2017 Global Trends in Corporate Governance

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Background

Corporate governance is now widely established as a measure of how well companies are run. Investors use corporate governance as a bellwether for determining the quality of a company's management and the effectiveness of its board. Given this trend, Farient Advisors, in conjunction with its partners in the Global Governance and Executive Compensation Group (GECN), undertook an unprecedented study covering 17 countries across six continents to gather insights into corporate governance practices and trends, and to determine their implications for corporate governance. (See Appendix for detail on study methodology.)

COUNTRIES COVERED IN FARIENT'S GLOBAL GOVERNANCE REVIEW

Note: Shading indicates country was covered in the study

EXHIBIT 1

In conducting this study...

We considered the overall environment regarding corporate governance, from statutory requirements to voluntary best practices in three broad categories: (1) Executive Compensation; (2) Board Structure & Composition; to (3) Shareholder Rights, as shown below:

TOPICS COVERED EXHIBIT 2

Topic	Points Of Inquiry
Executive Compensation	• "Say on Pay" — Mandatory vs. voluntary — Binding vs. non-binding • Influence of proxy advisors • Limits on executive compensation (e.g., pay cap) • Compensation disclosures by country • Policies and trends on equity plans and severance
Board Structure & Composition	• Board independence — Qualifications for independence — % of total board required to be independent • Policies and trends on separation of Chairman and CEO roles • Mandated committee structure • Expectations of directors, including: — Meeting attendance — Term limits — Age limits — Diversity requirements
Shareholder Rights	• Rights that are conferred upon shareholders either by statute or corporate bylaws, including: — Proxy access — Declassified boards — No poison pill — Single class shares — Majority vote standards

The questions we sought to address in our study are far-reaching. They include:

- What is the current state of corporate governance in different venues around the world? Where is corporate governance strong? Weak?
- How is corporate governance changing and at what speed?
- To what extent are changes being driven by statutory requirements vs. external pressures vs. voluntary actions? In other words, just what are the catalysts for change?
- Have governance practices migrated from country to country and/or are they converging internationally?
- What will the future state of corporate governance look like?
- What are the implications for corporate boards?

The most progressive boards and management teams are thinking about these questions and the implications for their companies. They now are tracking governance trends globally, not just those in their backyards or industry. They also are asking, "What lies ahead? How might we prepare for future changes?"

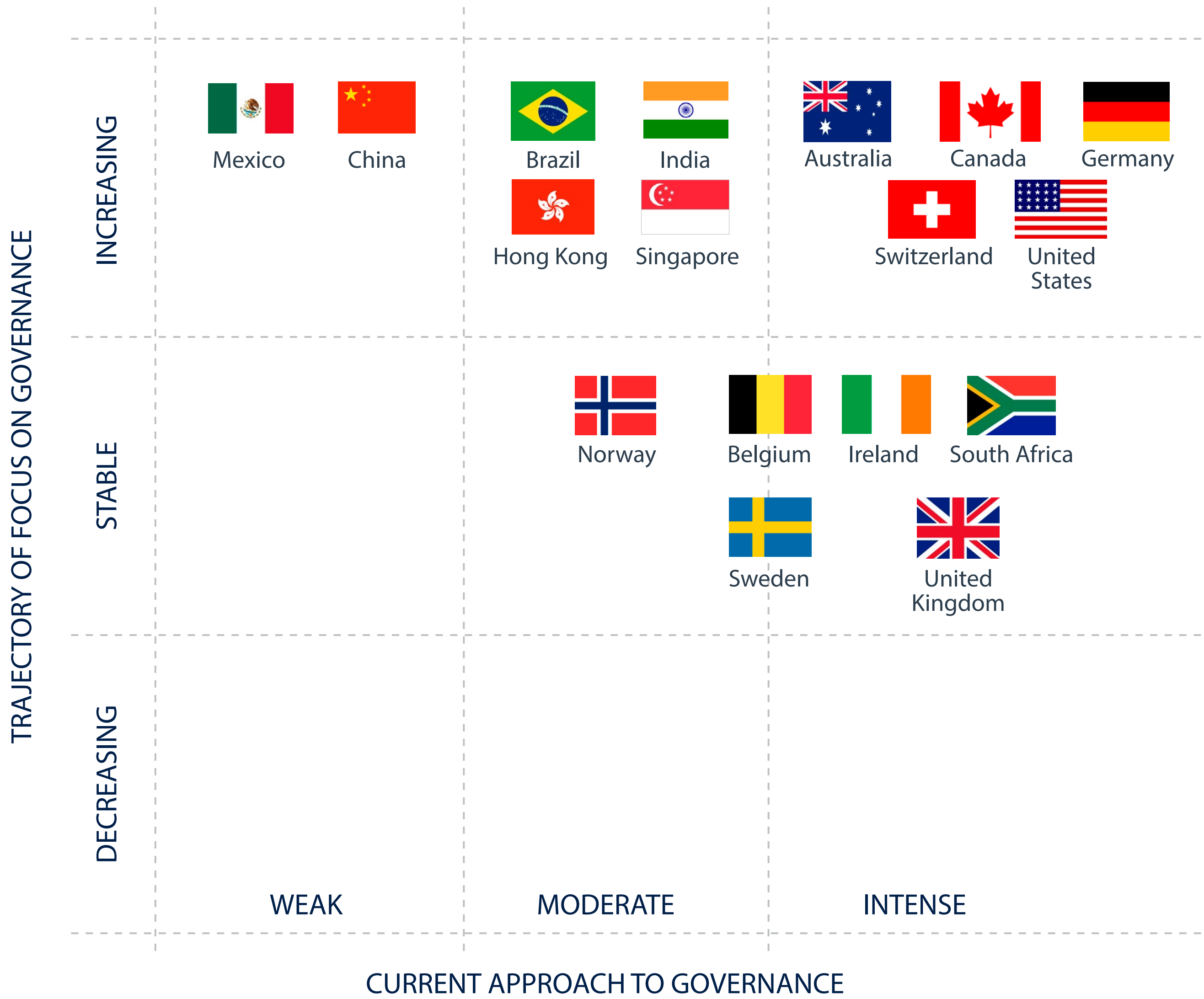
We hope this study imparts a new way of thinking about corporate governance. Our findings are organized into the following six sections:

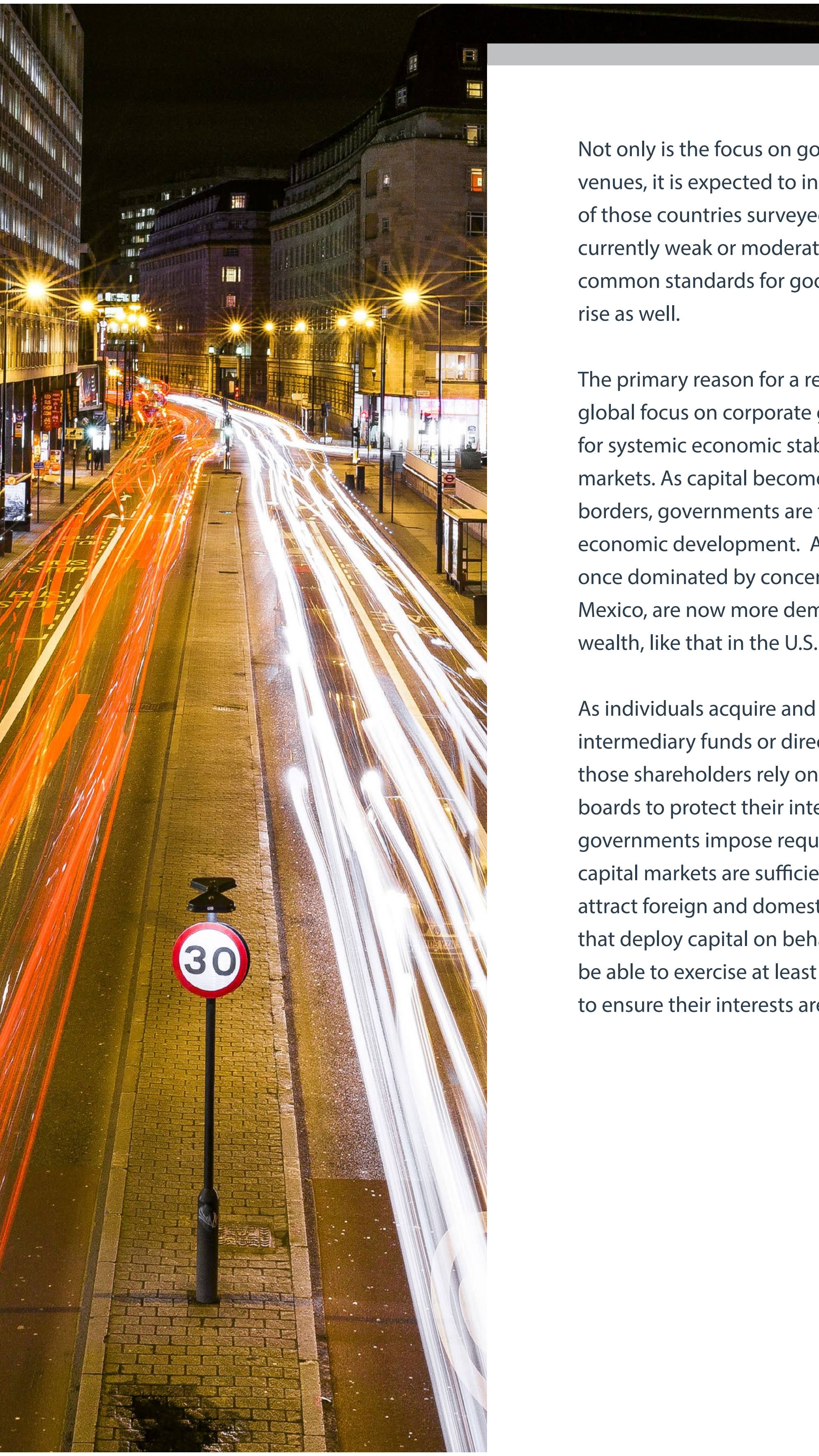
I. Heightened Focus on Corporate Governance Around the World
II. Governance Trends in Executive Compensation
III. Governance Trends in Board Structure and Composition
IV. Governance Trends in Shareholder Rights
V. Implications and Action Steps for Corporations

I. Heightened Focus on Corporate Governance Around the World

While governance is generally intensifying around the world, countries still differ significantly on their level of focus on corporate governance. The current focus on governance is rated as intense in most developed countries, particularly in the U.S. and Europe, and moderate in many Asian countries and Brazil. Mexico is viewed as having a weak focus on governance, while China is viewed as weak but improving. In particular, China is attempting to raise its profile in the corporate governance arena. For example, some Chinese State Owned Enterprises (SOEs) are addressing governance issues by establishing external boards, giving greater authority to these boards, and promoting mixed ownership structures.

GOVERNANCE TRENDS AMONG COUNTRIES COVERED IN THIS STUDY EXHIBIT 3



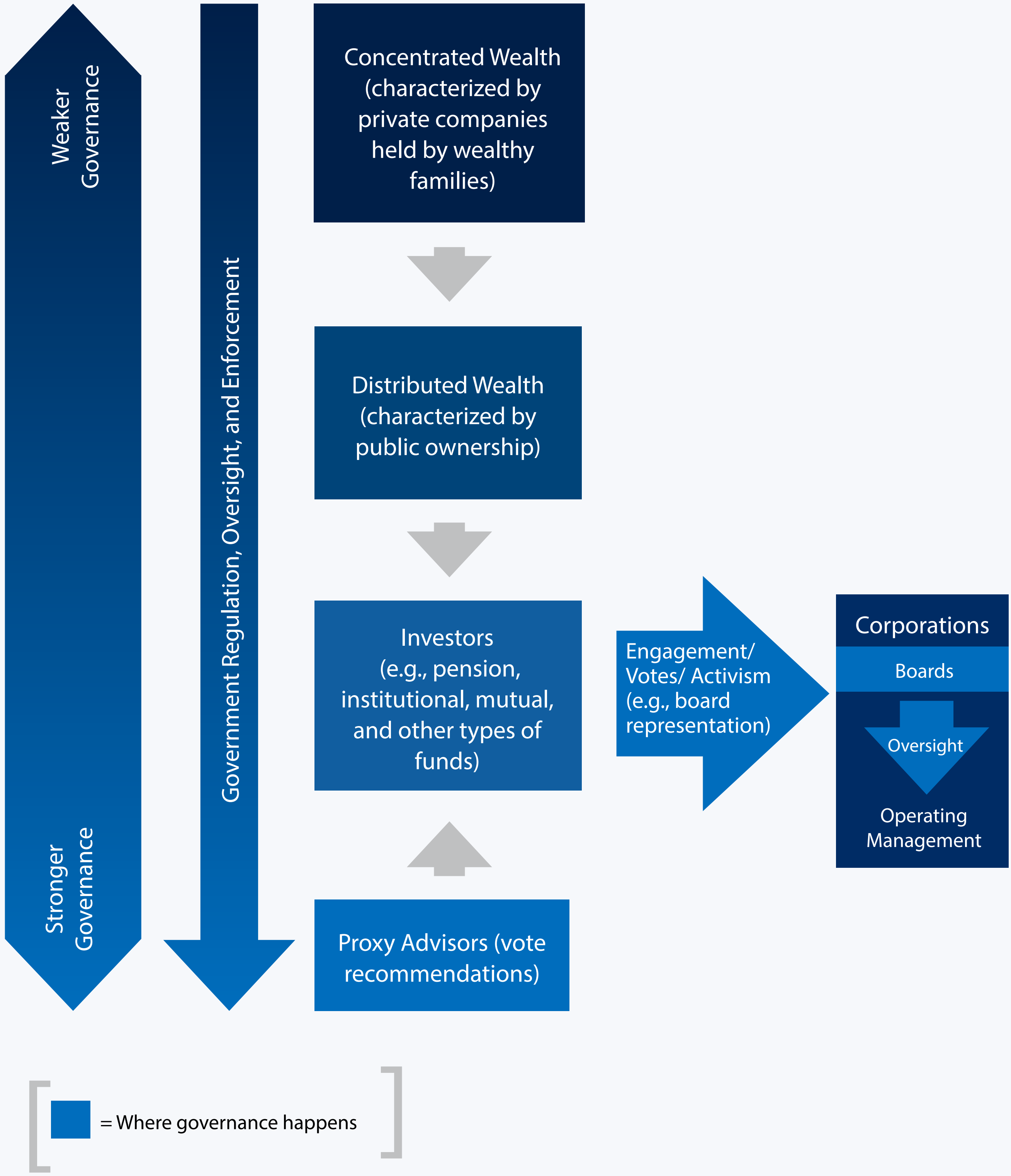


Not only is the focus on governance intense in most venues, it is expected to increase in about two-thirds of those countries surveyed, including those with a currently weak or moderate focus. This means that common standards for good governance are likely to rise as well.

The primary reason for a renewed and now nearly global focus on corporate governance is the need for systemic economic stability and safer capital markets. As capital becomes more fungible across borders, governments are trying to attract capital for economic development. As a result, many economies once dominated by concentrated wealth, like that in Mexico, are now more democratized by distributed wealth, like that in the U.S.

As individuals acquire and invest capital into intermediary funds or directly into corporations, those shareholders rely on well-governed corporate boards to protect their interests. As a result, governments impose requirements to ensure their capital markets are sufficiently safe to effectively attract foreign and domestic investment. Investors that deploy capital on behalf of individuals want to be able to exercise at least some power over boards to ensure their interests are served.

EVOLUTION OF CORPORATE GOVERNANCE EXHIBIT 4

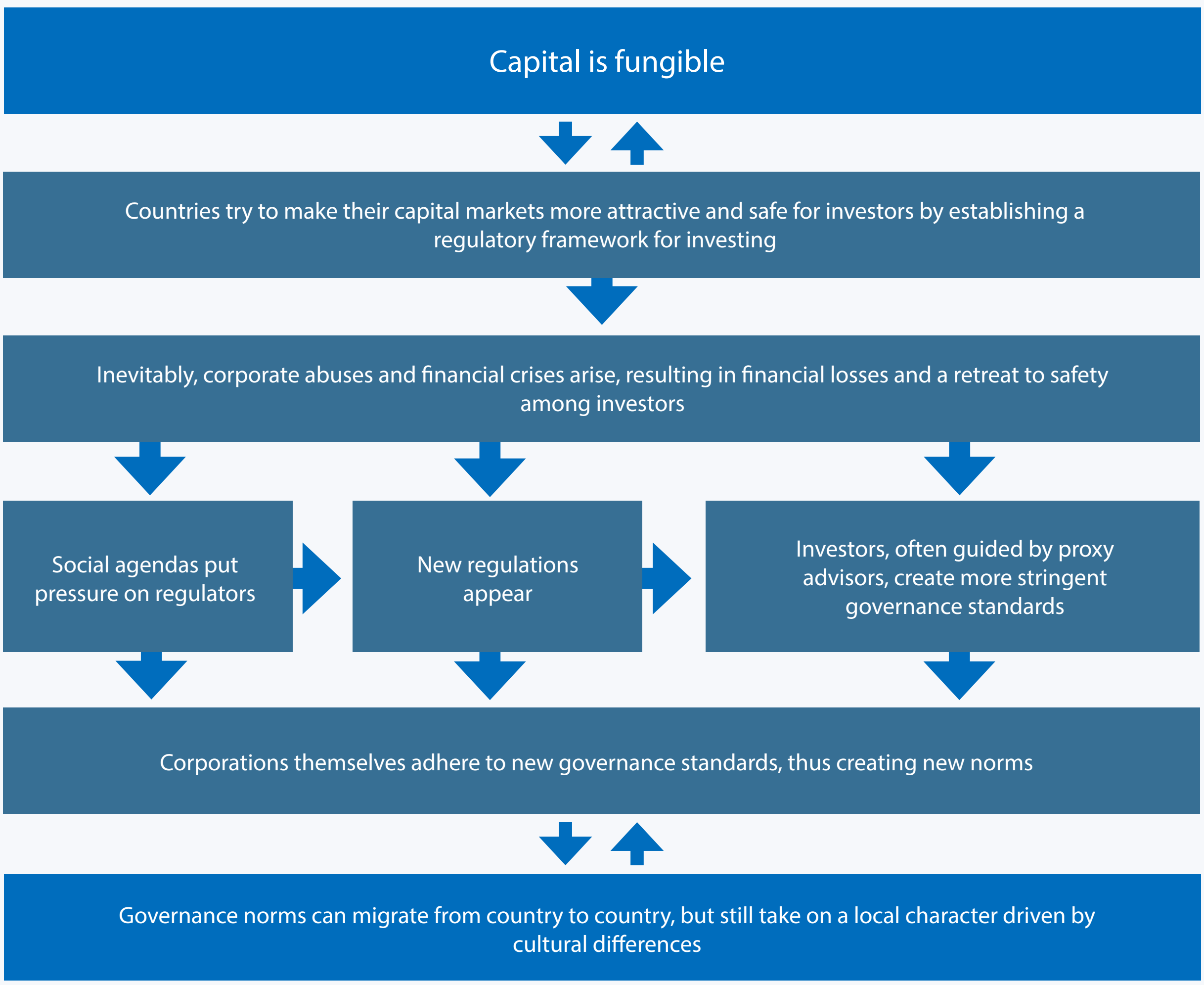


The heightened focus on corporate governance is influenced, among other things, by countries trying to make their capital markets more attractive and safe for investors. The U.S. led the charge with the Dodd Frank Wall Street Reform and Consumer Protection Act in 2010, followed by regulatory actions on remuneration in the U.K., Australia, and Switzerland. When widespread corporate abuses and/or financial crises appear, more stringent governance regulations, sometimes spurred by social issues, also materialize. In turn, shareholders develop their own governance policies for issuers, generally influenced by proxy advisors, that often go beyond the letter of the law. Such shareholders, while no means uniform in their views, nevertheless orchestrate their efforts to collectively increase governance pressure on corporations. In addition, corporations themselves become more serious about adhering to good governance standards, which in many instances, become accepted norms.

Most striking from our study is that these phenomena tend to be global, rather than confined to a handful of countries. Even so, while governance norms can migrate across borders, they do so in a way that reflects the local cultural attributes of the country.

PRIMARY INFLUENCERS OF GLOBAL GOVERNANCE TRENDS

EXHIBIT 5



ECONOMIC HARDSHIP: CATALYST FOR NEW LEGISLATION AND REFORM
S&P 500 INDEX AND TIMELINE OF MAJOR EVENTS AND LEGISLATIVE RESPONSES

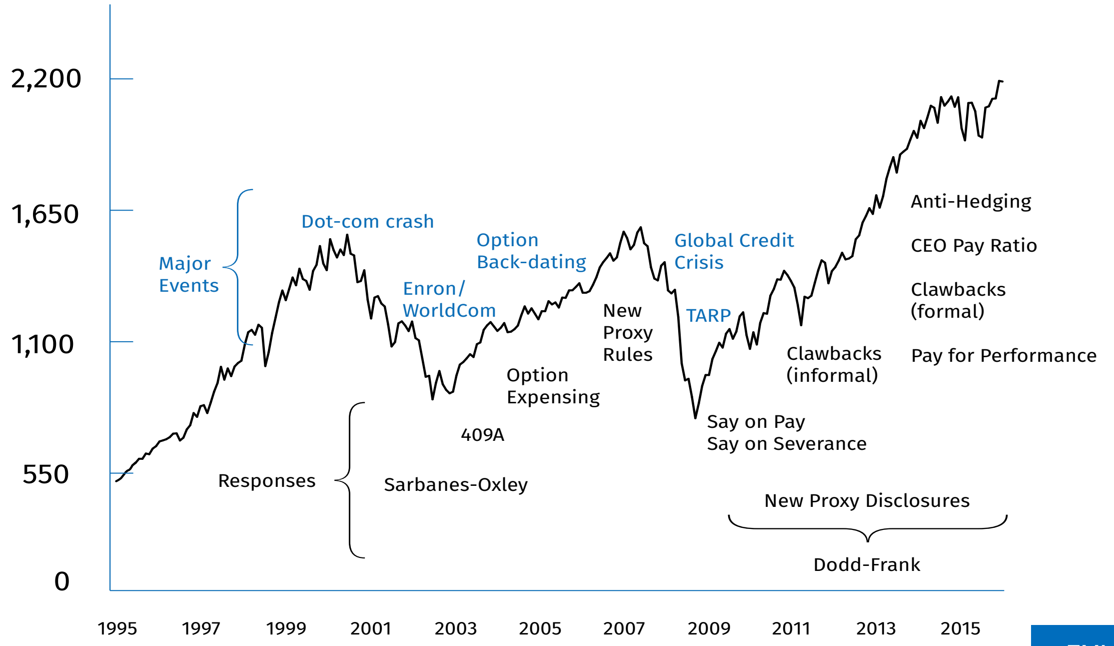


EXHIBIT 6

Many of us learned these governance lessons the hard way. In the U.S., for example, increased government regulation was spurred in large part by corporate scandals (e.g., Enron, WorldCom, and others), the bursting of the tech bubble, and the recession of 2001-2002. Following these events, the U.S. government swung into action by enacting Sarbanes-Oxley (SOX), an act passed by U.S. Congress in 2002 to protect investors from the possibility of fraudulent accounting. It accomplished this by strengthening the authority and independence of audit committees, and improving financial disclosures. Then, fueled further by the global financial crisis of 2008-2009, corporate governance took an even more prominent role with the advent of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which ushered in Say on Pay, allowing investors a non-binding vote on executive compensation, among other new regulations.

More recently, in 2013, the Minder Initiative in Switzerland was enacted largely in response to perceived abuses in corporate compensation arrangements and conferred a binding vote on executive pay for public Swiss-domiciled companies. Together with new international standards from bodies such as the Financial Stability Board, these events have had a fundamental impact on how investors, regulators, the media, and others judge the effectiveness of management and boards, and the overall health of the corporations they manage or oversee. In addition, they have given rise to stricter rules and heightened governance in an effort to create a more attractive and safe environment for capital. Still, while the focus on governance is increasing, there are roadblocks in certain countries, particularly those in which there is a high concentration of ownership, where attracting foreign capital has been a lower priority. These countries are still plagued by a lack of transparency and corruption.

Government regulations aren't the only way in which governance norms emerge. In addition to government rules, codes, and directives to stock exchanges, investors influence governance both directly and through their proxy advisors, and corporate boards themselves voluntarily consider and adopt good governance practices to ensure the best functioning of their boards.

Generally speaking, there is a mix as to how governance norms develop by country, and many of the influences are from a number of directions. However, on balance, a key determinant of board governance practices is the corporate board itself.

GENERAL DRIVERS OF GOVERNANCE NORMS [1] EXHIBIT 7

Topic	Statutory Requirements	Investor (and Proxy Advisor) Initiatives	Voluntary Adoption by Boards
Executive Compensation	• Say on Pay (SOP) • Compensation levels, if binding SOP [2] • Disclosures • Equity incentive plans • Accounting and tax treatment	• Compensation levels [2] • Equity incentive plans (cost and features)	• Compensation levels [2] • Program design and administration • Clawbacks • Executive stock ownership guidelines
Board Practices	• Director elections • Board independence • Board committee structure • Chair/CEO role [2]	• Chair/CEO role [2] • Attendance standards • Diversity	• Chair/CEO role [2] • Other Board roles • Board operation (e.g., non-statutorily required committees, meetings, etc.) • Board composition (e.g., number, skills, diversity, age, terms, etc.) • Board compensation • Board ownership guidelines • Selection of outside advisors (e.g., audit, compensation, legal) [4]
Shareholder Rights	• Need for by-laws	• By-laws • Proxy access	• By-laws • Board classification [3] • Poison Pills [3] • Single vs. dual class shares [3] • Majority vs. plurality vote standards [3]

1. Varies by country
2. Influenced by combination of statutory requirements, investor preferences, and Board Preferences, depending upon country
3. Influenced by investors, but generally determined by the Board
4. Statutory requirement in the U.S.

Investors influence governance in a variety of ways, including communications with corporate representatives (i.e., shareholder engagement), activism (e.g., negotiation and board representation), and voting. While the vote is an important way for investors to influence corporate governance, voting rights are by no means universal. Investors commonly vote on director elections, equity incentive plans, auditor elections, executive and director compensation (often referred to as "remuneration," used interchangeably with compensation in this report), and shareholder rights. Investors generally do not vote on matters of Board structure.

However, these norms vary widely. Investors in companies domiciled in European Union (EU) countries generally vote on a broader array of matters. Investors domiciled in Mexico and China generally vote on a narrower array. Investors generally vote on matters of executive remuneration. Only four countries in our study—China, Hong Kong, Mexico, and Singapore—do not hold votes on executive remuneration.

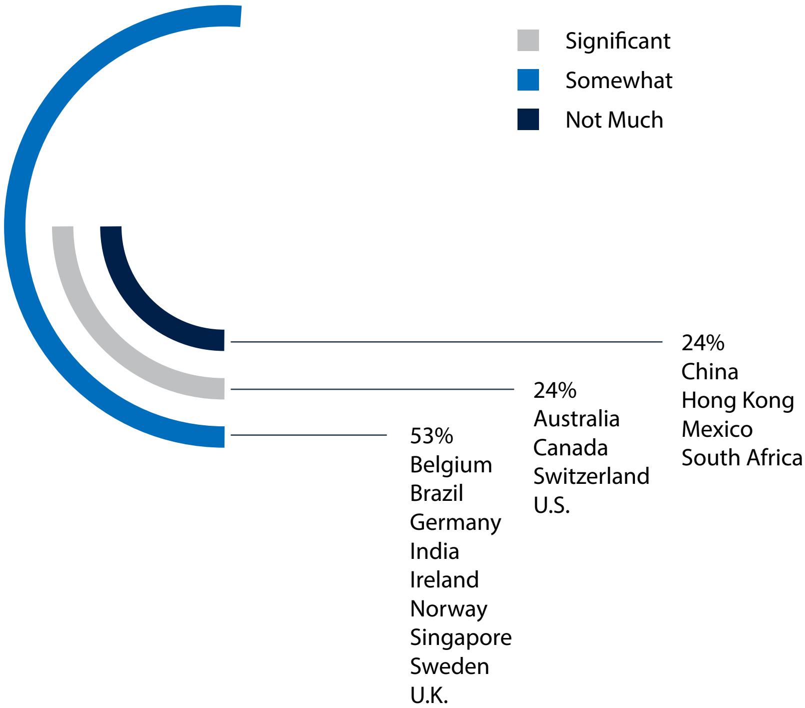
INVESTOR VOTING RIGHTS BY COUNTRY BY MATTER

EXHIBIT 8

Country	Director Elections	Equity Incentive Plans	Auditor Selection	Executive Compensation	Director Compensation	Shareholder Rights	Board Structure	Other	Total
Norway	●	●	●	●	●	●	●		7
South Africa	●	●	●	●	●		●	●	7
Sweden	●	●	●	●	●	●	●		7
Australia	●	●		●	●	●		●	6
Belgium	●	●	●	●	●		●		6
Germany	●		●	●	●	●		●	6
India	●	●	●	●	●	●			6
Ireland	●	●	●	●	●	●			6
Switzerland	●		●	●	●	●		●	6
United Kingdom	●	●	●	●	●	●			6
Brazil	●	●	●	●	●				5
Singapore	●	●	●		●			●	5
United States	●	●	●	●				●	5
Canada	●	●	●	●					4
Hong Kong	●	●	●			●			4
China	●	●				●			3
Mexico								●	1
Prevalence	94%	82%	82%	76%	71%	59%	24%	41%	

DEGREE OF PROXY ADVISOR INFLUENCE, % OF COUNTRIES SURVEYED EXHIBIT 9

As capital markets mature, there is a greater desire among investors to use the services of proxy advisors, such as Institutional Shareholder Services (ISS) and Glass Lewis. While proxy advisors provide voting recommendations across all of the countries covered by our study, the influence of these advisors is significant in only about a quarter of those countries. Countries in which proxy advisor influence is considered to be significant include the U.S., Canada, Switzerland, and Australia. In contrast, countries in which proxy advisor influence is deemed to be minimal include China, Hong Kong, Mexico, and South Africa. In all other countries surveyed, proxy advisor influence is considered to be moderate.



II. Governance Trends in Executive Compensation

"Governance" of the corporation is defined by a patchwork of statutory requirements, investor voting rights, and an array of practices and standards to which corporations voluntarily adhere. For executive compensation, i.e., "Say on Pay," statutory requirements typically lead the change process, although these requirements vary considerably from country to country.

Belgium and India have the broadest requirements, followed by the United Kingdom and Australia, while Mexico, Brazil, and Singapore have fewer types of requirements.

Disclosures and equity plan provisions are commonly driven by statutory requirements, while pay levels and stock ownership guidelines are most often determined on a voluntary basis. There is no evidence that ownership guidelines have statutory backing. Instead, they are generally adopted on the basis of shareholder preferences.

PREVALENCE OF STATUTORY REQUIREMENTS IN EXECUTIVE REMUNERATION — EXHIBIT 10

Country	Disclosures	Equity Plans	Say on Pay	Employment Agreements	Severance	Clawbacks	Executive Pay Levels	Stock Ownership	Total
Belgium	■	■	■	■	■	■			6
India	■	■	■		■	■	■		6
Australia	■	■	■	■	■				5
United Kingdom	■	■	■	■	■				5
China	■	■		■	■				4
Hong Kong	■	■		■	■				4
Ireland	■	■		■	■				4
Sweden	■	■	■	■					4
Switzerland	■		■		■		■		4
United States	■	■	■			■			4
Germany	■	■		■					3
Norway	■	■	■						3
South Africa	■	■			■				3
Brazil	■		■						2
Canada	■	■							2
Singapore	■	■							2
Mexico				■					1
Prevalence	94%	82%	53%	53%	53%	18%	12%	0%	

Most countries (94%) require disclosures on executive compensation, with Mexico being the exception, as shown below. Having said this, the content and quality of the disclosures vary greatly. In addition, companies that are domiciled in one country but traded on an exchange in another country adhere to disclosure requirements statutorily required by the exchange on which the company is traded. However, these companies often also want to adhere to the most demanding requirements in both venues.

REQUIRED DISCLOSURES BY COUNTRY

EXHIBIT 11

Most Transparent

	Pay Philosophy	Target Pay Amounts	Actual Pay Amounts	Program Design	Severance Pay	Quality of Disclosure
U.S.	✓	✓	✓	✓	✓	Good
Canada	✓	✓	✓	✓	✓	Good
Australia	✓	✓		✓	✓	Good
U.K.	✓	✓	✓	✓	✓	Good
Germany	✓	✓	✓	✓	✓	Good
Switzerland	✓		✓	✓	✓	Good
Norway	✓	✓	✓	✓	✓	Good
Sweden	✓	✓	✓	✓	✓	Good
India	✓		✓	✓		Fair
Hong Kong	✓		✓	✓		Fair
Singapore	✓		✓	✓	✓	Fair
Ireland			✓	✓		Fair
Belgium			✓	✓		Fair
South Africa			✓			Poor
China			✓			Poor
Brazil			✓			Poor
Mexico						Poor

Least Transparent

Equity Plans

Similar to U.S. regulations, many countries require shareholders to approve equity plans over a set period (e.g., once every three years). Some countries set limits on the % of share capital that can be issued. Proxy advisors generally publish "best practices" guiding equity authorizations that seek to limit dilution

Severance

Similar to shareholders in the U.S., most countries do not like high severance payouts with or without change-in-control (e.g., 2x salary plus bonus). Most countries follow "best practices" as a result of proxy advisor pressures that generally do not favor payouts in excess of 2x salary plus bonus

Clawbacks

Only a few countries, including the U.S., have provisions in place that require recoupment in the event of financial restatements. Generally, most countries follow "best practices" as a result of proxy advisor pressures that state there should be a minimum clawback in the event of fraud or misconduct

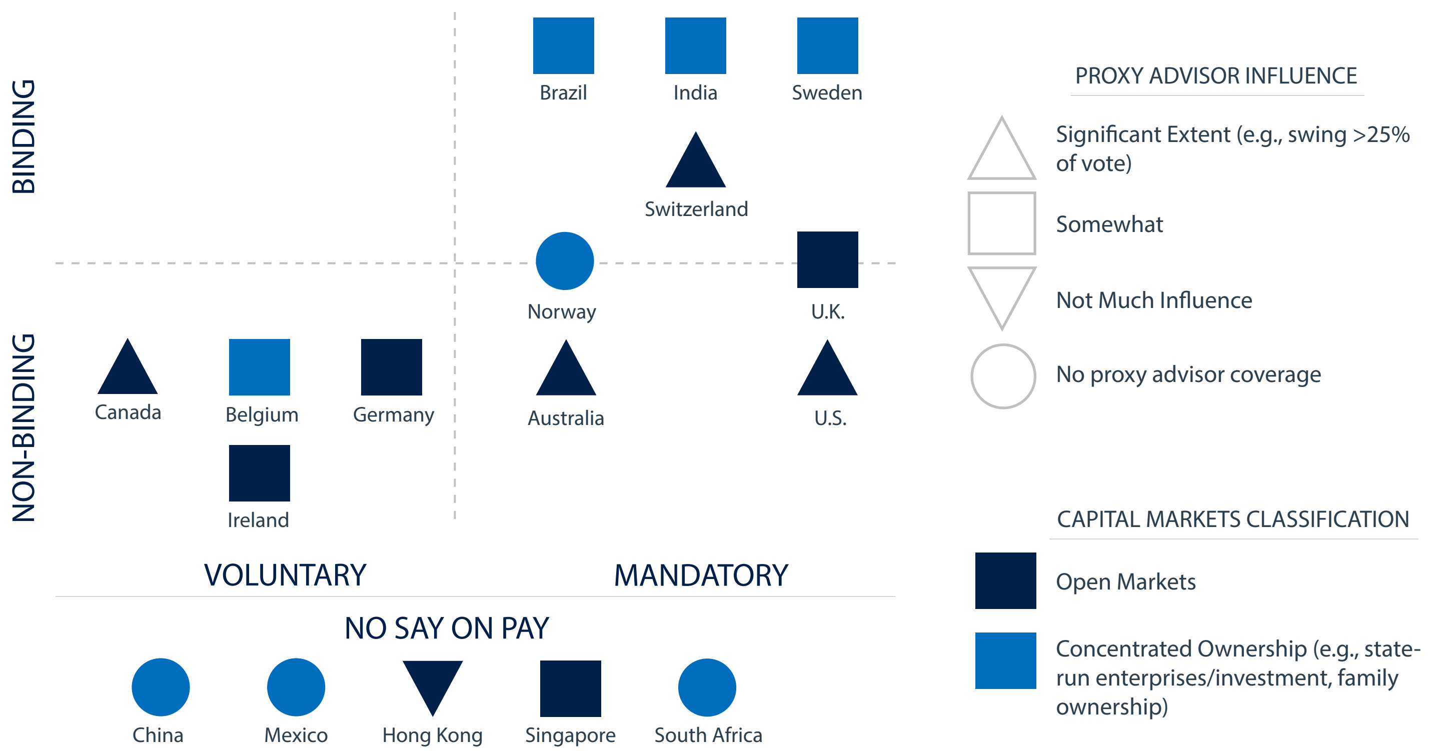
The global financial crisis of 2008-2009 led to an aftermath of Say on Pay (SOP) voting by investors. Today, Say on Pay is a reality in most developed countries. Countries with mandatory Say on Pay votes are split between:

- Those with binding votes (e.g., Brazil, India, Sweden, and Switzerland)
- Those with non-binding votes (e.g., Australia and the U.S.), and
- Those with bifurcated approaches in which some aspects of remuneration are binding and others are non-binding (e.g., Norway and the U.K.).

Although many countries have mandatory SOP votes, several countries in our study (e.g., Canada, Belgium, Germany, and Ireland) allow voluntary votes. Even so, the prevailing best practices for public companies domiciled in countries with voluntary votes is for those companies to hold annual votes. For example, 80% of Canadian companies which are traded on the Toronto Stock Exchange (TSX) hold annual votes.

Those countries with no SOP votes are debating as to whether SOP votes have any impact on executive pay. Countries with no current SOP voting include China, Mexico, Hong Kong, Singapore, and South Africa.

SAY ON PAY TRENDS AND PROXY ADVISOR INFLUENCE EXHIBIT 12



BEST PRACTICES

Beyond statutory requirements and investor voting, there are a number of best practices that have emerged in executive pay. Common themes include:

- Providing investors with more detailed data on such items as pay governace, pay components, performance goals, and the rationale for pay decisions
- Using competitive benchmarks, i.e., peer groups, as support for establishing pay levels ("reasonableness"), dilution norms, and pay practices, essentially acknowledging a free market for talent

However, "best practices," which are sometimes in the eye of the beholder, can be a manifestation of public policy or cultural norms, and therefore, can vary by country. For example:

- Employment agreements are statutorily required in many EU countries because they are considered to serve the public interest of keeping people employed. However, they are not favored or required in the U.S. because they can potentially augment executive rights at the expense of shareholder rights and interests
- Executive severance practices also vary. Typical CEO severance may include up to two years' salary in Germany

III. Governance Trends in Board Structure and Composition

Unlike executive remuneration, which tends to be driven by a multitude of statutory requirements, board structure and composition tend to be driven by best practices. The legal framework and the stock exchanges have statutory requirements in the areas of committee structure and director elections, followed by board member and Chair independence. However, the majority of countries in our study do not require their exchanges to adopt requirements in the areas of the board's ability to control its advisors, director diversity, director term limits, director attendance, and director age limits. On these matters, investors often voice their preferences through organized efforts (such as through the Council of Institutional Investors), adopting investment principles that cover board structure and composition, and/or through engagement and dialogue with issuers. As a result, non-statutorily driven "best practices" have emerged across a broad cross-section of venues.

PREVALENCE OF BOARD STATUTORY REQUIREMENTS — EXHIBIT 13

Country	Committee Structure	Director Elections	Board Independence	Independent Chair	Board Controls Advisors	Director Diversity	Director Term Limits	Director Attendance	Director Age Limits	Total
Hong Kong	■	■	■	■	■	■	■	■		8
China	■	■	■	■	■		■	■		7
Canada	■	■	■		■	■		■		6
India	■	■	■	■		■	■			6
Germany		■		■	■	■	■			5
Ireland	■	■	■	■	■					5
United Kingdom	■	■	■	■	■					5
Belgium	■	■				■	■			4
Brazil	■	■	■				■			4
Norway	■	■		■		■				4
South Africa	■	■	■	■						4
Sweden	■	■		■		■				4
Switzerland	■	■	■				■			4
United States	■	■	■		■					4
Australia	■	■			■					3
Mexico	■		■							2
Singapore	■	■								2
Prevalence	94%	94%	65%	53%	47%	41%	41%	18%	6%	

Of all of the board attributes, independence is considered to be an essential feature of board effectiveness in most countries. Having a certain percentage of the board be comprised of independent directors is a statutory requirement in most (~60%) of the countries surveyed, while separate Chair/CEO roles is a statutory requirement in half of the countries surveyed. Moreover, many countries and their stock exchanges have independence rules around audit, and in some instances, compensation committees. The biggest push for independence is in the U.K., where independence is required "across the board," so to speak.

BOARD INDEPENDENCE AND STRUCTURE — EXHIBIT 14

High

Focus on Corporate Governance

Low

Country	% of Independent Directors	Separation of Chair/CEO Role	Statutory Board Committees: Audit	Statutory Board Committees: Compensation	Statutory Board Committees: N&G
United Kingdom	> 50%	✓	✓	✓	✓
United States	> 50%	✓	✓	✓	✓
Australia	> 50%	✓	✓	✓	
Canada	> 50%	✓	✓		
Ireland	> 50%	✓	✓	✓	✓
Norway	> 50%	✓[2]	✓	✓	✓
Germany [1]	> 50%	✓	✓[4]		✓[4]
Belgium	> 50%	✓	✓	✓	
Switzerland	> 50%	✓[6]	✓	✓	
Sweden	> 50%	✓	✓		
South Africa	> 50%	✓	✓	✓	
India	> 33%	✓	✓[5]	✓[5]	
Hong Kong	> 33%	✓	✓		
China	> 33%	✓[3]	✓		✓
Singapore	> 33%	✓	✓		
Mexico	> 25%		✓		
Brazil	> 20%	✓[2]	✓		
Mode/Prevalence	>50%	94%	100%	59%	41%
# Statutory/ Independence Reqt	10/17 (59%)	9/17 (53%)	9/17 (53%)	3/17 (18%)	5/17 (30%)

✓ (grey) Statutory Requirement

✓ (white) Best Practice

(dark blue) Committee Must Be Entirely Independent

(light blue) Committee Must Be >50% Independent

(1) Country has a two-tiered Board system, in which there is a Supervisory Board and a separate Management Board
(2) Recommended that CEO does not serve on company boards
(3) If the role is to be combined, >50% of Directors must be independent
(4) Committees are suggested, but not required
(5) Companies above certain revenue thresholds are required to have Social Responsibility and Stakeholder Relations Committees
(6) Stricter rules may apply to banks and other regulated financial institutions

There are few statutory requirements regarding board composition globally. However, "best practices" are emerging. Having said this, they vary and can be a matter of public policy. For example, in some countries, like Brazil, Sweden, and the U.K., age limits are prohibited as they are deemed to be tantamount to age discrimination.

Limits on director tenure tend to be company specific. In some venues, like the U.K., long-tenured directors, i.e., those with greater than 9 years of service, are deemed by investors to be less independent than those that are newer to their boards. There is also a view that director term limits help to refresh the board with new skills and perspectives. The counterargument is that tenure is not really indicative of true independence and each director needs to be evaluated on his or her own merits regardless of tenure.

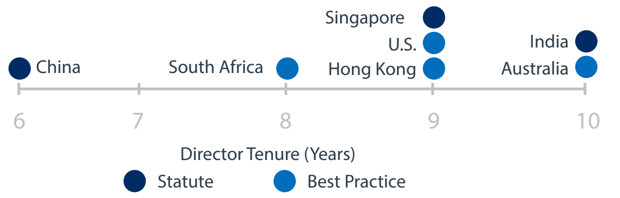
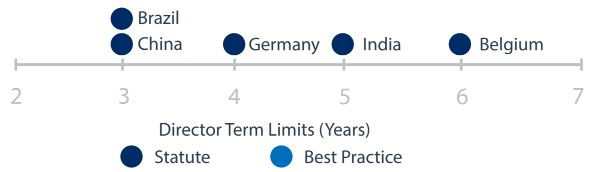
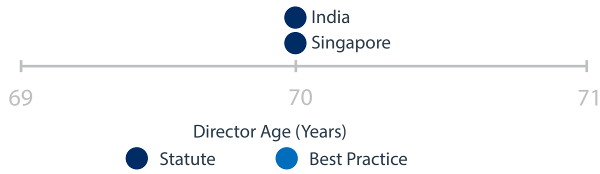
Finally, diversity among board members has become a hot topic. Not only is diversity a matter of public policy in some venues, it also is a matter of good business by bringing diverse views to business issues. Statutory requirements pertaining to gender diversity exist in Belgium, Germany, India, and Norway, while best practice norms for diversity, broadly defined by gender, race, ethnicity, age, and skills, tend to be supported in such countries as Australia, Brazil, Canada, Singapore, South Africa, Sweden, Switzerland, the U.K., and the U.S.

BEST PRACTICE NORMS AND MOST STRINGENT GLOBAL STANDARDS

EXHIBIT 15

	Topic	Global "Best Practice"	Most Stringent Global Standard
Executive Compensation	Say on Pay	• Mandatory • Non-binding • Annual	• Mandatory • Non-binding • Annual
	Equity Plans	• Vote on initial plan and initial amendments	• Same
	Clawbacks	• Material Restatement	• Same
	Severance	• ≤2x salary + bonus • No equity acceleration	• Is dependent upon social agenda in country
Board Structure & Composition	Independence	• >50%	• Same
	Chair/CEO Role	• Separate Roles	• Same
	Diversity	• 30% women	• 40% women (Norway)
	Age Limit	• Retire at 75	• Retire at 70 (India)
	Director Tenure	• ≤9 years	• ≤9 years
	Director Term Limit	• 1 year	• 1 year
Shareholder Rights	Proxy Access	• 3% for 3 years	• Shareholders with ≥3% can make proposal
	Declassified Board	• Declassified	• Same
	No Poison Pill	• No Poison Pill	• Same
	Single-Class Shares	• Single-class shares	• Same
	Majority Voting	• Majority Voting	• Same

GLOBAL NORMS IN BOARD GOVERNANCE — EXHIBIT 16

Issue	Global Norms	
Director Tenure	• Three countries have mandatory term limits, while others commonly cite a 9 - 10 year concern limit • Most, however, are turning to more robust director evaluations and nomination processes rather than mandatory tenure limits	
Director Term Limits	• Five countries have mandatory term limits, while others cite accepted best practices • Most, however, evaluate terms relative to the company's situation and board structure	
Director Age	• Countries generally do not have mandatory retirement ages • Of the countries surveyed, Singapore has a mandatory re-appointment at every annual meeting past the age of 70 and India requires the passing of a special resolution for the appointment of a Director past the age of 70	
Board Diversity	• Shareholders in many countries tend to push for diverse boards and have established guiding principles (e.g., 30% women in Australia; 25% women in U.K.) • However, some European and Nordic countries have instated statutory requirements for board composition (e.g., 33% in Belgium; 40% in Norway) or director elections (e.g., 30% ballot participation by both sexes in Germany) • India requires companies have at least one female director	 Board Diversity (% Women) 1. Requires at least one woman on the board 2. Requires that at least 30% of board nominees be women

1. Figures exclude CEO

Note: "Best practices" refers to generally accepted standards of "good governance" in the opinion of shareholders

Examples of Differences in Board Governance

There are a number of board governance practices that are common across countries, including implementing a committee structure on the board, holding director elections, and board independence. Even in areas of common practices, however, definitions vary by country.

Committee Structure

- Independent directors as committee Chairs is the common practice
- Risk committees are mandatory for financial firms in Switzerland

Director Elections

- Best practice is annual elections in India, Norway, Switzerland, and the U.S., and every two to three years in Belgium
- No staggered boards is best practice in the U.S.
- Majority voting is best practice in Canada and the U.S.

Board Independence

- Board made up only of independent members, with no executives such as in Switzerland for banks
- Separate board from management committees in Belgium and Germany since employee and/or union representation on the board is deemed to harm independence
- Best practice is that the CEO is the only insider on the board in Australia, Canada, and the U.S.
- No recent (< 3 years) employees on the board in Switzerland

Independent Chair

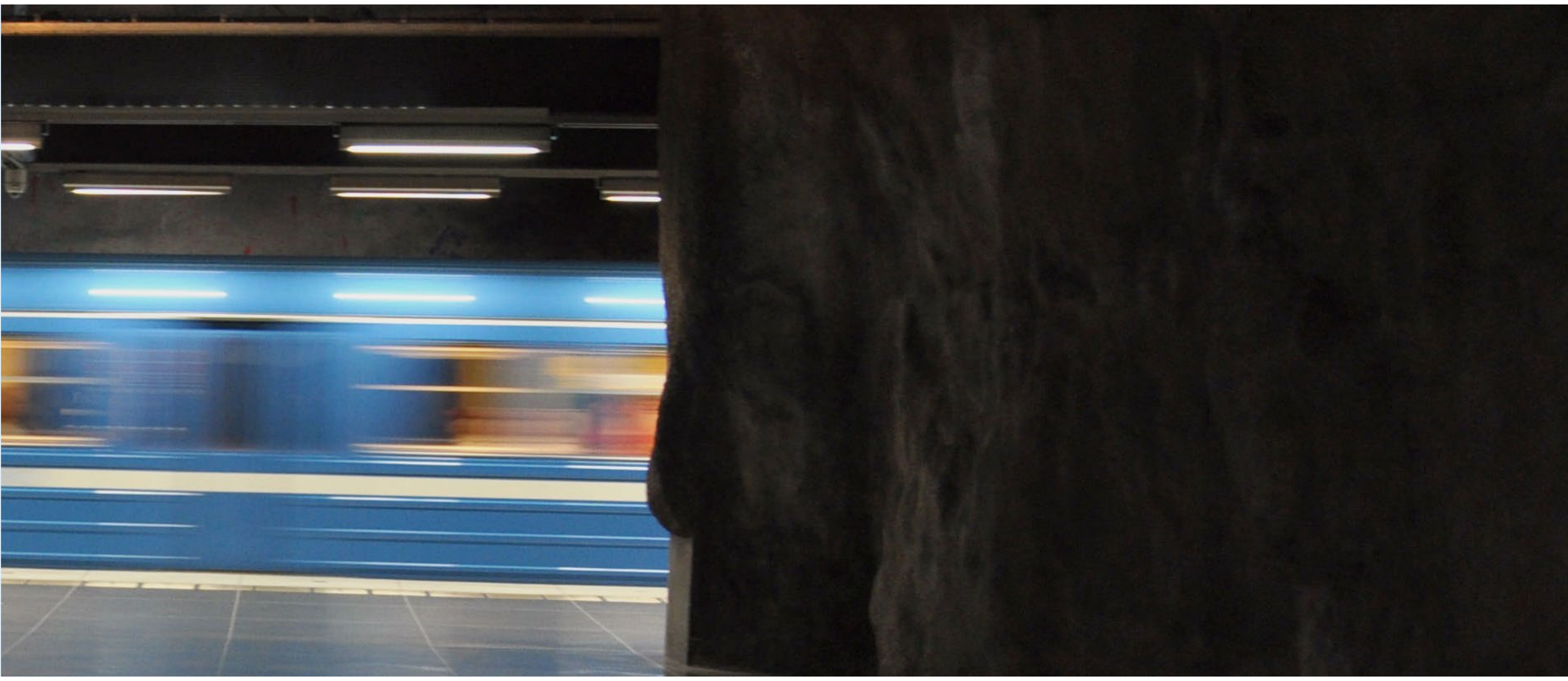
- Separate roles are considered to be best practice in most countries because they help diffuse power
- Strong Lead Director and two-thirds independent board members is considered to be a reasonable alternative in the U.S.

Director Attendance

- 75% attendance is the most common guideline in most countries; Germany has a 50% guideline
- Director elections are used in some countries (e.g., Brazil, Ireland, U.K., and the U.S.) to penalize for lack of attendance

Board Controls Advisors

- Boards must provide evidence in writing that they considered various factors in determining advisor independence in Singapore and the U.S.
- For those countries without statutory requirements, boards may obtain independent advice



Director Diversity

- There are statutory requirements for gender diversity in Belgium, Germany, India, and Norway
- There are best practice norms for diversity, broadly defined, in most other countries, including Australia, Brazil, Canada, Singapore, South Africa, Sweden, Switzerland, the U.K., and the U.S.

Director Tenure

- This issue is linked to board independence, with >10 years viewed as not independent
- Subject to 10-year limit in India; no more than six consecutive years in China
- Some investors issue guidelines, most often describing a 9-year limit
- The counter is that tenure limits must be weighed against real independence and the value provided by the director

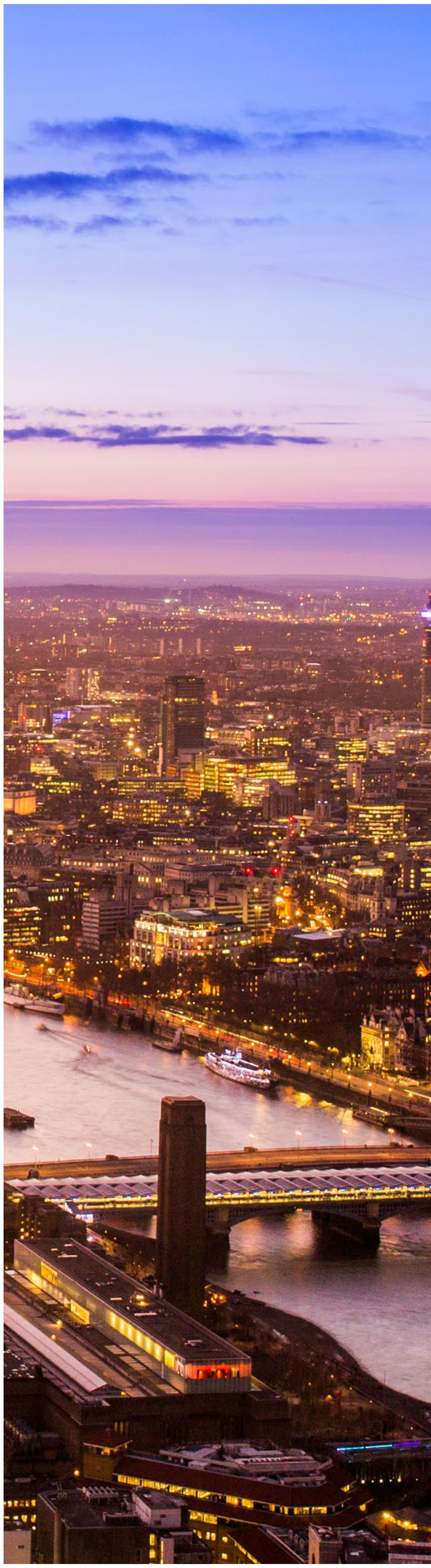
Director Term Limits

- In most countries, companies determine whether to have term limits
- The most common term length is one year, whereby each director is elected annually

Director Age Limits

- Companies generally determine whether to have age limits
- Some general guidelines exist, e.g., 75 in the U.S. and 65 in Switzerland
- But, some countries prohibit age limits (i.e., Brazil, Ireland, Norway, Sweden, and the U.K.)

IV. Governance Trends Shareholder Rights



In the context of this study, "Shareholder Rights" means governance structures other than those which have already been discussed that entitle shareholders to take certain actions that they perceive to be in their own best interests. In the U.S., there has been a general move over the last 15 years toward expanding shareholder rights.

Our survey was intended to be indicative of the most important trends in shareholder rights, rather than to be exhaustive on all rights issues. Our survey covered some of the most important and/or hotly contested rights that are conferred upon by shareholders today, either by statute or corporate bylaws, including:

- Proxy access
- Declassified boards
- No poison pill
- Single class shares
- Majority vote standards

In the U.S., shareholders can put certain matters up for a vote, as long as certain requirements are met. Shareholder votes, and in some instances voluntary actions on the part of boards, can cause certain rights to be conferred upon shareholders. In recent years, U.S. companies have seen a great deal of activity in this regard, and companies in other venues also appear to be converging on U.S. practices.

Proxy access is an excellent case in point. Proxy access, a mechanism that allows qualified shareholders to nominate director candidates, was almost non-existent five years ago, but is widely in place in U.S. companies today.

GLOBAL TRENDS IN SHAREHOLDER RIGHTS — EXHIBIT 17

Shareholder Friendly Practices	U.S. Trends	Global Trend

Proxy Access	• 35% of S&P 500 companies now have proxy access, up from practically none five years ago
	• The ownership threshold for proxy access is typically to hold 3% of the shares outstanding for 3 years
		• Proxy access is not as prevalent at companies outside of the U.S.
		• However, some European countries have a form of proxy access:
		  • In Switzerland, shareholders controlling 10% of the common stock may call a special meeting or demand that an item be placed on the ballot
		  • In Belgium, shareholders comprising 5% of the common stock can place an item on the Annual General Meeting (AGM) ballot

Declassified Boards	• Approximately 90% of S&P 500 companies have declassified boards • Proxy advisors support declassified boards as takeover defenses are seen as shareholder unfriendly practices	• While many countries allow for classified (i.e., staggered) boards, best practice dictates declassified boards with annual elections for all Directors
No Poison Pill	• Over 90% of S&P 500 companies now have no poison pill	• Prevalence of poison pills continues to decrease around the world as investors frown upon takeover defenses
Single Class Shares	• The majority of listed companies are single class • However, certain family-owned or controlled companies and start-ups are structured as dual- or multi-class shares	• Many jurisdictions with concentrated ownership (e.g., Brazil and Mexico) have a high prevalence of dual class shares • However, prevailing best practice globally is to either have a single class of shares, or limit the voting power of the preferred class
Majority Vote Standards	• Approximately 90% of S&P 500 companies have majority voting standards, which means that directors needs to be elected by a majority of the outstanding shares, rather than just receive the most "for" votes cast	• Proxy advisors and activists are influencing companies in many jurisdictions to adopt majority vote standards

Examples Of Differences In Shareholder Rights By Country

Shareholder rights, protected by various statutes, commissions, court rulings, exchange listing rules, articles of incorporation, and guidelines are becoming more pervasive and shareholder-friendly around the world. A sampling of shareholder rights practices by country gives a glimpse into how these governance practices are developing.

Country	Examples of Shareholder Rights
Australia	• Statutory rights allow shareholders to bring legal proceedings against the company, inspect the books, approve transactions between public entities, and put resolutions to shareholders for approval
Belgium	• Boards must convene a general meeting at the request of shareholders with >20% ownership • Shares with >1 voting right are forbidden • Controlling shareholders must protect the rights of minority shareholders • Proxy groups opposed anti-takeover defenses • Shareholders who own >5% of the voting shares can ask for additional items to be put on the AGM agenda
Brazil	• Boards can convene AGMs, but shareholders with >5% ownership can call for an AGM under certain circumstances • The use of dual class shares, while widespread, is restricted in proportion to total capital • Poison pills should be used with reservation
Canada	• Company by-laws are becoming more shareholder friendly
China	• Not available
Germany	• Shareholders must approve amendments on the absolute cap on registered shares and on voting rights • Proxy groups generally oppose anti-takeover defenses
Hong Kong	• Not available
India	• Listed companies may not issue shares which confer superior voting or dividend rights vis-a–vis the rights on shares already listed • Shareholders can submit board candidates up to 14 days prior to the AGM
Ireland	• Although not a board matter, shareholder rights are protected in many places under company law, and rights are written into the Articles of Association of a company

Country	Examples of Shareholder Rights
Mexico	• Dual class shares often are used as a means to control shareholder voting rights
Norway	• All shareholders have equal rights unless specified otherwise in the Articles of Association • Proxy groups generally oppose anti-takeover defenses
Singapore	• Every member shall have the right to attend any general meeting and to speak and vote on any resolution before the meeting • Companies should facilitate the ownership rights of shareholders
South Africa	• Shareholders vote by proxy at AGMs and special meetings. Board members can provide written votes if they are absent from the board meeting. The JSE rules ensure protection of minority rights • The laws around employment and business practices are strongly enforced
Sweden	• A shareholder who is not personally present at the AGM may exercise their rights through proxy • Proxy groups generally oppose anti-takeover defenses
Switzerland	• Swiss regulation is significantly stricter for financial companies • Shareholders can vote on independent proxies • One or more shareholders owning >10% of the stock may call for a general meeting • Shareholders meeting certain qualifications may demand that an item be placed on the agenda • There is a maximum ratio of non-voting to general stock of 2:1
United Kingdom	• Although not a board matter, shareholder rights are protected in many places, such as the London Stock Exchanges Takeover Code and Listing Rules, as well as under company law. Shareholder rights are written into the Articles of Association of a company
United States	• Shareholders can put proxy access to a vote • Shareholders are becoming more vocal on rights issues, thus leading a trend toward more shareholder-friendly bylaws

V. Implications and Action Steps for Corporations

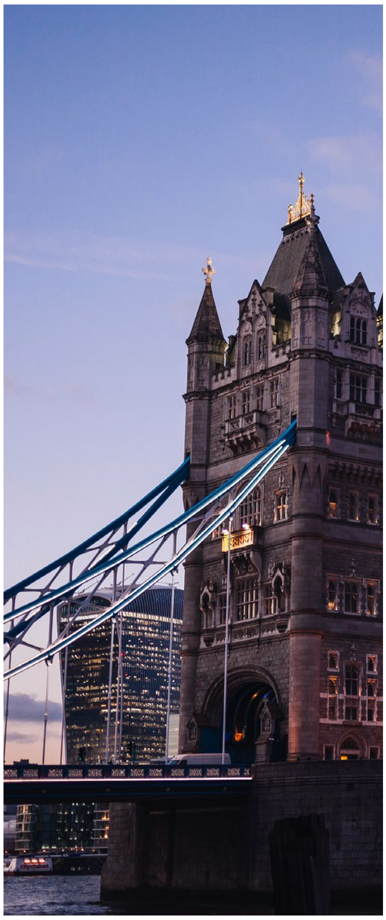
Implications

This is one of the few studies to systematically catalogue and analyze corporate governance trends globally. Major findings include:

Corporate governance is now in higher regard among governments, investors, and often, the public. This is because good governance is a prerequisite for robust capital markets and is indicative of the quality of corporate management and board effectiveness.

Capital is fungible; information is fungible; and now, governance trends are fungible. While it is unlikely that the broad range of governance regulations, codes, and standards will coalesce into a single framework given the different cultural norms and stages of market development, there is an unmistakable and growing trend toward commonality in key governance practices around the world. Further, this convergence of governance norms is likely to persist.

While the trend is for greater focus on governance and increasingly shareholder-friendly practices, there are roadblocks in several countries, particularly those where companies have highly concentrated ownership structures.



Shareholders are becoming more adept and proactive in influencing governance change. They have better data around global practices, and have become more effective in promoting their interests through such organizations as the Council of Institutional Investors.

Companies want to be an attractive vehicle for investing capital. As a result, boards themselves are volunteering for stronger, more shareholder-friendly governance mechanisms. Being aware of what these mechanisms are globally and how they are likely to build and converge is becoming part of the job for today's progressive board members.

Actions Steps for Corporations

In the midst of this changing environment, there are a number of actions that company boards, and in particular, their Nominating and Governance Committees, should take. In particular, boards should:

- Understand and keep current on global governance trends. The GECN quarterly newsletter on Global Governance helps keep directors and executives informed on new developments by country
- Understand and keep current on the highest standards of corporate governance practices around the world. Assess the extent to which your company's shareholders would benefit by adhering to the highest standards
    — It will be important to recognize when those "highest standards" are or are not in the best interests of the specific company's shareholders
    — For example, if the "highest standard" is to separate the board Chair and CEO roles, but the company's current roles are combined, the company is performing well, the company balances power with a strong lead independent director and independent control functions, and it has a policy to consider roles on a case by case basis – it is a valid option to continue to combine the roles for the foreseeable future, rather than separate them
    — For areas in which change is warranted, establish a governance change roadmap. Change in governance is generally evolutionary in nature. Changes that may not make sense now may make sense later. Boards should determine the evolutionary roadmap as well as the triggers for change
    — For example, if a board (or Nominating and Governance Committee on behalf of the board) determines that it would benefit from meeting the highest standards of diversity, it may determine that 40% of its board members should be women and minorities within five years. Further, it may consider one of four alternatives for getting there: (1) allow board turnover under the current age and/or term limits; (2) establish age and/or term limits to facilitate board refreshment; (3) conduct discussions with certain board members to ask them to consider going off the board; or (4) increase the number of board members to achieve the desired balance. Any of these and potential other pathways are legitimate, but the board needs to determine how to best achieve its desired end point

- Amend, as needed, and disclose the company's governance policies in the proxy and through shareholder engagement. Proactively engage with shareholders on matters of domestic and global governance issues and the company's policies and plans with respect to such issues. This dialogue will not only help inform the discussion with investors, but also demonstrate how the board thinks about and is sensitive to these issues
- Enhance the independence and effectiveness of control functions for areas such as compliance and internal audit

Contact Us

We hope our research is illuminating, contributes to the quality of the corporate governance dialogue, and supports an informed decision-making process around governance that will benefit companies, their stakeholders, and the capital markets in which they participate worldwide.

We invite your questions and comments. Please direct all inquiries to GECN leadership:

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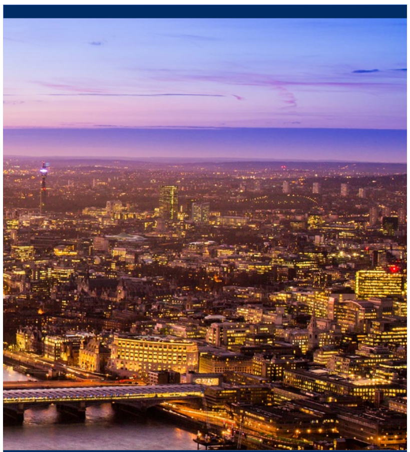

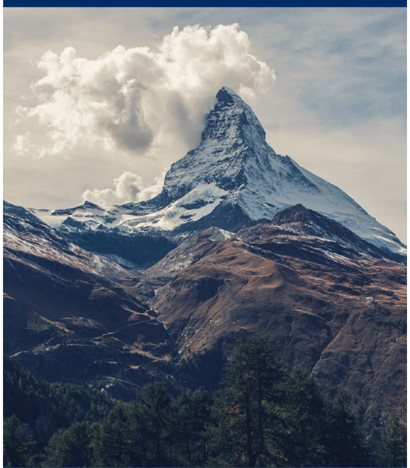


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DINING CONCOURSE
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