FARIENT ADVISORS

2018 Global Trends in Corporate Governance

Published by:

Farient Advisors in conjunction with our partners in the Global Governance and Executive Compensation Group (GECN)

GECN GROUP

GLOBAL GOVERNANCE AND EXECUTIVE COMPENSATION GROUP

New York • Los Angeles • London • Zurich • Geneva • Kiev
Beijing • Shanghai • Singapore • Melbourne • Sydney

Farient Advisors LLC is an independent executive compensation and performance consultancy providing a comprehensive array of services that range from compensation strategy, planning and program design, to governance services that include shareholder engagement and communications. Leveraging its deep expertise and proprietary methodologies, Farient helps its clients design defensible strategies that strengthen their business and create stakeholder value. Farient has offices in Los Angeles and New York and covers clients in more than 30 countries through its partnership with the Global Governance Executive Compensation Group (GECN).

The Global Governance and Executive Compensation Group (GECN) is a strategic partnership of leading advisory firms from around the world focused on serving the governance, compensation, and related needs of clients in multiple industries and sectors. The GECN partner firms are committed to delivering independent, high-quality, tailored advice that takes into account client strategy and direction, as well as external developments in executive and board compensation, and governance.


BUS
LANE

Introduction

At first glance, the past year may have seen a pullback in corporate governance, as elections and new governments in some major economies signaled a shift toward less regulation. In the U.S., for example, the Trump Administration is strongly averse to overburdening companies with rules and restrictions. In Japan Prime Minister Shinzo Abe's government faces criticism that it has not put its full weight behind efforts to reform corporate practices that may have contributed to a succession of accounting and quality-control scandals at Japanese companies.

COUNTRIES COVERED IN FARIENT'S GLOBAL GOVERNANCE REVIEW

■ *Shading indicates country is covered in the study*

EXHIBIT 1

However, regulation is not the same as good governance; we saw no reduction in interest by regulators, shareholders, and the public in good governance in 2017 and we foresee none in 2018. For example, the UK government has proposed new legislation on the reporting of pay ratios and long-term incentive plan outcomes. In addition, the Financial Reporting Council (FRC) has published proposals for revision of the UK Corporate Governance Code. The FRC intends to publish a revised UK Corporate Governance Code in June.

In the U.S., while President Trump has ordered a review of the 2010 Dodd-Frank Act, important provisions, such as the shareholder advisory vote on executive officer compensation (the Say on Pay vote) continue to enjoy support and are likely to remain in place. Moreover, the newly passed Tax Cuts and Jobs Act restricts the ability of businesses to write off compensation expenses for the CEO and other highly paid executives that exceed $1 million. In August, the UK published new guidelines for executive compensation designed to strengthen its reputation as a leader in corporate governance in advance of Brexit, including a requirement that some 900 listed companies annually publish the pay gap between their CEO and their average UK employee. And in Japan, the Abe government has quietly encouraged institutional investors, including foreign funds, to challenge management on such issues as investor relations and capital efficiency.

Meanwhile, in response to an assortment of high-profile missteps in the banking sector, Australia has increased its focus on governance, culture, and accountability. The federal government introduced the Banking Executives Accountability Regime, which imposes significant regulatory oversight, and potential penalties, on banks, their directors and senior executives. And, late last year, the government responded to continuing criticisms of the banking culture by establishing the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

Behind these trends are shareholder concerns to protect their investments both at home and globally, despite the volatile political landscape. Where regulation is diluted or not enforced, investors seek to establish a best-practices baseline at the companies they hold, through lobbying, voting, and shareholder activism. Companies, markets, and governments are increasingly anxious to meet these demands, understanding that they are competing for a limited amount of global investment capital. At the same time, they are concerned to strike the right balance, avoiding regulations and norms of behavior that are too strict and thus encourage companies to domicile or list elsewhere.

The third edition of the Global Trends in Corporate Governance report, undertaken by Farient Advisors and other partner firms in the Global Governance and Executive Compensation Group (GECN) continues to address the implications of corporate governance trends around the world. Published annually, the Global Trends in Corporate Governance report gathers insights into corporate governance practices and patterns and their implications for company boards. The 2018 report covers 20 countries across six continents.

In conducting this study, we explored a wide range of corporate governance activity in each country, from statutory requirements to voluntary best practices, across three major categories: Executive Compensation, Board Structure and Composition, and Shareholder Rights (see Exhibit 2, below).

While the rate and depth of activity differs, overall, we continue to observe intensifying corporate governance activity across the countries covered in the study.

EXHIBIT 2 TOPICS COVERED

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


23
14
15
22
16
21
20
17
19
18

I. Global Corporate Governance Momentum Continues to Build

The current approach to governance remains intense in most developed countries and moderate in Brazil and in developing Asian countries.

Mexico continues to be viewed as weak. China still appears to be weak, but shows improvement. For example, some Chinese state-owned enterprises (SOEs) are addressing governance issues by bringing in independent board members, giving greater authority to these boards, and promoting mixed ownership structures. Another important advance will take place in 2018, when renminbi-denominated A-shares in Chinese companies, which previously were only available to Chinese shareholders and certain select foreign institutions, are added to the MSCI Emerging Market index. The change is welcomed by foreign shareholders, since A shares generally trade at higher valuations than B-shares, which are quoted in other currencies and are more readily available to non-Chinese shareholders. But it should also further motivate Chinese companies to address issues of transparency, corporate governance, and government interference in company decision-making.

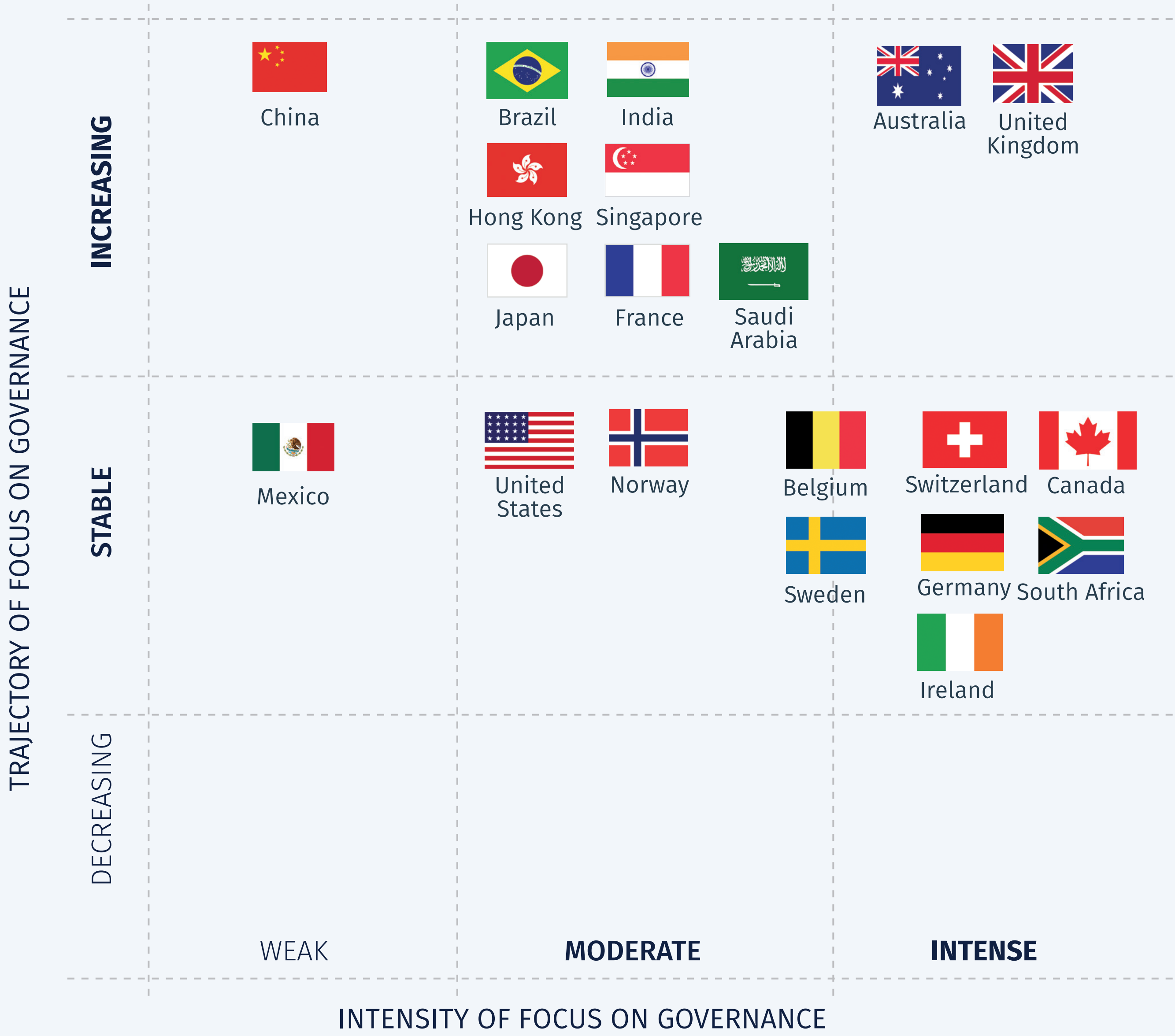
Notably, the three countries added to the study this year, France, Japan, and Saudi Arabia, are all experiencing a rise in scrutiny of corporate governance.

In France, shareholder outcry over the decision of the Renault board to confirm the CEO's 2015 compensation, despite a rejection by a majority of shareholders, has prompted the government to consider making Say on Pay votes binding.

Japan, anxious to promote the return of foreign shareholders and move past the scandals that have hit leading companies like Olympus, Toshiba, and Takata, adopted a Corporate Governance Code in 2015 aimed in part at reducing cronyism on boards. While progress implementing the code's guidelines has been slow, 96% of Japanese boards now have at least one outside director and 78% have at least two, while 55% of listed companies now conduct formal board evaluations.

Saudi Arabia, which is undergoing a far-reaching economic overhaul designed to attract greater foreign investment, is also paying greater attention to corporate governance. In March 2017, the Capital Market Authority (CMA) approved new corporate governance regulations for companies listed on the Saudi exchange (Tadawul). The new rules strengthen oversight by the CMA, enhance shareholder rights, clarify board, committee, and executive roles, and increase disclosure requirements. The timing of the new regulations is significant, as Saudi Arabia is preparing for an Initial Public Offering of state-owned Saudi Arabia Oil Co. (Aramco), potentially the largest ever.

GOVERNANCE TRENDS AMONG COUNTRIES COVERED IN THIS STUDY — EXHIBIT 3



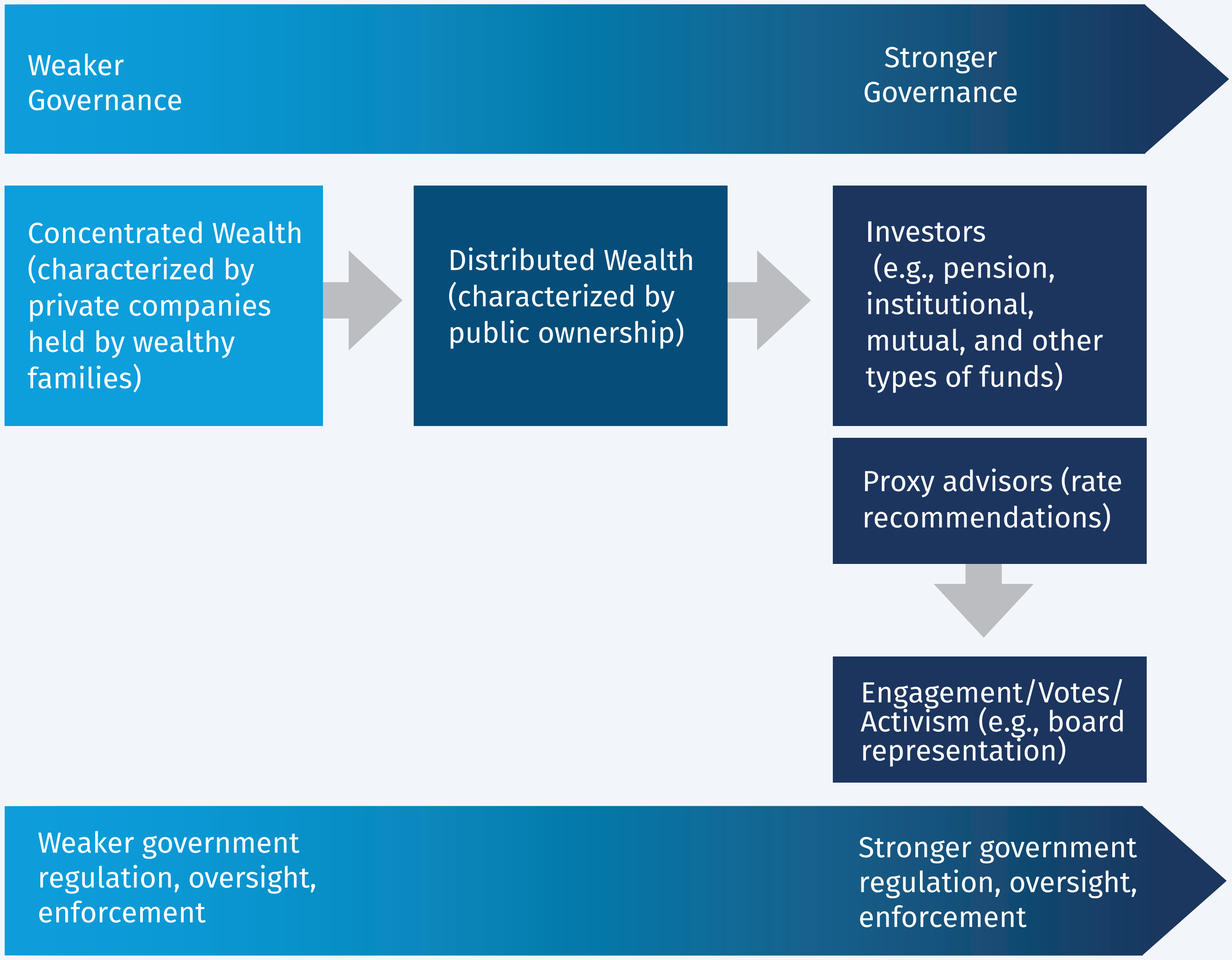
Pressure intensifies

Not only is the focus on governance intense in most venues we studied, it is expected to increase in almost three-quarters of these countries, including those with a currently weak or moderate focus (see Exhibit 3, previous page). This means that common standards for good governance are likely to rise as well.

A key reason is the need for systemic economic stability and safer capital markets. As capital becomes more fungible across borders (see Exhibit 4, below), governments attempt to make their countries more attractive targets for investment. As a result, many economies once dominated by concentrated wealth, such as Mexico's, are moving toward a system more supportive of better wealth distribution – characterized by, for example, public ownership of stock.

As individuals and institutions invest capital directly or through intermediary funds, they also look to see if well-governed corporate boards are there to protect their interests. Governments impose requirements on companies as well as capital markets to make their countries more attractive to foreign and domestic investment. Shareholders, often assisted by proxy advisors, want to be able to exercise at least some power over boards to ensure their interests are served.

EXHIBIT 4 EVOLUTION OF CORPORATE GOVERNANCE

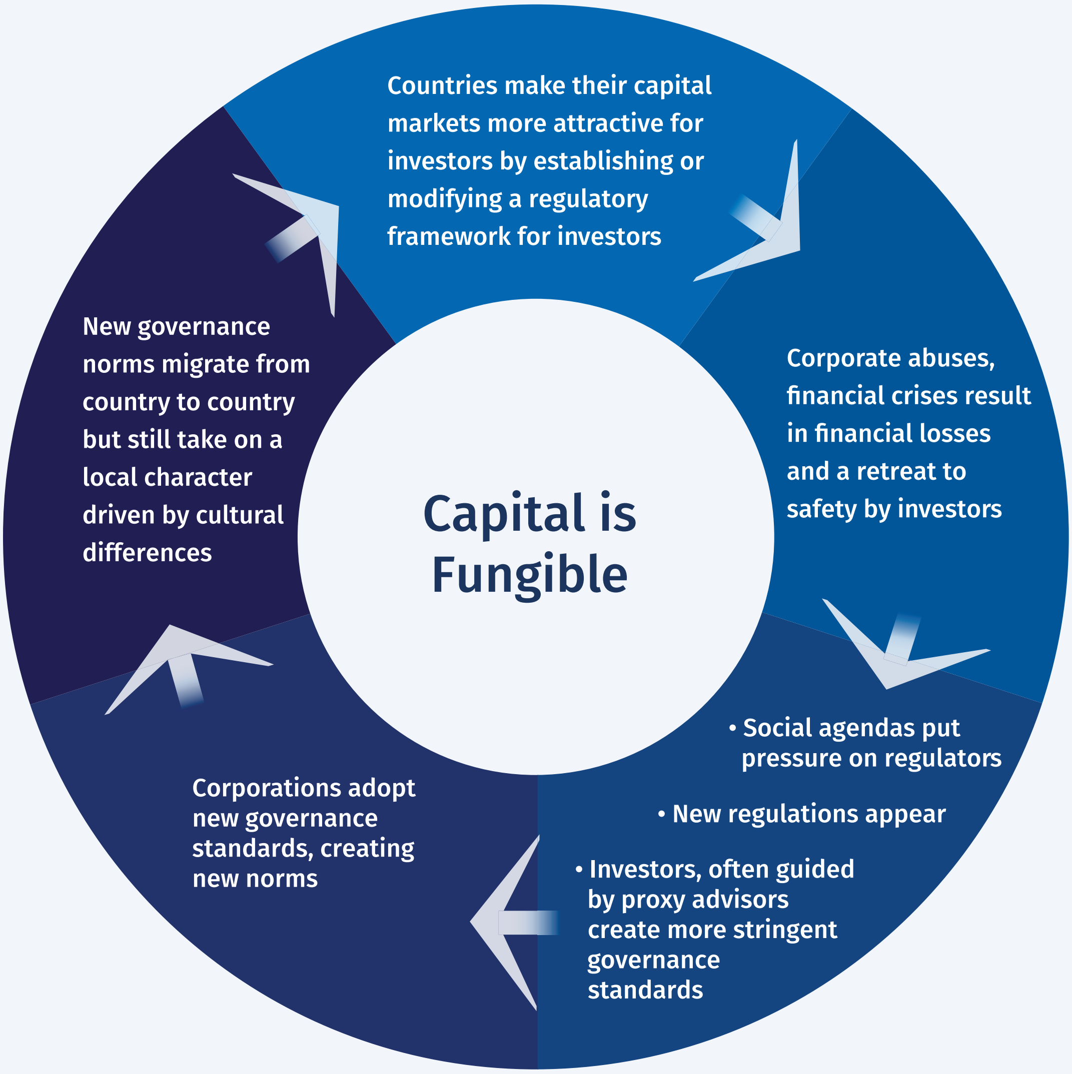


Governance standards become global

When widespread corporate abuses and/or financial crises appear, shareholders feel unsure and governments respond with more stringent governance regulations (see Exhibit 5, below). Australia's Banking Executives Accountability Regime is a prime example of government response to poor corporate conduct. Pension funds and other institutional investors, in turn, sometimes spurred by social issues and influenced by proxy advisors, develop their own governance policies for issuers that go beyond legal requirements. While by no means uniform in their views, shareholders orchestrate their efforts to collectively increase governance pressure. Companies themselves become more serious about adhering to good governance standards, which in many instances become accepted norms.

Most strikingly, our study finds that these developments have cross-border influence and can become global, although taking shape in ways that reflect local cultural differences. In the U.S., this heightened focus on making capital markets safer and more attractive for investors began with the passage of the Sarbanes-Oxley Act in 2002 and the Dodd-Frank Wall Street Reform and Consumer

VIRTUOUS CIRCLE: THE GLOBAL GOVERNANCE TRENDS CYCLE EXHIBIT 5



Protection Act in 2010, followed by regulatory actions on remuneration in the UK, the EU, Australia, and Switzerland.

In Australia, the non-binding Say on Pay vote was expanded in 2011 with the introduction of the so-called "two strikes" rule under which boards face a "spill" vote if more than 25% of shareholders cast a negative SOP vote in two consecutive years. When this "second strike" occurs, the same annual general meeting (AGM) must hold a vote to determine whether all the directors must stand for reelection (the "spill" resolution). If the resolution passes with 50 percent or more of eligible votes cast, then a spill meeting takes place within 90 days, at which each director (other than the managing director, who is permitted to continue to run the company) is either reelected, or not.

In response to perceived abuses in Swiss corporate compensation arrangements, the Minder Initiative was enacted in 2013, allowing shareholders a binding vote on executive pay for public, Swiss-domiciled companies. Together with new standards from international bodies such as the Financial Stability Board, these developments have fundamentally impacted how shareholders, regulators, the media, and others judge management and board effectiveness and the overall health of the corporations they manage, oversee, or invest in. They have also imposed stricter rules.

Although the focus on governance is increasing globally, it faces roadblocks in some countries, particularly those with a high concentration of ownership and where attracting foreign capital has been a lower priority. These countries are still plagued by corruption and lack of transparency.

Drivers of new governance norms

Shareholders influence governance in a variety of ways, including communication with corporate representatives (i.e., shareholder engagement), activism (e.g., negotiation and board representation), and voting. Areas in which they typically push for better governance practices fall into three categories (see Exhibit 6, opposite):

- Executive compensation, including SOP, rules for equity incentive plans, and accounting and tax treatment
- Board practices, including direct elections, board independence, and the role of the chair/CEO
- By-laws covering shareholder rights

Statutory requirements in these areas, then, are often bolstered by initiatives from shareholders and proxy advisors, as well as other measures voluntarily adopted by boards.

GENERAL DRIVERS OF GOVERNANCE NORMS [1]

EXHIBIT 6

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.*

While voting is an important way for shareholders to influence corporate governance, voting rights are by no means universal. Shareholders commonly vote on director elections, equity incentive plans, auditor elections, executive and director compensation (often referred to as "remuneration," both of which terms are used in this report), and shareholder rights. Shareholders generally do not vote on matters of board structure.

However, these norms vary widely (see Exhibit 7, below). For example, shareholders in EU-domiciled companies generally vote on a broader array of matters. In Germany, shareholders must approve amendments on the absolute cap on registered shares and on voting rights. In France, shareholders can vote when the chair or CEO (the roles are often combined) is up for reelection. When the board proposes to combine or recombine these functions, some companies make an announcement to

EXHIBIT 7 INVESTOR VOTING RIGHTS BY COUNTRY BY MATTER

Country	Director Elections	Equity Incentive Plans	Auditor Selection	Executive Compensation	Director Compensation	Shareholder Rights	Board Structure	Total
France	■	■	■	■	■	■	■	7
Norway	■	■	■	■	■	■	■	7
Sweden	■	■	■	■	■	■	■	7
Australia	■	■		■	■	■		6
Belgium	■	■	■	■	■		■	6
India	■	■	■	■	■	■		6
Ireland	■	■	■	■	■	■		6
South Africa	■	■	■	■	■		■	6
United Kingdom	■	■	■	■	■	■		6
Brazil	■	■	■	■	■			5
Germany	■		■	■	■	■		5
Japan	■	■	■	■	■			5
Singapore	■	■	■		■			5
Switzerland	■		■	■	■	■		5
Canada	■	■	■	■				4
Hong Kong	■	■	■			■		4
Saudi Arabia	■	■	■	■				4
United States	■	■	■	■				4
China	■	■	■			■		4
Mexico								0
Prevalence	95%	85%	95%	89%	70%	55%	25%	

shareholders ahead of the Annual General Meeting (AGM). Since 2014, the Loi Florange allows poison pills, although these are usually rejected. The law also requires a 66% vote to increase capital or issue preferred stock or stock options, which can dilute outside shareholders' voting power.

Shareholders domiciled in Mexico and China generally vote on a narrower array of issues, but Saudi Arabia's new corporate governance regulations give them a very wide range of voting rights, including on board structure. In most venues, shareholders vote on matters of executive remuneration; only four countries in our study — China, Hong Kong, Mexico, and Singapore — do not. South Africa is considering tightening its rules on disclosure of remuneration data for directors and leadership roles of non-directors for listed companies.

BEST PRACTICE NORMS AND MOST STRINGENT GLOBAL STANDARDS

EXHIBIT 8

	Topic	Global "Best Practice"
Executive Compensation	Say on Pay	• Mandatory • Non-binding • Annual
	Equity Plans	• Vote on initial plan and initial amendments
	Clawbacks	• Material Restatement
	Severance	• ≤2x salary + bonus • No equity acceleration
Board Structure & Composition	Independence	• >50%
	Chair/CEO Role	• Separate Roles
	Diversity	• 30% women
	Age Limit	• Retire at 75
	Director Tenure	• ≤9 years
	Director Term Limit	• 1 year
Shareholder Rights	Proxy Access	• 3% for 3 years
	Declassified Board	• Declassified
	No Poison Pill	• No Poison Pill
	Single-Class Shares	• Single-class shares
	Majority Voting	• Majority Voting

II. Governance Trends in Executive Compensation

“Governance” of the corporation is defined by a patchwork of statutory requirements, shareholder voting rights, and an array of practices and standards to which corporations voluntarily adhere. Statutory requirements typically lead the change process regarding executive compensation (e.g., SOP), although these vary considerably from country to country. Belgium and India have the broadest range of requirements, followed by Australia, France, and the UK, while Brazil, Mexico, and Singapore have fewer (see Exhibit 9, below).

PREVALENCE OF STATUTORY REQUIREMENTS IN EXECUTIVE REMUNERATION EXHIBIT 9

Country	Disclosures	Equity Plans	Say on Pay	Employment Agreements	Severance	Clawbacks	Executive Pay Levels	Stock Ownership	Total
Australia	■	■	■	■	■	■	■		7
Belgium	■	■	■	■	■	■			6
India	■	■	■		■	■	■		6
France	■	■	■		■			■	5
United Kingdom	■	■	■	■	■				5
China	■	■		■	■				4
Hong Kong	■	■		■	■				4
Ireland	■	■		■	■				4
Sweden	■	■	■	■					4
Switzerland	■		■		■		■		4
United States	■	■	■			■			4
Germany	■	■		■					3
Norway	■	■	■						3
Japan	■	■	■						3
South Africa	■	■	N/A		■				3
Brazil	■		■						2
Canada	■	■							2
Singapore	■	■							2
Saudi Arabia	■								1
Mexico				■					1
Prevalence	95%	80%	55%	45%	50%	20%	15%	5%	

Disclosures and equity plan provisions are commonly driven by statutory requirements, while pay levels and stock ownership guidelines are most often either voluntary or market driven. In only one country, France, do stock ownership guidelines have statutory backing. The 2007 Loi TEPA imposes holding restrictions on vested equity grants made to directors, usually between 20% and 40% of shares vesting unless they are acquired through exercise of options. This is intended to keep directors from increasing their control of the company at the expense of shareholders. Increasingly, French companies are imposing their own specific stock ownership rules as well.

Disclosures

Almost all countries (95%) require disclosures on executive compensation, with Mexico being the exception. However, the level of detail and quality of disclosures vary greatly (see Exhibit 10, opposite). It is much less common for companies to break out target pay amounts and severance pay. In Japan, for example, companies must obtain shareholder approval to change the aggregate fees payable to directors or statutory auditors. However, only the aggregate amount of compensation is disclosed; details by individual directors are generally not broken out. More recently, some companies have introduced performance-linked compensation, although the metrics and absolute performance hurdles are not revealed.

Companies that are domiciled in one country but trade on an exchange in another country adhere to the disclosure requirements statutorily required by the exchange on which they are traded. However, these companies often choose to adhere to the most demanding requirements in both venues.

EXHIBIT 10

Most Transparent ↕ Least Transparent

	Pay Philosophy	Target Pay Amounts	Actual Pay Amounts	Program Design	Severance Pay	Quality of Disclosure
Australia	✓	✓		✓	✓	Good
Canada	✓	✓	✓	✓	✓	Good
France	✓	✓	✓	✓	✓	Good
Germany	✓	✓	✓	✓	✓	Good
Norway	✓	✓	✓	✓	✓	Good
Saudi Arabia	✓	✓	✓	✓	✓	Good
Sweden	✓	✓	✓	✓	✓	Good
Switzerland	✓		✓	✓	✓	Good
U.K.	✓	✓	✓	✓	✓	Good
U.S.	✓	✓	✓	✓	✓	Good
Belgium			✓	✓		Fair
Hong Kong	✓		✓	✓		Fair
Ireland			✓	✓		Fair
India	✓		✓	✓		Fair
Japan	✓		✓	✓	✓	Fair
Singapore	✓		✓	✓	✓	Fair
Brazil			✓			Poor
China			✓			Poor
South Africa			✓			Poor
Mexico						No required disclosures

Equity Plans: Similar to the U.S., many countries require shareholders to approve equity plans over a set period (e.g., every three years). Some set limits on the percentage of share capital that can be issued. Proxy advisors generally publish best practices guiding equity authorizations that seek to limit dilution. In France, equity plans are subject to a two-thirds vote and must be performance-based.

Severance: Similar to the U.S., most countries discourage high severance payouts with or without change in control (e.g., twice salary plus bonus). Most, owing to proxy advisor pressures, have adopted best practices that generally do not favor payouts in excess of twice salary plus bonus. South Africa is especially strict, imposing onerous tax penalties for excessive severance. More typical is France, where severance packages must not exceed two years' cash pay and must be performance-based. Australia limits severance pay to no more than one year's pay unless there is shareholder approval to do otherwise.

Clawbacks: Only a few countries, including the U.S., Australia, Belgium, and Ireland, require recoupment in the event of financial restatements. As a result of proxy advisor pressures, most countries generally follow best practices that call for a minimum clawback in the event of fraud or misconduct. In France, forcing the refund of paid remuneration is against the law unless misuse of corporate assets can be demonstrated in court, and clawbacks are viewed as legally difficult in Germany and Switzerland as well.

Say on Pay

In the aftermath of the 2008-09 global financial crisis, investor pressure led to the widespread adoption of Say on Pay (SOP) voting. Today, SOP is a reality in most developed countries (see Exhibit 11, below). Those with mandatory SOP votes are split between:

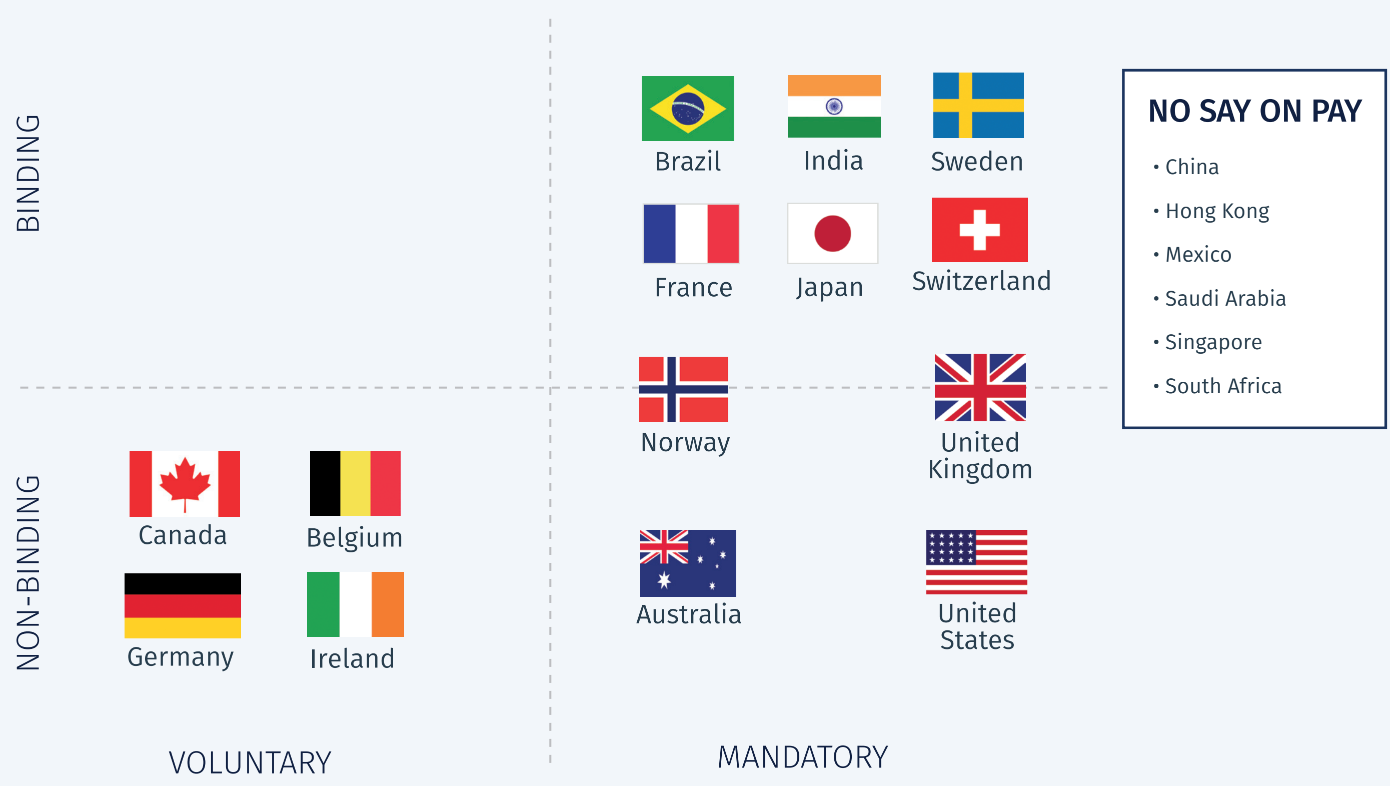
- Countries with binding votes (e.g., Brazil, France, India, Sweden, and Switzerland),
- Countries with non-binding votes (e.g., Australia and the U.S.), and
- Countries with a bifurcated approach in which some aspects of remuneration are binding and others non-binding (e.g., Norway and the UK).

In Japan, shareholders are accorded a mandatory, binding vote on executive compensation, and shareholder approval is also required to change aggregate pay of executive directors. France's Loi Sapin 2, passed in 2017, mandates binding annual SOP votes on the principles applying to remuneration for executive directors as well as past remuneration paid to them.

While many countries have mandatory SOP votes, almost half of those we studied make them voluntary. Even in these countries, the prevailing best practice is to hold annual votes. For example, 80% of Canadian companies traded on the Toronto Stock Exchange (TSX) hold annual votes on executive pay, although they are not required to do so.

More than a quarter of the countries we studied do not have SOP votes and are debating whether they have any impact on executive pay. These countries include China, Mexico, Hong Kong, Saudi Arabia, Singapore, and South Africa. However, as the global capital markets become more open and investors enter previously concentrated markets, there is a greater desire on the part of shareholders for proxy advisors to evaluate pay programs and overall corporate governance. Australia's "two strikes" rule is credited with increasing the level of shareholder engagement by boards and, at the same time, contributing significantly to limiting the expansion of executive pay.

EXHIBIT 11 SAY ON PAY TRENDS AND PROXY ADVISOR INFLUENCE



Global norms and best practices

Beyond executive compensation disclosures and SOP, common best practices include:

- Providing shareholders with more detailed data on such matters as pay governance, pay components, performance goals, and the rationale for pay decisions
- Using competitive benchmarks (e.g., peer groups) as a factor in formulating pay levels ("reasonableness"), dilution norms, and pay practices. This essentially acknowledges that the company competes in a free market for talent

Best practices are sometimes in the eye of the beholder, however. In many cases, what is regarded as best practice 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. They are not favored or required in the U.S., however, as 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, for example, while in Brazil and Sweden, it generally is limited to two years' fixed salary. The statutory requirement in Australia, by contrast, is to limit severance to one year's pay unless shareholders approve a more generous package.

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 are most likely to be driven by commonly accepted practices. A combination of laws and regulations and stock-exchange rules govern the areas of committee structure and director elections as well as board-member and chair independence.

In Australia, for example, companies generally follow the practices prescribed in the ASX Corporate Governance Council's Principles and Recommendations on such matters as board composition and structure. The ASX Listing Rules then require listed companies to either adopt these principles or, if they chose not to, to explain why not.

Almost all countries we studied have requirements or commonly accepted practices for board and committee structure, and most have rules or standards for board independence. The exceptions here are largely developed countries such as Germany, Belgium, and Sweden, rather than developing economies (see Exhibit 12, opposite).

However, the majority of countries do not require that their exchanges adopt requirements covering director diversity, director term limits, director attendance, director age limits, or the board's ability to control its advisors. Only one country, France, sets director age limits by statute.

On these matters, shareholders often voice their preferences collectively through organizations like the Council of Institutional Investors (CII), adopting investment principles that cover board structure and composition, and/or through engagement and dialogue with issuers themselves. As a result, non-statutorily driven commonly accepted/best practices have emerged from a broad cross-section of sources.

PREVALENCE OF BOARD STATUTORY REQUIREMENTS — EXHIBIT 12

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
France	■	■				■	■		■	5
Germany		■		■	■	■	■			5
Ireland	■	■	■	■	■					5
Japan	■	■	■				■	■		5
United Kingdom	■	■	■		■					5
Australia	■	■	■		■					4
Belgium	■	■				■	■			4
Brazil	■	■	■				■			4
Norway	■	■		■		■				4
Saudi Arabia	■	■	■					■		4
South Africa	■	■	■	■						4
Sweden	■	■		■		■				4
United States	■	■	■		■					4
Singapore	■	■							■	3
Switzerland	■	■	■							3
Mexico	■		■							2
Prevalence	95%	95%	60%	45%	40%	40%	40%	25%	10%	

Board and chair independence

Independence is considered one of the most essential features of board effectiveness, if not the most essential (see Exhibit 13, opposite). Statutory requirements range from 66% independent (Brazil) to 25% (Mexico). In Saudi Arabia, a majority of directors must be either independent or non-executives. Moreover, in many countries, either government or stock exchanges have independence rules around audit and, in some instances, compensation committees.

In Switzerland, banks have only independent members and no executives on their boards; non-financial Swiss companies allow no recent employees on the board. Belgium and Germany have management committees distinct from the board, since employee and/or union representation on the board is deemed to harm independence. In Australia, Canada, and the U.S., best practice is for the CEO to be the only insider on the board.

In almost half of countries we studied, separation of the chair and CEO roles is statutorily required as well, and in most other countries is considered best practice, as it helps to diffuse power. The biggest push for board independence is taking place in the UK and the U.S., where more than half of board members must be independent and the audit, compensation, and nominating committees must be entirely independent. In the U.S., however, a strong lead director and two-thirds independent board members is considered to be a reasonable alternative. In Saudi Arabia, companies may not appoint the CEO as board chair during the first year following the end of his or her service.

In a number of the world's other largest economies, including France and Japan, an independent chair is not required. In France, however, almost half of companies in the CAC 40 have now separated the equivalent roles of president and director general.

That said, proxy advisors continue to take local customs and the market standard into account when they calibrate their position on board independence in specific countries. In Japan, for example, where boards are still often dominated by insiders, Glass Lewis advocates "minimal" independence to ensure that minority shareholders' interests are protected, rather than demanding that a majority of directors be independent.

EXHIBIT 13A

TREND IN BOARD INDEPENDENCE

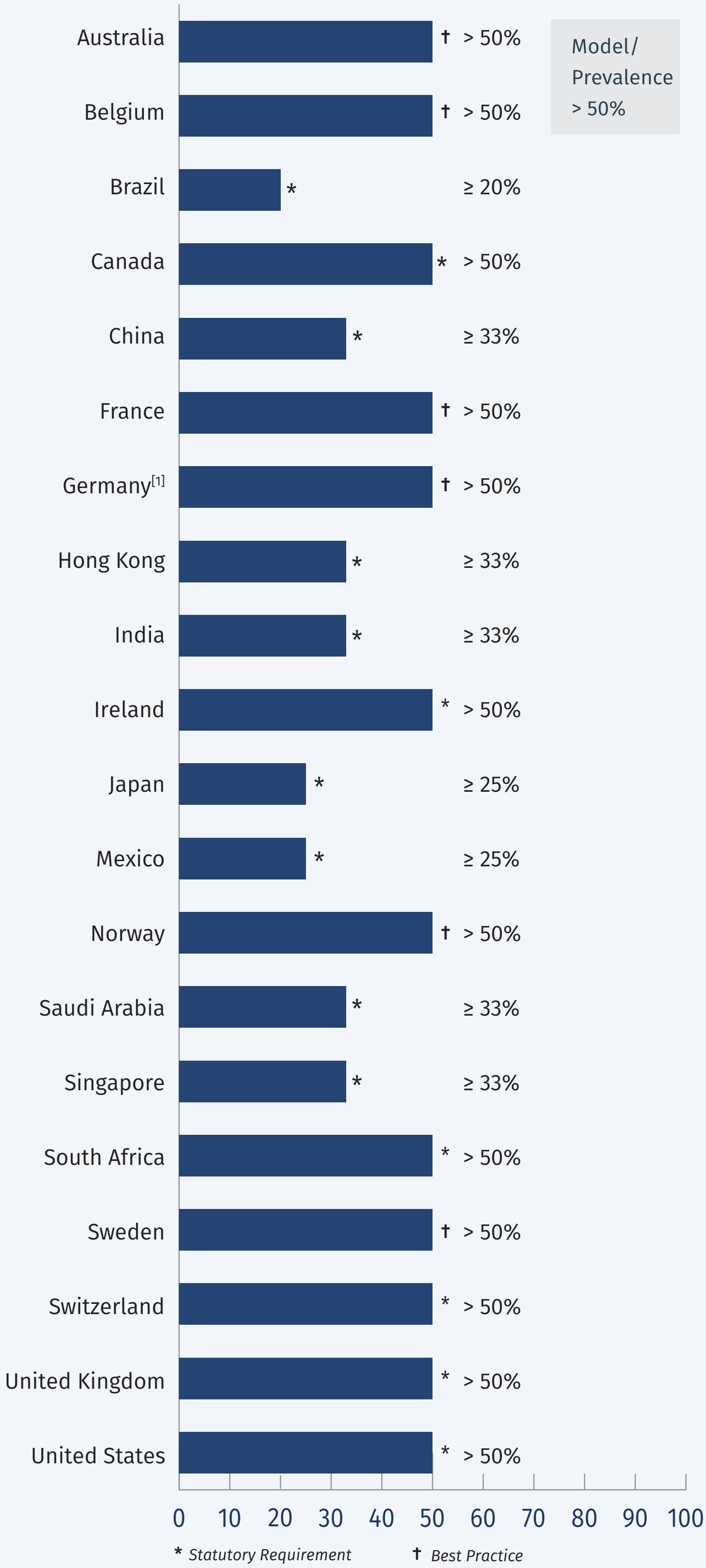


EXHIBIT 13B

TREND IN SEPARATION OF CHAIR/CEO ROLES

Statutory Requirement	Best Practice	Neither
Canada	Australia	France
China	Belgium	Japan
Germany	Brazil	Mexico
Hong Kong	Singapore	
India	Switzerland	
Ireland	United Kingdom	
Norway	United States	
Saudi Arabia		
South Africa		
Sweden		

Model/ Prevalence 94%

EXHIBIT 13C

STATUTORY BOARD COMMITTEES

Country	Audit	Compensation	N&G
Australia	✓	✓	
Belgium	✓	✓	
Brazil	✓		
Canada	✓		
China	✓	✓	✓
France	✓	✓	✓
Germany	✓[2]		✓[2]
Hong Kong	✓		
India	✓[3]	✓[3]	
Ireland	✓	✓	✓
Japan	✓	✓	✓
Mexico	✓		
Norway	✓	✓	✓
Saudi Arabia	✓	✓	✓
Singapore	✓		
South Africa	✓	✓	
Sweden	✓		
Switzerland	✓	✓	
United Kingdom	✓	✓	✓
United States	✓	✓	✓
Mode/Prevalence	100%	60%	35%
# Statutory/ Independence Reqt	11/20 (55%)	5/20 (25%)	7/20 (35%)

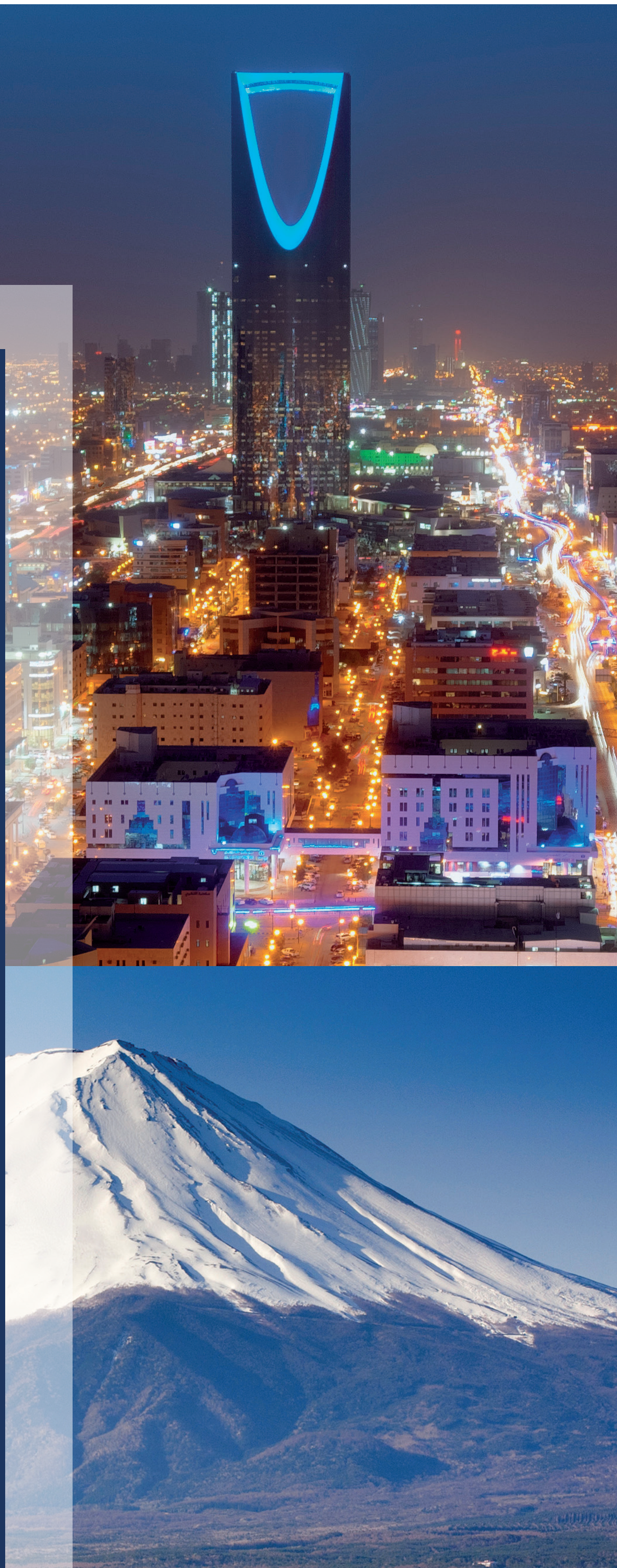
Committee Must Be Entirely Independent

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] Committees are suggested, but not required

[3] Companies above certain revenue thresholds are required to have Social Responsibility and Stakeholder Relations Committees



Defining independence: Saudi Arabia and Japan

Saudi Arabia has especially stringent criteria for director independence. To qualify, the individual must own no more than 5% of the shares in the company or an affiliated company; must not have been a senior executive or employee of the company or any affiliated company in the previous two years; must not be a relative of any other director or senior executive or consultant to the company or any affiliated company; must not be a shareholder or director in an entity that has substantial dealings with the company; must not receive remuneration from the company in excess of his or her directorship role; and must not have been a director of the company for more than nine years. No director may serve in that capacity for more than five listed companies.

Japan, too, has detailed rules. Under the TOPIX listing rules, a director or statutory auditor is classified as independent if he or she has never been an executive of the company's parent, sister companies, or major business affiliates; does not receive significant monetary benefits from the company for other professional services rendered; does not hold a significant equity stake in the company; and is not a relative of the company's executives, its affiliates, major shareholders, or professional services providers.

Board composition

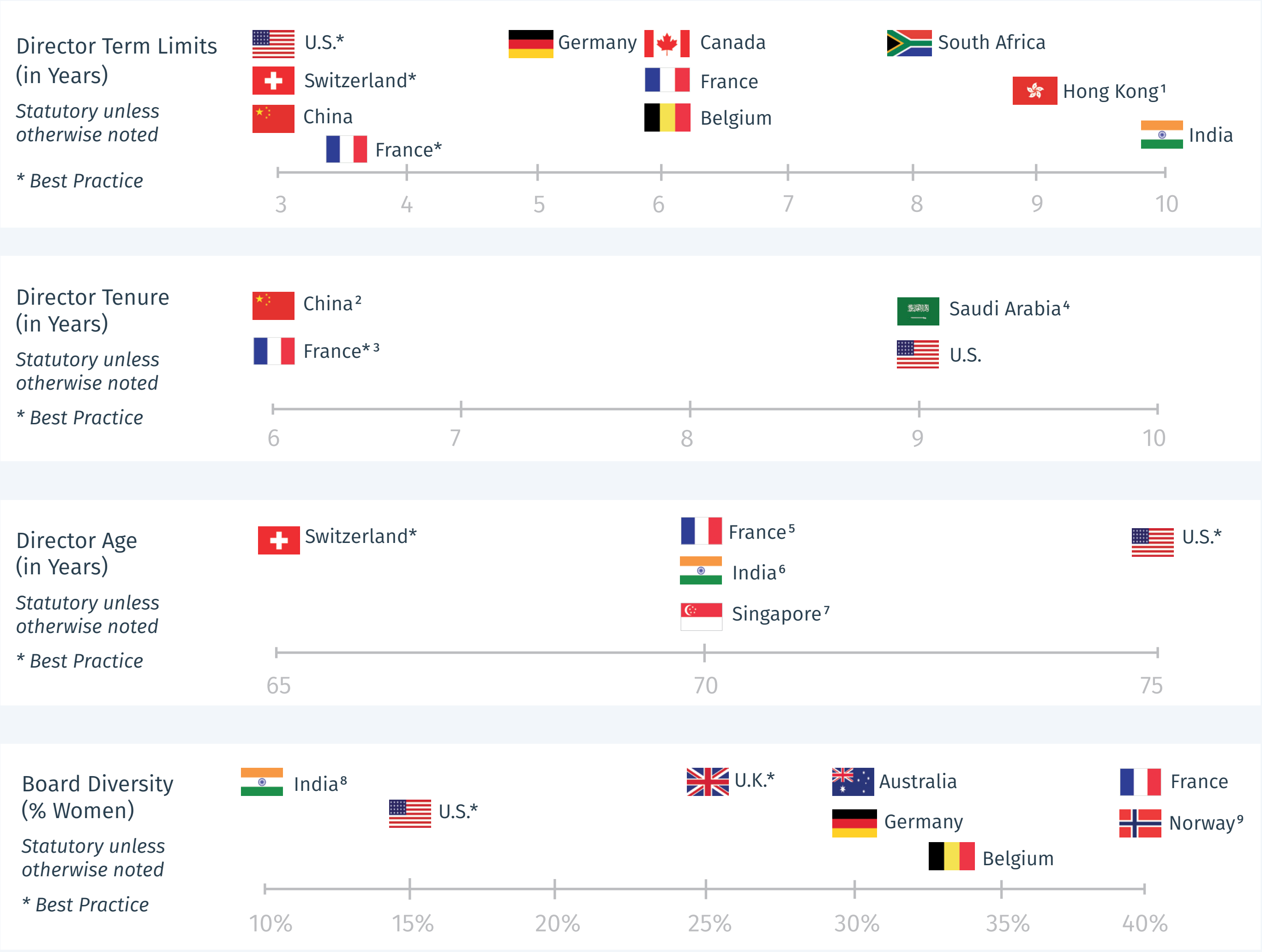
Few countries have statutory requirements regarding board composition. Best practices are emerging, but vary (see Exhibit 14, following page). In some countries, board composition is not a matter of public policy. In Brazil, Sweden, and the UK, for example, age limits are prohibited as they are deemed to be tantamount to age discrimination. Japan's new Corporate Governance Code requires companies to conduct formal board evaluations, but only 55% of listed companies have complied, according to research by Russell Reynolds, and the quality of the evaluations themselves varies greatly.

Limits on director tenure tend to be company specific. In some countries, such as the UK, investors deem long-tenured directors (those with greater than nine years of service) to be less independent than newer arrivals. In Saudi Arabia, directors with over nine years' service do not qualify as independent for purposes of meeting quotas on the board and committees. Some investors view director term limits as helping to refresh the board with new skills and perspectives; others argue that tenure is not really indicative of true independence and that each director should be evaluated on his or her merits, regardless of tenure.

Finally, board-member diversity has become a hot topic. Not only is it a matter of public policy in some countries, but it also seen as a matter of good business to the extent that it brings a wider range of views to bear on important issues. Statutory requirements pertaining to gender diversity exist in Belgium, France, Germany, India, and Norway, while best-practice norms for diversity, broadly defined by gender, race, ethnicity, age, and skills, tend to be supported in Australia, Brazil, Canada, Singapore, South Africa, Sweden, Switzerland, the UK, and the U.S.

Other countries have made less progress, although there are signs this is changing. At Japanese listed companies, women hold only 3% of directorships overall, but among outside directors, they account for 22%. As independent directors gain more seats on boards, then, women may acquire a larger presence as well.

EXHIBIT 14 GLOBAL NORMS IN BOARD GOVERNANCE



[1] Unless relevant, then appointment subject to separate resolution
[2] Consecutive
[3] Consecutive
[4] More than 9 years, not qualified as independent
[5] No more than one-third of directors may be over 70, unless specific provision is made in bylaws
[6] Unless special resolution is passed
[7] Mandatory re-appointment
[8] At least 1 woman on board
[9] If more than 9 members

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

Global Board Governance norms and best practices

A number of board governance practices are common across most countries, including implementing a committee structure within the board, holding director elections, and requiring a certain proportion of independent directors. Even in areas of common practice, however, definitions vary by country.

Director Age Limits: Most countries in our study do not have a mandatory retirement age for directors; instead, companies determine whether to impose age limits, although some general guidelines exist, e.g., age 75 in the U.S., France has no maximum age limit, but no more than one-third of directors may be over 70, unless specified in the bylaws.

Director Attendance: Most countries we studied require directors to attend a minimum percentage of board meetings per year. The most common guideline is attendance at 75% of meetings. France has no requirement, but the attendance rate is increasing at most listed companies, as is the number of meetings.

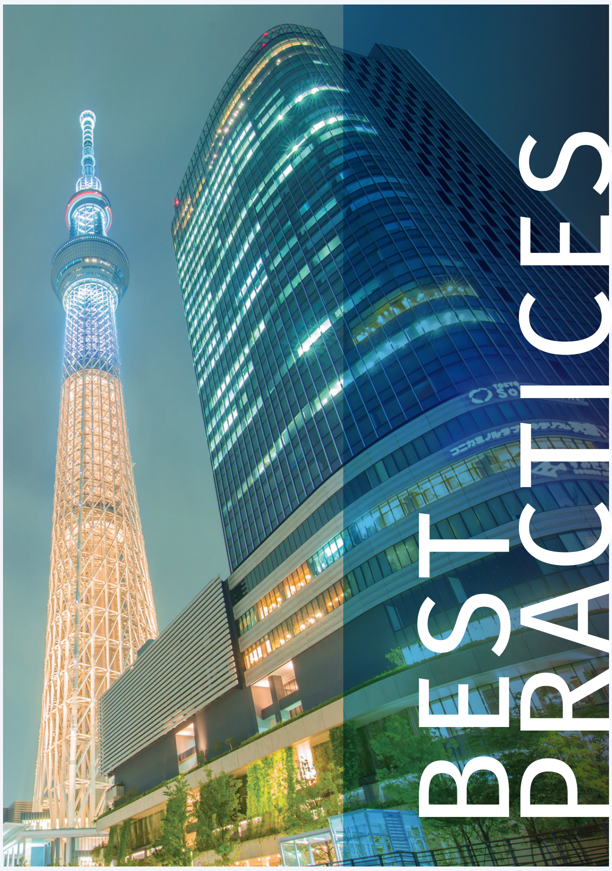
Director Diversity: Shareholders in many countries are pushing for diverse boards and have published guiding principles. Statutory requirements for gender diversity apply in Belgium (33% women), France (40%), Germany, India (at least one female director), and Norway (40% women) and, in Germany, for ballot participation in director elections (30% by both sexes). Most other countries have best-practice norms for diversity.

Director Elections: Annual elections are best practice in India, Norway, Switzerland, and the U.S., while the highest standard is every two to three years in Belgium.

Director Tenure: This issue is linked to board independence, with directors serving more than 10 years generally viewed as no longer independent. However, most countries are turning to more robust director evaluations and nomination processes rather than mandatory tenure limits to refresh the board.

Director Term Limits: In most countries, the company determines whether to impose term limits; the most common limit is one year. In five of the countries we studied, however, mandatory term limits are statutorily imposed: Belgium, Canada, France (3–4 years), Hong Kong, and India.

Committee Structure: It is common practice for committee chairs to be independent directors. For example, French companies are required to have an audit committee and the largest companies generally have a remuneration committee as well. In Japan, when the company has a one-tier board structure with audit, nominating, and compensation committees, by statute each of these must consist of three or more directors, a majority of whom should be outside directors. In Australia, it is not a statutory requirement for companies to have an audit committee, but if not, ASX Listing Rules require the company to explain why not.



IV. Governance Trends in Shareholder Rights

In the context of this study, “shareholder rights” means governance structures other than those already discussed that entitle shareholders to take certain actions that they perceive to be in their best interests. Our study is intended to be indicative of the most important trends in shareholder rights, rather than to be exhaustive on all rights issues.

In the U.S., there has been a general move over the last 15 years to expand shareholder rights, including through company bylaws. Shareholders can put certain matters up for a vote as long as certain requirements are met.

Companies in other venues appear to be converging on U.S. practices. 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 holding 5% of the common stock can place an item on the AGM ballot. Shareholders in French companies, if they hold at least 5% of share capital, can request to add resolutions to the agenda. In Australia, shareholders holding at least 5% of share capital can call a general meeting.

French law, since 2000, has moved in the direction of increasing the rights of shareholders with respect to governance, and France now has one of the most active shareholder rights movements in Europe. Between 2010 and October 2016, some 30 shareholder campaigns were waged in France, although institutional investors (and proxy advisors) have had little success persuading companies to separate the chair and CEO roles.

While significant differences remain between U.S. and other countries’ practices, the trend is clear: except in countries where concentrated ownership is still prevalent, proxy access for shareholders, declassified boards, abolition of poison pills, single-class shares, and majority voting standards are becoming the norm, either by statute or through corporate bylaws.

Proxy Access: Proxy access, a mechanism that allows qualified shareholders to nominate director candidates, was almost non-existent five years ago; according to CamberView Partners, as of September 2017, 60% of Standard & Poor’s 500 companies have it in place. The ownership threshold for proxy access is typically to hold 3% of the shares outstanding for three years. Outside the U.S., proxy access is not as prevalent, although in Switzerland, shareholders may be asked to authorize a proxy to vote on any new proposals not included in the shareholder meeting agenda (“ad hoc proposals”).

Declassified Boards: Best practice suggests that boards be declassified, with annual elections for all directors. Proxy advisors support declassified boards, because staggered (i.e., classified) boards are considered to be shareholder unfriendly. In the U.S., approximately 90% of S&P 500 companies have declassified boards. Many other countries still allow staggered boards, however. Japan requires companies with a two-tier board structure to `restrict directors' terms to no more than two years, while companies with a one-tier board and three-committee structure must restrict directors' terms to one year. When the company has a one-tier board with one committee, a director serving as an audit committee member has a term limit of two years while a director who does not serve as an audit committee member is limited to one year.

No Poison Pill: Less than 10% of S&P 500 companies now have a poison pill; the practice continues to decrease around the world as well, as investors increasingly disapprove of takeover defenses. Poison pills are allowed under French law, but are usually rejected by shareholders in non-controlled companies.

In Japan, poison pills only became widespread in 2004; today, while many companies continue to renew their takeover defense plans, more companies are now abolishing them than adopting them. One reason is that by law, companies targeted for a takeover bid have the right to demand information from the bidder on any matter they deem relevant, and the bidder must send replies to the target company and the Financial Services Agency. Greater disclosure eliminates some of the necessity for takeover defenses.

Single-Class Shares: The majority of U.S. listed companies are single-class. However, certain family-owned or controlled companies and start-ups are structured with dual- or multi-class shares. Outside the U.S., many jurisdictions with concentrated ownership, such as Brazil and Mexico, have a high prevalence of dual-class shares, although in Brazil, their use is restricted in proportion to total capital. Prevailing best practice globally, however, 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, meaning that directors must 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 other jurisdictions to adopt a majority-vote standard as well.

Conclusion: Implications and Action Steps for Corporations

While some countries have moved faster than others, there is an unmistakable trend toward improved governance, either by statute or practice, in the areas of Executive Compensation, Board Structure and Composition, and Shareholder Rights. As capital continues to become more fungible across borders, as companies compete to attract more capital, and as countries seek to make their markets a safe place in which to do business, governance will continue to advance globally. However, certain variations, driven by cultural differences, will persist.

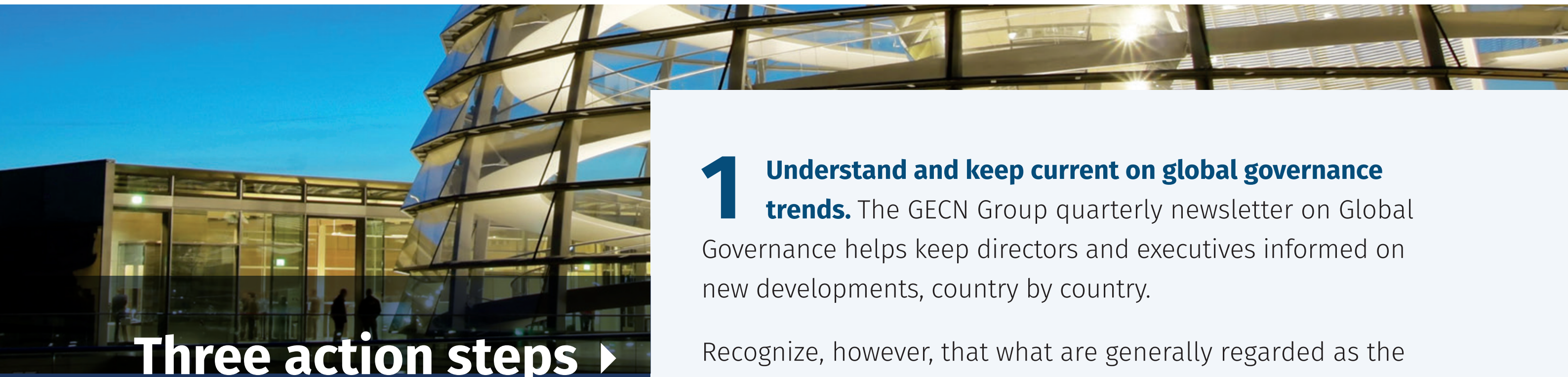
Our major findings from this study include:

Corporate governance now garners greater attention than ever before from governments, investors, board directors, and often, the public. This is because good governance is a prerequisite for robust capital markets and indicative of the quality of corporate management and board effectiveness.

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

Capital is fungible, so governance trends are migrating. It is unlikely that the broad range of governance regulations, codes, and standards will coalesce into a single framework, given the persistence of local cultural norms and uneven stages of market development. Yet an unmistakable and growing convergence is asserting itself in key governance practices around the world.

Companies want to attract capital. As a result, boards themselves are helping to create stronger, more shareholder-friendly governance mechanisms. The recent trend in some developed economies, notably the U.S., to scale back regulation is unlikely to halt this long-term trend toward better governance. Being aware of what these mechanisms are and how they are likely to develop and converge is now part of the job for progressive board members.



Three action steps

While countries want to appear friendly to foreign capital, roadblocks persist in some, particularly those countries where companies have highly concentrated ownership structures and where lawmakers and regulators are concerned about tightening the rules so much that companies might be encouraged to move to less stringent jurisdictions. It will be the responsibility of the directors to move companies in the direction of crafting reasonable executive pay arrangements, making the board structure more independent and responsive, and according greater rights to shareholders.

Companies are developing their corporate governance processes amidst a rapidly changing environment molded by competition for global capital and increasing shareholder demands for a voice in governance. Our study identified three action steps that company boards should take to position themselves in this changing climate.

1 **Understand and keep current on global governance trends.** The GECN Group quarterly newsletter on Global Governance helps keep directors and executives informed on new developments, country by country.

Recognize, however, that what are generally regarded as the "highest standards" may or may not be in the best interests of your company's shareholders. While the highest standard is to separate the board chair and CEO roles, for example, this may not be the case at your company. If your company combines these roles and is performing well, if it balances power with a strong lead independent director and independent control functions, and if it has a policy to consider roles case by case, then continuing to combine the chair and CEO roles may be a valid approach.

2 **Determine whether your company adheres to commonly accepted/ best practices, not just locally, but more broadly as well.** 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 decide 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:

- Continue current age and/or term limits for board turnover
- Establish age and/or term limits to facilitate board refreshment
- Ask certain members to consider going off the board
- Increase the number of board members to achieve the desired balance

Any of these and, potentially, other pathways are legitimate, but the board needs to determine how best to reach its desired endpoint.

3 **Determine a roadmap for change.** Change in governance is generally evolutionary in nature. Changes that may not make sense now, may make sense later. Boards should determine an evolutionary roadmap, including triggers for change.

Proactively engage shareholders in this discussion. This will not only help inform the board's decision-making, but also demonstrate how the board thinks about and is sensitive to issues that shareholders raise.

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:

Australia

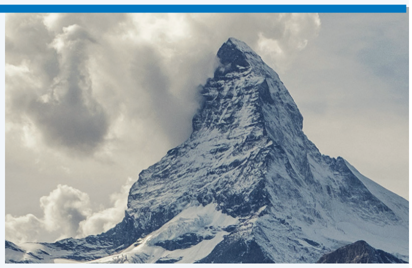
Guerdon Associates
Michael Robinson (michael.robinson@guerdonassociates.com)

China and Singapore

Carrots Consulting
Johan Grundlingh (johan@carrotsconsulting.com)

Switzerland

HCM International
Stephan Hostettler (stephan.hostettler@hcm.com)
Gabe Shawn Varges (gabe.shawn.varges@hcm.com)



United Kingdom

MM&K Limited
Paul Norris (paul.norris@mm-k.com)
Damien Knight (damien.knight@mm-k.com)

United States

Farient Advisors LLC
Robin A. Ferracone (robin.ferracone@farient.com)
John V. Trentacoste (john.trentacoste@farient.com)

NOTES

FARIENT ADVISORS

GECN GROUP
GLOBAL GOVERNANCE AND EXECUTIVE COMPENSATION GROUP

New York • Los Angeles • London • Zurich • Geneva • Kiev
Beijing • Shanghai • Singapore • Melbourne • Sydney