GLASS LEWIS

2020

PROXY PAPER™

GUIDELINES

AN OVERVIEW OF THE GLASS LEWIS APPROACH TO PROXY ADVICE

SOUTH ASIA

Table of Contents

Guidelines Introduction

REGULATORY AND CORPORATE GOVERNANCE BACKGROUND

South Asia as a region is increasing its presence among global markets. Although the region is influenced heavily by its largest market, India, the others markets, including Bangladesh, Pakistan and Sri Lanka, each represent important pieces to the whole of South Asia. Although Glass Lewis maintains a separate set of policy guidelines for India, these guidelines will focus on the corporate governance rules and best practices that ultimately inform and produce our policies for these South Asian markets.

BANGLADESH

Corporate governance in Bangladesh is based primarily on the Companies Act (Bangladesh), 1994 ("Companies Act 1994"), which provides the legislative framework, and the Corporate Governance Guidelines issued by the Bangladesh Securities and Exchange Commission ("BSEC") the regulator of the country's capital market. The Code of Corporate Governance for Bangladesh published by the BSEC on June 3, 2018 represents the recommendations for best corporate governance practices. Companies are also required to follow the Listing Rules of the Dhaka and Chittagong Stock Exchanges.

PAKISTAN

The legislative foundation for corporate governance in Pakistan derives from the Companies Act, 2017.[1] While this law serves as the foundation, companies are regulated by the Securities and Exchange Commission of Pakistan ("SECP"). Through its authority, the SECP is empowered to create and enforce regulations most recently being the Listed Companies (Code of Corporate Governance) Regulations, 2017 (the "Code").[2] Furthermore, publicly-listed companies must comply with the Listing Regulations of the Pakistan Stock Exchange Limited.

SRI LANKA

Sri Lankan corporate governance of publicly–traded companies is based on the Companies Act, No. 07 of 2007 ("Companies Act 2007") and the Listing Rules of the Colombo Stock Exchange. The Code of Best Practice on Corporate Governance 2017, as published by the Securities and Exchange Commission of Sri Lanka ("SECSL") and the Institute of Chartered Accountants of Sri Lanka, comprises a set of voluntary best corporate governance practices. Although the SECSL is given power to enforce corporate governance practices, we note that the Central Bank of Sri Lanka is empowered to issue binding directions, circulars and guidelines to licensed commercial banks in Sri Lanka, thus adding a specific layer of corporate governance to banks.

SHAREHOLDER GENERAL MEETINGS

Each of the South Asian markets maintains specific standards and practices for managing publicly-traded corporations. In each of the markets, publicly-traded companies are governed by a one-tier management structure, with the board being the apex of that structure. The election of directors takes place at the Annual General Meeting ("AGM"), although directors may be elected at an Extraordinary General Meeting ("EGM"). The legal minimum notice periods for AGMs are as follows: 14 days for Bangladeshi companies,[3] 21 days for Pakistani companies;[4] and 15 days for Sri Lankan companies.[5]

1 The Companies Act, 2017, replaced the Companies Ordinance, 2016, effective from May 31, 2017.

2 The 2017 Code was subsequently updated and published in September 2019.

3 Section 85(a), the Companies Act. EGMs may be called with a minimum of 21 days' notice.

4 Section 131(2), the Companies Act, 2017.

5 Section 135(1)(a), the Companies Act No. 07, 2007.

SUMMARY OF CHANGES FOR THE 2020 SOUTH ASIA POLICY GUIDELINES

Glass Lewis evaluates these guidelines on an ongoing basis and formally updates them on an annual basis. This year we've made noteworthy revisions in the following areas, which are summarized below but discussed in greater detail in the relevant sections of this document:

CORPORATE GUARANTEES

We have added our policy for how we will assess the granting of corporate guarantees by companies to other entities.

ELECTIONS INVOLVING MORE CANDIDATES THAN SEATS

We have added our policy for how we may recommend shareholders vote on the election of director proposals when there may be more nominees than seats.

RISK MANAGEMENT COMMITTEE

We have added as part of our evaluation of board committees, how we will evaluate a board risk management committee, should a company in Pakistan, Bangladesh or Sri Lanka have such a committee.

A Governance Structure that Serves the Interests of Shareholders

ELECTION OF DIRECTORS

The purpose of Glass Lewis' proxy research and advice is to facilitate shareholder voting in favor of governance structures that will drive performance, create shareholder value and maintain a proper tone at the top. Glass Lewis looks for talented boards with a record of protecting shareholders and delivering value over the medium- and long-term. We believe that boards working to protect and enhance the best interests of shareholders are independent, have a record of positive performance, and have members with a breadth and depth of experience.

ELECTION OF DIRECTORS AS A SLATE

Glass Lewis believes the practice of electing directors as slates is contrary to principles of good corporate governance, as slates make it more difficult for shareholders to hold individual members of the board accountable for their actions. While the corporate governance frameworks in South Asia seemingly allow the voting procedures for electing directors to be left to the discretion of issuers, based on observed practices, directors may be elected individually or as a slate. We note that in Pakistan, shareholders may elect directors by cumulative voting and plurality voting[6] when deciding how to vote their shares based on the nominee(s) standing for election.

Where directors are standing for election as a slate, we will generally recommend that shareholders abstain from voting on the election of directors in the absence of information about the nominee(s). However, when we have concerns regarding the independence of the current board and have significant concerns[7] regarding current directors or nominees, we may recommend voting against the entire slate, rather than abstaining.

ELECTIONS INVOLVING MORE CANDIDATES THAN SEATS

Occasionally among the South Asian markets, there may be director elections where there are more candidates than available board seats. At the same time, management generally does not express a recommendation regarding a preferred candidate and shareholders are left to apply their discretion as to which candidate to support. Shareholders are not prevented from supporting all candidates, even if there are more candidates than available board seats.

We believe that at certain companies, particularly those with a dominant controlling shareholder or shareholder group, other shareholders may benefit from more verifiably "outside" representation on the board. In such instances, we will consider recommending to vote for directors who are not affiliated with the major or controlling shareholders, or nominees proposed by minority shareholders where sufficient information regarding the nominee has been disclosed, and where the nominee is appropriately qualified for the role. In cases where multiple minority representative candidates have been nominated, we will base our recommendation on the nominees' qualifications and experience, and on the company's shareholder structure.

Moreover, where we have any concerns that an incumbent candidate, whether initially proposed by the

6 Section 159(5), the Companies Act, 2017.

7 Significant issues generally relate to: (i) committee independence concerns; (ii) directors with related-party transactions and other conflicts of interest; (iii) board size issues; and (iv) legal matters/scandals involving directors.

company or by a minority shareholder, is not independent or has not demonstrated sufficiently independent judgment in their performance on the board, we will consider supporting a competing candidate providing the criteria above are met.

In evaluating the suitability of competing candidates to the board, we may include a board skills matrix, company disclosure permitting, to aid in assessing the current board's competencies and identifying any potential skills gaps.

INDEPENDENCE OF DIRECTORS

The independence of directors, or lack thereof, is ultimately demonstrated through the decisions they make. In assessing the independence of directors, we will take into consideration, when appropriate, whether a director has a track record indicative of making objective decisions. Similarly, when a director sits on multiple boards and has a track record that indicates a lack of objective decision-making, that will also be considered when assessing his/her independence. Ultimately, the determination of a director's independence must take into consideration both his/her compliance with the applicable independence listing requirements and past judgments made.

We look at each director nominee to examine the director's relationships with the company, the company's executives, and other directors. We do this to find personal, familial, or financial relationships (not including director compensation) that may impact the director's decisions. We believe that such relationships make it difficult for a director to put shareholders' interests above the director's or the related party's interests.

Thus, we put directors into three categories based on an examination of the type of relationships they have with the company:

> **Independent Director** — When assessing a director's independence, we apply a three-year look back period for all past relationships other than employment relationships,[8] which include material,[9] financial, familial[10] or other current relationships with the company,[11] its executives or other board members, except for board service and standard fees paid for that service. An individual who has been employed by the company within the past five years[12] is not considered to be independent.
>
> However, we will not consider a director to be independent if they have progressively been re-designated from an executive director to an independent director despite never leaving the board. We believe that where a director transitions from an executive director to an independent director, they must leave a board for a period of time before rejoining the board with a designation as non-executive or independent director.
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> **Affiliated Director** — An affiliated director has a material financial, familial or other relationship with the company or its executives, but is not an employee of the company.[13] This includes directors whose employers have a material financial relationship with the company, as well as any director who owns or con-

8 Sri Lanka has a two-year lookback period Section 7.10.4(a)(b), Listing Rules of the Colombo Stock Exchange, while Pakistan has a three-year lookback period, Section 166(2)(a), the Companies Act, 2017.

9 "Material" as used herein means a relationship for: (i) a service they have agreed to perform for the company or the group, outside their services as director, including professional or other services; and (ii) those directors employed by a professional services firm, such as a law firm, investment bank, accounting firm or consulting firm and the company pays the firm, not the individual, for services.

10 Familial relationships include a person's spouse, parents, children, siblings, grandparents, uncles, aunts, cousins, nieces, nephews, in-laws and anyone (other than domestic employees) who shares such person's home. A director is an affiliate if the director has a family member who is employed by the company.

11 A company includes any parent or subsidiary in a group with the company or any entity that merged with, was acquired by, or acquired the company.

12 Bangladesh applies a three year lookback period for employment. Section 1(2)(b)(viii) of the BSEC Corporate Governance Code. Sri Lankan banks have a two year lookback period for employment. Section 3(2)(iv)(c) Banking Act Direction No. 11 of 2007. In Pakistan, the Listing Rules for the Pakistan Stock Exchange apply a three year lookback period for employment. Section 5.19.1(b)(i), Pakistan Stock Exchange Regulations. In our view, however, a five-year standard is appropriate because we believe that the unwinding of conflicting relationships between former management and board members is more likely to be complete and final after five years. Furthermore, Glass Lewis does not apply the five-year look back period to directors who have previously served as executives of the company on an interim basis for less than one year.

13 If a company classifies a director as non-independent, Glass Lewis will classify that director as an affiliate, unless there is a more suitable classification. Moreover, in cases where there is a conflict between Glass Lewis' classifications and those used by the company, the latter will prevail.

trols 1% or more of the Company's voting stock in Bangladesh and for banks in Sri Lanka[14] or 2% or more of the company's voting stock in Pakistan and Sri Lanka. This classification will also apply to a director who has served as an independent director for more than six years in Bangladesh and nine years in Pakistan and Sri Lanka.[15] In addition, where we find independent non-executive directors receiving additional compensation in the form of salaries, allowances and/or emoluments that exceed 50% of a director's normal fee-based compensation, we will consider such independent directors as being affiliated.

Inside Director — An inside director simultaneously serves as a director and an employee of the company. This category may include a board chair who acts as an employee of the company or is paid as an employee of the company.

Voting Recommendations on the Basis of Independence

Glass Lewis believes that a board will most effectively perform the oversight necessary to protect the interests of shareholders if the independent members can exercise influence in the board's activities and decisions. In evaluating the levels of board independence for each of the South Asian markets, we take into consideration the mandated requirements and recommended best practices for board independence. As such, for Bangladesh, we believe boards should maintain a minimum independence level of 20%.[16] For boards in both Pakistan and Sri Lanka, we believe boards should be at least 33% independent.[17] Where the board is not sufficiently independent, we typically recommend voting against some of the insider and/or affiliated directors in order to satisfy the non-executive and independent thresholds we believe appropriate.

In determining our recommendation as to who we may recommend shareholders vote against for board independence, we will reserve discretion to not recommend against a company's CEO or managing director. In particular, given the importance of the executive's role, if the executive has no other issues that would warrant a negative recommendation, we will exempt such directors from receiving an against recommendation. However, should the executive have additional issues that would warrant an against recommendation, we will generally oppose the reelection of such executives on the basis of the board being insufficiently independent.

PERFORMANCE OF DIRECTORS

We look at the performance of these individuals in their capacity as board members and executives of the company, and in their roles at other companies where they may have served. We find that a director's past conduct is often indicative of future conduct and performance. We often find directors with a history of overpaying executives or of serving on boards where avoidable disasters have occurred, appearing at companies that follow these same patterns. Glass Lewis has a proprietary database that tracks the performance of directors across companies worldwide. In addition, irrespective of the overall presence of independent directors on the board, we believe that a board should be wholly free of people who have identifiable conflicts of interest. Accordingly, we recommend shareholders vote against the following types of affiliated or inside directors in nearly all circumstances:

Voting Recommendations on the Basis of Performance

We disfavor directors who have a record of not fulfilling their responsibilities to shareholders at any company

14 Section 1(2)(b) of BSEC Corporate Governance Code. 3(2)(iv)(a) Banking Act Direction No. 11 of 2007.

15 In Bangladesh, an independent director may serve up to two consecutive three-year terms of services. Section 1(2)(b)(e) of the BSEC Corporate Governance Code. In Pakistan and Sri Lanka, independent directors may serve up to three consecutive three-year terms of service. Section 166(2)(g), the Companies Act, 2017; Section 7.10.4(e) Listing Rules of the Colombo Stock Exchange, and Section A.5.5 Code of Best Practice on Corporate Governance 2017.

16 Section 1(2)(a) of the BSEC Corporate Governance Code. We do note, however, that the 2003 Code of Corporate Governance recommends that boards comprise a majority of non-executive and independent directors. Section VII(D) Code of Corporate Governance for Bangladesh, March 2004.

17 Listed Companies (Code of Corporate Governance) Regulations, 2017, mandate that all listed companies have boards that have either two independent directors or are one-third independent, whichever is higher. Section 6, Listed Companies (Code of Corporate Governance) Regulations, 2017. For companies in Sri Lanka, if a board has only two non-executive directors, both must be independent; where a board has more than two non-executive directors, the board must be one-third independent, whichever is higher. Section 7.10.2, Listing Rules of the Colombo Stock Exchange. Furthermore, Section A.5.1 Code of Best Practice on Corporate Governance 2017, notes that where the board chair and CEO is the same person, then the board should comprise a majority of non-executive directors. Sri Lankan banks must maintain a minimum independence of at least three independent non-executive directors or one-third of the total number of directors, whichever is higher. Section 3(2)(iv) Banking Act Direction No. 11 of 2007.

where they have held a board or executive position. We typically recommend voting against:

- **Director Attendance** — A director who fails to attend a minimum of 75% of the board meetings, or 75% of the total of applicable committee meetings, including other committees aside from the audit, remuneration, nomination and/or risk committees, and board meetings. While we generally recommend directors to attend board meetings in person, we understand it is not always feasible to do so. Therefore, when evaluating a director's attendance, we consider a director's participation via electronic communication means, such as audio, video or web conferencing devices.[18] In addition, we will recommend shareholders vote against the board chair if the board does not meet at least four times a year.

  Where companies fail to disclose the complete attendance records of the board and its required committees,[19] we will recommend shareholders vote against the board chair. Further, when the attendance record is not disclosed, we will not exempt executives from serving on more than three public company boards in Bangladesh, and more than four public company boards in Sri Lanka and Pakistan.

- **Serious and Material Restatement** — A director who is also the CEO of a company where a serious and material restatement occurred after the CEO had previously certified the pre-restatement financial statements.

- **Company Performance** — All members of a board if a company's performance has been consistently lower than its peers and the board has not taken reasonable steps to address the poor performance.

EXPERIENCE OF DIRECTORS

We find that a director's past conduct is often indicative of future conduct and performance. We often find directors with a history of overpaying executives or of serving on boards where avoidable disasters have occurred appearing at companies that follow these same patterns. Glass Lewis has a proprietary database that tracks the performance of directors across companies worldwide.

Voting Recommendations on the Basis of Experience

We typically recommend that shareholders vote against directors who have served on boards or as executives of companies with records of poor performance, over-remuneration, audit- or accounting-related issues and/or other indicators of mismanagement or actions against the interests of shareholders.[20]

Similarly, we examine the backgrounds of those who serve on key board committees to ensure that they have the required skills and diverse backgrounds to make informed judgments about the relevant subject matter.

DIRECTOR COMMITMENTS

We believe that directors should have the necessary time to fulfill their duties to shareholders. In our view, an overcommitted director can pose a material risk to a company's shareholders, particularly during periods of crisis. In addition, recent research indicates that the time commitment associated with being a director has been on a significant upward trend in the past decade.

As a result, we generally recommend that shareholders vote against a director who serves as an executive officer of any public company while serving on an excessive number of boards. For South Asian markets,

18 However, if a director has served for less than one full year, we will not typically recommend voting against him/her for a failure to attend 75% of meetings. Rather, we will note the failure and track this issue going forward. We will also refrain from voting against directors when the proxy discloses that the director missed the meetings due to serious illness, other extenuating circumstances or potential conflicts of interest.

19 The required committees will primarily be the audit, nomination, and remuneration committees.

20 We typically apply a three-year look-back period to such issues, and we also research to see whether the responsible directors have been up for election since the time of the failure.

this means in Bangladesh[21] executive directors serving on more than three public company boards, or non-executive directors serving on more than five boards; in Sri Lanka and Pakistan[22] a director who serves as an executive officer of any public company while serving on more than four public company boards, and any other director who serves on more than six public company boards for Sri Lankan companies and more than five public company boards for Pakistani companies. Furthermore, we will count directors who serve as board chairs in select other non-Asian markets, per our global policies, as two board seats given the time commitment of directorship in those markets.

However, we will generally refrain from recommending voting against directors at companies where they also serve as CEO, executive chairperson, or a combined CEO-executive chairperson, since a vote against such top executive may be interpreted as an indication of loss of confidence in the executive when the real concern is the executive's over-commitment of other board seats outside the executive role. In addition, the recruitment and retention of top executives is fundamentally different than that for a director, making turnover in a company's executive ranks a significantly more material change than among the board. Further, given an executive's role and knowledge of the company where he or she serves as top executive, the additional time demands for that board seat are significantly less than for other boards.

CONFLICT OF INTEREST

In addition to the key characteristics — independence, performance and experience — that we use to evaluate board members, as described above, we also consider conflict-of-interest issues in making voting recommendations.

Voting Recommendations on the Conflict of Interest

We believe that a board should be wholly free of people who have identifiable and substantial conflicts of interest, regardless of the overall presence of independent directors on the board. Accordingly, we recommend that shareholders vote against the following types of affiliated or inside directors:

- **Professional Services and Business Transactions** — A director who has provided consulting or other material professional services to the company at any time during the past three years, or who has an immediate family member providing such services.[23] Such professional services may include legal, consulting or financial services. We question the need for a company to have consulting relationships with its directors. We view such relationships as creating conflicts for directors, since they may be forced to weigh their own interests against shareholder interests when making board decisions. In addition, a company's decisions regarding where to turn for the best professional services may be compromised when doing business with the professional services firm of one of the company's directors. We will also not provide value-based exemption for any recurrent professional services and/or related party transactions involving a company's directors.

- **Personal Enrichment** — A director who engages in airplane, real estate or similar deals, including perquisite-type grants from the company, or who has an immediate family member engaging in such an arrangement.

- **Board Interlock** — A director who is involved in interlocking directorships: CEOs or other top executives who serve on each other's boards create an interlock that poses conflicts that should be avoided to ensure the promotion of shareholder interests above all else.[24]

21 Section 1.2(b)(viii) of the BSEC Corporate Governance Code. The new Code increased the maximum number of directorships an independent director may hold from three to five. Similarly, the new Code stipulates that a CEO or managing director may not hold the same position in another listed company. Section 4(b) of the BSEC Corporate Governance Code. While limits on directorships are generally directed at independent directors, we believe that a limit of three boards, as provided in the 2012 Code, should apply to executive directors given the time commitment associated with being an executive director. Section 1.2(ii)(g) of BSEC Notification No. 7, August 2012.

22 Section 3 of the Listed Companies (Code of Corporate Governance) Regulations, 2017, specifies a limit on listed company directorships at no more than 5 boards being served on simultaneously. Although the 2017 Regulations were updated in 2019 to allow up to 7 boards, we will continue to observe a 5-board limit.

23 See our definition of "material" under Independence. The Companies Law applies a three-year look-back period to most relationships.

24 There is no look-back period for this situation. This only applies to public companies and we only footnote it for the non-insider.

BOARD SIZE

While we do not believe that there is a universally applicable optimum board size, we do believe that boards should have a minimum of five directors in Bangladesh[25] and seven directors in Pakistan and Sri Lanka[26] in order to ensure that there is sufficient diversity of views and breadth of experience in every decision the board makes. At the other end of the spectrum, we believe that boards with more than 20 members will typically suffer under the weight of "too many cooks in the kitchen" and have difficulty reaching consensus and making timely decisions. Sometimes the presence of too many voices makes it difficult to draw on the wisdom and experience in the room by virtue of the need to limit the discussion so that each voice may be heard.

To that end, we typically recommend voting against the nomination committee chair[27] if a board has more than 20 directors or fewer than its legal minimum threshold. However, where a Bangladeshi board has fewer than five directors, we will refrain from recommending against the nomination committee chair, but instead, note our preference for a larger board.

SEPARATION OF THE ROLES OF BOARD CHAIR AND CEO

Glass Lewis believes that separating the roles of corporate officer and chair creates a better governance structure than a combined executive/chair position. An executive manages the business according to a course the board charts. Executives should report to the board regarding their performance in achieving goals the board set. This is needlessly complicated when a CEO sits on or chairs the board, since a CEO presumably will have a significant influence over the board.

It can become difficult for a board to fulfill its role of overseer and policy setter when a CEO/chair controls the agenda and the boardroom discussion. Such control can allow a CEO to have an entrenched position, leading to longer-than-optimal terms, fewer checks on management, less scrutiny of the business operation, and limitations on independent, shareholder-focused goal-setting by the board.

A CEO should set the strategic course for the company, with the board's approval, and the board should enable the CEO to carry out the CEO's vision for accomplishing the board's objectives. Failure to achieve the board's objectives should lead the board to replace that CEO with someone in whom the board has confidence.

Likewise, an independent chair can better oversee executives and set a pro-shareholder agenda without the management conflicts that a CEO and other executive insiders often face. Such oversight and concern for shareholders allows for a more proactive and effective board of directors that is better able to look out for the interests of shareholders.

In reviewing the composition of South Asian boards, we note that each market requires that the board chair and CEO be held by separate individuals with the board chair being a non-executive director.[28]

BOARD GENDER DIVERSITY

Glass Lewis recognizes the importance of ensuring that the board is comprised of directors who have a diversity of skills, thought and experience, as such diversity benefits companies by providing a broad range of perspectives and insights.[29]

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25 Section 1(1) of the BSEC Corporate Governance Code mandates that boards must have a minimum of five directors.

26 Section 154(1)(d) of the Companies Act, 2017, requires that publicly-traded Pakistani companies have a minimum of seven directors. Section 3(2)(i) of the Banking Act Direction No. 11 of 2007, requires that boards of Sri Lankan banks have a minimum of seven directors, which we believe should extend to other publicly-traded companies in Sri Lanka.

27 In the absence of a nomination committee, we will recommend voting against the board chair.

28 Section 4(c) of the BSEC Corporate Governance Code; Companies Act, 2017; and Section 9, Listed Companies (Code of Corporate Governance) Regulations, 2017. In Sri Lanka, banks are required to have a separate board chair and CEO. Where the chair is not independent, a senior independent director must be appointed, Section 3(5)(ii), Banking Act Direction No. 11 of 2007. Similarly, Section A.5.7 of the Code of Best Practice on Corporate Governance 2017 recommends Sri Lankan companies separate the chair and CEO, while Section A.5.7 recommends where the chair and CEO are the same person, the board should appoint a senior independent director.

29 See our In Depth Report on Gender Diversity, available at www.glasslewis.com/special-reports/.

For Pakistan, Sri Lanka, and Bangladesh, we will expect all boards to have at least one female director. In such instances where the board fails to have or nominate at least one female director, we will recommend voting against the nomination committee chair. However, where a board does not have at least one female director due to a recent resignation, retirement or other unique instance, provided companies disclose the reason for the lack a female director, we may merely note that company's inability to meet the one female director requirement.

When making such a voting recommendation, we will carefully review a company's disclosure of its diversity considerations and may refrain from recommending shareholders vote against directors when boards have provided a sufficient rationale for not having any female board members or where boards have disclosed a plan to address the lack of diversity on the board.

TERM AND AGE LIMIT

Glass Lewis believes that director age and term limits typically are not in shareholders' best interests. Too often they are used by boards as a crutch to remove board members who have served for an extended period of time. When used in that fashion, age and term limits are indicative of a board that has a difficult time making "tough decisions."

Academic literature suggests that there is no evidence of a correlation between length of tenure and director performance. On occasion, term limits can be used as a means to remove a director from boards that are unwilling to police their membership and enforce turnover. Some shareholders support term limits as a way to force change when boards are unwilling to do so.

In our view, a director's experience can be a valuable asset to shareholders because of the complex, critical issues that boards face. However, we support periodic director rotation to ensure a fresh perspective in the boardroom and the generation of new ideas and business strategies. We believe boards should implement such rotation instead of relying on arbitrary limits. When necessary, shareholders can address the issue of director rotation through director elections.

If a board does choose to adopt term limits, it should follow through and not waive these limits. If the board waives its term limits, Glass Lewis will consider recommending shareholders vote against the nomination and/or governance committees, unless the rule was waived with a reasonable explanation, such as the consummation of a corporate transaction.

Glass Lewis believes that age limits are not in shareholders' best interests. Academic literature suggests that there is no evidence of a correlation between age and director performance. Like term limits, age limits are a crutch for boards that are unwilling to police their membership and decide when turnover is appropriate. While we understand some institutions' support for age limits as a way to force change at boards that are unwilling to make changes on their own, the long-term impact of age limits is to restrict experienced and potentially valuable board members from service through an arbitrary cut-off date. Further, age limits unfairly imply that older (or in rare cases, younger) directors cannot contribute to company oversight. A director's experience can be valuable to shareholders because directors navigate complex and critical issues when serving on a board.

If a board does choose to adopt age limits for directors, it should follow through and not waive these limits. We will consider recommending shareholders against votes from the nomination and/or governance committees following a limit waiver, unless the rule was waived for the purpose of completing a pending corporate transaction, such as a merger.

We note that pursuant to the Companies Act, 2007, directors in Sri Lanka may not be appointed after the age of 70.[30] Upon reaching the age of 70, directors will vacate their office at the conclusion of the next AGM.

30 Section 210, the Companies Act No. 07, 2007. However, under Section 211, a director may be appointed by shareholders at a general meeting.

EXCEPTIONS FOR RECENT IPOS

We believe companies that have recently completed an initial public offering ("IPO") should be allowed adequate time to fully comply with marketplace listing requirements as well as to meet basic corporate governance standards. We believe a one-year grace period immediately following the date of a company's IPO is sufficient time for most companies to comply with all relevant regulatory requirements and to meet such corporate governance standards. Except in egregious cases, Glass Lewis refrains from issuing voting recommendations on the basis of corporate governance best practices (e.g., board independence, committee membership and structure, meeting attendance, etc.) during the one-year period following an IPO.

BOARD COMMITTEES AND INDEPENDENCE

Companies in Bangladesh are required to maintain an audit committee, as well as nomination and remuneration committees.[31] Comparatively, companies in Pakistan are required to maintain an audit and human resource and remuneration committee, while companies are recommended to have a nomination committee and a risk management committee, respectively.[32] In contrast, companies in Sri Lanka are required to constitute both the audit and remuneration committees,[33] while nomination committees are only required for publicly-traded banks.[34]

In evaluating the board committees for the South Asian markets, we believe that each market must have an audit committee and a remuneration committee in order to maintain proper oversight of a company's accounts and reports and remuneration. Further, we will only recommend that Sri Lankan non-financial companies have a nomination committee, while we will expect Pakistani, Bangladeshi and Sri Lankan financial companies have a standalone nomination committee or have another committee that undertakes the functions of a nomination committee. Where companies fail to constitute the required committees, we will recommend voting against the board chair, as we believe the chair should be held responsible for the company's failure to meet a legal requirement.

Audit Committee Performance

When considering a company's audit committee, we believe that a working audit committee should be at least majority independent, including an independent chairperson and comprise a minimum of three directors. No inside directors should serve as members of the committee. Furthermore, directors or affiliates of shareholders who own more than 20% should not serve on the audit committee. Regardless of a company's ownership structure, the interests of all shareholders must be protected by ensuring the integrity and accuracy of a company's financial statements. Allowing significant shareholders or their representatives to oversee audits could create an insurmountable conflict of interest.

Audit committees play an integral role in overseeing the financial reporting process because "vibrant and stable capital markets depend on, among other things, reliable, transparent and objective financial information to support an efficient and effective capital market process. The vital oversight role audit committees play in the process of producing financial information has never been more important."[35]

When assessing an audit committee's performance, we are aware that an audit committee performs a critical role by ensuring the provision of adequate information and explanation to the auditor, which is essential for it to be able to conduct a proper audit of the Company's accounts. The quality and integrity of the financial statements and earnings reports, the completeness of disclosures necessary for investors to make informed

31 Section 4 of the BSEC Corporate Governance Code.

32 Section 5.19.16, Pakistan Stock Exchange Regulations. Section 30 of the Listed Companies (Code of Corporate Governance) Regulations, 2017, provides that companies may constitute a nomination committee, provided that the committee does not lead to a duplication of duties or conflicts with the human resource and remuneration committee.

33 Sections 7.10.5 and 7.10.6, the Listing Rules of the Colombo Stock Exchange. Under the Listing Rules of the Colombo Stock Exchange, if a listed company has a listed parent company, then the audit and remuneration committees of the parent company may function as a listed company's audit and remuneration committees. In such situations, we will only evaluate the committees of the parent company where and when appropriate..

34 Section 3(6)(iv), Banking Act Direction No. 11 of 2007. We note that it is recommended that all Sri Lankan companies have a nomination committee; Section A.7.1, the 2017 Code of Best Practice on Corporate Governance.

35 Audit Committee Effectiveness – What Works Best." PricewaterhouseCoopers. The Institute of Internal Auditors Research Foundation. 2005.

decisions, and the effectiveness of the internal controls should provide reasonable assurance that the financial statements are materially free from errors. The independence of the external auditors and the results of their work also provide useful information by which to assess the audit committee.

For an audit committee to function effectively, it must include members with sufficient knowledge and financial expertise to diligently carry out their responsibilities. We are skeptical of audit committees with members that lack expertise as a Certified Public Accountant (CPA), Chief Financial Officer (CFO), corporate controller or other similar experience.

Thus, we would recommend voting against the following members under the following circumstances:[36]

- The audit committee chair who is not considered independent based on our research.
- Any committee member who is an employee of the company and any member who is not considered independent when the committee is not majority independent.
- The audit committee chair if the audit committee did not meet at least four times during the past financial year.
- The audit committee chair if the audit committee has fewer than three members.
- The audit committee chair if the audit committee does not have a financial expert or the committee's financial expert does not have a demonstrable financial background sufficient to understand the financial issues unique to public companies.
- The audit committee chair if the company failed to disclose the non-audit fees paid to the independent auditor in the consolidated financial statements; or has repeatedly failed to file its financial reports in a timely fashion for consecutive years.
- The audit committee chair when fees for non-audit services are greater than audit and audit-related fees paid to the auditor for one financial year.
- All members of an audit committee in office, when fees for non-audit services are greater than audit and audit-related fees paid to the auditor for two or more consecutive financial years.
- All members of the audit committee who served on the committee at the time of the audit, the company maintained aggressive accounting policies and/or poor disclosure or a lack of sufficient transparency in its financial statements; or an auditor was reappointed that we no longer consider to be independent for reasons unrelated to fee proportions.
- All members of the audit committee who served on the committee at the time of the audit, if the company and the board failed to provide adequate financial information to the independent auditor; or if the company has failed to report or to have its auditors report material weaknesses in internal controls.
- All members of an audit committee at a time when material accounting fraud occurred at the company or financial statements had to be restated due to serious material fraud.
- All members of the audit committee, when there is any disagreement with the auditor that results in the auditor resigning or being dismissed.
- The board chair if the company has not established an audit committee.

36 Where the recommendation is to vote against the committee chair and the chair is not up for election, we do not recommend voting against any members of the committee who are up for election; rather, we will simply express our concern with regard to the committee chair.

Remuneration Committee Performance

We believe that in order to ensure objective review of remuneration, especially for executives, the committee should comprise majority independent directors and have an independent chair. Moreover, because this committee is responsible for evaluating and prescribing the remuneration of directors and executives, and given the potential for conflicts of interests, we do not believe executives and employees should be members of the remuneration committee.

Remuneration committees have the final say in determining the compensation of executives and other members of the board of directors. This includes deciding the basis on which compensation is determined, as well as the amounts and types of compensation to be paid. This process begins with the hiring and initial establishment of employment agreements, including the terms for items such as pay, pensions and severance arrangements. In establishing remuneration arrangements, pay levels should be consistent with — and based on — the performance of the company's long-term shareholders returns.

The remuneration committee is also responsible for overseeing the transparency of compensation structures. This oversight includes the disclosure of compensation arrangements, the matrix used in assessing pay for performance and the use of remuneration consultants. It is important for investors to have a clear and complete disclosure of all the significant terms of compensation arrangements in order for them to judge the decisions of the remuneration committee.

We will evaluate remuneration committee members on the basis of their performance while serving on the remuneration committee in question, and not for actions taken solely by prior committee members who are not currently serving on the committee.

When assessing the performance of remuneration committees, we will recommend voting against the following members under the following circumstances:[37]

- Any remuneration committee member who is considered an executive or employee of the company based on our research.
- The remuneration committee chair if the committee is chaired by a non-independent director.
- Any remuneration committee member who is not considered independent, when the committee is not majority independent.
- All members of the remuneration committee (during the relevant time period) if: (i) the company entered into excessive employment agreements and/or severance agreements; (ii) performance goals were changed (i.e., lowered) when employees failed or were unlikely to meet original goals, or performance-based compensation was paid despite goals not being attained; or (iii) excessive employee perquisites and benefits were allowed.
- The remuneration committee chair if the committee has less than three members.
- The board chair if the company has not established a remuneration committee.

Nomination Committee Performance

The nomination committee, as an agency for shareholders, is responsible and accountable for the selection of objective and competent board members. In case a board establishes a nomination committee,[38] we will evaluate all nomination committees and recommend voting against the following members of the nomination

37 If our recommendation would be to vote against the committee chair and the chair is not up for election, we do not recommend voting against any members of the committee who are up for election; rather, we will express our concern regarding the committee chair.

38 Sri Lankan banks are required to constitute a nomination committee, Section 3(6)(iv), Banking Act Direction No. 11 of 2007.

committee under the following circumstances:[39]

- The nomination committee chair[40] if: (i) the committee is chaired by a non-independent director; (ii) the board is not sufficiently independent; (iii) there are more than 20 members on a Bangladeshi, Pakistani or Sri Lankan company or less than seven members for a Pakistani or Sri Lankan company;[41] (iv) the committee did not meet during the year, but should have (i.e., new directors were nominated); (v) the committee re-nominates a director who did not attended any board meetings in the previous fiscal year and does not provide a reason for such re-nomination despite the poor attendance; (vi) no independent vice chair or lead/senior independent director when chair is a member of management; (vii) the committee re-nominated a director who attended less than 75% of the meetings held by the board and/or the committees for two or more consecutive years; and (viii) if the board of a Pakistani, Bangladeshi or Sri Lankan company lacks at least one female director.

- All members of the nomination committee when the committee nominated or re-nominated an individual who had a significant conflict of interest, or whose past actions demonstrated a lack of integrity or inability to represent shareholder interests.

- Any nomination committee member who is not considered independent, when the committee is not majority independent.

- Any committee member who is considered an executive or employee of the company based on our research, when the committee is combined with a remuneration committee.

- The board chair of a Sri Lankan financial company or a Pakistani or Bangladeshi company if it has not established a nomination committee, unless another board committee carries out the function of a nomination committee.

Risk Management Committee Performance

Markets within the South Asia region are recommending that companies establish risk management committees. Although it is not formally recommended or required for Pakistani, Bangladeshi or Sri Lankan companies, we view this committee, if separate from the audit committee, as being responsible for ensuring robust internal control systems to oversee and manage a company's risk profile. Where companies establish a risk management committee, we will count the attendance of directors serving on this committee, along with attendance for board and other committee meetings.

Where a company establishes a risk management committee, we will recommend against members of this committee in instances or events where there has been a failure of risk management.

DECLASSIFIED BOARDS

Glass Lewis favors the repeal of staggered boards and the annual election of directors. We believe staggered boards are less accountable to shareholders than boards that are elected annually. Furthermore, we feel the annual election of directors encourages board members to focus on shareholder interests. Moreover, empirical studies have shown: (i) companies with staggered boards reduce a firm's value; and (ii) in the context of hostile takeovers, staggered boards operate as a takeover defense, which entrenches management, discourages potential acquirers, and delivers a lower return to target shareholders.

Given the empirical evidence suggesting staggered boards reduce a company's value and the increasing shareholder opposition to such a structure, Glass Lewis supports the declassification of boards and the annual

39 If our recommendation would be to vote against the committee chair and the chair is not up for election, we do not recommend voting against any members of the committee who are up for election; rather, we will simply express our concern regarding the committee chair.

40 When the information regarding committee chair is not disclosed, we recommend voting against the committee member with the longest tenure on the board. If a board does not have a nomination committee, we recommend voting against the chair of the board on this basis.

41 Where there are less than five members on the board of a Bangladeshi company, we will note our preference for a larger board.

election of directors.

ENVIRONMENTAL AND SOCIAL RISK OVERSIGHT

Glass Lewis understands the importance of ensuring the sustainability of companies' operations and believes that an inattention to material environmental and social issues can present direct legal, financial, regulatory and reputational risks for companies that could serve to harm shareholder interests. Therefore, we believe that these issues should be carefully monitored and managed by companies and that companies should have an appropriate oversight structure in place to ensure that they are mitigating attendant risks and capitalizing on related opportunities to the best extent possible.

Glass Lewis believes that companies should ensure appropriate, board-level oversight of material risks to their operations, including those that are environmental and social in nature. Accordingly, in instances where we identify material oversight issues, Glass Lewis will review a company's overall governance practices and identify which directors or board-level committees have been charged with oversight of environmental and/or social issues.

Where it is clear that companies have not properly managed or mitigated environmental or social risks to the detriment of shareholder value or when such mismanagement has threatened shareholder value, Glass Lewis may consider recommending that shareholders vote against members of the board who are responsible for the oversight of environmental and social risks. In the absence of explicit board oversight of environmental and social issues, Glass Lewis may recommend that shareholders vote against members of the audit committee, risk committee or other applicable committees. In making these determinations, Glass Lewis will carefully review the situation at hand, its effect on shareholder value, as well as any corrective action or other response made by the company.

Transparency and Integrity in Financial Reporting

ACCOUNTS AND REPORTS

As a routine matter, Bangladeshi, Pakistani and Sri Lankan law[42] requires that shareholders receive and consider the company's annual financial statements and the report of the board of directors.

In cases where the approval of the financial statements is required, we will recommend voting for this proposal, unless there are concerns about the integrity of the statements/report.

However, in the event that the audited financial statements have not been made available, we do not believe shareholders have sufficient information to make an informed judgment regarding this matter. As such, we will recommend that shareholders abstain from voting on this agenda item.

ALLOCATION OF PROFITS/DIVIDENDS

In each of the South Asian markets, companies must submit the allocation of income for shareholder approval. We will generally recommend voting for such a proposal.

Glass Lewis generally supports a company's policy when it comes to the payment of dividends including decisions not to pay them. In most cases, we believe the board is in the best position to determine whether a company has sufficient resources to distribute a dividend or if shareholders would be better served by forgoing a dividend to conserve resources for future opportunities or needs. As such, we will only recommend that shareholders refrain from supporting dividend proposals in exceptional cases.

APPOINTMENT/RATIFICATION OF AUDITOR

The auditor's role as gatekeeper is crucial in ensuring the integrity and transparency of the financial information necessary for protecting shareholder value. Shareholders rely on the auditor to ask tough questions and to do a thorough analysis of a company's books to ensure that the information provided to shareholders is complete, accurate, fair, and that it is a reasonable representation of a company financial position. The only way shareholders can make rational investment decisions is if the market is equipped with accurate information about a company's fiscal health.

Shareholders should demand an objective, competent and diligent auditor who performs at or above professional standards at every company in which the investors hold an interest. Like directors, auditors should be free from conflicts of interest and should avoid situations requiring a choice between the auditor's interests and the public's interests. Almost without exception, shareholders should be able to annually review an auditor's performance and to annually ratify a board's auditor selection.

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42 Section 184, the Companies Act, 1994; Section 223, Companies Act, 2017; and Section 166; the Companies Act No. 07, 2007.

We generally support management's choice of auditor except when we believe the auditor's independence or audit integrity has been compromised.[43] When there have been material restatements of annual financial statements or material weakness in internal controls, we usually recommend voting against the auditor. In the event that the audited financial statements have not yet been disclosed, we base our voting recommendations on the company's financial statements for the previous year. We do not hold a company's auditor responsible for, what we believe, may be the company's failure to comply with reporting obligations or a lack thereof, depending on the jurisdiction.

In Pakistan, financial sector companies are required to rotate their auditor after a maximum of five consecutive years,[44] while all other listed companies must rotate the audit partner every five years.[45] Similarly, for Sri Lankan banks, the auditor partner overseeing the audit will be subject to rotation after a maximum of five consecutive years, although the audit firm may remain the same.[46] Upon the completion of the specified terms, an individual auditor or audit firm may be eligible for re-appointment by the company following a five-year cooling off period as determined by local rules.

Our reasons for not recommending favor of the ratification of an auditor include:

- When audit and audit-related fees total 50% or less of the total fees billed by the auditor.[47]

- There have been recent material restatements of annual financial statements, including those resulting in the reporting of material weaknesses in internal controls and late filings by the company where the auditor bears some responsibility for the restatement or late filing.[48]

- The company has aggressive accounting policies, as evidenced by restatements or other financial reporting problems.

- The company has poor disclosure or a lack of transparency in its financial statements.

- The auditor has limited its liability through its contract with the company.

- When the company has failed to rotate its independent audit firm or audit partner after five years.

- Other relationships or concerns with the auditor that might suggest a conflict between the auditor's interests and those of shareholders.

- Where the company failed to disclose the auditor fees paid for the previous fiscal year or a breakdown thereof.

If the company does not disclose sufficient information regarding the appointment or ratification of the auditor (e.g., the name of the auditor), we will recommend shareholders abstain from voting on the proposal.

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43 Under Bangladeshi, Pakistani and Sri Lankan law, every company must appoint an auditor or auditors to hold office until the conclusion of the next annual general meeting. The compensation to be paid to the Company's auditor may be fixed either by shareholders at the annual meeting or by the board of directors or, when the auditor has been appointed by an entity such as the Central Government or the Registrar. Section 210, the Companies Act, 1994; Section 246, Companies Act, 2017; and Sections 154 and 155, the Companies Act No. 07, 2007.

44 Section 5.19.22(d)(i), Pakistan Stock Exchange Regulations; Section 34(1), Listed Companies (Code of Corporate Governance) Regulations, 2017.

45 Section 5.19.22(d)(ii), Pakistan Stock Exchange Regulations; Section 34(2), Listed Companies (Code of Corporate Governance) Regulations, 2017.

46 Section 3(6)(ii), Banking Act Direction No. 11 of 2007.

47 In Bangladesh, non-audit services that independent external audit firms may provide is restricted under Section 7 of the BSEC Code of Corporate Governance.

48 As an auditor is not required to audit interim financial statements, we generally do not believe that an auditor should be opposed due to a restatement of interim financial statements, unless the nature of the misstatement is clear from a reading of the incorrect financial statements.

The Link Between Remuneration and Performance

DIRECTOR REMUNERATION

Glass Lewis believes that non-employee directors should receive remuneration for the time and effort they spend serving on the board and its committees. Director fees should be competitive in order to retain and attract qualified individuals, but excessive fees can represent a financial cost to the company and threaten to compromise the objectivity and independence of non-employee directors. Therefore, a balance is required.

Glass Lewis generally supports this type of proposal, unless we find the proposed fees are excessive relative to those paid by peer companies with similar market capitalizations.

EXECUTIVE REMUNERATION

As a general rule, Glass Lewis believes that shareholders should not be involved in setting executive remuneration, as such matters should be left to the board or the board's remuneration committee. We view the election of directors, specifically the election of remuneration committee members — as the appropriate mechanism for shareholders to express their disapproval or support of board policy on this issue. Further, we believe that companies whose pay-for-performance practices are in line with their peers should be granted the flexibility to compensate their executives in a manner that drives growth and profit.

However, Glass Lewis favors performance-based remuneration as an effective means of motivating executives to act in the best interests of shareholders. Performance-based remuneration may be limited if a chief executive's pay is capped at a low level, rather than flexibly tied to the performance of the company.

Among Pakistani and Bangladeshi companies, shareholders may need to approve the remuneration payable to an executive director as part of the approval of their employment contract as an executive director. In such instances we will evaluate executive remuneration in the following manner:

- Where the variable or incentive-based remuneration is not linked to performance, we will recommend shareholders not support the appointment.

- If a company does not provide or disclose variable or incentive-based remuneration, we will review the previous three financial years (where applicable) to determine whether executives received such remuneration. If an executive received such remuneration, we will not support the appointment of the executive. If an executive did not receive such remuneration, we will support the appointment.

- If in an appointment proposal, a company either fails to disclose the remuneration payable to the proposed executive or fails to provide a differentiation of the remuneration between salary, benefits, and perquisites and/or incentive remuneration, we will recommend shareholders oppose the proposal.

EQUITY-BASED COMPENSATION PLANS

We believe that equity compensation awards are useful, when not abused, for retaining employees and providing them with an incentive to act in a way that will improve company performance.

Equity-based compensation programs have important differences from cash compensation plans and bonus programs. Accordingly, our analysis takes into account factors such as plan administration, the method and terms of exercise, and express or implied rights to re-price.

Our analysis is both quantitative and qualitative. In particular, we examine the potential dilution to shareholders, the company's grant history and compliance with best practice recommendations.

SRI LANKAN COMPANIES

For Sri Lankan companies, we will evaluate stock option plans based upon the Listing Rules of the Colombo Stock Exchange. In general, we will support stock option plans provided such plans are within the following limits:

- Size of the plan does not exceed 5% of a company's issued share capital;
- Individual limits do not exceed 1% of issued share capital;
- Plan life is no more than ten years;
- No discount is provided on the exercise price;
- Non-executive and independent directors do not receive stock options unless they have ceased to be a board member for minimum period of one year. We will also expect companies to disclose the vesting period and whether stock options have performance conditions;[49]
- Where a Sri Lankan company seeks to adopt an employee share purchase plan, we will support such plan, provided the discount does not exceed 20%;[50] and
- Where the equity-based compensation plans include the acceleration of vesting of awards upon an offer being made on a company's shares without the transaction needing to be completed, along with a further event such as termination of employment of the grantee, we will recommend shareholders oppose such plan. However, we may take into consideration the acceleration of vesting of awards, provided the vesting is in conjunction with the achievement of performance targets at the time of the transaction.

We will oppose the adoption and/or issuance of awards under equity plans where the vesting period for grants to executive is less than three years.[51]

PAKISTANI COMPANIES

For Pakistani companies, we will generally evaluate stock option plans in accordance with the guidelines pertaining to the structuring and offering of employee stock options, as developed by the Securities and Exchange Commission of Pakistan. In particular, we will evaluate stock option plans with reference to:

- Participants being limited to employees of the company and/or its subsidiary or holding companies.[52]

49 Section B.2.9, the 2013 Code of Best Practice on Corporate Governance; Sections 5.6(1)(a),(b), 5.6.2, 5.6.6(a),(c), the Listing Rules of the Colombo Stock Exchange.

50 Section 5.6.7, the Listing Rules of the Colombo Stock Exchange.

51 Section B.2.6, Code of Best Practice on Corporate Governance 2017.

52 Chapter II, Section 4. "Guidelines for Structuring and Offering of the Employees of Stock Option Schemes." Securities and Exchange Commission of Pakistan. Islamabad: April 27, 2016.

- The exercise price being determined by a 90-day weighted average market price of the company's shares, or being the market price, or a formulaic approach to determining the exercise price that does not lead to a discount exceeding 20% of the market value of the Company's shares. We will recommend shareholders oppose plans that allow for the plan administrator to determine the exercise price on a discretionary basis.[53]

- Although regulation mandates a minimum one-year vesting period, we will expect the vesting period to be a minimum of two years, unless vesting occurs immediately after a minimum two-year performance period.[54]

- Where the number of shares to be issued as part of the share option plan and/or grant to a participant is not disclosed, we will recommend shareholders oppose such plan.

- We will recommend shareholders oppose a plan if the plan exceeds 5% of a companys issued share capital.

- Where the equity-based compensation plans include the acceleration of vesting of awards upon an offer being made on a company's shares without the transaction needing to be completed, along with a further event such as termination of employment of the grantee, we will recommend shareholders oppose such plan. However, we may take into consideration the acceleration of vesting of awards, provided the vesting is in conjunction with the achievement of performance targets at the time of the transaction.

PERFORMANCE-BASED OPTIONS

Shareholders commonly ask boards to adopt policies requiring that a significant portion of future stock option grants to senior executives be based on performance. Performance-based options are options where the exercise price is linked to an industry peer group's stock-performance index.

Glass Lewis believes in performance-based equity compensation plans for senior executives. We feel that executives should be compensated with equity when their performance and the company's performance warrants such rewards. While we do not believe that equity-based pay plans for all employees should be based on overall company performance, we do support such limitations for equity grants to senior executives. However, some level of equity-based compensation of senior executives without performance criteria is acceptable, such as in the case of moderate incentive grants made in an initial offer of employment or in emerging industries.

Boards often argue that basing option grants on performance would hinder them in attracting talent. We believe that boards can develop a consistent, reliable approach to attract executives with the ability to guide the company toward its targets, which may include the formation of equity-based compensation plans for its executives.

We generally recommend that shareholders vote in favor of performance-based option requirements.

OPTION EXCHANGES

Glass Lewis views option re-pricing plans and option exchange programs with great skepticism. Shareholders have substantial, real downside risk in owning stock, and we believe that the employees, officers and directors who receive options should be similarly situated to align interests optimally. We are concerned that option grantees who believe they will be "rescued" from underwater options will be more inclined to take on

53 Under Chapter III, Section 6(2), "Guidelines for Structuring and Offering of the Employees of Stock Option Schemes," company's may set the exercise price at their discretion. This may include using a 90 weighted average, the application of discount or premium, or make the exercise price adjustable under certain circumstances.

54 Under Chapter III, Section 6(4), "Guidelines for Structuring and Offering of the Employees of Stock Option Schemes," the minimum vesting period is one year, while the plan administrator may determine if vesting is time and/or performance based, with the latter's requirements being disclosed by the Compensation Committee.

unjustifiable risks. Moreover, a predictable pattern of re-pricing or exchanges substantially alters the value of the stock option, as options that will practically never expire deeply out of the money are worth far more than options that carry such a risk. In short, repricings and option ex-change programs change the bargain between shareholders and employees after the bargain has been struck. Re-pricing is tantamount to a re-trade.

There is one circumstance in which a repricing or option exchange program is acceptable: if the value of a stock has declined dramatically because of macroeconomic or industry trends (rather than specific company issues) and a re-pricing is necessary to motivate and retain employees. In this circumstance, we think it fair to conclude that option grantees may be suffering from a risk that was not foreseeable when the original equity-based compensation "bargain" was struck. In such a circumstance, we will support a re-pricing only if the following conditions are true:

- Officers and board members do not participate in the program.
- The stock decline mirrors the market or industry price decline in terms of timing and approximates.
- The decline in magnitude.
- The exchange is value-neutral or value-creative to shareholders with very conservative assumptions and a recognition of the adverse selection problems inherent in voluntary programs.
- Management and the board make a cogent case for needing to incentivize and retain existing employees, such as the company's position in a competitive employment market.

Governance, Financial Structure and the Shareholder Franchise

AMENDMENTS TO ARTICLES OF ASSOCIATION

We will evaluate proposed amendments to a company's articles of association on a case-by-case basis. We are opposed to the practice of bundling several amendments under a single proposal because it prevents shareholders from judging each amendment on its own merits and is a practice which we believe negatively limits shareholder rights. In such cases, we will analyze each proposed change individually. We will recommend voting for the proposal only when, on balance, we believe that the amendments are in the best interests of shareholders.

DIVIDEND REINVESTMENT (OR SCRIP DIVIDEND) PLAN

We support plans that provide shareholders with the choice of receiving dividends in stock instead of cash. For the company, a stock dividend typically offers a tax benefit. In addition, the company can keep more of its earnings rather than distributing them. For shareholders, a dividend reinvestment plan offers a less expensive way to acquire additional shares. They avoid paying brokers' commissions or the taxes on normal stock transactions. The stock price is usually equal to an average, middle-market price, which is often lower than the price available on the stock exchange.

INCREASES IN CAPITAL

Glass Lewis believes that adequate capital stock is important to a company's operation. South Asian companies are authorized to increase share capital through several methods that may or may not involve the issuance of shares.

ISSUANCE OF SHARES AND/OR CONVERTIBLE SECURITIES

In general, issuing an excessive amount of additional shares and/or convertible securities can dilute existing holders. Further, the availability of additional shares, where the board has discretion to implement a poison pill, can often serve as a deterrent to interested suitors. Accordingly, where we find that the company has not detailed a plan for use of the proposed shares, or where the number of shares far exceeds those needed to accomplish a detailed plan, we typically recommend to vote against the authorization of additional shares.

While we think that having adequate shares to allow management to make quick decisions and effectively operate the business is critical, we prefer that, for significant transactions, management come to shareholders to justify their use of additional shares rather than providing a blank check in the form of a large pool of unallocated shares available for any purpose.

In South Asia, shareholders are required to approve all proposals related to the increase of the registered share capital. In our view, unless a board provides any compelling reason, in general, any authorization to issue shares and/or convertible securities without preemptive rights should not exceed 20% of the company's total share capital at a discount of more than 15%. We are concerned that this authority will grant directors a dangerously high level of discretion over a company's capital, possibly to the detriment of current shareholders.

For these reasons, we will consider supporting this type of proposal only if the company has either implemented sufficient mechanisms to safeguard the interests of shareholders, such as the annual re-election of all directors, or has provided a compelling rationale in support of this broad authority to issue shares.

STOCK SPLIT

We typically consider three metrics when evaluating whether we think a stock split is likely or necessary: the historical stock pre-split price, if any; the current price relative to the company's most common trading price over the past 52 weeks; and some absolute limits on stock price that, in our view, either always make a stock split appropriate if desired by management or would almost never be a reasonable price at which to split a stock.

AUTHORITY TO REPURCHASE SHARES

A company may want to repurchase or trade in its own shares for a variety of reasons. A repurchase plan is often used to increase the company's stock price, to distribute excess cash to shareholders or to provide shares for equity-based compensation plans for employees. In addition, a company might repurchase shares in order to offset dilution of earnings caused by the exercise of stock options.

Within South Asia, the requirements for share repurchases vary. For example, in Bangladesh, a company may purchase its shares only when it is seeking to reduce or cancel a portion of its share capital.[55] In contrast, Pakistani companies may repurchase their own shares, but companies must disclose the number of shares, maximum repurchase price, and the period of time and rationale for the repurchase.[56] Similarly, Sri Lankan companies have similar requirements for share repurchases under Sri Lankan law,[57] although the shares to be repurchased must be done in the first instance on a pro-rata basis.[58] Where the details of such repurchases are disclosed, we will typically recommend voting in favour of such proposal.

ANTI-TAKEOVER DEVICES

Glass Lewis believes that authorities that are intended to prevent or thwart a potential takeover of a company are not conducive to good corporate governance and can reduce management accountability by substantially limiting opportunities for shareholders.

DUAL-CLASS SHARE STRUCTURES

Glass Lewis believes dual-class voting structures are typically not in the best interests of common shareholders. Allowing one vote per share generally operates as a safeguard for common shareholders by ensuring that those who hold a significant minority of shares are able to weigh in on issues set forth by the board.

Furthermore, we believe that the economic stake of each shareholder should match their voting power and that no small group of shareholders, family or otherwise, should have voting rights different from those of other shareholders. On matters of governance and shareholder rights, we believe shareholders should have the power to speak and the opportunity to effect change. That power should not be concentrated in the hands of a few for reasons other than economic stake.

We generally consider a dual-class share structure to reflect negatively on a company's overall corporate governance. Because we believe that companies should have share capital structures that protect the interests of non-controlling shareholders as well as any controlling entity, we typically recommend that shareholders vote in favor of recapitalization proposals to eliminate dual-class share structures. Similarly, we will generally recommend against proposals to adopt a new class of common stock.

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55 Sections 58 and 59, the Companies Act, 1994.

56 Section 88, the Companies Act, 2017.

57 Sections 63 and 64, the Companies Act No. 07, 2007.

58 Section 7.11.1, the Listing Rules of the Colombo Stock Exchange.

With regards to our evaluation of corporate governance following an IPO or spin-off within the past year, we will now include the presence of dual-class share structures as an additional factor in determining whether shareholder rights are being severely restricted indefinitely.

When analyzing voting results from meetings of shareholders at companies controlled through dual-class structures, we will carefully examine the level of approval or disapproval attributed to unaffiliated shareholders when determining whether board responsiveness is warranted. Where vote results indicate that a majority of unaffiliated shareholders supported a shareholder proposal or opposed a management proposal, we believe the board should demonstrate an appropriate level of responsiveness.

SUPERMAJORITY VOTING REQUIREMENTS

Glass Lewis believes that supermajority vote requirements act as impediments to shareholder action on ballot items that are critical to shareholder interests. One key example is in the takeover context, where supermajority vote requirements can strongly limit the voice of shareholders in making decisions on such crucial matters as selling the business.

RELATED PARTY TRANSACTIONS

As is the case in other markets, South Asian companies can and often do enter into related party transactions. In this case, each market has its specific requirements for allowing and disclosing such transactions.

Pursuant to the Companies Act, 2017, Pakistani companies may seek approval from their shareholders to enter into related-party transactions of revenue or a trading nature.[59] According to the Pakistan Stock Exchange Listing Rules, such transactions must be made on terms to those that prevail in arm's length negotiations while the details and terms of such transactions must be disclosed.[60] All such transactions must be carried out on normal commercial terms and reviewed by the audit committee.

In Sri Lanka, directors must disclose if they are an "interested" party and the extent to which they are interested in any proposed transaction(s).[61] Moreover, Sri Lankan banks are prohibited to enter into related party transactions that may lead to the: (i) granting of accommodations; (ii) granting of any liabilities; (iii) provision of any financial or non-financial services; or (iv) the creation or maintenance of reporting lines and information flows with related parties.[62]

For Bangladeshi companies, we note that those companies are obligated to report related party transactions to the audit committee and to disclose such transactions in their annual report.[63]

We will evaluate related-party transactions on a case-by-case basis. We generally believe that the management of businesses and the decisions associated with business operations are best left to management and the board, absent a showing of egregious or illegal conduct that might threaten shareholder value. We believe that board members can be held accountable on these issues when they face re-election. It is our opinion that management and the board are in the best position to determine what operational decisions are the best in the context of the business. We therefore generally recommend shareholders vote in favor of proposals to approve a mandate to enter into related-party transactions, unless we find significant cause for shareholder concern. However, we will generally abide by the following principles:

- The terms of the transaction, including the transaction amounts or valuation, the parties, and their affiliation must be disclosed. Where the terms are partially disclosed, we will recommend shareholders

59 Section 208, the Companies Act, 2017.

60 Section 5.19.6(b), Pakistan Stock Exchange Regulations.

61 Sections 191 and 192, the Companies Act No. 07, 2007.

62 Section 3(7)(iii), Banking Act Direction No. 11 of 2007.

63 Sections 1(5)(vi) and 5(2)(j) of the BSEC Corporate Governance Code.

oppose the proposed transaction(s). Where no details are disclosed, we will recommend shareholders vote against the proposed transaction(s).

- For transactions involving major or controlling shareholders, the transaction(s) must be related to or necessary for the ordinary day-to-day operations of the company.

- Where the transaction occurs between a parent company and/or fellow subsidiary or controlled subsidiary, we will generally support the transaction unless the transaction is not part of the day-to-day operations of a company.

- If the transaction(s) between entities that have overlapping directors and the duration of the transaction is for an indefinite or undisclosed timeframe, we will recommend shareholders not support the transaction(s).

CORPORATE GUARANTEES

Companies may seek shareholder approval to provide corporate guarantees to subsidiaries and associate companies. Where shareholders are asked to approve corporate guarantees, our assessment will take the following into consideration:

i. The overall disclosure relating to the corporate guarantees;

ii. The relationship between the company providing the corporate guarantees and those entities receiving the corporate guarantees;

iii. The benefits for provision of guarantees to the company itself and its shareholders as a whole, ensuring that the provision of guarantees will not only benefit select major shareholders;

iv. The size of the corporate guarantees compared to a company's net assets; and/or

v. The rationale for the provision of guarantees.

We will oppose proposals to provide corporate guarantees if companies do not disclose the amount of corporate guarantees it intends to grant. Similarly, where a company seeks to provide corporate guarantees to joint ventures or entities where it does not have majority ownership or operational control and other investors are not providing similar corporate guarantees, we will recommend shareholders oppose such proposals as financial risk should be shared by all investment partners. The same may be applied where a company and guaranteed entity only share common directors or common shareholders, but there is no equity relationship between the company and guaranteed entity.

For entities controlled by a company and the amount of corporate guarantees are disclosed, we will evaluate the size of corporate guarantees as a percent of a company's audited net assets, as based on the most recent audited financial statements. Where the proposed corporate guarantees and existing guarantees (if any) are less than 100% of audited net assets, we will support the provision of corporate guarantees. In contrast, where the proposed guarantees and existing corporate guarantees (if any) exceed 100% of audited net assets, we will oppose the provision of corporate guarantees.

TRANSACTION OF OTHER BUSINESS

We typically recommend that shareholders not give their proxy to management to vote on any other business items that may properly come before the annual meeting. In our opinion, granting unfettered discretion is unwise.

Shareholder Initiatives

Although uncommon in many markets, should a shareholder proposal arise, we will evaluate it on a case-by-case basis. We generally favor proposals that are likely to increase shareholder value and/or promote and protect shareholder rights. We typically prefer to leave decisions regarding day-to-day management of the business and policy decisions related to political, social or environmental issues to management and the board except when we see a clear and direct link between the proposal and some economic or financial issue for the company. We feel strongly that shareholders should not attempt to micromanage the business or its executives through the initiative process. Rather, shareholders should use their influence to push for governance structures that protect shareholders, including actual director elections and then put in place a board they can trust to make informed and careful decisions that are in the best interests of the business and its owners. We believe that shareholders should hold directors accountable for management and policy decisions through the election of directors.

ENVIRONMENTAL, SOCIAL & GOVERNANCE INITIATIVES

For a detailed review of our policies concerning compensation, environmental, social and governance shareholder initiatives, please refer to our comprehensive *Proxy Paper Guidelines for Shareholder Initiatives*, available at www.glasslewis.com.

DISCLAIMER

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