



City of Westminster

**Stewardship Policy & Proxy  
Voting Guidelines for Fund  
Managers**

September 2015



# City of Westminster

## Contents

|   |    |
|---|----|
| Introduction to Westminster City Council .....            | 2  |
| Approach to Stewardship .....                             | 2  |
| Engagement Policy .....                                   | 2  |
| Proxy Voting Guidelines.....                              | 3  |
| General Proxy Voting Issues.....                          | 3  |
| Boards and Directors.....                                 | 3  |
| Auditors and audit-related issues .....                   | 7  |
| Remuneration .....  | 8  |
| Capital-related and transaction-related proposals .....   | 11 |
| Annual reporting and income allocation proposals .....    | 12 |
| Other Major Decisions .....                               | 13 |
| Social, ethical and environmental (SEE) issues .....      | 13 |
| Market-Specific Considerations.....                       | 16 |
| Asia-Pacific (ex-Japan).....                              | 16 |
| Australia .....   | 16 |
| China and Hong Kong.....                                  | 17 |
| Singapore .....   | 18 |
| Japan .....   | 19 |
| Europe.....   | 20 |
| France .....  | 20 |
| Greece.....   | 22 |
| Italy .....   | 22 |
| Luxembourg .....  | 23 |
| Spain .....   | 24 |
| Switzerland .....   | 25 |
| United Kingdom and Ireland .....                          | 26 |
| Nordic markets (Denmark, Finland, Norway and Sweden)..... | 28 |
| Germany .....   | 30 |
| Netherlands .....   | 31 |
| North America.....  | 33 |
| United States.....  | 33 |
| Canada .....  | 35 |
| Other (Emerging markets).....                             | 36 |
| Brazil .....  | 36 |
| Russia .....  | 37 |
| South Africa.....   | 37 |
| Disclosure and Reporting.....                             | 37 |



# City of Westminster

## Introduction to Westminster City Council

Westminster City Council ('the Council') operates the Local Government Pension Scheme which provides death and retirement benefits for all eligible employees of the Council and the admitted bodies.

The Council has delegated the investment management of the scheme to the Pension Fund Committee who decide on the investment policy most suitable to meet the liabilities of the Scheme and the ultimate responsibility for the investment strategy lies with them. The Committee has specialist investment managers to manage the Fund's investments.

## Approach to Stewardship

The Council believes that investor stewardship is a key component of good governance, and is committed to exercising this responsibility with the support of its investment managers. In line with this approach, all of the Council's equity investment managers are signatories to the UK Stewardship Code. At the same time, the Council believes that companies should be accountable to shareholders and should be structured with appropriate checks and balances so as to safeguard shareholders' interests, and deliver long-term returns.

We acknowledge the recent efforts of the Investor Stewardship Working Party in influencing and improving the debate on the quality of investor stewardship and its recommendations to help effective implementation of the UK Stewardship Code. We are monitoring further developments in this area.

The Council takes a multi-faceted approach to stewardship, which involves:

- voting shares at portfolio company meetings;
- engagement with the management of portfolio companies about issues material to shareholder value; and
- transparency regarding stewardship activities.

This is consistent with the express wish of the Council to support investment managers in the exercise of the voting rights, articulated in its Statement of Investment Principles.

## Engagement Policy

The Council also views engagement as an essential activity in ensuring long-term value. When investment managers undertake engagements, the Council encourages investment managers to consider assessing a range of factors, such as the company's historical financial performance, governance structures, risk management approach, the degree to which strategic objectives have been met and environmental and social issues. Engagement may also be linked to voting choices at the company's most recent AGM.

The Council believes that the goal of an engagement is not to micro-manage companies but provide companies with a perspective and share with boards and management our approach to investment and/or corporate governance. The ultimate aim is to work with management, other shareholders and stakeholders to bring about changes that can lead to enhanced long-term performance by the company.

Our approach is consistent with the recommendations of the International Governance Network's (ICGN) Statement of Principles on Institutional Shareholder Responsibilities.

2

This Stewardship Policy provides further information on the different elements of the Council's commitment to stewardship. It is intended as a guide for investment managers and a resource for investee companies. The policy may also be of interest to beneficiaries of the Westminster City Council Pension Fund.



## Proxy Voting Guidelines

### General Proxy Voting Issues

The Council's general voting policy covers typical proposals that may appear on the agenda of shareholder meetings across the markets in which the Council invests. These proposals are categorised into the following areas:

- Board and directors
- Auditors and audit-related proposals
- Remuneration
- Capital-related and transaction-related proposals
- Social, ethical and environmental issues
- Other major decisions

### Case-by-case approach

Our general and market-specific voting policies reflect the Council's general position on the main proxy voting issues. As a responsible investor the Council encourages investment managers ('managers') to consider all proposals put to shareholders' vote on a case-by-case basis. The Council invites managers to retain the flexibility to take voting decisions different to those suggested by our policy, taking into consideration specific characteristics and circumstances of the company, the rationale it has provided, the market context and the best interests of shareholders and other stakeholders.

### Disclosure

The Council expects companies to communicate their achievements, challenges, and goals to shareholders and other stakeholders in a transparent and open way.

Companies should provide comprehensive and meaningful disclosure on their business activities and practices on a regular basis. This allows shareholders to make informed decisions. The Council recommends that managers consider voting against any proposal on the general meeting agenda where insufficient disclosure has been provided by the company or where the management has failed to explain proposals and/or justify the approach taken.

### Boards and Directors

Boards of directors are agents of shareholders and accountable to shareholders for their leadership and oversight of management's performance.

The Council believes that shareholders, in turn, have a responsibility to exercise effective oversight of boards of directors. This includes the following elements:

- (i) The election of directors is an essential responsibility for shareholders as those that they appoint are responsible for overseeing the strategic direction of the company.
- (ii) It includes engagement with boards of directors and or management whenever appropriate.
- (iii) The Council aims to be supportive of boards. The Council recommends that managers only vote against or abstain from resolutions submitted at shareholder meetings if there are concerns that management or the board have not responded to shareholder concerns or acted in shareholders' best interests.

3

The Council believes that there should be a clear definition of the role of:

- Senior management
- The board and
- its sub-committees

This will enable all parties to understand and accept their responsibilities.



# City of Westminster

Boards should be made up of members with a diverse range of knowledge and competencies. The diversity of skills should enable boards to carry out their responsibilities.

These responsibilities include:

- (i) selecting, guiding and replacing management;
- (ii) challenging and supporting management in setting the strategy;
- (iii) establishing the corporate governance structure;
- (iv) ensuring the integrity of financial statements;
- (v) ensuring the quality of the information provided to shareholders and to the market;
- (vi) establishing compensation structures for executive management;
- (vii) addressing issues that can materially impact the company's performance and/or reputation. This includes social, ethical, environmental or risk management issues; and
- (viii) acting independently and objectively in the long-term interests of the company and its stakeholders.

## *Board structure*

- The Council considers that board structures should be assessed on a case-by-case basis taking into consideration local market regulation and best practice.
- If proposals to modify the current board structure are submitted to shareholders' approval, the overall corporate governance of the company and the rationale provided for such proposals should be carefully evaluated. The Council is supportive of changes that are deemed to be in the interest of all of the company's shareholders.

## *Election of directors*

The Council believes that directors should stand for re-election on a regular basis. This would ensure the appropriate degree of accountability. We recommend that managers consider all proposals to elect or re-elect board members on a case-by-case basis. We recommend that managers take into consideration the composition of the board as a whole, the main board committees and the board's compliance with market best practice when voting on directors' election or re-election proposals. It may be in the company's best interest that new directors are brought onto the board so as to allow for refreshment and ensure succession planning.

The Council will support proposals to vote on directors' elections on an individual basis. In general, we will normally support individuals nominated by the board and/or shareholders unless there are concerns, such as:

- a lack of biographical information on the candidate, preventing us from assessing the calibre and experience of the nominee;
- the nominee is not considered to be qualified to serve on the board or has acted in a manner that compromises his/her ability to represent the interests of shareholders on the board;
- poor attendance at board and board committee meetings;
- excessive number of mandates held by the director;
- the nominee is not considered to be independent and there is an absence of a strong independent element on the board;
- clear evidence of abuses against the interests of minority shareholders and other stakeholders of the company; or
- the nominee is a member on the board of a different company where the board has failed to protect shareholders interests.

## *Remuneration Committee*

The Council recommends that managers consider voting against the reappointment of members of the remuneration committee or an equivalent body of the board (in particular the chairman) where:



## City of Westminster

- There are serious concerns with respect to the remuneration arrangements for directors and senior management; or
- The committee has failed to respond to concerns expressed by shareholders and/or other stakeholders with respect to the existing/proposed remuneration arrangements.

### *Representation on the board of specific groups or interest/employee representatives and/or labour representatives*

- We acknowledge that in some markets, the legislation provides for features involving representatives of Works Council or employee shareholders on the board of listed companies. The Council is generally supportive of the appointment of employee and/or labour representatives to the board.
- The Council believes that shareholders who own a significant amount of shares should have the right to propose nominees for election to the board.
- In companies where there is a controlling shareholder or group of shareholders acting in concert, a strong governance culture and safeguards should be established, securing full transparency and ensuring that the interests of all shareholders are taken into account at all times. The leadership structure of the board should reflect these factors and ideally, the board should be led by an independent non-executive chair.

### *Board size and balance*

- The Council believes that companies should provide information regarding their board appointment procedure.
- Directors are in the best position to assess the optimal size of the board. The Council will normally support directors' proposals with respect to the size of the board provided the board is deemed to be effective. However, The Council would be concerned if the size of a board appeared to be too small or too large to allow it to function effectively.
- Whereas we believe that the balance of the board composition that matters most, there should be a majority of independent directors on the board.
- We expect all directors to have the adequate skills and experience. All the directors should ensure the protection of the interests of all shareholders.
- The Council believes that there should be sufficient representation of independent directors on the board to provide impartial oversight over executive decision-making and represent the interests of minority shareholders. The Council recommends that managers take into consideration market-specific criteria and international best practice recommendations when assessing the independence of individual directors and the balance of independence on the board.
- Companies should ensure that non-executive directors have access to senior management or any employee, receive all information in a timely manner and have the appropriate support resources to enable them to fulfil their duties properly.
- Directors should receive a training that allows them to learn more about the company, its products, and position in relation to its competition. This can include site visits. Companies should facilitate regular training during directors' mandates.
- Companies should disclose in their annual report full information on each director and the competencies that she/he brings to the board.
- Board must ensure that the information that they provide to shareholders and the public is accurate and of high standard at all times.
- Directors should attend all board meetings. The Council encourages investment managers not to support the reappointment of a director who attends less than 75% of board meetings and board committee meetings unless there are reasonable justifications for the absences.
- Directors must be able to dedicate themselves fully to their responsibilities. We expect directors to fully inform the board before they accept any other mandate. The Council will normally support proposals to limit the number of mandates directors are allowed to hold.



## City of Westminster

- The Council encourages investment managers to oppose age limits.
- Unless they are the result of strategic alliances or part of a joint business undertaking, The Council is not supportive of co-directorships and cross-shareholdings.

### *Board diversity*

- The Council considers that the composition of the board should be determined primarily by the non-executive directors through a separate nominations committee. The nomination committee should have regard for diversity, including in relation to skills, expertise, gender, and ethnicity.
- The Council encourages investment managers to monitor companies' efforts to diversify their boards of directors and to comply with new regulations calling for board diversity. In markets where there is no such regulation, we recommend that managers consider voting against the chairman of the nomination committee at companies that have demonstrated no progress towards diversity over a number of years.

### *Board leadership*

- The Council believes that boards should be led by an independent non-executive director.
- In companies where a different approach is preferred, it is essential that shareholders are fully informed of the choice. The board should explain and justify the grounds for its decision.
- Where the chairman is not independent or the roles of chairman and CEO are combined, the company should have a lead independent director.
- The role of the lead independent director should be formalised and include a number of responsibilities including monitoring and managing conflicts of interest situations for senior management and other directors. The lead independent director should be available to shareholders and accountable for the work they have undertaken at the annual general meeting.
- The Council is not supportive of proposals to combine the positions of the Chairman and CEO unless it is deemed to be in the best interests of shareholders and the combination is intended for a limited period of time.
- The Council recommends voting against the former CEO being appointed chairman of the company or a former management board member being appointed to the board without an appropriate cooling off period.

### *Board evaluation*

- The Council believes that the performance of the board is critical to the long-term performance of the company. In order for this performance to remain effective and continue protecting shareholders' interests, boards should undertake a regular and rigorous review of their functioning, each director contribution and performance.
- This assessment of the board performance will enable the board to potentially identify gaps in skills or the need for board refreshment. The Council expects companies to disclose the process and results of such evaluation.

### *Cumulative voting/Slate of directors*

- Where a cumulative voting system is used with respect to directors' elections, The Council recommends that managers consider supporting candidates whose appointment is deemed to be in the best interests of shareholders.
- In companies where directors are elected by slates, The Council recommends that managers make voting decisions on a case-by-case basis.

### *Indemnification of directors and officers*



# City of Westminster

- The Council recommends that managers vote on all proposals to indemnify the company's directors and officers on a case-by-case basis taking into consideration the scope and terms of indemnification sought by the company.

## *Liability insurance for directors and officers*

- The Council is generally supportive of proposals to provide liability insurance to directors and officers unless it is deemed not to be in the best interests of shareholders and other stakeholders.

## *Discharge of board and management*

The Council is generally supportive of proposals to discharge the board and management of liabilities. The Council supports proposals to vote on directors' discharge on an individual basis. However we recommend withholding support in a number of situations including:

- The performance of the board in the year for which the discharge is sought is considered to be inadequate;
- The board has failed to ensure the integrity of the financial statements and thus there are concerns over the reliability of accounts and auditors' report;
- There are substantial reporting and/or disclosure issues;
- The company is unresponsive to shareholders' requests for information that is normally publicly disclosed;
- Material legal proceedings were instituted against the company or the directors in the year for which the discharge is sought;
- Failure to address a number of issues that have the potential to materially impact the company's performance and reputation.

## **Auditors and audit-related issues**

### *Appointment of external auditors and auditors' remuneration*

Financial statements which provide a complete and accurate picture of a company's financial condition are of critical importance for investors. The integrity of financial statements depends on the ability of the external audit firm to be free of impediments, so that it can act as an effective check on management.

The Council believes that it is important that auditors are, and are seen to be, independent.

- The Council expects that where the audit firm provides services to the company in addition to the audit, the fees earned should be disclosed and explained. Audit committees should also have in place a procedure for assuring annually the independence of the auditor.
- The Council recommends that fund managers take into account the length of tenure of the audit firm when assessing auditor independence. Where the same firm remains as auditor for a period of time, the Council supports the development of a policy enabling regular rotation of the lead audit partner.
- The Council holds the members of the audit committee or equivalent responsible for overseeing the management of the audit function. We take particular note of cases involving significant financial restatements or ad hoc notifications of material financial weakness.

The Council recommends voting against proposals to (re)appoint external auditors/ fix auditors' remuneration where:

- There are concerns over the reliability of accounts or audit procedures;
- There are concerns over the independence of the external auditors or the integrity of the audit;
- There is evidence of the auditors' failure to identify and address issues that eventually lead to a significant financial restatement;
- The fees paid to the auditor for the provision of the audit and non-audit services during the year under review have not been disclosed in the annual report and financial statements; or





# City of Westminster

- The amount of non-audit fees paid to and/or the nature of non-audit services provided by the auditors raise concerns regarding the auditors' independence.

## *Auditor indemnification*

- The Council is typically opposed to proposals to indemnify external auditors or limit their financial liability where specific rationale

## *Audit Committee*

- Companies can be involved in material related-party transactions, which represent a risk for minority shareholders. This risk may be mitigated in companies with fully independent audit committees whose responsibility it is to ensure that such transactions are conducted on an arms-length basis. The Council strongly encourages companies to establish such committees and to secure prior shareholder approval for material related-party transactions.
- The Council believes that the independent members of the audit committee should meet on a regular basis with the company's auditors and without company management. This may enable a better flow of information between auditors and the board.
- Members of the audit committee or equivalent are responsible for overseeing the management of the audit function. The Council recommends that managers consider voting against the reappointment of members of the audit committee or an equivalent body of the board (in particular the chairman) if it fails to ensure:
  - the quality of the audit carried out by the auditors
  - their impartiality and independence, etc.

## *Appointment of internal auditors*

- The Council is generally supportive of proposals to (re)appoint internal auditors unless:
- There are concerns over reliability of the internal audit report or the procedures used during the internal audit; concerns over the integrity of the internal audit; evidence of the internal auditors' failure to identify and address issues that could result in financial and/or reputational damage to the company.

## Remuneration

### *Introduction*

The Council believes that remuneration of directors and employees plays an important role, not only in meeting the three-fold objective of 'recruit, retain and motivate', but also in aligning the perspective of key personnel with corporate strategy and the interests of shareholders and other stakeholders. Accordingly, The Council encourages companies to take into account the following principles in designing and implementing their remuneration policies:

- Alignment with corporate strategy
- Proportionality of awards compared to peers, market norms and returns to shareholders
- For variable pay, a clear connection between criteria, targets and rewards
- A balanced approach to termination arrangements and avoidance of rewards for failure
- Clear and suitably detailed disclosure of governance, policy and practice



# City of Westminster

In line with the last of these principles, The Council encourages investee companies to include the following elements in their remuneration reporting. We envisage that doing so will assist shareholders to understand how the company's pay arrangements promote the other core principles.

- Governance arrangements, including the composition of the remuneration committee and work it has undertaken during the year under review
- Principles on which remuneration is determined
- How remuneration structures are aligned with company strategy
- Basis on which executive salaries are determined
- Appropriate disclosure regarding any bonus and/or equity incentive schemes (see below)
- Information on directors' contracts, including notice and termination provisions
- Highlighting of any changes in remuneration policy since the previous year
- Full disclosure of executive directors' emoluments, including salary, benefits, bonus, equity incentive awards, pension payments and any termination payments
- Fees paid to non-executive directors, broken down if applicable, into fees related to board and committee responsibilities

## *Voting Policy*

### *Introduction of advisory/binding resolutions on remuneration committee reports*

- The Council supports the introduction of advisory shareholder votes on the remuneration arrangements of directors and managers.
- Where not mandated by law, The Council recommends that managers vote on proposals to introduce binding shareholder votes on the remuneration arrangements of directors and managers on a case-by-case basis.

### *Remuneration of non-executive directors/supervisory board members*

- The Council is generally supportive of proposals to award cash fees to non-executive directors/supervisory board members and increase their maximum aggregate level unless the amounts are considered to be excessive and/or unjustified.
- The Council is generally opposed to non-executive director/supervisory board member remuneration proposals which allow for performance-related incentives but is generally supportive of remuneration arrangements that allow for a part of non-executive directors' fees to be paid in company's shares, when non-performance related.
- The Council is generally opposed to remuneration policies which allow for the payment of retirement benefits to non-executive directors.

### *Remuneration of executive directors/management board members*

Remuneration arrangements for executive management are often multi-faceted and complex. Accordingly, in the Council's view, a single factor is unlikely to be decisive in the assessment of a remuneration policy or report, unless it is a particularly conspicuous example. Rather, The Council will encourage weighing up a range of factors within the broad framework of the principles articulated above. The guidance below elucidates the Council's recommended approach to certain more or less commonly occurring features of executive pay practices.

- The Council is not supportive of remuneration proposals for executive directors where:
- The link between performance and reward is considered to be insufficient to justify potential payouts under incentive plans, or where
- Performance conditions may encourage excessive risk taking by executive directors.
- The Council is supportive of remuneration proposals that explicitly take into consideration stakeholder value (e.g. employee safety/satisfaction) as well as shareholder value.



## City of Westminster

- When assessing annual incentive schemes in the context of remuneration-related proposals, The Council recommends that managers take into account the following factors, and others as appropriate:
- Disclosure of:
  - Any award caps, and the proportionality of these caps
  - performance criteria
  - targets used during the year under review
  - performance against targets during the year under review

The Council is supportive of:

- Proposals to defer part of the annual bonus payment over a number of years (typically 3 to 5)
- The adoption of “clawback” policies that enable a company to reclaim compensation that was awarded based on earnings that were subsequently found to be erroneous, fraudulent or manipulated.

The Council is not supportive of:

- Transaction bonuses that reward directors and other executives for effecting transactions irrespective of their future financial consequences for shareholder returns.
- Remuneration structures that allow for the use of derivatives or other instruments to hedge a director’s or executive’s share ownership or unvested equity-linked remuneration.
- Any material payments that may be viewed as being ex-gratia in nature unless they are fully explained, justified and subject to shareholder approval prior to payment.
- A remuneration policy which allows for any element of executive remuneration, other than base salary, to be pensionable.

### *Equity-based remuneration plans*

- The Council invites managers to take into account the following factors when evaluating equity-based remuneration plans, and others as appropriate:
  - Disclosure of any award caps and their proportionality
  - Disclosure of performance criteria and targets
  - Alignment of performance criteria with company strategy
  - Balance of performance criteria
  - Stringency of performance targets
  - Duration of the performance period
  - The Council is not supportive of any equity-based scheme for senior management unless there is an explicit link between the company’s performance and the reward available under the scheme.
- The Council supports the use of social and environmental key performance indicators in the incentive plans for executive management.
- The Council is not supportive of incentive plans allowing for executive share options to be offered at a discount. The Council does not consider re-pricing, surrender and re-grant of awards or ‘underwater’/discounted share options or re-testing of performance on either one-off or a rolling basis to be appropriate.
- The Council is not supportive of proposals for equity-based remuneration plans that may result in substantial dilution of existing shareholders.
- The Council is generally supportive of equity-based all-employee savings plans provided they are within acceptable dilution limits.

### *Termination provisions and severance packages*

- The Council is not supportive of policies that allow for excessive severance packages for outgoing executives, including where they may contribute to ‘reward for failure’.



# City of Westminster

- The Council recommends support for proposals to subject severance packages to executive directors and senior management to the shareholder vote.

## Capital-related and transaction-related proposals

The Council believes that investee companies should ensure that they have an efficient capital structure that will minimise the cost of capital. When boards are proposing a transaction, they must explain the rationale behind it. This enables shareholders to determine the degree to which the transaction may enhance shareholder value.

In transactions involving related parties, The Council would expect the recommendation to support it to be made only by the board's independent directors. The Council would expect such recommendations to be accompanied by an assurance from the independent directors that the transaction is in the best interests of the company and the terms are fair.

Equally, The Council would expect only those shareholders who are not conflicted to vote on the proposal. The Council recommends voting against any significant related-party transaction if conflicted directors/shareholders are allowed to participate in the vote.

### *Capital issuance requests*

- The Council is supportive of routine capital issuance requests with pre-emptive rights up to a maximum of 50% of the issued share capital provided that such authority is renewed every year.
- The Council is supportive of routine capital issuance requests without pre-emptive rights up to a maximum of 20% of the issued share capital provided that such authority is renewed every year.
- The Council recommends that managers decide on a case-by-case basis on any share issuance proposals other than specified above taking into consideration market -specific practices and circumstances of the company.

### *Private placement*

- The Council supports private placement proposals if shares are to be issued as part of a routine not pre-emptive share issuance proposal (see the guideline above) unless the discount to the share price offered by the company is considered to be excessive.
- The Council recommends that managers consider supporting all other private placements on a case-by-case basis.

### *Increase in authorised share capital*

- The Council supports proposals to increase authorised share capital if such increase is required to enable the company to use routine share issuance authorities that The Council supports.

### *Reduction of capital*

- The Council supports proposals to reduce capital for routine accounting purposes unless the terms are deemed unfavourable to shareholders.

### *Share repurchase programmes and re-issuance of shares repurchased*

- The Council is supportive of routine authorities to enable the management to repurchase shares unless there is a clear evidence of past abuse of such an authority.
- The Council is supportive of authorities to repurchase shares other than in the open market up, but recommends withholding support if there is clear evidence of past abuse of such an authority.



# City of Westminster

- The Council recommends that managers vote on all proposals to repurchase shares other than specified above on a case-by-case basis.
- The Council is supportive of authorities to re-issue any repurchased shares as a part of routine share issuance authorities with or without pre-emptive rights, and recommends managers to consider all other proposals on a case-by-case basis.

## *Debt/preferred stock issuance*

- The Council recommends assessment of debt issuance proposals on a case-by-case basis, taking into consideration the stated rationale for the issuance, the company's governance profile and its history with respect to the use of debt, the company's current financial situation and the normal debt level of the company's market and industry. For convertible debt/preferred stock, the voting powers (if any) attached to such shares/convertible stock and how these might affect the interests of shareholders should be taken into consideration.

## *Anti-takeover provisions*

- The Council recommends voting against all anti-takeover mechanisms unless they are structured in such a way that they give shareholders the ultimate decision on any proposal or offer;

## *Mandatory takeover bid waiver*

- The Council does not generally support mandatory takeover bid waiver proposals unless the waiver is sought in conjunction with a share repurchase and there is a written assurance from the company and the conflicted shareholder that the latter will not increase their holding in the company above either 30% or the existing level of shareholding if it is higher than 30% of the issued share capital. In addition, The Council encourages managers to take into consideration the history of the relationship between the shareholder and the company and past treatment of minority shareholders.

## *Mergers/acquisitions and asset sales, corporate reorganisation/restructuring and reincorporation, expansion of business activities*

- The Council recommends that managers vote on such proposals on the basis of an analysis of the overall benefits of the proposed transactions in terms of company's performance, governance and long-term shareholder value.

## **Annual reporting and income allocation proposals**

### *Approval of the annual report and accounts*

- The Council supports resolutions to approve the annual report and accounts unless there are concerns over the reliability of accounts; documents (or their draft versions) are not disclosed in time for review prior to the voting deadline; there are substantial reporting and/or disclosure issues; or the company is unresponsive to shareholders' requests for information that is typically publicly disclosed.

### *Auditors' report*

- The Council recommends support for the resolution to approve the auditors' report unless:
  - There are concerns over reliability of accounts and/or audit procedures;
  - There are concerns over the integrity of the auditors; or
  - The document or its draft version is not disclosed in time for review prior to the voting deadline.

### *Dividend/income allocation proposals*

- The Council supports dividend/income allocation proposals unless the payout is considered to be excessive given the company's financial position.
- The Council does not support resolutions that would remove the requirement for shareholders to approve the allocation of dividends and profits.



# City of Westminster

## *Scrip (stock) dividend*

- The Council is supportive of scrip (stock) dividend proposals except where such proposals do not allow for a cash option.

## **Other Major Decisions**

### *Differential voting power*

- The Council will normally be opposed to all proposals seeking to introduce/retain differential voting powers of common shares or to issue shares with unequal voting rights.

### *Voting rights restrictions*

- The Council is generally opposed to any proposals to restrict voting rights of shareholders and supports proposals that eliminate or alleviate existing restrictions of voting rights.

### *Amend memorandum/articles of association*

- The Council is generally supportive of amendments required to bring the company's articles of association in line with the norms and regulations of the market.

### *Change of disclosure threshold of stock ownership*

- The Council is supportive of proposals to disclose ownership level below statutory requirements.
- The Council is supportive of proposals to raise ownership disclosure threshold to the minimum statutory level, where the company is legally required to do so, and does not support such proposals, where the company is not legally required to do so.

### *Simple majority voting*

- The Council is generally supportive of a simple majority voting requirement and is generally opposed to a supermajority voting requirement except in situations where a supermajority voting requirement may serve to protect the interests of minority shareholders, such as, for example, where the company has a substantial or dominant shareholder.

### *Political & charitable donations*

- The Council recommends that managers withhold support from any proposal to make donations to political parties and consider all other types of political expenditure on a case-by-case basis.
- The Council is generally opposed to charitable donations.

### *Bundled proposals*

- The Council recommends withholding support from resolutions that contain bundled provisions that are not clearly interrelated or where some of the proposed measures are deemed not to be in the interests of shareholders.

### *Any other business*

- The Council recommends withholding support from resolutions seeking approval of "any other business" for which information has not been disclosed.

## **Social, ethical and environmental (SEE) issues**

The Council expects companies to comply, as a minimum, with the laws and regulation of the jurisdictions in which they operate and explain how they manage situations where such laws and regulations are ambiguous.



# City of Westminster

Apart from occasional shareholder resolutions, most SEE issues are not subject to a shareholder vote. However The Council invites managers to reflect concerns through voting actions on related matters.

Such action may include voting against the report and accounts or the re-election of directors depending on the specific circumstances.

## *Shareholder resolutions*

- The Council recommends that managers review all shareholder resolutions on a case-by-case basis taking into consideration a number of factors including:
  - The demand being reasonable and implementable;
  - The issue representing a material risk (this include reputational, financial or operational risk) to the company;
  - There being reasonable doubt about the current approach taken by the company;
  - Based the credentials of the proponent;
  - Based on the responsiveness of the company;
  - Based on the anticipated costs and benefits to the company and thus to shareholders of the resolution passing;

## Appropriate SEE board training

- The Council expects directors, non-executive as well as executive, to receive appropriate training on existing and emerging SEE issues material to the company when appointed to the board. The training should continue on an ongoing basis for the duration of their time on the board. In order to sufficiently understand the issues at hand and be able to effectively evaluate the robustness of internal controls they should not only be supplied with sufficient information and knowledge but also have access to professional independent advice.
- The Council invites managers to consider voting against the report and accounts and/or against the re-election of board members, as appropriate, in case of material and/or repetitive neglect to perform these aspects of the board oversight responsibilities.

## Gender and Diversity

- The Council believes that board members should be selected from the widest possible talent pool and that thorough consideration must be given to issues such as nationality, gender, ethnicity and corporate background in order to achieve a greater level of diversity on the board. However, The Council strongly believes that board members must be selected based on merits and their ability to strengthen the board rather than to fulfill quotas.
- If managers do not consider the diversity of the board, the process in place or the level of disclosure to be satisfactory, the Council invites them to consider withholding support from one or more board members. However, in countries where board diversity is regulated by law (e.g. Norway, France, Italy, Spain etc.) or best practice (e.g. Finland etc.) The Council would expect the boards to take action to comply with these rules.

## Charitable donations

- The Council would expect all material charitable donations to be subjected to a shareholder vote. The Council would also expect that adequate narrative justifying the donations is made available to shareholders well in advance of the general meeting and that any resulting outcome and updates on the donations are reported to shareholders on an ongoing basis.

## Response to material issues raised in the media

- The Council expects companies to make prompt public responses to material accusations in the media as well as lawsuits made against the company and ongoing court cases. We would expect that substantial information is made available to shareholders with regards to how the issue has emerged, which underlying procedures and processes have failed if appropriate, how the situation is being



## City of Westminster

rectified or dealt with in the short term and how relevant procedures and processes will be changed or developed in order to deal with the issue in the long term. The Council would also expect the company to report on this process in relevant public reporting as well as provide shareholders with updates on an ongoing basis. The Council recommends that managers consider voting against the report and accounts and/or against the re-election of board members, as appropriate, in case of material and/or repetitive neglect.

### Reporting

- The Council would expect all companies to report to shareholders in the annual report on the policies and management systems in place to identify and manage SEE risks. This would include the identification of material SEE risks, information on the level of their exposure and the management of these.
- The Council expects companies to report on whether the board has adequate information, knowledge and training to assess the level of risk and to evaluate the effectiveness of the internal controls and risk management systems in place.





## Market-Specific Considerations

### Asia-Pacific (ex-Japan)

#### Australia

The Council is generally supportive of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, IFSA's Guidelines on Corporate Governance for Fund Managers and Corporations, IFSA's Guidance Notes on Executive Equity Plans, Employee Share Ownership Plan and Non-binding Shareholder Vote on Remuneration Reports, and other recognised best practice guidance.

#### *Corporate boards*

- Given the unitary structure of Australian company boards and market best practice with respect to the board composition, the Council expects the board to comprise a majority of independent non-executive directors. The Council recommends that managers consider voting against one or more directors if this is not the case.
- While the Council believes the board is normally best placed to determine the size of the board, we expect board size to reflect the size and complexity of the company. We do however believe that a minimum board size of five is necessary for an ASX 200 company to ensure a good mix of skills and diversity amongst the independent directors.
- The Council recommends that managers consider voting against the re-election of the members of the audit committee or the chairman of the board if there is no auditor (re)appointment proposal on the shareholder meeting agenda and managers have concerns regarding the auditor's independence or the quality of the audit.

#### *Remuneration policy*

- The Council recommends that managers normally vote against the remuneration policy and/or incentive plans in cases where material changes have been made to a remuneration policy without shareholder approval.
- The Australian companies law, provides for a 'two strikes' rule whereby if 25 per cent or more of shareholders vote against a company's compensation report at two successive AGMs, the board is obliged to submit a 'spill resolution,' requiring the whole board, apart from the Managing Director, to stand for election at an EGM within 90 days. The Council encourages managers to take into consideration a number of factors before reaching a voting decision on this issue including: the Council's voting decision on the remuneration report at this and the previous year's AGMs; any progress made by the company in remuneration matters since last year's AGM; and the company's broader performance.

#### *Share-based incentive schemes for executives*

- Companies are not required to seek shareholder approval for share-based incentive plans. However, shareholder approval is usually sought so that options and other equity instruments issued under the plan do not count towards the 15% annual limit on the issuance of shares without pre-emptive rights, as allowed under the listing rules. The Council is generally not supportive of this practice and expects all share issuance to directors to be included in the dis-application limit.
- Listing rules require that companies seek shareholder approval for any grant of options or shares to a director as long as newly issued shares are used for the grant. This rule, however, does not apply if the award is financed through repurchased shares. The Council believes that all grants of equity-based awards should be approved by shareholders on an annual basis or, alternatively, under the terms of the scheme where shareholders' approval of the scheme was sought prior to its introduction. The Council recommends that managers vote against the approval of the remuneration report where equity-based awards to executive directors have not been approved by shareholders as stated above.
- The Council expects all equity-based incentive schemes to adhere to the dilution limit of 10% of the issued ordinary share capital (adjusted for share issuance and cancellation).



## City of Westminster

- A number of incentive plans allow for vesting of equity incentives when a takeover bid is announced (regardless of whether or not it succeeds) or when a party acquires a shareholding well below 50%. The Council is opposed to incentive plans containing such early vesting provisions.
- The Council does not consider re-testing of performance on either a one-off or a rolling basis to be appropriate. The Council recommends that any such proposal be voted on a case-by-case basis.
- The Council is generally not supportive of the use of loan-funded equity-based plans for executives. The Council recommends that any such proposal be voted on a case-by-case basis.

### *Termination provisions and severance packages*

- Shareholder approval is required for termination payments that exceed one year's average salary measured over the previous 3 years. The Council recommends voting against proposals that allow for compensation on early termination of an executive's contract to exceed the equivalent of one year's salary and benefits (i.e. no bonus payment) unless there are exceptional circumstances which are clearly explained and are deemed acceptable. The Council is supportive of the guidance that such agreements should clearly articulate performance expectations.

### *Capital-related proposals*

- ASX Listing rule 7 limits listed companies from issuing more than 15% of the issued share capital in a 12-month period for share issues without pre-emptive rights. However, companies may seek shareholder approval to exclude a particular proposed issue of shares from the 15% limit. The Council recommends that managers vote on all proposals to issue shares without pre-emption rights on a case-by-case basis.
- Australian companies routinely request the ratification of previous share placements in order for that placement not to count towards their 15%. The Council recommends that managers vote on all such proposals on a case-by-case basis taking into consideration the purpose of the placement and the dilution suffered by shareholders as a result.

### *Renewal of "Proportional Takeover" Clause in Constitution*

- As per the Australian Corporations Act a number of companies include in their constitution a clause which requires shareholder approval for a proportional (partial) takeover offer to be made. This clause prevents a proportional takeover offer to be mailed out to shareholders until after the company has held a general meeting at which shareholders vote on whether to allow the offer to be made. As the clause has a three year time limit it is standard practice among ASX-listed companies to ask their shareholders to reinsert the clause into the constitution, at every third AGM. The Council recommends that managers consider such proposals on a case-by-case basis.

### **China and Hong Kong**

In Hong Kong, The Council is generally supportive Corporate Governance Code and Corporate Governance Report, the governance-related provisions of the SEHK Listing Rules, and other best practice guidance.

### *Corporate boards*

- In Hong Kong, companies have a unitary board structure. The SEHK listing rules require that there are at least three independent directors, or one third of the board represented by independent directors, whichever is greater, on the boards of listed companies. The Council expects the composition of the board to comply with the listing rules.
- Where there is an insufficient number of independent non-executive directors on the board, The Council recommends voting against (re)election of a non-executive director who has served on the board for three consecutive three-year terms unless he/she will be subject to annual re-election thereafter.



## City of Westminster

- The Council expects that audit and remuneration committees comprise a majority of independent non-executive directors.

### *Capital-related proposals*

- Hong Kong companies routinely seek shareholder approval of share issuance and repurchase authorities up to the maximum limits allowed under the listing rules, i.e. to issue shares up to 20% of the issued share capital *without pre-emptive rights*; to repurchase shares of up to 10% percent of the issued share capital; and to reissue repurchased shares by extending the share issuance authority to include the number of shares repurchased (10% of the issued share capital), thus bringing the share issuance authority to 30% of the issued share capital.
- These authorities are routinely sought at least once a year at the AGM, but may be renewed at the EGM during the year; there is no limitation on the number of renewed authorities the company can seek in any one year. The shares may be (re)issued at the maximum of 20% discount to the market price (or more under special circumstances). Due to the evidence of past abuse of the authorities to (re)issue shares without pre-emption rights by Hong Kong companies, The Council recommends voting on share (re)issuance and repurchase authorities as follows:
  - In favour of the aggregate issuance and re-issuance authorities up to 20% or less of the issued share capital where shares are issued at the maximum discount to the market price of 10% provided there is no history of renewing the share issuance mandates several times within a period of one year.
  - Against authorities to issue shares without pre-emptive rights where there is a history of renewing the share issuance mandates several times within a period of one year, unless granting the authority is considered to be in the best interests of shareholders.
  - In favour of routine authorities to enable the management to repurchase shares in the open market up to 10% of the issued share capital in any one year, unless there is a clear evidence of past abuse of such an authority.
  - Case-by-case in all other instances.
- The Council recommends that managers consider withholding support for broad authorities for the board to undertake other types of transactions, such as acquisition or disposal of assets or provision of guarantees, if the company does not provide sufficient detail on their rationale or purpose or the parameters of the authority.

### **Singapore**

The Council is generally supportive of the Singapore Code of Corporate Governance and other best practice guidance.

#### *Corporate boards*

- Singapore companies have a unitary board structure. The Council expects that the majority of board members are non-executive and that independent non-executive directors represent at least one-third of the board.

#### *Remuneration*

- The Council expects companies to set a specified limit on the number of shares to be used under any proposed equity-based incentive scheme, regardless of whether it is proposed to use newly issued or repurchased shares, and recommends voting on all new incentive scheme proposals accordingly.

#### *Capital issuance proposals*

- The Council understands that, in Singapore, it is normal practice for companies to seek, on an annual basis, authority to allot shares up to a maximum of 50% of the company's issued share capital, of which 20% may be issued without pre-emptive rights.



## City of Westminster

- In addition to general issuance authorities companies often seek specific issuance authorities in relation to equity-based incentive plans (usually for up to 15% of the issued share capital allowed under the listing rules) and to a bonus issue, rights issue, or the financing of an acquisition or merger if it requires share issuance in excess of the limits in the general mandate. The Council believes that all new shares used under equity-based incentive schemes should be covered by the general mandate and recommends that managers consider any such proposal on a case-by-case basis taking into account the size of the general mandate requested by the company.

### Japan

The Council is supportive of the Tokyo Stock Exchange's Principles of Corporate Governance and also takes into consideration the spirit and underlying principles of recent regulatory developments.

#### *Corporate Boards*

- There are two possible board structures that Japanese companies may adopt. The most common is the two-tier structure with directors (who have voting rights) and statutory auditors (who have no voting rights). The Council is generally opposed to the re-election of directors in two-tier boards with fewer than two outside directors who can be considered highly independent. For election of statutory auditors, the Council looks favourably upon boards that exceed the minimum requirement of at least half outsiders.
- The alternative, relatively recent, option is a US- or UK-style three-committee unitary board structure. Each committee must have a majority of outside directors (although executives can be members of the nominating and remuneration committees).
- The Council supports management resolutions to adopt a three-committee board structure.
- The Council recommends voting against directors where the board has more than 20 members.
- The Council supports resolutions reducing the frequency of director re-elections from the normal two years to one year.
- The Council is opposed to resolutions seeking to require a supermajority to remove directors.

#### *Remuneration*

- Disclosure by Japanese companies on remuneration matters is relatively sparse. The Council encourages companies to provide more detail on the remuneration policy, structures and proceeds.
- The Council supports articles eliminating the provisions for the payment of retirement bonuses to directors and statutory auditors. If a one-off bonus is proposed as part of this resolution The Council only recommends support if the bonus amounts are disclosed and the recipients are not outsiders.
- The Council opposes traditional stock option plans that allow for the grant of options to outsiders.

#### *Capital-related issues*

- The Council opposes requests for capital increases if management proposes:
  - To raise the ceiling by more than 100% for unspecified purposes
  - To create a new class of shares, other than in the case of a company needing to issue non-voting shares as part of a financial rescue
- The Council supports proposals to authorise the repurchase of up to 10% of outstanding shares but only if the authority is for no longer than one year.
- The Council recommends that managers consider voting against the re-election of directors who approved new share issues with significant dilution impact but failed to be fully accountable for the necessity of the capital raisings

#### *Anti-takeover Provisions/Shareholder Rights Plans*

- The Council recommends that managers normally oppose the introduction or renewal of anti-takeover measures and that they consider expressing this opposition by voting against the re-election of directors.

#### *Changes to the Articles of Association and By-laws*



# City of Westminster

- The Council recommends that managers normally withhold support for resolutions seeking to indemnify the directors and statutory auditors against derivative shareholder lawsuits but retain the flexibility to support this measure for the benefit of outsiders.
- The Council is opposed to resolutions seeking to indemnify the public (external) auditors against derivative shareholder lawsuits.
- The Council is generally supportive of proposals seeking to bring the record date closer to the date of the annual general meeting.
- The Council recommends that managers normally support proposals adding new lines of business as long as they are in keeping with the company's stated strategy.
- The Council supports proposals allowing smaller tradable lots of shares.
- The Council does not support proposals to limit the number of representatives that a shareholder can appoint to vote at a general meeting.

## Europe

### France

The Council is supportive of the principles of corporate governance based on consolidation of the various AFEP and MEDEF reports. The Council would encourage managers to expect companies to explain why and to what extent they deviate from the principles for the corporate governance of listed companies based on the corporate governance recommendations of listed corporations of April 2010, revised in March 2011 and the AFEP-MEDEF revised corporate governance recommendations code of June 2013. The Council welcomes the MEDEF recommendations on executive remuneration and the FBF's (Fédération Bancaire Française) Code of ethics aimed at regulating the remuneration of traders and other investment bank professionals.

The Council acknowledges the 2013 law on safeguarding employment that provides for enhanced employee representation on the board of listed companies. The Council welcomes the 2014 ACPR's (French banking regulator) ruling that prohibits combining the roles and chairman and CEO in credit establishments and investment companies.

The Council expects companies to explain why and to what extent they depart from the corporate governance principles.

### Corporate boards

French law provides companies (*sociétés anonymes*) with the option between a unitary board structure and a two-tier formula. While it is the board's responsibility to propose the option that would be appropriate for the company, shareholders should be given the opportunity to vote on any changes in the board structure.

- In companies that have adopted unitary board structure, The Council would expect the majority of directors to be non-executive and at least one-third of directors to be fully independent. In companies with dual board structure, The Council would expect all supervisory board members to be non-executive and at least one-third to be fully independent.
- The Council prefers that a representative of a *reference shareholder* (large shareholder) does not chair the audit committee and that the chairman of the board does not serve on the audit committee. Executives should not serve on either audit or remuneration committees.
- French legislation allows for the appointment of one or more employee shareholders on the board whenever employee shareholdings exceed 3%. The Council will support the appointment of employee representatives on the board that adequately reflects the share ownership structure.
- The Council is not in favour of cross-shareholdings and *administrateurs réciproques* (reciprocal board directors). The Council will vote against election of directors who have such connections with the company except in the case of a joint business venture.



# City of Westminster

## *Remuneration*

- The Council recommends that managers consider voting against the remuneration policy and/or incentive plans if material changes have been made without shareholder approval.
- The Council is generally supportive of grants of shares that are not performance related to non-executive directors, provided the directors are required to retain these shares until the end of their tenure.
- Companies should provide detailed information on the pension rights and potential additional pension rights, as well as on the cost of providing pension benefits. The value of additional defined benefits pensions should be taken into account when determining the overall level of executive compensation.
- The annual dilution caused by the allocation of non-performance related shares to employees should be limited to 1% of the issued share capital. The total dilution caused by all allocations of shares to employees should not exceed 10% of the issued share capital in any one year.
- The Council will normally vote against any proposal for a severance payment which exceeds two years of an executive's total remuneration. Whenever the severance payment exceeds two years, the company should provide detailed justification and the payment is in the interests of shareholders.
- The Council recommends that managers consider voting against severance payments to an executive whose contract was terminated as a result of poor performance, if he/she decided to leave the company, change his/her position or is entitled to exercise his/her rights to pension in the near future.

## *Capital-related proposals*

Shareholders are increasingly concerned by measures that can restrict or dilute their voting rights. French companies have historically and routinely asked for large issuance requests. However, it seems that companies are now moving towards better practices. The Council's view on share issuances with or without pre-emptive rights reflects AFG recommendations:

- The Council recommends that managers consider voting against:
  - Capital increases with pre-emptive rights and with priority subscription periods greater than 50% of the issued share capital and when the proceeds are not intended for a specific purpose.
  - Capital increases without preferential subscription rights which can represent more than 15% of a company's issued capital when no formal explanation and justification is provided.
  - Share re-purchase requests that would allow share re-purchases during a takeover period.

Fund managers should decide on any share issuance proposals in excess of the limits on a case-by-case basis.

## *Anti-takeover measures*

The Council encourages managers to consider voting against anti-takeover defences such as:

- (i) Authorising the board of a company which is subject to a hostile takeover bid to issue warrants - convertible into shares - for existing shareholders.
- (ii) Authorising the board in advance to buy back shares during a takeover period.

## *Related-party transactions*

- The Council acknowledges that French listed companies must follow special procedures for approval of regulated related-party transactions. The Council is generally supportive of related-party transactions unless they are poorly detailed in the auditor's special report and not included in their entirety in the annual report.



# City of Westminster

## Greece

### *Corporate boards*

- In view of the unitary structure of Greek company boards, the Council expects the majority of the board members to be non-executive and at least a third of the board members to be independent.
- The Council is not supportive of cross-shareholdings and reciprocal board directors and will vote against election of directors who have such connections with the company except in the case of a joint business venture.
- The Council is supportive of recommendations that each board appoints three committees: nomination, audit and remuneration.

### *Remuneration*

- The Council is not supportive the remuneration policy and/or incentive plans if material changes have been made without shareholder approval.
- The Council is not supportive of options issued at a discount to market price.
- The Council is not supportive of proposals on equity-based incentive plans where the companies fail to provide sufficient information on matters such as vesting periods, performance criteria, grant limits or dilution.
- The Council recommends that managers consider voting against any proposal for a severance payment which exceeds two years of an executive's total remuneration. Whenever the severance payment exceeds two years, we would only consider supporting the proposal if the company provides detailed justification and the payment is in the interests of shareholders.
- The Council recommends that managers consider voting against severance payments to an executive whose contract was terminated as a result of poor performance, if he/she decided to leave the company, change his/her position or is entitled to exercise his/her rights to pension in the near future.
- The annual dilution caused by the allocation of non-performance related shares to employees should be limited to 1% of the issued share capital. The total dilution caused by all allocations of shares to employees should not exceed 10% of the issued share capital in any one year.

### *Capital-related proposals*

- The Council recommends that managers consider voting against capital increases with pre-emptive rights and with priority subscription periods greater than 50% of the issued share capital and when the proceeds are not intended for a specific purpose.
- The Council recommends that managers consider voting against capital increases without preferential subscription rights which can represent more than 15% of a company's issued capital when no formal explanation and justification is provided.

### *Accounting and audit-related proposals*

- The level of disclosure provided by the company in relation to audit fees should be taken into account in voting decisions. The Council recommends that managers consider voting against proposal if adequate information including breakdown is not provided.

## Italy

The Council is supportive of the principles of corporate governance based on the 2006 Italian corporate governance code (Codice di Autodisciplina revised in December 2011), TUF (Testo Unico della Finanza) as well as the new regulation on banks, organisations and corporate governance issued by the Bank of Italy. We support the work of ASSONIME (Association of joint stock companies) and ASSOGESTIONI (the Italian fund management association).



# City of Westminster

## *Annual report*

- The Council encourages managers to consider voting against the adoption of the annual report and accounts if the report has not been made available sufficiently in advance of the shareholder meeting so as to allow shareholders to make an informed decision.

## *Corporate boards*

- The traditional structure of an Italian company comprises a board of directors and a board of statutory auditors. The “voto di lista” director election system is designed to ensure minority representation on the board. Given that under this system, shareholders cannot decide on each candidate but must vote for a single submitted list, The Council encourages managers to consider all proposed slates and take their voting decision on a case-by-case basis.
- In general, the Council is supportive of the slate that seems to have directors that are most suited to representing the long-term interests of the minority shareholders.
- The Council encourages managers to consider voting against the election of directors if their names or biographical details have not been disclosed in advance of the general meeting. The same comment applies to the appointment of statutory auditors (*collegio sindacale*).
- The Council encourages managers to consider voting against of cross-shareholdings and reciprocal board directors and will vote against election of directors who have such connections with the company except in the case of a joint business venture.

## *Board of statutory auditors (collegio sindacale)*

- The Council recommends that managers consider voting against re-election of the statutory auditors, who have served on *collegio sindacale* for more than 12 years.
- *Remuneration*
- The Council recommends that managers consider voting against the remuneration policy and/or incentive plans if material changes have been made without shareholder approval.
- The Council may be supportive of grants of shares that are not performance related to non-executive directors, provided the directors are required to retain these shares until the end of their tenure.
- The Council recommends that managers consider supporting of the proposals to abolish “guaranteed bonuses”.
- The Council would expect companies to provide detailed information on the pension rights and potential additional pension rights, as well as on the cost of providing such pension benefits.
- The Council would expect the annual dilution caused by the allocation of non-performance related shares to employees to be limited to 1% of the issued share capital. The total dilution caused by all allocations of shares to employees should not exceed 10% of the issued share capital in any one year.
- The Council recommends that managers consider voting against any remuneration policy that allows severance payments to executives to exceed two years of total remuneration. The Council recommends that managers consider voting against severance payments to an executive whose contract was terminated as a result of poor performance, if he/she decided to leave the company, change his/her position or is entitled to exercise his/her rights to pension in the near future.

## *Capital-related proposals*

- The Council recommends that managers consider voting against capital issuance with pre-emptive rights in excess of 50% of the issued share capital unless a higher percentage is justified by specific circumstances which must be explained.
- The Council recommends that managers consider voting against capital issuance without pre-emptive rights in excess of 15% of the issued share capital.

23

## **Luxembourg**

Companies have the option between a unitary board structure and a two-tier formula.

- In companies that have adopted unitary board structure, The Council would expect the majority of directors to be non-executive and at least one-third of directors to be fully independent. In companies





## City of Westminster

with dual board structure, The Council would expect all supervisory board members to be non-executive and at least one-third to be fully independent.

- In companies that have a large shareholder represented on the board, at least a third of the board is expected to be fully independent.
- The Council prefers that a representative of a large shareholder does not chair the audit committee and that the chairman of the board does not serve on the audit committee. Executives should not serve on either audit or remuneration committees.
- The Council recommends that managers consider voting against the election of directors if their names or biographical details have not been disclosed in advance of the general meeting.

### *Capital-related proposals*

- The Council recommends that managers consider voting against any share re-purchase requests that would allow share re-purchases during a takeover period.

### *Accounting and audit-related proposals*

- The Council encourages managers to consider voting against the relevant resolution if a company has failed to publish its financial statements in advance of the general meeting.
- Managers are encouraged to take into account the level of disclosure provided by the company in relation to audit fees and will not support proposal if adequate information including breakdown is not provided.
- The Council encourages managers to consider voting against the approval of the auditor if a company has failed to publish the name of the auditor.

### *Remuneration*

- The Council recommends that managers consider voting against proposals on equity-based incentive plans where the companies fail to provide sufficient information on matters such as vesting periods, performance criteria, grant limits or dilution.
- The Council recommends that managers consider voting against options issued at a discount to market price.

## Spain

The Council is generally supportive of the June 2013 Unified Good Corporate Governance Code and other recognised best practice guidance.

### *Corporate boards*

- Spanish companies have a unitary board structure. The Council would expect outside directors, proprietary and independent, to occupy the majority of board seats. We would support the (re)election of a director who is neither proprietary nor independent, provided the company has disclosed the links that person maintains with the company, its senior officers or its shareholders, which are deemed acceptable.
- The Council acknowledges that the proportion of proprietary and independent directors on the board should reflect the share ownership structure of the company, provided that at least a third of the board is comprised of independent directors.
- The Council recommends that managers consider voting against the election of nominees whose names and biographical details have not been disclosed in advance of the general meeting to allow shareholders to make an informed decision.
- The Council recommends that managers consider voting against the whole slate if a proposal bundles the election of all nominees.



# City of Westminster

## *Remuneration*

- The Council recommends that managers consider voting against the remuneration policy and/or incentive plans if material changes have been made without shareholder approval.
- The Council is normally supportive grants of shares that are not performance related to non-executive directors, provided the directors are required to retain these shares until the end of their tenure.
- The Council would expect companies to provide detailed information on the pension rights and potential additional pension rights, as well as on the cost of providing such pension benefits.
- The Council would expect the annual dilution caused by the allocation of non-performance related shares to employees to be limited to 1% of the issued share capital. The total dilution caused by all allocations of shares to employees should not exceed 10% of the issued share capital in any one year.
- The Council recommends that managers consider voting against any remuneration policy that allows severance payments to executives to exceed two years of total remuneration. The Council will not support severance payments to an executive whose contract was terminated as a result of poor performance, if he/she decided to leave the company, change his/her position or is entitled to exercise his/her rights to pension in the near future.

## *Capital-related issues*

- The Council recommends that managers consider voting against:
  - Capital issuance with pre-emptive rights in excess of 50% of the issued share capital unless a higher percentage is justified by specific circumstances which must be explained.
  - Capital issuance without pre-emptive rights in excess of 15% of the issued share capital.
  - Any share repurchase request that would allow share re-purchases during a takeover period.

## **Switzerland**

The Council is generally supportive of the Swiss Code of Best Practice for Corporate Governance and other recognised best practice guidance. The Council welcomes the compensation-related developments in this market. As from 2015, Swiss law (Ordinance Against Excessive Compensation in Listed Companies of November 20, 2013 which came into effect on January 1, 2014) will require Swiss-listed companies to hold binding votes on the compensation of board members and executive committee members.

## *Corporate boards*

- Swiss companies have a unitary board system. The Council expects the majority of board members to be independent.
- The Council welcomes the new requirement that provides that going forward shareholders will have to elect, for a one-year term, all board and compensation committee members and the chairman.

## *Remuneration*

- Following the recent Minder referendum, The Council recommends that managers consider voting against:
  - The remuneration policy and/or incentive plans if material changes have been made without shareholder approval.
  - Grants of shares that are not performance related to non-executive directors, unless the directors are required to retain these shares until the end of their tenure.
  - Indemnification payments which are paid to a new hire which do not explicitly compensate for losses suffered with the former employer.
  - Transaction bonuses paid out for the management of the target which are not clearly detailed/explained.
  - Pension rights and potential additional pension rights which are not clearly explained. The value of additional DB pensions should be taken into account when determining the overall level of executive compensation.



## City of Westminster

- Any remuneration policy that allows severance payments to executives to exceed two years of total remuneration.

### *Capital-related issues*

- The Council is normally supportive of capital pools with pre-emptive rights of up to 20% of the issued share capital.
- The Council encourages managers to consider voting against the request for a creation of an aggregated capital pool without pre-emptive rights in excess of 10% of the issued share capital.
- Voting preferred shares are the most common form of preference stock in Switzerland. The Council recommends that managers consider voting against the issue of shares with unequal voting rights and will withhold support for capital raising exercises by companies with such capital structures.
- The Council is supportive of proposals to disallow anti-takeover defences including:
  - Differential or restricted voting rights
  - Restriction of the transferability of registered shares

### *Opting Up / Opting Out clause*

- The Council recommends that managers consider voting against any proposal to “opt out” of the mandatory offer obligation and will consider all proposals to “opt up” on a case-by-case basis.

### **United Kingdom and Ireland**

In the UK & Ireland the Council is supportive of the principles and recommendations set out in the UK Corporate Governance Code, ABI Principles of Remuneration (UK) and Irish Association of Investment Managers (“IAIM”) Corporate Governance, Share Option and other Incentive Scheme Guidelines, the Pre-emption Group Guidelines and other recognised best practice guidance.

### *Corporate boards*

- In view of the unitary structure of UK company boards and the market best practice with respect to the board composition, the Council will expect the board, excluding the chairman, to comprise at least half of independent non-executive directors. In smaller companies (i.e. outside FTSE 350) the Council expects the board to have at least two independent non-executive directors.
- Where there is an insufficient number of independent non-executive directors on the board at companies which do not apply the recommendation of the UK Corporate Governance Code for annual director election, the Council will expect the non-independent non-executive directors to stand for re-election annually until the appropriate balance of independence on the board has been achieved.
- The Council recommends that managers consider voting against the (re)election of a non-executive director who has served on the board for three consecutive three-year terms unless he/she is subject to annual re-election thereafter.

### *Remuneration*

The Council welcomes the provisions of the new directors’ remuneration regulations, which enter into force on 1 October 2013. In particular, we note the requirements for an annual statement by the Chairman of the Remuneration Committee, a policy report which will be subject to a binding approval by shareholders at least every three years, and a report on how the policy has been implemented (‘Annual Report on Remuneration’) which will be subject to an annual advisory vote. The Council believes that the regulations will promote the provision of information that is useful to shareholders in making a fair and proper assessment of remuneration arrangements, and expects that enhanced disclosure will in turn help to maintain and improve remuneration practices.

In line with the global guidelines on remuneration outlined above, The Council will usually take into account a range of factors when voting on policy and implementation reports.



# City of Westminster

## *Policy report*

When voting, the Council encourages managers to take into account the following elements which should become a standard part of company disclosure:

- How the different elements of remuneration support company strategy
- Annual and equity incentive structures (see global remuneration voting policy above)
- The policy on loss of office payments (see below)
- The statement of how employment conditions elsewhere in the company have been taken into account
- The statement on whether, and if so how, the views of shareholders have been taken into account

Also, The Council will expect all equity-based incentive schemes to observe the following dilution limits:

- UK: 10% of the issued ordinary share capital (adjusted for share issuance and cancellation) in any rolling 10 year period under all equity-based incentive schemes and 5% of the issued ordinary share capital of the company (adjusted for share issuance and cancellation) in any rolling 10 year period under executive (discretionary) schemes.
- Ireland: no more than 10% of issued ordinary share capital, adjusted for scrip, bonus and rights issues, over a period of 10 years for all equity-based incentive schemes (with additional 5% of the issued share capital over a period of 10 years to be used, following approval by the IAIM, for broadly based employee share schemes of all kinds). Within the above 10% limit 5% of the issued ordinary share capital can be used under a basic tier share option schemes with additional 5% of the issued share capital to be used under a second tier share option scheme, such options being exercisable only on the basis of exceptional performance.

Given the binding nature of policy report resolutions, the Council encourages managers to take into account the administrative implications of the resolution being defeated when casting a vote.

The Council encourages managers to consider voting against policy reports if this is warranted by the balance of factors, particularly where there are egregious examples of poor practices or the company has failed to respond concerns previously expressed by shareholders.

## *Annual Report on Remuneration*

The Council encourages managers to take into account the following elements which should become a standard part of company disclosure:

- The global figure for each executive's remuneration, and its composite parts
- The link between pay and performance
- Payments for loss of office (please see below)
- The percentage change in the CEO's remuneration
- Information on how shareholders have voted on the previous year's remuneration report and action taken by the Remuneration Committee in response
- The Council may vote against the implementation of a policy that results in disproportionate or inadequately justified awards to directors, even if the policy as a whole has previously been approved by shareholders.

## *Capital-related issues*

- The Council recommends that managers vote in favour of routine capital issuance requests with pre-emptive rights up to a maximum of 1/3 of the issued share capital and routine capital issuance requests without pre-emptive rights up to a maximum of 5% of the issued share capital provided that such authorities are renewed every year.
- In the current financial climate, a number of companies continue to propose extended capital issuance requests with pre-emptive rights of up to an additional 1/3rd of the issued share capital. The Council recommends that managers support these on a case-by-case basis taking into account the circumstances of the individual and the checks and balances offered to shareholders in return.



## City of Westminster

- The Council recommends that managers decide on any share issuance proposals in excess of the limits specified in our global policy on a case-by-case basis.

### **Nordic markets (Denmark, Finland, Norway and Sweden)**

In Denmark, Finland, Norway and Sweden, The Council is supportive of the Codes of Corporate Governance and other recognised best practice guidance in each of these markets.

#### *Bundling of resolutions*

- The Council encourages companies not to bundle resolutions under a single item on the meeting agenda. This enables shareholders to express their approval or disapproval on important matters individually. The Council encourages managers to consider voting against bundling of resolutions.

#### *Discharge of Directors*

- The Council encourages managers to consider voting against the abolition of the annual discharge, unless shareholders can vote on the election or the re-election of all directors on an annual basis.

#### *Board composition*

- The Council expects that half the board of directors/supervisory board be independent (when not including any employee-elected representatives). Therefore, the Council invites managers to withhold support from the election of non-independent non-executive directors unless this minimum requirement is fulfilled. When determining whether a non-executive director is independent, internationally recognised definitions of independence should to be considered. This includes whether the individual is independent of the company and of its major shareholders.
- The Council favours majority vote standards for election of directors, and is supportive of proposals requesting bylaw changes.
- The Council encourages managers to consider opposing proposals aimed at adopting plurality voting at companies that have adopted a majority vote standard for election of directors.
- In countries where board diversity is regulated by law (e.g. Norway) or best practice (e.g. Finland) the Council expects boards to take action to comply with these rules.
- The Council believes that the chairman of the board/supervisory board should not be a member of the audit committee, and would expect committee members to have recent and relevant experience to work on this committee.
- In Sweden, and increasingly in Finland, nomination committees are made up of representatives from the four largest shareholders. Provided that managers are confident that the largest shareholders act in the best interest of all shareholders, the Council encourages managers to vote in favour of the creation of this type of committee and the appointment of its members.

#### *Number of concurrent board memberships*

- Non-executive directors must be very rigorous in the assessment of the time they are able to commit to a board and do not overcommit themselves. While the situation should be assessed on a case-by-case basis, directors are generally expected not to hold more than 3 board seats on boards of publicly listed companies at any one time. This is particularly the case if the individual is also charged with the responsibilities of Chief Executive Officer.
- Shareholder-based nomination committees
- In Sweden, and increasingly in Finland, nomination committees are made up of representatives from the four largest shareholders and can be chaired by the chairman of the board. If the Council is confident that the largest shareholders act in the best interest of all shareholders the Council is likely to endorse the concept and recommends that managers vote in favour of the creation of this type of committee and the appointment of its members.



# City of Westminster

## *Remuneration*

- The Council endorses the concept of a vote on remuneration and would prefer that companies submit the remuneration of executives as well as non-executive directors for an annual vote at the general meeting. However, we acknowledge that laws and market practices vary considerably between the Nordic countries on this issue; therefore encourages investment managers to assess the situation on a country-by- country basis when making a voting decision.
- Share Matching Plans are an often used remuneration feature in the Nordic countries. These plans allow senior executives to invest their bonus – in full or part - in the company's shares at market price which will be matched over time depending on performance. The Council is supportive of a policy whereby up to one free share for every share held is granted but would otherwise expect that stringent performance criteria be attached to any further matching of shares.
- The Council encourages investment managers to support grants of shares that are not performance related to non-executive directors, provided the directors are required to retain these shares until the end of their tenure.
- A number of companies still grant market priced options which are not subject to any performance criteria. Some boards believe that a remuneration structure which relies on a bonus with demanding short-term metrics is the best way of incentivising management. Managers are encouraged to make a case-by-case assessment of the overall remuneration arrangements before making a voting decision.

## *Severance payments*

- The Council recognises that it is market practice in most of the Nordic countries to provide executives with termination payments equal to two years' base salary and encourages managers to support this practice as long as it is capped at two years and the contract was not terminated as a result of poor performance.

## *Capital pools*

- As a general rule we expect companies to grant pre-emption rights when proposing a capital increase. We consider that any such capital increase should be subject to shareholder approval on the basis of the company's specific investment needs. The Council invites investment managers to support any well-reasoned resolution that has the potential to increase the value of the company.
- Companies in some of the Nordic countries annually request the authority to create capital pools without a specific purpose. This could potentially undermine shareholder rights in important M&A transactions just as the share capital of existing shareholders could be significantly diluted.
- The Council invites investment managers to support capital pools with pre-emptive rights of up to 20% of the issued share capital.
- The Council is generally not supportive of the request for a creation of an aggregated capital pool without pre-emptive rights in excess of 10% of the issued share capital.
- The request for authority to transfer shares to finance an acquisition is – in line with the law in Finland - seen as equivalent to issuance of shares without pre-emptive rights.

## *One share one vote*

- The Council recommends that managers consider voting in favour of proposals to abolish voting caps or multiple voting rights (A and B shares) and oppose measures to introduce these types of restrictions on shareholder rights.

## *Equal treatment in public offers*

- The Council believes that as A and B shareholders take equal financial risk and receive the same dividend per share they should also receive the same price for their shares in case of a takeover.



## Germany

In addition to applicable laws, regulations and governmental initiatives in the area of corporate governance and the protection/enhancement of shareholder rights, the Council is generally supportive of the principles and recommendations set out in the May 2013 German Corporate Governance Code.

### *Corporate boards*

- A dual board system, comprising the management board and the supervisory board, is prescribed by law for German stock corporations. The members of the supervisory board are elected by shareholders. In enterprises with more than 500 or 2000 employees in Germany, employees are also represented on the supervisory board under a principle of co-determination. At such companies, supervisory boards include between one third and one half employee representatives.
- The Council would expect the supervisory board to include an adequate number of independent members. In view of the co-determination rule, it would be reasonable to expect at least one-third of the supervisory board members to be independent.
- The Council believes that no more than two former members of the management board should be members of the supervisory board; however, we would expect an appropriate cooling off period between the individual's resignation as a management board member and his/her appointment to the supervisory board.
- The Council believes that the current practice of five year terms for supervisory board members – the legal maximum – facilitates the entrenchment of the supervisory boards and will, therefore, strongly support and encourage shorter terms.
- The Council would expect that the audit and nomination committees comprise and are chaired by independent directors.

### *Remuneration*

In Germany, companies seek an advisory vote on the remuneration policy in line with the Act on the Appropriateness of Management Board Remuneration that came into force in August 2009. There is currently no obligation for an annual vote and few companies have so far sought repeat shareholder approval of their remuneration systems since their initial efforts in 2010. German top executives still receive most of their remuneration in cash based on the company's performance over one year; where long-term incentives exist they are rarely linked to clearly defined performance targets.

The Council supports recent effort by the German Commission on Corporate Governance to introduce recommendations in the German Corporate Governance Code for standardised reporting on Management Board remuneration.

- The Council recommends that managers consider voting against executive remuneration arrangements where pay levels are considered to be excessive or unjustified compared to the market norms, the company's peers and the financial position of the company.
- German companies are not obliged to put the remuneration system to the management board for a vote on an annual basis. However, the supervisory board as a whole reviews and approves management board remuneration each year. Therefore, in the absence of a resolution on executive compensation on the agenda, The Council encourages managers, on a case-by-case basis, to consider voting against the Discharge of the Supervisory Board if continuing concerns with management board pay are not resolved or if there are emerging features of remuneration disclosure and practice which deviate from good practice.
- In making its decision, the managers are encouraged to give consideration to company disclosure of performance measures and targets attached to variable pay and the presence of caps for the individual elements on management board member compensation packages.
- The Council recommends that managers consider voting against any remuneration policy which allows for severance payments to executives to exceed the value of two years' annual compensation (salary and bonus) and compensate more than the remaining term of the contract (if less than two



## City of Westminster

years). The Council is supportive of proposals to limit any compensation payments in the event of early termination to one year's salary and benefits (excluding bonus).

- The Council is supportive of proposals to reduce the appointment period for management board members below traditional five years and would expect companies to gradually introduce one-year rolling contracts.
- The Council is not supportive of the short-term oriented variable pay elements (e.g. based on dividend or earnings targets) for supervisory board member and prefer supervisory board members to receive fixed pay only. Managers may consider voting supporting incentive elements in the pay package if they consist of a defined number of restricted shares to be held until the term on office finishes.
- The Council recommends that managers decide on voting on long-term oriented variable pay-elements on a case-by-case basis.

### *Capital pools*

- In view of the general market practice in Germany to seek capital-related authorities for a period of five years, The Council would consider a request for an aggregate capital pool with pre-emptive rights of up to 50% and an aggregate capital pool without pre-emptive rights of up to 20% of the share capital as being acceptable provided there is no history of past abuse of such authorities and the current situation of the company allows for this.
- If the company seeks annual capital pool authorities, The Council generally recommends that managers consider supporting capital pools with pre-emptive rights of up to 20% of the issued share capital, and capital pools without pre-emptive rights of up to 10% of the issued share capital.

### *Articles of association*

- The Council recommends that managers consider voting against a resolution that asks for the approval of majority requirements to enable the recall of supervisory board members above the 75% majority rule which represents the default legal value of the corporate law. The Council is supportive proposals to either maintain or introduce a 50% majority rule for the recall of a supervisory board member according to § 103 (1) AktG.
- The Council strongly recommends that managers consider voting against the KGaA legal form as an alternative to the AG because of the limited shareholder rights. Companies which chose S.E. statutes (Societas Europaea) are expected to propose individually the respective resolutions pertaining to statute changes (in particular separate resolutions for the new articles of association and the supervisory board members of the S.E.).

### **Netherlands**

In the Netherlands, The Council is supportive of the recommendations of the Dutch Corporate Governance Code, the Governance Principles For Insurance Companies of December 2010 and the work carried out by Eumedion, and other governance related initiatives and recognised best practice guidance.

### *General Meetings*

- The Council is supportive of the recommendation that each substantial change in the corporate governance structure of the company and in the compliance of the company with the Code should be submitted to the general meeting for discussion (and, where changes are material, for shareholder approval) under a separate agenda item.

### *Corporate boards*

- Listed Dutch companies typically fall under the "large company regime", which prescribes a two-tier board structure.





## City of Westminster

- Where companies adopt a unitary board, The Council would expect the majority of the board members to be fully independent non-executive directors and the roles of chairman and chief executive to be separated.
- In cases where there is a combination in the role of chairman and chief executive, the Council would expect the board to implement mechanisms that may offset a potential concentration of power.
- For two-tiered boards, the Council expects all supervisory board members to be non-executive and a majority of these to be fully independent.
- The Council would expect the audit and remuneration committees of the supervisory board should not be chaired by the board chairman or a former member of the management board of the company.
- Furthermore, the Council believes that a representative of a large shareholder should not chair the audit committee and would encourage managers to consider voting against shareholder nominated director on the audit committee.
- The Council believes that at least one member of the supervisory board and of the audit committee shall be a financial expert with relevant knowledge and experience of financial administration and accounting at listed companies or other large legal entities.
- The Council recommends that managers review the number of external board memberships held by directors and will encourage companies to disclose in full directors' attendance of board and committee meetings.

### *Remuneration*

- The Council recommends that managers vote against the remuneration policy and incentive plans if material changes have been made without shareholder approval.
- The Council recommends that managers withhold support from remuneration policy that allows the company to grant its directors any personal loans, guarantees or the like unless in the normal course of business and on terms applicable to the personnel as a whole, and after approval of the supervisory board.
- The Council is supportive of the proposals to abolish "guaranteed bonuses".
- The Council would expect companies to provide detailed information on the pension rights and potential additional pension rights, as well as on the cost of providing such pension benefits.
- The Council would expect the total dilution caused by all allocations of shares to employees not to exceed 10% of the issued share capital in any one year.

### *Termination provisions and severance packages*

Effective 1 January 2014, a law came into effect allowing all companies to adjust and claw-back variable remuneration of executive directors. As a result, all Dutch companies will be empowered with a claw-back clause even if such a clause is not included in the remuneration policy.

The Council recommends that managers normally vote against proposals for a severance package which exceeds one year of an executive's base salary unless severance pay (not exceeding twice the annual salary) of a maximum of one year's salary would be manifestly unreasonable for a management board member who is dismissed during her/his first term of office.

- The Council recommends that managers vote against severance payments to an executive whose contract was terminated as a result of poor performance, if he/she decided to leave the company, change his/her position or is entitled to exercise his/her rights to pension in the near future.

### *Capital-related issues*

- The Council is generally supportive of the capital issuance proposals with or without pre-emptive rights for a maximum of 10% of the issued share capital, increased by further 10% in the case where the issue takes place in support of a merger or takeover, provided that such authority is requested for no longer than 18 months.



# City of Westminster

## *Anti-takeover measures*

- The Council recommends that managers vote against the practice of poison pill defences such as:
  - Authorising the board of a company which is subject to a hostile takeover bid to issue preferred stock to friendly parties (e.g. Foundations). Such issuances are used to deter hostile takeover bids by diluting the bidder's voting power and increasing that of the management.
  - Foundations which can be allocated preference shares in the event of a hostile bid are a common provision at Dutch companies but have rarely been used.
- Although very few companies with depositary receipts remain listed on the stock exchange, depositary receipts can be used to prevent shareholders from controlling the decision making process and, therefore, expects trust offices to:
  - Formally undertake not to use depositary receipts as an anti-takeover measure;
  - Where there is no such undertaking, to provide clear explanation for this non-compliance; or
  - Provide an indication of the circumstances under which it may be possible to end the issue of depositary receipts for shares.

## North America

### United States

The Council is generally supportive of the principles and recommendations of the US Council of Institutional Investors (CII) and other best practice guidelines.

## *Corporate boards*

- The Council expects that a substantial majority (at least two-thirds) of a corporate board should be directors who are from outside the company and independent of the company's management and business operations.
- The Council is supportive of the effort to seek separation of the roles of the Chairman and CEO, and encourages managers to consider supporting proposals to separate those roles.
- The Council recommends that managers consider voting against the re-election of directors at a board that has failed to take reasonable steps to respond to a shareholder proposal that was supported by a majority of shareholders in the previous year, provided that The Council supported that proposal.
- The Council may is not supportive of the re-election of members of the Nominating Committee at a board that has neither an independent chairman nor a lead director.
- The Council encourages managers to consider voting against the re-election of members of the Audit Committee at a board that has not proposed that shareholders vote to ratify the auditors.
- The Council is not supportive of proposals to adopt cumulative voting at those companies that have adopted a majority vote standard for election of directors.
- The Council encourages investment managers to consider opposing the re-election of a director who has failed to receive support from a majority of shareholders in the previous year, unless the board has put forward a compelling argument otherwise.

## Addressing frequent shareholder concerns about corporate boards

- The Council favours improved access to the proxy for shareholders and encourages managers to consider supporting reasonable proposals for change.
- The Council favours majority vote standards for election of directors, and recommends that investment managers support proposals requesting bylaw changes to that effect.



# City of Westminster

## *Remuneration*

- The Council is not supportive of the remuneration policy and/or incentive plans if material changes have been made without shareholder approval.
- The Council will expect all equity-based incentive schemes to have a three-year average burn rate that is not excessive relative to peers.
- The Council supports the introduction of an annual advisory vote on remuneration.
- When reviewing advisory votes on remuneration, The Council will take into consideration a company's record of the following:
  - Stock Ownership and Holding Policies
  - Clawbacks
  - Performance Drivers
  - Perquisites
  - Internal Pay Equity
  - Stock Option Practices
  - Performance Goals
  - Post-employment Pay
  - Compensation Policy, Philosophy and Disclosure
  - When reviewing change-in-control provisions, The Council prefers that they require a "double trigger" and total no more than three times the executive's annual salary.
  - Independence of Compensation Advisor

## *Capital-related Issues*

In line with best market practice, The Council encourages investment managers to generally vote for requests for capital issuance except in the following circumstances:

- The shares can be used for unspecified purposes;
- The resultant dilution would represent more than 10 percent of the current outstanding voting power;
- The shares would be issued at a discount to the fair market value; and/or
- The issues shares have superior voting rights.

## *Anti-takeover Provisions/Shareholder Rights Plans*

Requests to adopt or modify anti-takeover provisions or shareholder rights plans should be reviewed on a case-by-case basis and their impact on shareholder rights must be carefully considered. The Council encourages investment managers to consider opposing any such request in the following circumstances:

- The company has a classified board of directors;
- The plan would inhibit hostile takeover attempts and/or entrench management by making the cost of an acquisition exorbitant; and/or
- The plan includes charter amendments that would have a detrimental impact on shareholder rights, such as supermajority voting requirements and/or the elimination of shareholders' ability to amend bylaws or requisition an extraordinary meeting of shareholders.

*Shareholder resolutions related to SEE issues (please see section on Social, ethical and environmental (SEE) issues above for further detail)*

- r All shareholder resolutions should be reviewed on a case-by-case basis taking into consideration a number of factors including:
  - The demand being reasonable and implementable;
  - The issue representing a material risk (this include reputational, financial or operational risk) to the company;
  - There being reasonable doubt about the current approach taken by the company;
  - Based the credentials of the proponent;
  - Based on the responsiveness of the company;



## City of Westminster

- Based on the anticipated costs and benefits to the company and thus to shareholders of the resolution passing;

### Canada

The Council is generally supportive of the principles and recommendations of the National Policy 58-201 Corporate Governance Guidelines and the Multilateral Instrument 52-110 Audit Committees and other best practice guidance.

#### *Corporate boards*

Canadian companies have a unitary board structure. The National Policy 58-201 Corporate Governance Guidelines recommend that boards have a majority of independent, non-executive directors.

- In line with the market best practice, The Council expects that a substantial majority (at least two-thirds) of a corporate board should be directors who are from outside the company and independent of the company's management and business operations.
- The Council encourages managers to consider voting against the re-election of non-independent directors at a board that has neither an independent chairman nor a lead director.
- The Council recommends that managers consider voting against the re-election of members of the Audit Committee if there is no information on audit fees paid to the auditor prior to a shareholders' meeting.
- The Council favours majority vote standards for election of directors, and is supportive of proposals requesting by-law changes.
- The Council will encourage managers to consider voting against proposals to adopt cumulative voting at those companies that have adopted a majority vote standard for election of directors.
- The Council is supportive of the reimbursement of proxy solicitation expenses in contested elections, when The Council has supported the dissidents' election.

#### *Remuneration*

- The Council invites investment managers to vote against the remuneration policy and/or incentive plans if material changes have been made without shareholder approval.
- The Council encourages investment managers to vote against proposed Amendment Procedures that do not require shareholder approval for amendments of security-based compensation arrangements. Such proposals may be submitted as a result of new TSX requirements.
- The Council will expect all equity-based incentive schemes to have a three-year burn rate that is not excessive relative to peers.

#### *Capital-related issues*

- The Council is supportive of proposals to approve increased authorized capital if a company's shares are in danger of being de-listed and/or a company's ability to continue to operate as an ongoing concern is uncertain.

#### *Anti-takeover Provisions/Shareholder Rights Plans*

- The Council is only supportive of those "new generation" shareholder rights plans whose purpose is limited to:
  - Providing the board with more time to find an alternative value enhancing transaction; and
  - Ensuring the equal treatment of all shareholders.
- Requests to modify existing provisions or shareholder rights plans can only be supported if they are deemed to enhance shareholder rights.



## Other (Emerging markets)

### Brazil

#### *Boards and directors*

The structure of Brazilian boards is shaped by a number of overlapping rules and regulations. Brazilian Corporations Law stipulates that boards should comprise a minimum of three directors, while the financial regulator recommends five to nine directors with a minimum of two directors having expertise in finance and accounting. The boards of companies listed on the Novo Mercado are required to have boards which are at least 20% independent. The Code developed by the Brazilian Institute of Good Corporate Governance recommends that boards have at least a majority of independent directors. The Brazilian Corporations law allows minority and preferred shareholders present at the meeting to appoint one member each to the board of directors.

Shareholders are often presented with the directors for election bundled on a slate. Candidate information is not necessarily available until the shareholder meeting. Minority shareholder representatives to the board are most often identified by minority shareholders at the shareholder meeting; as a result, shareholders voting via proxy may not be able to meaningfully identify their preferred candidates. In the event that the names of the board candidates are not available ahead of the meeting, we encourage managers to evaluate the current board composition and assess any specific problems or concerns at the board or the company.

- The Council encourage investment managers to vote against director slates where a specific concern with the slate of directors has been identified.
- In recognition of local market practices, the Council is generally supportive of director slates in Brazil, even in the absence of specific information regarding their identities.

#### *Auditors and audit-related issues*

Brazilian company boards do not typically set up audit or other board committees. A fiscal council below board level may be responsible for overseeing audit-related board functions

- Public companies in Brazil have an external auditor that is selected by the board of directors and not typically ratified by shareholders.
- Auditor compensation is typically not disclosed.

#### *Capital structure, mergers, asset sales and other special transactions*

In Brazil, shareholders are generally afforded pre-emptive rights on new share issuances, regardless of share class. According to the Corporations Law, companies must present financial statements to shareholders for approval at least one month in advance of the annual meeting.

- The Council expects companies to adhere to the Corporations Law with regards to dividend distribution and payout ratios.
- The Council encourages managers to review proposals to issue additional shares, establish new share classes, or engage in a debt financing arrangement on a case-by-case basis.
- The Council invites managers to consider voting on mergers, asset sales, and other special transactions based on the details of the proposed transactions and the specific circumstances of the company.

#### *Remuneration and benefits*

Best practice standards in Brazil call for the disclosure of the remuneration of CEOs, directors, and auditors. However, few companies disclose the pay levels prior to the shareholder meeting and on an individual basis. Shareholders are not asked to approve remuneration of executives.



# City of Westminster

## Russia

### *Disclosure*

- In instances where there is insufficient disclosure, The Council encourages managers to consider, on a case-by-case basis, voting against the approval of the auditors and their remuneration and against resolutions related to the remuneration of directors.

### *Boards and directors*

- In Russia, companies adopt a unitary board structure, where directors seek annual election through a cumulative voting system. Companies may nominate a greater number of candidates for a set number of board seats. Under the cumulative voting system, The Council is usually supportive of directors who are considered to be fully independent in order to increase their chances of being elected to the board.

### *General corporate governance matters*

- The Council expects related-party transactions to be fully disclosed and transparent in order to support them.

## South Africa

The Council is supportive of the recommendations of the King III report on Corporate Governance for South Africa.

### *Boards and directors*

South African company boards follow the unitary model. The composition of the board is influenced by South Africa's Black Economic Empowerment (BEE), or more recently Broad-Based Black Economic Empowerment (BBBEE), policies which aim to redress historic inequalities. The Council expects the majority of the board members, including the chairman, to be fully independent.

- The Council is supportive of a separation in the roles of chairman and chief executive. In cases where there is a combination in the role of chairman and chief executive, The Council expects the board to implement mechanisms that may offset a potential concentration of power.
- The Council is supportive of audit committees which comprise independent non-executive directors only. The board chairman should not serve on the audit committee

### *Capital structure and special transactions*

- The Council may encourage managers not to support proposals to place authorised but unissued shares under the control of directors where this amount exceeds one-third of the issued share capital and sound rationale for the request is not provided.

## Disclosure and Reporting

The Council believes that transparency and accountability are important components of effective stewardships. Accordingly, we require that our fund managers report to us on a regular basis on the voting and engagement activities they have conducted on our behalf.

So that our beneficiaries may be fully informed of how we look after the fund's investments, we will also report on at least an annual basis on the voting and engagement activities of the Council and its fund managers. This report will be made available on the Council website.