards must be quantifiable and fully disclosed, with relative performance measures being preferred. However companies may choose targets other than relative financial measures provided that those measures are relevant to their business and an explanation is provided.

- Share Option Plans or Share Plans do not contain acceptable vesting periods (a minimum three-year vesting period) or provide insufficient disclosure of:
 - the exercise/strike price (options);
 - discount on grant (outside of market practice);
 - performance criteria;
- Related-party transactions with a current company executive regarding post-mandate exercise of share-based plans (or an auditor's report including such a transaction) if the transaction implies an adverse impact on shareholders' interests or is not in line with good market practices;
- Severance payments in excess of 24 months pay;
- Severance payments should not exceed 12 months of fixed pay (UK);
- Severance pay should not exceed one year's fixed salary or two years if the executive is dismissed during his first term of office (NL);
- Provision of stock option grants, or similarly structured equity-based compensation, to non-executive directors;

- The policy or plan is in breach of any other supplemental market specific RMG voting policies.

The above applies as supported by local market best practice standards and practices and in markets which operate a 'comply or explain' regime, if no compelling reason/justification has been provided.

Rationale for Update: In May 2003, the European Commission adopted a Communication on "Modernizing Company Law and enhancing Corporate Governance in the European Union - A plan to move forward." Amongst a range of proposals discussed to strengthen shareholders' rights and modernize the board of directors, the directive provides for an initiative aimed at encouraging an appropriate regulatory regime for directors' remuneration in the member states. The proposed policy is designed to take into account this EC directive, as well as recent developments in disclosure and structuring of compensation plans.



Corporate Governance Issue: Severance Payments (France)

Current Policy Position: RMG currently recommends a vote against a remuneration agreement, if the auditors' report contains an agreement between an executive director and the company relating to a severance payment, which represents more than twice the last year's total remuneration (fixed and variable part).

New Policy Position: RMG will recommend a vote against a remuneration agreement, if the auditors' report contains agreements between an executive director and the company relating to a severance payment and/or non-compete agreement representing more than twice the total remuneration over the last fiscal year (fixed and variable part, and including the amount of severance payment that may be provided for under a collective bargaining agreement).

Rationale for Update: The new policy is intended to take into account the amount of severance pay that may be granted pursuant to a collective bargaining agreement, as this can substantially increase the total amount of severance pay granted to a corporate officer.



Corporate Governance Issue: Stock Option Plans - Adjustment for Dividends (Nordic Markets)

Current Policy Position: Currently, RMG applies a relevant policy for Finland only. RMG recommends AGAINST new stock option plans if they contain a provision to adjusting the strike price for ordinary dividends, or amendments to introduce the provision in question into already existing stock option plans if regular dividends are also covered. RMG makes an exception if a company proposes to reduce the strike price by the amount of future special dividends only. RMG recommends a vote FOR proposals or plan provisions that provide for proportionate adjustments to outstanding awards as a result of a special cash dividend or any other future distribution of assets other than a normal cash dividend. Such adjustments would preserve the economic and incentive value of the outstanding awards. In addition, the standard International policy applies. This includes requirements for sufficient disclosure, reasonable dilution, sufficient vesting period, and granting options at market price.

New Policy Position: RMG will recommend a vote AGAINST stock option plans in Denmark, Finland, Norway, and Sweden if evidence is found that they contain provisions that may result in a disconnect between shareholder value and employee/executive reward.

This includes one or a combination of the following:

- Adjusting the strike price for future ordinary dividends AND including expected dividend yield above zero percent when determining the number of options awarded under the plan;
- Having significantly higher expected dividends than actual historical dividends;
- Favorably adjusting the terms of existing options plans without valid reason;
- Any other provisions or performance measures that result in undue award.

This policy applies to both new plans and amendments to introduce the provisions into already existing stock option plans. RiskMetrics will make an exception if a company proposes to reduce the strike price by the amount of future special (extraordinary) dividends only.

In addition, for all option plans, RMG will generally recommend voting AGAINST if the potential increase of share capital amounts to more than five percent for mature companies or ten percent for growth companies. We also generally require that options may not be exercised below the market price of the share at the date of grant and that employee options lapse if employment is terminated.

Rationale for Update: In order to align executive incentive plans with total shareholder return (share price and dividends), companies will often include expected dividend yield when assigning the number of options awarded under the plan. This is common in many markets, including the US. In Nordic markets, because ordinary dividends are annual, vary from year to year, and result in a direct adjustment of the share price, it is often common to adjust the strike price of the stock options by the dividend paid to shareholders. If a company does both, the link between TSR and executive awards is reduced, as the executive will gain disproportionately to the value created for shareholders. Other adjustments may include reducing the strike price without reason, increasing the number of options awarded, or replacing underwater options with new options.



Corporate Governance Issue: Equity Plans - Compensation Committee Independence (Italy)

Current Policy Position: Under current policy, RMG recommends a vote for an equity-based compensation plan, provided that the following conditions are met:

- The shares reserved for all share plans may not exceed 5 percent of a company's issued share capital, except in the case of high-growth companies or particularly well-designed plans, in which case we allow dilution of between 5 and 10 percent: in this case, we will need to have performance conditions attached to the plans which should be acceptable regarding the RMG criteria ("challenging criteria").
- The options for management are granted without a discount.

New Policy Position: RMG will recommend a vote for an equity-based compensation plan, provided that the following conditions are met:

- The shares reserved for all share plans may not exceed 5 percent of a company's issued share capital, except in the case of high-growth companies or particularly well-designed plans, in which case we allow dilution of between 5 and 10 percent: in this case, we will need to have performance conditions attached to the plans which should be acceptable regarding the RMG criteria ("challenging criteria");
- The options for management are granted without a discount;
- An executive director is part of the remuneration committee; or
- The company has no remuneration committee and has executive members within the board.

RMG may apply a carve-out in the case of particularly well designed plans.

Rationale for Update: The presence of the *voto di lista* system (slate elections) does not allow shareholders to vote against the election of executive directors who are members of the remuneration committee. The new policy is designed to allow for a vote recommendation against the share incentive plan itself, as this is the only way shareholders can sanction the presence of an executive director on the remuneration committee.



Corporate Governance Issue: Director Fee Cap Increases (Australia)

Current Policy Position: This type of resolution seeks shareholder approval for an increase in the maximum aggregate level of fees able to be paid to the company's non-executive directors. It is a requirement of the ASX Listing Rules for companies to obtain shareholder approval for any increase in the fee cap.

RMG takes into account the size of the proposed increase, the level of fees compared to those at peer companies, the explanation the board has given for the proposed increase, and whether the company has discontinued retirement benefits. If the company has an active retirement benefits plan for non-executive directors, RMG recommends AGAINST the increase.

New Policy Position: When assessing requests for an increase in the director fee cap, RMG will apply a case-by-case approach, taking into account the following factors:

- the size of the proposed increase;
- the level of fees compared to those at peer companies;
- the explanation the board has given for the proposed increase;
- whether the company has discontinued retirement benefits;
- the company's absolute and relative performance over (at least) the past three years based on measures such as (but not limited to) share price, earnings per share and return on capital employed;
- the company's policy and practices on non-executive director remuneration, including equity ownership;
- the number of directors presently on the board and any planned increases to the size of the board; and
- the level of board turnover.

If the company has an active retirement benefits plan for non-executive directors, RMG will recommend AGAINST the increase. RMG will also recommend AGAINST a fee cap increase where a company is seeking an increase after a period of poor absolute and relative performance, where the same board (or largely the same board) has overseen this period of poor performance and where the fee cap increase is not being sought for the purposes of board renewal.

Rationale for Update: The new policy is intended to address concerns raised by Australian institutional investors over ongoing increases in non-executive director remuneration. The policy also responds to the ongoing trend of substantial increases in non-executive director remuneration in Australia and increased investor desire to hold poorly performing non-executive directors accountable.

CAPITAL MEASURES and AUDITORS

Corporate Governance Issue: Share Buybacks (International)

Current Policy Position: RMG generally recommends a vote in favor of share repurchase programs, except when:

- repurchases can be used for takeover defenses;
- there is clear evidence of past abuse;
- there is no safeguard against selective buybacks.

New Policy Position: RMG will generally recommend FOR market repurchase authorities/share repurchase programs unless the authorization does not comply with one of the following parameters:

- Maximum volume: 10 percent for market repurchase within any single authority (Carve out: 15 percent in the UK) and 10 percent of outstanding shares to be kept in treasury (“on the shelf”);
- Duration does not exceed 18 months.

For markets that either generally do not specify the maximum duration of the authority or seek a duration beyond 18 months that is allowable under market specific legislation, RMG will assess the company’s historic practice. If there is evidence that a company has sought shareholder approval for the authority to repurchase shares on an annual basis, RMG will support the proposed authority.

In Greece, the legal framework allows share repurchase authorizations to last a maximum of 24 months, although they are typically renewed on a yearly basis. Greek companies typically request shareholders to approve share repurchase schemes in line with provisions in the Company Act. Rarely does a company specify the exact duration of the authorization. Therefore, it is assumed that the duration could be up to 24 months, as foreseen in the legal framework.

Around half of Austrian companies restrict share repurchase plans to a limit of 18 months, the majority of Austrian companies either ask for a maximum of 30 months or do not disclose the duration at all.

In addition, RiskMetrics will recommend opposition of any proposal where:

- The repurchase can be used for takeover defenses;
- There is clear evidence of abuse;
- There is no safeguard against selective buybacks;
- Pricing provisions and safeguards are deemed to be unreasonable in light of market practice.

RiskMetrics may support share repurchase plans in excess of 10 percent volume (15 percent for UK) under exceptional circumstances such as one-off company specific events (e.g. capital re-structuring). Such proposals will be assessed case-by-case based on its merits, which should be clearly disclosed in the annual report, provided that following conditions are met:

- The overall balance of the proposed plan seems to be clearly in shareholders’ interests;
- The plan still respects the 10 percent maximum of shares to be kept in treasury.

Rationale for Update: Share repurchase programs often involve positive financial consequences to shareholders, as they generally increase the level of earnings per share and bring greater liquidity to the share. Therefore we are generally supportive to share buybacks. However, it is necessary to review our series of safeguards, since cases of abuse of share buyback authorities have been reported these last years and since the current financial instability requests that share buybacks be well thought of.

The amended EU second company law directive now allows EU member states to adapt their legislation and to increase the range of possibilities with regards to share repurchases. This brings us to reconsider what safeguards we want to keep. The share buyback policy paper and the client feedback have been the main inputs for this policy template.



Corporate Governance Issue: Share Issuances (UK, Netherlands, France)

Current Policy Position: Under current policy, RMG recommends a vote FOR general issuance requests *with* preemptive rights to a maximum of 100 percent over currently issued capital (33% for the UK). RMG recommends a vote for general issuance requests *without* preemptive rights to a maximum of 20 percent of currently issued capital (5% for the UK). For specific issuances, RMG makes a vote recommendation on a CASE-BY-CASE basis on all requests, with or without preemptive rights.

For France, if a share issuance request without preemptive rights includes a binding provision requiring that the board of directors grant “priority rights” to shareholders for the full amount of the issuance, RMG treats this request as if it were with preemptive rights. As a result, RMG recommends a vote in favor of a capital increase without preemptive rights but with “binding priority rights” for an amount representing 100 percent of the share capital.

New Policy Position: For all markets, RMG will recommend a vote for general issuance requests *with* preemptive rights to a maximum of 100 percent over currently issued capital (33% for the UK). RMG will recommend a vote for general issuance requests *without* preemptive rights to a maximum of 20 percent of currently issued capital (5% for the UK). For specific issuances, RMG will make a vote recommendation on a CASE-BY-CASE basis on all requests, with or without preemptive rights.

For the UK and the Netherlands, RMG will recommend a vote for issuance requests *only if* share issuance periods are limited to 18 months.

For France, RMG will recommend a vote for general issuance requests with preemptive rights, or without preemptive rights but with a binding “priority right,” for a maximum of 50 percent over currently issued capital.

Rationale for Update: The new policy is intended to impose a time limit for issuance requests in the UK and the Netherlands, where this is specifically supported by local best practice codes, actual market practices by companies, as well as institutional investors.

For France, the new policy is intended to lower the percentage threshold for issuances with preemptive rights, or without preemptive rights but with a binding “priority right,” to reflect best practices in France, including the recommendations of the AFG.



Corporate Governance Issue: Audit v. Non-Audit Fees (Hong Kong, Singapore)

Current Policy Position: RMG currently recommends a vote for the appointment of auditors and authorizing the board to fix their remuneration, unless:

- there are serious concerns about the accounts presented or the audit procedures used;

- the auditor is being changed without explanation; or
- non-audit related fees are substantial or are routinely in excess of standard annual audit fees.

New Policy Position: RMG will recommend a vote for the appointment of auditors and authorizing the board to fix their remuneration, unless:

- there are serious concerns about the accounts presented or the audit procedures used;
- the auditor is being changed without explanation; or
- non-audit related fees are substantial or are routinely in excess of standard annual audit fees.

Whilst RMG will consider the nature and scope of non-audit fees when assessing their magnitude, where non-audit fees have constituted more than 50 percent of total auditor compensation during three out of the five most recent financial years, RMG will generally recommend AGAINST the re-election of the audit firm.

Rationale for Update: The revised policy is intended to clarify the current stance on the awarding of non-audit fees. Specifically, the revised policy is intended further to define the terms “substantial” and “routine,” as stated in the current policy, which is expected to benefit both issuers and RMG when implementing the policy. Finally, institutional shareholders have voiced support both for the timeframes and thresholds applied in the revised policy.

