

Corporate governance and proxy voting  
guidelines for Asia ex Japan securities

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# Corporate governance and proxy voting guidelines for Asia ex Japan

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# Corporate governance and proxy voting guidelines for Asia ex Japan

These guidelines should be read in conjunction with BlackRock's Global Corporate Governance and Engagement Principles – 2011<sup>1</sup>.

## Executive summary

BlackRock has developed guidelines for the key markets in which it invests. The regional guidelines incorporate the legal framework of each region as well as the specific regional market practices. There may be slight inconsistencies due to differing market practices across regions.

Our policies for Asia ex Japan<sup>2</sup> are based on the relevant laws, regulation, market specific guidelines and market practice for each market. These all have in common the principles of accountability, transparency, fairness and responsibility.

Our approach to voting and corporate engagement is also informed by guidance on exercising ownership responsibilities issued by organizations such as the United Nations (the Principles of Responsible Investment) and the International Corporate Governance Network.

We are active members of each of these organizations and thus believe our principles are consistent with their guidance.

## “Comply or explain” approach

In certain Asian markets, local corporate governance guidelines are underpinned by an approach that allows companies not to adopt recommended practices as long as a cogent explanation has been provided for the non-compliance with the particular practice. BlackRock expects companies that do not follow recommended practices in these markets to provide explicit justification of any deviation from market based practice, explaining how these serve the interests of the company's owners.

## Engagement

BlackRock takes an integrated approach to corporate governance and engagement, to the extent possible, as we believe this approach results in both better informed decisions and a more consistent dialogue with companies. Activities are coordinated by the Asia ex Japan Investment Stewardship team.

We have meetings and discussions with board directors to discuss aspects of corporate governance such as management of succession planning of the board, executive remuneration, board structure and performance, related party transactions, quality of company disclosure and any environmental and social issues which we believe have the potential to unnecessarily increase the risk profile of the company. We will also participate in joint intervention with other shareholders where concerns have been identified by a number of investors. Alternatively, we may consider reducing our holding in, or publicly opposing management of, a company which is unresponsive to shareholder concerns.

## Proxy Voting Approach

BlackRock is one of the world's largest institutional investors, with extensive experience globally. The universe we cover in Asia ex Japan includes but is not limited to Bangladesh, China, India, Indonesia, Kazakhstan, Malaysia, Pakistan, Papua New Guinea, Philippines, Singapore, South Korea, Sri Lanka, Taiwan, Thailand & Vietnam. BlackRock aims to vote at 100% of the annual and extraordinary shareholder meetings where we have the voting authority to do so.

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<sup>1</sup> [Global corporate governance and engagement principles](#)

<sup>2</sup> This guideline does not cover [Hong Kong proxy voting guidelines](#), which has a stand-alone policy document.

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These guidelines will be used to assist BlackRock in assessing proposals presented at shareholder meetings. When assessing any proposal put to shareholders BlackRock takes into account the unique circumstances of the relevant company and our assessment of the impact of such a proposal on the sustainable growth of the company. We aim to engage with management or members of the board, as appropriate, on contentious and high profile issues before determining how to vote. At a minimum BlackRock expects companies to meet the regulatory requirements of company law, listing rules of local exchanges and any regional corporate governance codes.

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## Corporate governance and proxy voting guidelines

These guidelines are divided into seven key themes as follows:

- ▶ Board and directors;
- ▶ Accounts, auditors and audit-related issues;
- ▶ Risk management;
- ▶ Capital Structure, mergers, asset sales and other special transactions;
- ▶ Remuneration and benefits;
- ▶ Social, ethical and environmental issues;
- ▶ General corporate governance matters

## Boards and directors

### Composition of the board of directors

The board of a company should comprise competent, experienced and independent directors who can discharge their duties to shareholders. Independence allows directors to provide objective oversight in the decision-making process of the board without any conflicts of interest or undue influence from connected parties.

### Disclosure of director information

BlackRock expects the following information to be disclosed in the annual report and company website:

- ▶ Directors full name and age
- ▶ Date appointed to the board
- ▶ Brief biography detailing the directors past roles and experience
- ▶ Details of any current dealings with the company
- ▶ The company's assessment of the director's independence

Particularly when a director is seeking election/re-election it is imperative the above information is provided to allow us to determine whether or not to support a re-election. Where this information is not forthcoming in the situation where a director is seeking election/re-election BlackRock may consider voting against the re-election of that director.

### Independence – definition

An independent director is a director who is not a member of management (a non-executive director) and who:

- ▶ is not a holder of more than 1% of issued capital of the company or an officer or otherwise associated directly or indirectly with a holder of more than 1% of issued capital of the company;
- ▶ has not within the last three years been employed in an executive capacity by the company or another group member or been a director after ceasing to hold any such employment;

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- ▶ has not within the last three years been a principal or employee of a material professional adviser or a material consultant to the company or another group member;
- ▶ is not a material supplier or customer of the company or another group member or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- ▶ has no material contractual relationship with the company or another group member other than as a director of the company;
- ▶ is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company

### Length of service

BlackRock believes that shareholders are best served when there is orderly renewal of the board as this should result in directors with accumulated experience while at the same time introduce fresh minds and experience to the board. An effective renewal process will ensure non-executive directors do not serve for such lengths of time that their independence may be impaired.

BlackRock will consider voting against the re-election of directors who have been on the board for a significant period of time and there is no evidence of board renewal.

### Meetings

Directors should ensure they attend all board and relevant committee meetings. BlackRock will consider voting against a director who fails to attend fewer than 75% of board and relevant committee meetings for two consecutive years, unless compelling reasons for the absenteeism have been disclosed. However, BlackRock will disregard attendance in the first year following appointment as the director may have had commitments made prior to joining the board.

### Conflicts of interest

BlackRock believes that all non-executive directors should be free from material conflicts of interest. Non-executive directors, their immediate family or related professional company, which has provided material professional services to a company at any time during the last three years, may be placed in a position where they may have to make decisions that may place their interests against those of the shareholders they represent. BlackRock may vote against the re-election of a director where an identified conflict of interest may pose a significant and unnecessary risk to shareholders. All potential conflicts of interest should be declared prior to appointment and at each board meeting in relation to a specific agenda item.

### Committees

Appropriately structured board committees provide an efficient mechanism which allows the board to focus on key issues such as audit, board renewal, remuneration, risk and any other issues deemed important. Board committees can also provide an important role dealing with conflicts of interests.

BlackRock expects all companies to establish an audit committee, comprising a majority of independent members, an independent chair and with at least one member having appropriate accounting or related financial background.

Where the audit committee does not comprise a majority of independent directors and the chair is not independent, BlackRock will consider voting against the re-election of non-independent members of the audit

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committee. Further, where BlackRock has evidenced a failure of the audit committee relating to the preparation of financial statements, fraud and general accountability to shareholders, we will consider voting against the re-election of members of the audit committee.

All committees should have written terms of reference which should, inter alia, clearly set out the committee's roles and responsibilities, composition, structure, membership requirements and the procedures for inviting non-committee members to attend meetings. All committee terms of reference should be available to investors on the company's website. All committees should be given the power and resources to meet their obligations under the terms of reference. This will include the right of access to management and the ability to select service providers and advisors at a reasonable cost to the company.

The chairman of a committee should be independent and have a majority of independent directors. It is preferable for the chairman of the board not to chair board committees as this may lead to a concentration of power in a single director.

### **Separation of chairman and CEO position**

We believe that independent leadership is important in the board room. In the US there are two commonly accepted structures for independent board leadership: 1) an independent chairman; or 2) a lead independent director. We generally consider the designation of a lead independent director as an acceptable alternative to an independent chair if the lead independent director has a term of at least one year and has powers to: 1) set board meeting agendas; 2) call meetings of the independent directors; and 3) preside at meetings of independent directors. Where a company does not have a lead independent director that meets these criteria, we generally support the separation of chairman and CEO.

### **Accounts, statutory reports, auditors and audit-related issues**

BlackRock recognizes the critical importance of financial statements that provide a complete and accurate portrayal of a company's financial condition. Consistent with our approach to voting on boards of directors, we seek to hold the audit committee of the board responsible for overseeing the management of the audit function at a company, and may consider voting against the re-election of members of the audit committee where the board has failed to facilitate quality, independent auditing. We take particular note of cases involving significant financial restatements or material weakness disclosures.

BlackRock expects these key documents to be disclosed in a timely and effective fashion (as determined by the relevant set of listing rules) in order for shareholders to make an informed voting decision. Where key documents which are subject to vote by shareholders are not made available to shareholders in a timely manner, BlackRock will consider voting against the adoption of such documents.

### **Risk management**

BlackRock believes that the board is responsible for assessing a company's risk profile relative to its business. Companies should implement controls and processes to oversee, manage and control the risks relevant to their business. BlackRock expects companies to disclose how these risks are being managed in their annual report.

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

Due to the evolution of the various regional economies and role of the state, many Asian companies conduct transactions with connected/related parties. These can be categorized as non-recurring transactions and recurring/continuing services agreements. Where shareholders are required to vote on such transactions BlackRock expects companies to follow the associated listing rules and principles of disclosure outlined in the relevant corporate governance code. BlackRock also believes that the independent directors should ratify substantial transactions and related parties should abstain from voting. Where the above information is not disclosed and action not taken to protect the rights of independent shareholders, BlackRock will consider voting against such proposals.

### Compensation and benefits

The key purpose of compensation is to reward, attract and retain competent directors, executives and other staff who are fundamental to the long term sustainable growth of shareholder value, with reward for executives contingent on controllable outcomes that add value. Each company faces different issues at different times, has different value drivers and accordingly, BlackRock believes that each company should structure their compensation policies and practices in a manner that suits the needs of that particular company.

Whilst the level of fixed compensation is not considered to be particularly controversial in the majority of Asian companies, administration and disclosure of the structure of equity based incentive schemes can be an issue. BlackRock believes that the executives should not sit on the compensation committee. The compensation committee is responsible for ensuring the transparency of compensation structures; in particular, disclosure and structure of performance based pay.

Where BlackRock believes the compensation committee has failed in its role, we will consider voting against the re-election of members of the committee.

### Social, ethical and environmental issues

BlackRock expects listed companies to disclose all material risks and opportunities relating to SEE issues and how they are managed. The framework for disclosure should include but not be limited to:

- ▶ Identification of SEE risks specific to company
- ▶ Clear outline of board and management responsibilities on SEE issues
- ▶ Policies and processes to manage SEE risks as well as an explanation of how they are implemented and monitored
- ▶ Disclosure of key targets and indicators across the whole company
- ▶ Regular reporting on performance against policies and targets

Where BlackRock has concerns regarding the disclosure and management of SEE issues, we may consider voting against the election/re-election of directors, who are ultimately responsible for such issues.



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## General corporate governance matters

### Amendments to articles of association

These proposals vary from routine changes to reflect regulatory change to significant changes that substantially alter the governance of the company. We will review these proposals on a case by case basis and support those proposals that we believe are in the best interests of shareholders

### Anti-takeover devices

BlackRock believes that transactions or practices that are intended to impede a potential takeover can be limiting to shareholders. BlackRock will generally not support proposals that introduce or renew anti-takeover devices.

### Bundled proposals

We believe that shareholders should have the opportunity to review substantial issues individually without having to accept bundled proposals. Where several measures are grouped together, BlackRock may reject the overall proposal if it includes those that contradict or impede the rights and economic interests of shareholders.

### Shareholder proposals

Whilst we recognize the importance of the right of shareholders to submit proposals to general meetings in jurisdictions where this is permitted, we will not support those that are frivolous or that cover any issues that we believe the board or management is or has addressed adequately. We will support shareholder proposals that we believe enhance shareholders' rights or are in the best economic interests of shareholders.

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## China

### Regulatory environment

Corporate governance of Chinese companies is primarily regulated by:

- ▶ Company Law of 1993 (as amended) (Company Law);
- ▶ Securities Law of 1998 (as amended);
- ▶ Code of Corporate Governance for Listed Companies in China (Code);
- ▶ Guidelines for introducing Independent Directors to the Board of Directors of Listed Companies (the Guidelines);
- ▶ China Securities Regulatory Commission (CRSC) and the State Economic and Trade Commission (SETC). This is based on a comply-or explain approach;
- ▶ Guidelines on Articles of Association of Listed Companies; Several Opinions Concerning Further Improvement of Information Disclosure by Offshore Listed Companies

### Boards and Directors

China has adopted a two-tier structure of board governance, consisting of both a management board (board of directors) and a supervisory board. The CRSC stipulates the board of directors of a listed company comprise a minimum of five directors and a maximum of nineteen, with one third being independent. The board of directors is the main decision making authority, while the supervisory board provides oversight of the management board and approves major business decisions.

BlackRock will consider voting against the election/re-election of members of the board of directors in the following circumstances:

- ▶ Where BlackRock assesses a board of directors to comprise less than one third independent directors, BlackRock may consider voting against the re-election of all or some of the non-independent supervisory board directors
- ▶ Where a director has certified accounts of another company where a serious and material re-statement of accounts has occurred
- ▶ Where the performance of the company has been poor over a period of three years or more and there have been no apparent measures to address performance related issues

The supervisory board must have a minimum of three members, comprising shareholder and employee representatives. No less than one third of members are required to be employee representatives. The supervisory board should be independent of the board of directors, and thus, directors, managers, and financial officers should not be supervisors.

BlackRock will generally support the re-election of members of supervisory boards where the structure of the supervisory board meets the requirements of Chinese Company Law. However, BlackRock will consider voting against the re-election of a supervisory board member where we have concerns regarding the performance of the candidate, the candidate has a relationship with the external audit firm or the candidate is a former executive.

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## Related party transactions

Related party transactions are common in Chinese listed companies. Shareholder approval is required when transactions involve the company and its directors or a shareholder controlling more than 10% of voting rights. All transactions must be authorized by the board of directors.

All material related party transactions<sup>3</sup> should be subject to ratification by shareholders. Meeting materials should include an audit report issued by a CPA firm on the subject matter of the transaction.

BlackRock assesses related party transactions on a case by case basis. Where a company fails to provide an audit report on the subject matter of the transaction and/or the explanatory notes fail to provide a cogent explanation for the transaction, BlackRock will consider voting against the transaction.

It is also common practice for Chinese companies to establish group finance companies (GFCs) to provide a range of financial services (mainly deposit, loan and settlement related) to group members, subsidiaries and affiliates. Shareholder approval is required when a company makes deposits to, obtains loans from and/or receives other forms of services from a GFC.

With the exception of approving unsecured deposits, BlackRock will generally support loan guarantees. In cases where the total amount of guarantees is extremely high compared with the overall value of net assets and the company has not provided a clear rationale in the explanatory notes, BlackRock will consider voting against the transaction.

Where the transaction involves the deposit of unsecured funds with a GFC and such funds may be lent within the group without shareholder approval, BlackRock will consider voting against such transactions unless a cogent explanation is provided in the explanatory notes which justify the transaction.

## Allocation of profits/dividends

In China, companies are required to submit to shareholders for approval the allocation of income. These proposals are generally not contentious and supportable. However, where dividend payout ratios appear, without explanation, to be too high or too low BlackRock will consider voting against such proposals.

## Capital management

### Issuance of shares

The CSRC restricts listed companies from issuing shares under a private placement to not more than 10 specific parties. Further, the issue prices will not be less than 90% of the company's A shares, 20 trading days from the announcement date and there is a trading lock of 12 months as of the end of the offering for minority shareholders and 36 months controlling shareholders.

Unlike other Asian jurisdictions, such as Singapore, Chinese companies do not as a general rule ask for general mandates in order to issue shares without pre-emptive rights.

Where a company puts a specific mandate to shareholders for the issue of shares without pre-emptive rights BlackRock expects to see as a minimum disclosure of the following information:

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<sup>3</sup> As defined by the Listing of Stock on the Shanghai Stock Exchange a material related party transaction is more than RMB 30 million and accounts for more than 5% of the absolute value of the listed company's latest audited net assets.

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- ▶ Type and amount of securities;
- ▶ Pricing method or price range;
- ▶ Purpose of the use of the funds to be raised;
- ▶ Validation period of the proposal

### Issuance of debt instruments

Chinese regulation requires shareholders to grant the board of directors authority to issue and/to trade in non-convertible and convertible debt instruments.

BlackRock will assess such proposals on a case by case situation and take into account current debt ratios and possible increased risk to shareholders.

### Authority to trade in company stock

Another routine proposal seen in Chinese companies is a request for shareholders to authorize the board to repurchase or trade in its own shares. Chinese Company Law provides certain restrictions around repurchasing and trading in a company's own shares. When assessing such proposals, BlackRock expects to see as a minimum disclosure of the following:

- ▶ The maximum number of shares that can be repurchased;
- ▶ How the pricing method or price range is determined;
- ▶ The expiration period for the authority

Where a company fails to disclose the above information or BlackRock believes the authority is not in the best interests of shareholders, we will consider voting against such proposals.

## India

### Regulatory environment

The framework for India's corporate governance practices is contained in The Companies Act, 1956 (Companies Act) and Clause 49 of the listing requirements of the Securities and Exchange Board of India (SEBI).

### Boards and directors

Listed Indian companies have a one tiered board structure. Clause 49 requires a board to comprise not less than 50% non-executive directors. Where the chairman of the board is a non-executive director, at least one third of the board should comprise independent<sup>4</sup> directors and where the chairman is an executive; at least 50% of the board should comprise independent directors.

BlackRock expects proxy statements to make clear disclosure regarding the independence of directors.

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<sup>4</sup> Independence is defined under the Securities and Exchange Board of India Listing Clause 49 (A) (iii). This definition is consistent with the definition used by BlackRock on page 3.

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Where the structure of the board, without explanation, does not comply with Clause 49, BlackRock will consider voting against the election of all non-independent non-executive directors.

### Remuneration and benefits

#### Non-executive directors

Under the Companies Act non-executive directors can be paid attendance fees and commission, where the maximum payable is expressed as a percentage of net profits. When a company does not make a profit shareholder approval must be obtained to pay non-executives any commission.

Indian companies often seek shareholder approval to pay commission, expressed as an amount not exceeding a percentage of the company's net profit, to non-executive directors. Such authority is valid for a period of five years. BlackRock will normally support such proposals unless compensation issues have arisen in the past.

#### Executive directors

The Companies Act provides limits on the amount of remuneration paid to CEO's and executive directors. Further the Companies Act does not permit companies to pay executive directors when a company has no profits or the profits are inadequate unless consent from shareholders is received. Consent is also required if the amount paid to executives exceeds the limit set by the Companies Act.

When assessing proposals that require shareholder consent to pay executive directors above the Companies Act limit or when a company has reported a loss, BlackRock will take into account the factors that have contributed to the performance of the company and the quantum of remuneration.

#### Appointment of CEO and approval of remuneration package

A routine proposal for Indian annual general meetings is the appointment of executive directors for a period of up to five years and approval of their remuneration packages. Unless BlackRock has concerns regarding the past performance of the executive directors and / or the remuneration packages appear, without explanation, to be excessive such proposals are generally supported. However, BlackRock does expect to see as minimum disclosure of the following:

- ▶ All elements of the remuneration package of individual directors such as salary, bonuses, stock options and pensions;
- ▶ Details of fixed component and performance linked incentives along with performance criteria;
- ▶ Details of service contracts, notice period and any severance fees; and
- ▶ Stock option details including details on any discounts given and the exercise period of the options

BlackRock will however, consider voting against an executive director's remuneration package if the executive director is a member of the remuneration committee.

#### Employee stock option plans

In accordance with the requirements of the SEBI, shareholder approval is required if a company wants to issue options to employees under a stock option plan. When considering such proposals. BlackRock does expect to see as minimum disclosure of the following:

- ▶ Number of securities to be issued;

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- ▶ Recipients, including any members of the remuneration committee;
- ▶ Performance measures;
- ▶ Performance period;
- ▶ Vesting conditions

BlackRock will consider voting against the introduction or renewal of equity based incentive plans if:

- ▶ The above information has not been disclosed;
- ▶ Members of the remuneration committee are recipients of equity from the plans they administer

### Capital structure

BlackRock believes the board is in the best position to determine the appropriate approach to capital management. When requesting shareholder approval of capital management related proposals, we take into account; inter alia, the level of disclosure and the potential dilution to existing shareholders.

### Share issuances

When shareholder approval is requested for a general issuance of shares, BlackRock expects to see as a cogent explanation for the proposed issue.

### Pledging of assets for debt

When companies seek shareholder approval to increase borrowing powers and /or pledge assets for debt we expect the following information to be disclosed in the explanatory note:

- ▶ Existing debt levels;
- ▶ A clear rationale for the requested increase in debt;
- ▶ The intended use of the funds and how this aligns with strategy

Where this information has not been disclosed, BlackRock will consider voting against such proposals.

## Indonesia

### Regulatory environment

The framework for Indonesia's corporate governance is contained in the Indonesian Company Law (Company Law), Capital Markets Law, Bapepam Rule Book issued by the Capital Market Supervisory Agency (Bapepam), the Listing Rules of the Indonesian Stock Exchange (Listing Rules) and the Indonesian Code for Good Corporate Governance (Code). Whilst the ISX Listing Rules related to corporate governance are mandatory, the code follows a comply-or-explain disclosure regime. BlackRock expects Indonesian companies to comply with the Code, or alternatively provide a cogent explanation for non-compliance.

### Boards and directors

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## Boards and directors

Indonesian companies generally have a two tiered board system comprising a board of directors and a board of commissioners. A commissioner cannot serve concurrently as a director, manager or employee of the company.

The role of the board of commissioners is to supervise the board of directors, ensure the company fulfills all its legal obligations and protects the interests of shareholders. The ISX Listing Rules requires 30% the board of commissioners to be independent. They also require at least one unaffiliated director on the board of directors.

Where the structure of the company's board of directors and/or board of commissioners does not meet the requirements of the Listing Rules, BlackRock will consider voting against the re-election of non-independent directors and/or commissioners.

Disclosure remains a concern in Indonesia with names and biographies of director nominees often not disclosed in advance of the meeting. BlackRock expects companies to disclose full details of directors and commissioners and identify directors and commissioners who are independent. Where companies have not disclosed information on directors and commissioners BlackRock will consider voting against their re-election.

It is also common for director elections to be voted on as a bundled proposal. Where the directors and commissioners are elected by slate, BlackRock will consider voting against the entire slate if less than 30% of commissioners are not independent.

## Director remuneration

Indonesian companies routinely seek shareholder approval to fix the fees of directors and commissioners. When assessing such proposals, BlackRock expects full disclosure of salaries and any limit which may apply. Where this information has not been provided, BlackRock will consider voting against such proposals.

## Malaysia

### Regulatory environment

The framework for Malaysia's corporate governance is contained in the Companies Act, the Securities Industry Act, the Listing Rules of the Malaysia Securities Berhad (Listing Rules) and the Malaysian Code on Corporate Governance (Code). The Code follows a comply-or-explain approach.

### Boards and directors

Listed Malaysian companies have a one tiered board structure. The Listing Rules require that at least two directors or one-third of the board of directors are independent.

Where the structure of the board does not meet the Listing Rules and a cogent explanation has not been provided, BlackRock will consider voting against the re-election of non-independent directors.

## Philippines

### Regulatory environment

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The framework for Philippine's corporate governance is contained in the Corporation Code of the Philippines, the Securities Regulation Code, The Philippines Stock Exchange Listing Rules and the Philippine Code of Corporate Governance (Code), a mandatory code issued by the Securities and Exchange Commission (SEC) and the Philippines Guidelines on Nomination and Election of Independent Directors (Guidelines). The rules of the Code are required to be embodied in a manual that can be used as a reference by members of the board and management. Companies are required to submit their manual to the SEC and further the manual shall be made available for inspection by any shareholders.

### Boards and directors

Listed Philippine companies have a one-tiered board structure. The Code on Corporate Governance requires public company boards to comprise a minimum of five directors and in addition to this boards must have a minimum of the greater of two directors or 20% of the board being independent<sup>5</sup>. The Code also states that "The roles of Chair and CEO should, as much as practicable, be separate".

Where the structure of a board, without explanation, does not meet the requirements of the code, BlackRock will consider voting against the re-election of non-independent directors.

### Ratification of previous corporate acts

This is a routine request for Philippine companies. Shareholders are asked to ratify the acts and resolutions referred to in the proposal that have been done in the ordinary course of the business of the company. In general, BlackRock is supportive of such proposals, unless a shareholder states a specific reason to vote against the proposal.

## Singapore

### Regulatory environment

The framework for Singapore's corporate governance is contained in the Code of Corporate Governance (Code), the Companies Act (Act), the Listing Manual of the Singapore Stock Exchange (SGX) and the Code on Takeovers and Mergers. The MAS and the SGX jointly oversee the Code of Corporate Governance, which follows a comply-or-explain approach.

In Singapore, disclosure of relevant information in this market is robust relative to other markets in the region and there are few impediments to proxy voting.

### Boards and directors

Listed Singaporean companies have a one tiered board structure. Under the Code at least one-third of directors should be independent<sup>6</sup>. Where the chairman is not independent the Code requires independent directors to make up at least half of the board. Where the structure of the board does not meet the requirements of the Code and a cogent explanation has not been provided, BlackRock will consider voting against the re-election of all non-independent non-executive directors up for re-election.

<sup>5</sup> Independence is defined under the Philippine Code of Corporate Governance, Article 1 (e). This definition is consistent with the definition used by BlackRock on page 3.

<sup>6</sup> Independence is defined under the Singapore Code of Corporate Governance, Principle 2.3. This definition is consistent with the definition used by BlackRock on page 3.



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## Capital structure

BlackRock believes the board is in the best position to determine the appropriate approach to capital management. When requesting shareholder approval of capital management related proposals, we take into account; inter alia, the level of disclosure and the potential dilution to existing shareholders.

## Share issuances

Under the SGX Listing Manual shareholder approval is required for the board to issue shares and convertible securities. The SGX Listing Manual provides limits with respect to issuances as follows:

- ▶ The aggregate number of shares issued by way of a renounceable rights issue on a pro rata basis to shareholders does not exceed 100% of the issued shares in the capital of the company;
- ▶ The aggregate number of shares to be issued other than by way of renounceable rights issues does not exceed 50% of the issued shares in the capital of the company;
- ▶ Of the 50% limit, the number of shares to be issued other than on a pro rata basis to shareholders does not exceed 20% of the issued shares in the capital of the company;
- ▶ The number of shares to be issued by way of renounceable rights issues and other issuances does not; in aggregate exceed 100% of the issued shares in the capital of the company

For proposals relating to issuances without pre-emptive right, BlackRock expects to see as a minimum disclosure of the following:

- ▶ Recipients of the proposed equity issue;
- ▶ Details of any discounts to be offered and the rationale behind any proposed discount;
- ▶ The basis of determining the issue price;
- ▶ How the funds raised will be used;
- ▶ Alternatives considered by the company;
- ▶ Impact, if any on change of control;
- ▶ Conversion rates on equity (if applicable)

Unless a cogent explanation is provided, BlackRock will consider voting against proposals where the aggregate number of shares and/or convertible securities issued by way of a renounceable rights issue on a pro rata basis to shareholders exceeds 50% of the company's outstanding shares.

BlackRock will also consider voting against proposals relating to issuances involving pre-emptive rights where the above disclosures have not been made and/or the aggregate number of shares and/or convertible securities issued by without pre-emptive rights should not exceed 15% of the company's outstanding shares. Further, BlackRock will consider voting against such proposals where, without explanation, the issuance is at a discount exceeding 10%.

## Remuneration and benefits

Best practice encourages companies to implement incentive schemes with robust performance criteria and vesting periods, minimal dilution and effective and independent administration.

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The Listing Manual requires shareholder approval of share option schemes and share schemes. When assessing stock option and share plans BlackRock expects to see, as a minimum, disclosure of the following:

- ▶ Proposed participants in the scheme;
- ▶ The maximum number of shares or options that can be issued under the scheme. A cogent explanation where the maximum number of shares or options exceeds 5% of issued capital for a mature company and 10% for an early phase/development company;
- ▶ Any material conditions relating to the vesting of the options or shares;
- ▶ Any discounts to the issue price and rationale for such discounts;
- ▶ The scheme should not allow for re-pricing of options

Where, without explanation, the above disclosures have not been made or BlackRock considers other features of the scheme are not in the best interests of shareholders, we will consider voting against such schemes.

Where a company has an option or share scheme, shareholder approval is required for participation of controlling shareholders and their associates. Further, any grant of options to a director or employee of the issuer's parent company and its subsidiaries that, together with options already granted to the person under the scheme, represents 5% or more of the total number of options available to such directors and employees, must be approved by independent shareholders. A separate resolution must be passed for each such person and to approve the aggregate number of options to be made available for grant to all directors and employees of the parent company and its subsidiaries.

When assessing equity grants to directors or employees BlackRock expects full disclosure of the key features of the scheme under which the options or shares are to be issued. Where this information has not been disclosed, BlackRock will consider voting against such proposals.

### Related party transactions

The Listing Manual requires shareholder approval of related party<sup>7</sup> transactions. Singaporean companies can seek shareholder approval for a single related party transaction or a general mandate for recurrent transactions of a revenue or trading nature or those necessary for the company's day to day operations such as the purchase of supplies and materials, but not in respect of the purchase or sale of assets, undertakings or businesses. Where a general mandate is requested, such transactions must be carried out on normal commercial terms and conditions and be reviewed by the audit committee.

While BlackRock will assess related party transactions on a case by case basis, we do expect such transactions to be carried out on normal commercial terms and conditions. In respect of proposals relating to related party transactions we expect, as a minimum, disclosure of the following:

- ▶ Full discourse of the nature of the transaction, including details of the related parties involved;
- ▶ The pricing terms; and
- ▶ Any annual limits for an on-going mandate

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<sup>7</sup> Mainboard Rule 904 (4) defines an "interested person" as (i) a director, CEO, or controlling shareholder of the issuer (ii) an associate of any such director, chief executive or controlling shareholder.

# Corporate governance and proxy voting guidelines for Asia ex Japan

## South Korea

### Regulatory environment

The framework for South Korea's corporate governance is centered upon the Commercial Act, the Capital markets and Financial Investment Business Act, and the Stock Market Listing Regulations (Listing Regulations). The Committee on Corporate Governance has also released the Code of Best Practices for Corporate Governance (Code), which follows a comply-or-explain approach.

The Commercial Act imposes two sets of corporate governance standards on listed companies – one for those with assets larger than KRW 2 trillion (Large Companies) and those with assets between KRW 2 trillion and KRW 100 billion (Small Companies).

A feature of South Korean companies is that the majority of companies are controlled by family owned conglomerates known as "chaebol". Chaebol's often comprise several companies, across a wide range of industries, management and control (via a series of complex cross-shareholdings).

### Boards and directors

Pursuant to the Commercial Act, Large Companies are required to have a one-tiered board structure, while Small Companies can have either a one-tiered board structure or a two-tiered structure comprising a board of directors and a board of corporate auditors.<sup>8</sup>

The Code states that the number of outside directors<sup>9</sup> should be a minimum of two and in the case of Large Companies, the Code recommends that half of the directors comprise outside directors, with no less than three being outside directors. The exception to this is where a Large Company has a single controlling shareholder (i.e. more than 50% of voting power) and in such cases a majority of outside directors is not required.

The Code also recommends for Large Companies the chairman not be a representative of management. Where this recommendation has not been met the Code states that it is desirable to elect an outside director to act as a representative for the other outside directors.

Where the structure of a board does not meet the requirements of the Code and a cogent explanation has not been provided, BlackRock will consider voting against the re-election of all non-outside directors.

### Statutory auditors

The position of statutory auditor is quite specific to South Korea. Companies which have a two-tiered board structure must appoint one or more statutory auditors. The function of the statutory auditor is similar to that of the audit committee<sup>10</sup>. Key features of the role are to supervise and ensure the directors are discharging their duties as well as oversee the financial reporting of the company.

BlackRock expects statutory auditors to comprise outside directors and at least one should have an auditing background. Where this is not the case or we have concerns regarding past actions of statutory auditors, BlackRock will consider voting against their re-election.

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<sup>8</sup> The definition of Statutory Auditor as per the Amended Korean Commercial Code

<sup>9</sup> The definition of Outside Director as per the Korean Code of Best Practices for Corporate Governance, Section 4, is consistent with the definition used by BlackRock on p 3

<sup>10</sup> Section 13 of the Korean Code of Best Practice for Corporate Governance.

# Corporate governance and proxy voting guidelines for Asia ex Japan

## Remuneration

### Outside directors

Korean law requires shareholders to approve a cap on total cash fees paid to outside directors. When directors want to increase the fee cap, shareholder approval must be sought. BlackRock considers requests for an increase in the fee cap on a case by case basis. We expect the explanatory notes to the meeting to clearly explain why the increase is being sought, the proposed level of outside director fees, including additional amounts for service on committees and any proposed changes to the size of the board to be disclosed.

Outside directors should not receive performance based remuneration as to do so would more closely align their interests with those of management, whose performance and remuneration they are intended to monitor on behalf of shareholders.

Outside directors should not receive any form of service contingent retirement benefit apart from statutory superannuation remuneration. Such remuneration merely rewards a non-executive director for long service and may inhibit a non-executive director from resigning from the board if an issue of conflict or any other issue that would impair a director's independence arises. BlackRock will consider voting against proposals to grant retirement benefits to outside directors.

## Taiwan

### Regulatory environment

The framework for Taiwan's corporate governance is centered upon The Company Act (Act), the Securities and Exchange Act (SEA), The Taiwan Stock Exchange (TSE) and GreTai Securities Market (GTSM) listing rules (Listing Rules) and The Corporate Governance Best-Practice Principles for Taiwan Stock Exchange/GreTai Securities Market (TSE/GTSM) Listed Companies (Principles). The Principles provide the framework for corporate governance in this market. The Principles include the protection of shareholders' rights, the strengthening of corporate boards in their supervisory duties, the acknowledgement of stakeholders' rights, and the importance of information transparency. The Principles follow a comply-or-explain approach.

### Boards and directors

Taiwanese companies typically have a two-tiered board structure comprising a board of directors and supervisors. The role of the board of supervisors is to provide oversight of directors and management. According to the Listing Rules every board should have at least two independent<sup>11</sup> directors and one independent supervisor. Also, independent directors should make up one-fifth of all board members. In respect of the supervisory board there are currently no legal requirements or principles relating to independence. BlackRock believes that the board of supervisors should comprise a majority of independent directors and have at least one member with an accounting and /or audit background.

Where the structure of a board does not meet the above independence requirements, BlackRock will consider voting against the re-election of non-independent directors. With respect to supervisory boards, BlackRock expects such boards to comprise a majority of independent directors. Where this is not the case BlackRock will consider voting against the re-election of non-independent supervisory board members.

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<sup>11</sup> Article 9 of the Taiwan Stock Exchange listing rules

## Corporate governance and proxy voting guidelines for Asia ex Japan

### Non-compete restriction

The Act states that, "a director who does anything for himself or on behalf of another person that is within the scope of the company's business, shall explain to the meeting of shareholders the essential contents of such an act and secure its approval". This means that shareholder approval is required to release directors from this restriction. Approval of such proposals allows company directors to serve on the boards of other companies and conduct activities which may be considered to compete with the business affairs of the company.

When assessing such proposals BlackRock expects, as a minimum, disclosure of the following:

- ▶ Name of the other companies that the director intends to serve as a directors; and
- ▶ Full details of the businesses in which these other companies operate

Where we believe that there is no potential conflict of interest if the director serves on the other identified boards, BlackRock will generally support such proposals. Where, however, the above information has not been disclosed or we are concerned that there is potential conflict, BlackRock will vote against such proposals.

### General corporate governance matters

Corporate governance principles are still considered optional in this market and therefore the Taiwanese market is characterized by poor disclosure and the late release of proxy information, sometimes after voting cut-offs. BlackRock will also consider voting against proposals where there is insufficient and/or if the information has not been provided at least 10 days ahead of the meeting.

## Thailand

### Regulatory environment

The framework for Thailand's corporate governance is centered upon the Public Limited Companies Act (PLCA), the Securities and Exchange Commission (SEC), the Stock Exchange of Thailand (SET) and the SET's Code of Best Practice for Directors of Listed Companies (Code). The code takes a "comply or explain" approach with companies required to disclose the extent of their compliance with the Code on an annual basis.

### Boards and directors

Thai companies typically have a unitary board structure. The Code recommends that there be a minimum of three independent directors and at least one-third of the board of directors should be independent and the chair also be independent. It is noted that at most Thai companies the role of chairman and CEO is combined despite the recommendation of the code that the positions be separated.

Where a board does not, without explanation, meet the independence requirements of the Code, BlackRock will consider voting against the re-election of non-independent directors.

## Corporate governance and proxy voting guidelines for Asia ex Japan

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