Bangladesh, Pakistan & Sri Lanka

South Asia

GLASS LEWIS

2026 Benchmark Policy Guidelines

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About Glass Lewis

Glass Lewis is the world's choice for governance solutions. We enable institutional investors and publicly listed companies to make informed decisions based on research and data. We cover 30,000+ meetings each year, across approximately 100 global markets. Our team has been providing in-depth analysis of companies since 2003, relying solely on publicly available information to inform its policies, research, and voting recommendations.

Our customers include the majority of the world's largest pension plans, mutual funds, and asset managers, collectively managing over $40 trillion in assets. We have teams located across the United States, Europe, and Asia-Pacific giving us global reach with a local perspective on the important governance issues.

Investors around the world depend on Glass Lewis' **Viewpoint** platform to manage their proxy voting, policy implementation, recordkeeping, and reporting. Our industry leading **Proxy Paper** product provides comprehensive research and voting recommendations weeks ahead of voting deadlines. Public companies can also use our innovative **Report Feedback Statement** to deliver their opinion on our proxy research directly to the voting decision makers at every investor client in time for voting decisions to be made or changed.

The research team engages extensively with public companies, investors, regulators, and other industry stakeholders to gain relevant context into the realities surrounding companies, sectors, and the market in general. This enables us to provide the most comprehensive and pragmatic insights to our customers.

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Purpose

The purpose of the Benchmark Policy proxy research and advice is to serve as a framework that facilitates shareholder voting in favor of governance structures that will drive performance and promote and maintain long-term shareholder value.

Guidelines Introduction

Summary of Changes for 2026

Glass Lewis evaluates these guidelines on an ongoing basis and formally updates them on an annual basis.

For 2026, the language in this document has been updated to clarify that these guidelines contain the views of the Benchmark Policy. The Benchmark Policy reflects broad investor opinion and widely accepted governance principles and is intended to provide clients with nuanced analysis informed by market best practice, regulation, and prevailing investor sentiment. This change better conveys Glass Lewis' role as a service provider to a diverse, global client base with a wide spectrum of viewpoints and objectives. The Benchmark Policy represents just one of Glass Lewis' policy offerings.

There have been no other material changes made to these guidelines.

Regulatory and Corporate Governance Background

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

Local laws, regulations, listing rules, as well as best corporate governance practices are being used for developing the Benchmark Policy guidelines, while Benchmark Policy guidelines may go beyond legal minimum requirements. Specifically, Benchmark Policy guidelines may include global corporate governance best practices and are reviewed annually to ensure they remain current with market practice, regulations, governance codes, and the evolving standards of best practices for corporate governance. Accordingly, unless specifically noted otherwise, a failure to meet these guidelines should not be understood to mean that the company or individual involved has failed to meet applicable legal requirements.

Bangladesh

Corporate governance in Bangladesh is based primarily on the Companies Act (Bangladesh), 1994 ("Companies Act 1994"), which provides the legislative framework, and the Corporate Governance Guidelines issued by the

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

Pakistan

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

Sri Lanka

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

Shareholder General Meetings

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

Election of Directors

The purpose of Benchmark Policy proxy research and advice is to facilitate shareholder voting in favor of governance structures that will drive performance, create shareholder value, and maintain a proper tone at the top. Talented boards with a record of protecting shareholders and delivering value over the medium- and long-

[1] The Companies Act, 2017, replaced the Companies Ordinance, 2016, effective from May 31, 2017.
[2] The 2017 Code was subsequently updated and published in September 2019.
[3] Section 85(a), the Companies Act. EGMs may be called with a minimum of 21 days' notice.
[4] Section 131(2), the Companies Act, 2017.
[5] Section 135(1)(a), the Companies Act No. 07, 2007.

term would be preferred in accordance with prevailing market practice. Market best practice indicates a preference towards boards working to protect and enhance the best interests of shareholders who are independent, have a positive performance, and have members with breadth and depth of experience.

Election of Directors as a Slate

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

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

Additionally, in Pakistan, under the Companies Act, 2017,[8] candidates have up to fourteen days before a general meeting to submit their candidacy for election as a director, and further that issuers have up to seven days to publicly disclose the names of these candidates. However, given that the notice of meeting is required to be published up to twenty-one days before a general meeting, it may be the case that full list of potential nominees is not published in the notice of meeting, which in turn does not allow shareholders to adequately determine the appropriateness of potential directors. As such, where issuers do not publish the full list of potential candidates for election, the Benchmark Policy may recommend voting against the entire slate of directors, however for those candidates where information is available, individual voting recommendations will be provided as appropriate.

Elections Involving More Candidates Than Seats

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

Market expectations are such that at certain companies, particularly those with a dominant controlling shareholder or shareholder group, other shareholders may benefit from more verifiably “outside”

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

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

[8] Section 159(3) and 159(4), the Companies Act, 2017.

representation on the board. In such instances, the Benchmark Policy will consider recommending voting for directors who are not affiliated with the major or controlling shareholders, or nominees proposed by minority shareholders where sufficient information regarding the nominees has been disclosed, and where the nominee is appropriately qualified for the role. In cases where multiple minority representative candidates have been nominated, the Benchmark Policy will base its recommendation on the nominees' qualifications and experience, and on the company's shareholder structure.

Moreover, where any concerns that an incumbent candidate has been identified whether initially proposed by the company or by a minority shareholder, is not independent or has not demonstrated sufficiently independent judgment in their performance on the board, the Benchmark Policy will consider supporting a competing candidate providing the criteria above are met.

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

Director Independence

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

The Benchmark Policy looks at each director nominee to examine the director's relationships with the company, the company's executives, and other directors to find personal, family, or financial relationships (not including director compensation) that may impact the director's decisions. Market best practice indicates that such relationships make it difficult for a director to put shareholders' interests above the director's or the related party's interests.

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

- **Independent Director** — When assessing a director's independence, a three-year look back period for all past relationships other than employment relationships are observed,[9] which include material,[10]

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

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

financial, familial[11] or other current relationships with the company,[12] its executives or other board members, except for board service and standard fees paid for that service. An individual who has been employed by the company within the past five years[13] is not considered to be independent. However, a director that has been re-designated from an executive director to an independent director despite never leaving the board will not be analyzed as independent. Where a director transitions from an executive director to an independent director, market expectations are such that they must leave a board for a period before rejoining the board with a designation as non-executive or independent director.

- **Affiliated Director** — An affiliated director has a material financial, familial or other relationship with the company or its executives, but is not an employee of the company.[14] This includes directors whose employers have a material financial relationship with the company, as well as any director who owns or controls 1% or more of the Company's voting stock in Bangladesh and for banks in Sri Lanka[15] or 2% or more of the company's voting stock in Pakistan and Sri Lanka. This classification will also apply to a director who has served as an independent director for more than six years in Bangladesh and nine years in Pakistan and Sri Lanka.[16] In addition, where an independent non-executive directors receiving additional compensation in the form of salaries, allowances and/or emoluments that exceed 50% of a director's normal fee-based compensation has been identified, the Benchmark Policy will consider such independent directors as being affiliated.
- **Inside Director** — An inside director simultaneously serves as a director and an employee of the company. This category may include a board chair who acts as an employee of the company or is paid as an employee of the company.

Voting Recommendations Based on Independence

Many investors expect that a board will most effectively perform the oversight necessary to protect the interests of shareholders if the independent members can exercise influence on the board's activities and decisions. In evaluating the levels of board independence for each of the South Asian markets, the mandated

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

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

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

[14] If a company classifies a director as non-independent, the Benchmark Policy will classify that director as an affiliate, unless there is a more suitable classification.

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

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

requirements and recommended best practices for board independence are taken into consideration. As such, for Bangladesh, boards are expected to maintain a minimum independence level of 20%.[17] For boards in both Pakistan and Sri Lanka, boards are expected be at least 33% independent.[18] Where the board is not sufficiently independent, the Benchmark Policy typically recommends voting against some of the insider and/or affiliated directors to satisfy the non-executive and independent appropriate thresholds in accordance with prevailing market practice.

Additionally, for Pakistani banks, where non-independent family directors exceed 25% of the board composition,[19] the Benchmark Policy may recommend against those directors until the above condition, and if needed, the board independence threshold is met.

In determining recommendations as to who the Benchmark Policy may recommend shareholders vote against for board independence, discretion to not recommend against a company's CEO or managing director will be reserved. Given the importance of the executive's role, if the executive had no other issues that would warrant a negative recommendation, such directors will be exempted from receiving an against recommendation. However, should the executive have additional issues that would warrant an against recommendations, the Benchmark Policy will generally oppose the reelection of such executives because of the board being insufficiently independent.

Director Performance

The performance of these individuals in their capacity as board members and executives of the company, and in their roles at other companies where they may have served will be considered. In accordance with prevailing market practice in South Asia, a director's past conduct is often indicative of future conduct and performance. Directors with a history of overpaying executives or of serving boards where avoidable misconduct has occurred are often found at companies that follow these same patterns. The Benchmark Policy tracks the performance of directors across companies worldwide. In addition, irrespective of the overall presence of independent directors on the board, market best practice indicates that a board should be wholly free of people who have identifiable conflicts of interest. Accordingly, the Benchmark Policy recommends shareholders vote against the following types of affiliated or inside directors in nearly all circumstances:

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[17] Section 1(2)(a) of the BSEC Corporate Governance Code. It is noted, however, that the 2003 Code of Corporate Governance recommends that boards comprise a majority of non-executive and independent directors. Section VII(D) Code of Corporate Governance for Bangladesh, March 2004.

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

[19] State Bank of Pakistan. BPRD Circular No. 05 of 2021. "Corporate Governance Regulatory Framework". November 22, 2021. Page 10.

Voting Recommendations Based on Performance

The Benchmark Policy disfavors directors who have a record of not fulfilling their responsibilities to shareholders at any company where they have held a board or executive position. The Benchmark Policy typically recommends voting against:

- **Director Attendance** — A director who fails to attend a minimum of 75% of the board meetings, or 75% of the total of applicable committee meetings, including other committees aside from the audit, remuneration, nomination and/or risk committees, and board meetings. While market expectations are such that directors are able to attend board meetings in person, it is expected that it is not always feasible to do so. Therefore, when evaluating a director's attendance, Benchmark Policy considers a director's participation via electronic communication means, such as audio, video, or web conferencing devices.[20] In addition, the Benchmark Policy will recommend shareholders vote against the board chair if the board does not meet at least four times a year.
  Where companies fail to disclose the complete attendance records of the board and its required committees,[21] the Benchmark Policy will recommend shareholders vote against the board chair. Further, when the attendance record is not disclosed, the Benchmark Policy will not exempt executives from serving on more than three public company boards in Bangladesh, and more than four public company boards in Sri Lanka and Pakistan.
- **Serious and Material Restatement** — A director who is also the CEO of a company where a serious and material restatement occurred after the CEO had previously certified the pre-restatement financial statements.
- **Company Performance** — All members of a board if a company's performance has been consistently lower than its peers and the board has not taken reasonable steps to address the poor performance.

Director Experience

Many investors view that a director's past conduct is often indicative of future conduct and performance. Directors with a history of overpaying executives or of serving on boards where avoidable disasters have occurred are often found at companies that follow these same patterns. The Benchmark Policy tracks the performance of directors across companies worldwide.

Voting Recommendations Based on Experience

The Benchmark Policy typically recommends that shareholders vote against directors who have served on boards or as executives of companies with records of poor performance, over-remuneration, audit- or accounting-related issues and/ or other indicators of mismanagement or actions against the interests of shareholders.[22]

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[20] However, if a director has served for less than one full year, it will not be typically recommended to vote against them for a failure to attend 75% of meetings. Rather, such issue will be noted, and the issue be tracked going forward. Benchmark Policy will also refrain from voting against directors when the proxy discloses that the director missed the meetings due to serious illness, other extenuating circumstances, or potential conflicts of interest.

[21] The required committees will primarily be the audit, nomination, and remuneration committees.

[22] Benchmark Policy typically apply a three-year look-back period to such issues, and it will generally be assessed whether the responsible directors have been up for election since the time of the failure.

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

Additionally, for Pakistani banks, disclosure demonstrating that directors have adequate knowledge, expertise and skill-mix related to the business model, overall size, complexity, and risk profile of the company will be expected.

Director Commitments

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

As a result, the Benchmark Policy generally recommends that shareholders vote against a director who serves as an executive officer of any public company while serving on an excessive number of boards. For South Asian markets, this means in Bangladesh[23] executive directors serving on more than three public company boards, or nonexecutive directors serving on more than five boards; in Sri Lanka and Pakistan[24] a director who serves as an executive officer of any public company while serving on more than four public company boards, and any other director who serves on more than six public company boards for Sri Lankan companies and more than five public company boards for Pakistani companies. Furthermore, directors who serve as board chairs in select other non-Asian markets, per global policies, will be counted as two board seats given the time commitment of directorship in those markets.

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

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

[24] Section 3 of the Listed Companies (Code of Corporate Governance) Regulations, 2017, specifies a limit on listed company directorships at no more than five boards being served on simultaneously. Although the 2017 Regulations were updated in 2019 to allow up to seven boards, the Benchmark Policy will continue to observe a five board limit.

Conflict of Interest

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

Voting Recommendations on the Conflict of Interest

Market best practice indicates that a board should be wholly free of people who have identifiable and substantial conflicts of interest, regardless of the overall presence of independent directors on the board. Accordingly, the Benchmark Policy recommends that shareholders vote against the following types of affiliated or inside directors:

- **Professional Services and Business Transactions** — A director who has provided consulting or other material professional services to the company at any time during the past three years, or who has an immediate family member providing such services.[25] Such professional services may include legal consulting, or financial services. These relationships can create conflicts for directors, since they may be forced to weigh their own interests against shareholder interests when making board decisions. In addition, a company's decisions regarding where to turn for the best professional services may be compromised when doing business with the professional services firm of one of the company's directors. Furthermore, value-based exceptions for any recurrent professional services and/or related party transactions involving a company's directors will not be provided.
- **Personal Enrichment** — A director who engages in airplane, real estate, or similar deals, including perquisite-type grants from the company, or who has an immediate family member engaging in such an arrangement.
- **Board Interlock** — A director who is involved in interlocking directorships: CEOs or other top executives who serve on each other's boards create an interlock that poses conflicts that should be avoided to ensure the promotion of shareholder interests above all else.[26]

Board Size

While market best practice indicates that there is no universally applicable optimum board size, the Benchmark Policy suggests that boards should have a minimum of five directors in Bangladesh[27] and seven directors in Pakistan and Sri Lanka[28] to ensure that there is sufficient diversity of views and breadth of experience in every decision the board makes. At the other end of the spectrum, market expectations are such that boards with more than 20 members will typically suffer under the weight of "too many cooks in the kitchen" and have difficulty reaching consensus and making timely decisions. Sometimes the presence of too many voices makes it

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

[26] There is no look-back period for this situation. This only applies to public companies, and such issue will only be noted for the non-insider.

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

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

difficult to draw on the wisdom and experience in the room by virtue of the need to limit the discussion so that each voice may be heard.

To that end, the Benchmark Policy typically recommends voting against the nomination committee chair[29] if a board has more than 20 directors or fewer than its legal minimum threshold. However, where a Bangladeshi board has fewer than five directors, the Benchmark Policy will refrain from recommending against the nomination committee chair, but instead, note the preference for a larger board. Further, from 2024, for Sri Lankan banks and finance companies, as per the CBSL CG Directions, 2021, if a board has more than 13 directors or fewer than 7 directors[30].

Separation of the Roles of Board Chair and CEO

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

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

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

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

Each South Asian market requires that the board chair and CEO be held by separate individuals with the board chair being a non-executive director.[31]

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[29] In the absence of a nomination committee, the Benchmark Policy may recommend voting against the board chair.
[30] Direction 3.2, *CBSL CG Directions, 2021*.
[31] Section 4(c) of the BSEC Corporate Governance Code; Companies Act, 2017; and Section 9, Listed Companies (Code of Corporate Governance) Regulations, 2017. In Sri Lanka, Section 9 of the Listing Rules on Corporate Governance recommends Sri Lankan companies separate the chair and CEO, and where the chair and CEO are the same person or if the chair is an executive director, the board should appoint a senior independent director.

Board Gender Diversity

It is important that boards are comprised of directors who have a diversity of skills, thoughts and experience, as such diversity benefits companies by providing a broad range of perspectives and insights.[32]

For Pakistan, Sri Lanka, and Bangladesh, market expectations are such that all boards to have at least one gender diverse director.[33] In such instances where the board fails to have or nominate at least one gender diverse director, the Benchmark Policy will recommend voting against the nomination committee chair. Additionally, Pakistani banks are expected to have at least one gender diverse director who is not related to the sponsor/promoter group or to any other director serving on the board. However, where a board does not have at least one gender diverse director due to a recent resignation, retirement, or other unique instance, provided companies disclose the reason for the lack of a gender diverse director, the Benchmark Policy may merely note that company's inability to meet the requirement.

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

Term and Age Limit

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

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

Many investors view that a director's experience can be an asset to shareholders because of the complex, critical issues that boards face. However, the Benchmark Policy supports periodic director rotation to ensure a fresh perspective in the boardroom and the generation of new ideas and business strategies. Market expectations are such that boards should implement such rotation instead of relying on arbitrary limits. When necessary, shareholders can address the issue of director rotation through director elections.

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

Market best practice indicates that age limits are not in shareholders' best interests. Academic literature suggests that there is no evidence of a correlation between age and director performance. Like term limits, age

[32] See In-Depth Report on Gender Diversity, available at www.glasslewis.com/special-reports/.
[33] Women, and directors that identify with a gender other than male or female.

limits are a crutch for boards that are unwilling to police their membership and decide when turnover is appropriate. While it is expected that some institutions' support for age limits to action change at boards that are unwilling to make changes on their own, the long-term impact of age limits is to restrict experienced and potentially valuable board members from service through an arbitrary cut-off date. Further, age limits unfairly imply that older (or in rare cases, younger) directors cannot contribute to company oversight. A director's experience can be valuable to shareholders because directors navigate complex and critical issues when serving on a board.

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

Pursuant to the Companies Act, 2007, directors in Sri Lanka may not be appointed after the age of 70.[34] Upon reaching the age of 70, directors will vacate their office at the conclusion of the next AGM.

Further, as per the State Bank of Pakistan, presidents and CEOs of Pakistani banks may not be appointed after the age of 65. However, currently serving presidents and CEOs over 65 but under 70 may be considered for another term of appointment.

Exceptions for Recent IPOs

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

Board Committees and Independence

Companies in Bangladesh are required to maintain an audit committee, as well as nomination and remuneration committees.[35] Comparatively, companies in Pakistan are required to maintain an audit and human resource and remuneration committee, while companies are recommended to have a nomination committee and a risk

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

[35] Section 4 of the BSEC Corporate Governance Code.

management committee, respectively.[36] Companies in Sri Lanka are required to constitute both the audit committee, remuneration committee, and nominations and governance committee.[37]

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

Audit Committee Performance

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

Audit committees play an integral role in overseeing the financial reporting process because "vibrant and stable capital markets depend on, among other things, reliable, transparent, and objective financial information to support an efficient and effective capital market process. The vital oversight role audit committees play in the process of producing financial information has never been more important."[38]

When assessing an audit committee's performance, the Benchmark Policy recognizes that an audit committee performs a critical role by ensuring the provision of adequate information and explanation to the auditor, which is essential for it to be able to conduct a proper audit of the company's accounts. The quality and integrity of the financial statements and earnings reports, the completeness of disclosures necessary for investors to make informed decisions, and the effectiveness of the internal controls should provide reasonable assurance that the financial statements are materially free from errors. The independence of the external auditors and the results of their work also provide useful information by which to assess the audit committee.

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

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[36] Section 5.19.16, Pakistan Stock Exchange Regulations. Section 30 of the Listed Companies (Code of Corporate Governance) Regulations, 2017, provides that companies may constitute a nomination committee, provided that the committee does not lead to a duplication of duties or conflicts with the human resource and remuneration committee.
[37] 9.3.1, Listing Rules Corporate Governance Section 9.3. Board Committees.
[38] Audit Committee Effectiveness – What Works Best." PricewaterhouseCoopers. The Institute of Internal Auditors Research Foundation. 2005.

Thus, the Benchmark Policy would recommend voting against the following members under the following circumstances:[39]

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

Remuneration Committee Performance

Market expectations are such that the committee should comprise majority independent directors and have an independent chair to ensure an objective review of remuneration, especially for executives. Moreover, because this committee is responsible for evaluating and prescribing the remuneration of directors and executives and given the potential for conflicts of interest, market best practice indicates that executives and employees should not be members of the remuneration committee.

[39] Where the recommendation is to vote against the committee chair and the chair is not up for election, the Benchmark Policy do not recommend voting against any members of the committee who are up for election; rather, concern about the committee chair will be included.

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

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

The evaluation of the remuneration committee members will be based on their performance while serving on the remuneration committee in question, and not for actions taken solely by prior committee members who are not currently serving on the committee.

When assessing the performance of remuneration committees, the Benchmark Policy will recommend voting against the following members under the following circumstances:[40]

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

Nomination Committee Performance

The nomination committee, as an agency for shareholders, is responsible and accountable for the selection of objective and competent board members. In case a board establishes a nomination committee,[41] all nomination

[40] If recommendation would be to vote against the committee chair and the chair is not up for election, the Benchmark Policy do not recommend voting against any members of the committee who are up for election; rather, concern regarding the committee chair will be added.

[41] Sri Lankan companies are required to constitute a nomination and governance committee, Section 9.3.1 (a), Corporate Governance Listing Rule.

committee members will be evaluated, and the Benchmark Policy will recommend voting against the following members of the nomination committee under the following circumstances:[42]

- The nomination committee chair[43] if: (i) the committee is chaired by a non-independent director; (ii) the board is not sufficiently independent; (iii) there are more than 20 members on a Bangladeshi, Pakistani or Sri Lankan company or less than seven members for a Pakistani or Sri Lankan company;[44] (iv) the committee did not meet during the year, but should have (i.e., new directors were nominated); (v) the committee re-nominates a director who did not attended any board meetings in the previous fiscal year and does not provide a reason for such re-nomination despite the poor attendance; (vi) no independent vice chair or lead/senior independent director when chair is a member of management; (vii) the committee re-nominated a director who attended less than 75% of the meetings held by the board and/or the committees for two or more consecutive years; and (viii) if the board of a Pakistani, Bangladeshi or Sri Lankan company lacks at least one gender diverse director.
- All members of the nomination committee when the committee nominated or re-nominated an individual who had a significant conflict of interest, or whose past actions demonstrated a lack of integrity or inability to represent shareholder interests.
- Any nomination committee member who is not considered independent, when the committee is not majority independent.
- Any committee member who is considered an executive or employee of the company based on the Benchmark Policy, when the committee is combined with a remuneration committee.
- The board chair of a Sri Lankan financial company or a Pakistani or Bangladeshi company if it has not established a nomination committee unless another board committee carries out the function of a nomination committee.

Risk Management Committee Performance

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

When a company establishes a risk management committee, the Benchmark Policy will recommend against members of this committee in instances or events where there has been a failure of risk management.

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[42] If Benchmark Policy recommendation would be to vote against the committee chair and the chair is not up for election, voting against any members of the committee who are up for election will not be recommended; rather, concern regarding the committee chair will be added.

[43] When the information regarding committee chair is not disclosed, concerns may be addressed to committee member with the longest tenure on the board. If a board does not have a nomination committee, the concerns will be addressed to the chair of the board on this basis.

[44] Where there are less than five members on the board of a Bangladeshi company, preference for a larger board will be added.

However, from 2024, as per the CBSL CG Directions, 2021, Sri Lankan banks and finance companies are required to establish a risk committee with an independent chair, composed of non-executive directors.[45]

Declassified Boards

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

Given the empirical evidence suggesting staggered boards reduce a company's value and the increasing shareholder opposition to such a structure, the Benchmark Policy supports the declassification of boards and the annual election of directors.

Environmental and Social Risk Oversight

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

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

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

[45] Directions 10.1 and 10.3, *CBSL CG Directions, 2021*.

Transparency and Integrity in Financial Reporting

Accounts and Reports

As a routine matter, Bangladeshi, Pakistani and Sri Lankan law[46] requires that shareholders receive and consider the company's annual financial statements and the report of the board of directors.

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

However, if the audited financial statements have not been made available, the Benchmark Policy believes shareholders will not have sufficient information to make an informed judgment regarding this matter. As such, Benchmark Policy will recommend that shareholders abstain from voting on this agenda item.

Allocation of Profits/Dividends

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

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

Appointment/Ratification of Auditor

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

Shareholders should demand an objective, competent and diligent auditor who performs at or above professional standards at every company in which the investors hold an interest. Like directors, auditors should be free from conflicts of interest and should avoid situations requiring a choice between the auditor's interests

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

and the public's interests. Almost without exception, shareholders should be able to annually review an auditor's performance and to annually ratify a board's auditor selection.

The Benchmark Policy generally supports management's choice of auditor except when the auditor's independence or audit integrity is considered to have been compromised.[47] When there have been material restatements of annual financial statements or material weakness in internal controls, the Benchmark Policy usually recommends voting against the auditor. If the audited financial statements have not yet been disclosed, the voting recommendations will be based on the company's financial statements for the previous year. The Benchmark Policy will not hold a company's auditor responsible for the company's failure to comply with reporting obligations or a lack thereof, depending on the jurisdiction.

In Pakistan, financial sector companies are required to rotate their auditor after a maximum of five consecutive years,[48] while all other listed companies must rotate the audit partner every five years.[49] Similarly, for Sri Lankan banks, the auditor partner overseeing the audit will be subject to rotation after a maximum of five consecutive years, although the audit firm may remain the same.[50] Upon the completion of the specified terms, an individual auditor or audit firm may be eligible for re-appointment by the company following a five-year cooling off period as determined by local rules.

Reasons for not recommending favor of the ratification of an auditor include:

- When audit and audit-related fees total 50% or less of the total fees billed by the auditor.[51]
- There have been recent material restatements of annual financial statements, including those resulting in the reporting of material weaknesses in internal controls and late filings by the company where the auditor bears some responsibility for the restatement or late filing.[52]
- The company has aggressive accounting policies, as evidenced by restatements or other financial reporting problems.
- The company has poor disclosure or a lack of transparency in its financial statements.
- The auditor has limited its liability through its contract with the company.
- When the company has failed to rotate its independent audit firm or audit partner after five years.
- Other relationships or concerns with the auditor that might suggest a conflict between the auditor's interests and those of shareholders.

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

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

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

[50] Section 3(6)(ii), Banking Act Direction No. 11 of 2007.

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

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

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

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

The Link Between Remuneration and Performance

Director Remuneration

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

The Benchmark Policy generally supports this type of proposal, unless the proposed fees are excessive relative to those paid by peer companies with similar market capitalizations.

Executive Remuneration

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

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

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

- Where the variable or incentive-based remuneration is not linked to performance, the Benchmark Policy will recommend shareholders not support the appointment.
- If a company does not provide or disclose variable or incentive-based remuneration, the previous three financial years (where applicable) will be reviewed to determine whether executives received such remuneration. If an executive receives such remuneration, the Benchmark Policy will not support the appointment of the executive. If an executive did not receive such remuneration, the Benchmark Policy will support the appointment.
- If in an appointment proposal, a company either fails to disclose the remuneration payable to the proposed executive or fails to provide a differentiation of the remuneration between salary, benefits, and perquisites and/or incentive remuneration, the Benchmark Policy will recommend shareholders oppose the proposal.

Equity-Based Compensation Plans

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

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

The analysis is both quantitative and qualitative. Potential dilution to shareholders, the company's grant history, and compliance with best practice recommendations will be examined.

Sri Lankan Companies

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

- Size of the plan does not exceed 5% of a company's issued share capital;
- Individual limits do not exceed 1% of issued share capital;
- Plan life is no more than ten years;
- No discount is provided on the exercise price;
- Non-executive and independent directors do not receive stock options unless they have ceased to be a board member for minimum period of one year. Companies are also expected to disclose the vesting period and whether stock options have performance conditions;[53]
- Where a Sri Lankan company seeks to adopt an employee share purchase plan, such plan may be supported, provided the discount does not exceed 20%;[54] and
- Where the equity-based compensation plans include the acceleration of vesting of awards upon an offer being made on a company's shares without the transaction needing to be completed, along with a further event such as termination of employment of the grantee, will warrant shareholders opposition. However, consideration may be taken in case of the acceleration of vesting of awards, provided the vesting is in conjunction with the achievement of performance targets at the time of the transaction.

The Benchmark Policy will oppose the adoption and/or issuance of awards under equity plans where the vesting period for grants to executive is less than three years.[55]

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

[54] Section 5.6.7, the Listing Rules of the Colombo Stock Exchange.

[55] Section B.2.6, Code of Best Practice on Corporate Governance 2017.

Pakistani Companies

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

- Participants being limited to employees of the company and/or its subsidiary or holding companies.[56]
- The exercise price being determined by a 90-day weighted average market price of the company's shares, or being the market price, or a formulaic approach to determining the exercise price that does not lead to a discount exceeding 20% of the market value of the Company's shares. Benchmark Policy will recommend shareholders oppose plans that allow for the plan administrator to determine the exercise price on a discretionary basis.[57]
- Although regulation mandates a minimum one-year vesting period, it is expected that the vesting period to be a minimum of two years, unless vesting occurs immediately after a minimum two-year performance period.[58]
- Where the number of shares to be issued as part of the share option plan and/or grant to a participant is not disclosed, the Benchmark Policy will recommend shareholders oppose such plan.
- The Benchmark Policy will recommend shareholders oppose a plan if the plan exceeds 5% of a company's issued share capital.
- Where the equity-based compensation plans include the acceleration of vesting of awards upon an offer being made on a company's shares without the transaction needing to be completed, along with a further event such as termination of employment of the grantee, the Benchmark Policy will recommend shareholders oppose such plan. However, consideration may be taken for the acceleration of vesting of awards, provided the vesting is in conjunction with the achievement of performance targets at the time of the transaction.

Performance-Based Options

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

The Benchmark Policy is of the view that that executives should be compensated with equity when their performance and the company's performance warrant such rewards. While the Benchmark Policy notes that equity-based pay plans for all employees should not be based on overall company performance, it supports such limitations for equity grants to senior executives. However, some level of equity-based compensation of senior

[56] Chapter II, Section 4. "Guidelines for Structuring and Offering of the Employees of Stock Option Schemes." Securities and Exchange Commission of Pakistan. Islamabad: April 27, 2016.
[57] Under Chapter III, Section 6(2), "Guidelines for Structuring and Offering of the Employees of Stock Option Schemes," company's may set the exercise price at their discretion. This may include using a 90 weighted average, the application of discount or premium, or make the exercise price adjustable under certain circumstances.
[58] Under Chapter III, Section 6(4), "Guidelines for Structuring and Offering of the Employees of Stock Option Schemes," the minimum vesting period is one year, while the plan administrator may determine if vesting is time and/or performance based, with the latter's requirements being disclosed by the compensation committee.

executives without performance criteria is acceptable, such as in the case of moderate incentive grants made in an initial offer of employment or in emerging industries.

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

The Benchmark Policy generally recommends that shareholders vote in favor of performance-based option requirements.

Option Exchanges

The Benchmark Policy considers option re-pricing plans and option exchange programs with great skepticism. Shareholders have substantial, real downside risk in owning stock, and it is believed that the employees, officers, and directors who receive options should be similarly situated to align interests optimally. The Benchmark Policy recognizes the possibility that option grantees who believe they will be "rescued" from underwater options will be more inclined to take on unjustifiable risks. Moreover, a predictable pattern of re-pricing or exchanges substantially alters the value of the stock option, as options that will practically never expire deeply out of the money are worth far more than options that carry such a risk. In short, repricing and option exchange programs change the bargain between shareholders and employees after the bargain has been struck. Re-pricing is tantamount to a re-trade.

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

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

Governance, Financial Structure, and the Shareholder Franchise

Amendments to Article of Association

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

Dividend Reinvestment (or Scrip Dividend) Plan

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

Increases in Capital

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

Issuance of Shares and/or Convertible Securities

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

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

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

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

Stock Split

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

Authority to Repurchase Shares

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

Within South Asia, the requirement for share repurchases vary. For example, in Bangladesh, a company may purchase its shares only when it is seeking to reduce or cancel a portion of its share capital.[59] In contrast, Pakistani companies may repurchase their own shares, but companies must disclose the number of shares, maximum repurchase price, and the period of time and rationale for the repurchase.[60] Similarly, Sri Lankan companies have similar requirements for share repurchases under Sri Lankan law,[61] although the shares to be repurchased must be done in the first instance on a pro-rata basis.[62] Where the details of such repurchases are disclosed, the Benchmark Policy will typically recommend voting in favor of such proposal.

Anti-Takeover Devices

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

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[59] Sections 58 and 59, the Companies Act, 1994.

[60] Section 88, the Companies Act, 2017.

[61] Sections 63 and 64, the Companies Act No. 07, 2007.

[62] Section 7.11.1, the Listing Rules of the Colombo Stock Exchange.

Multi-Class Share Structures

The Benchmark Policy is of the view that multi-class voting structures are typically not in the best interests of common shareholders. Allowing one vote per share generally operates as a safeguard for common shareholders by ensuring that those who hold a significant minority of shares can weigh in on issues set forth by the board.

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

The Benchmark Policy generally considers a multi-class share structure to reflect negatively on a company's overall corporate governance. The Benchmark Policy typically recommends that shareholders vote in favor of recapitalization proposals to eliminate multi-class share structures as market best practice indicates that companies should have share capital structures that protect the interests of non-controlling shareholders as well as any controlling entity. Similarly, the Benchmark Policy will generally recommend against proposals to adopt a new class of common stock.

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

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

Related Party Transactions

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

Pursuant to the Companies Act, 2017, Pakistani companies may seek approval from their shareholders to enter into related-party transactions of revenue or a trading nature.[63] According to the Pakistan Stock Exchange Listing Rules, such transactions must be made on terms to those that prevail in arm's length negotiations while the details and terms of such transactions must be disclosed.[64] All such transactions must be carried out on normal commercial terms and reviewed by the audit committee.

In Sri Lanka, directors must disclose if they are an "interested" party and the extent to which they are interested in any proposed transaction(s).[65] Moreover, Sri Lankan banks are prohibited to enter into related party

[63] Section 208, the Companies Act, 2017.
[64] Section 5.19.6(b), Pakistan Stock Exchange Regulations.
[65] Sections 191 and 192, the Companies Act No. 07, 2007.

transactions that may lead to the: (i) granting of accommodations; (ii) granting of any liabilities; (iii) provision of any financial or non-financial services; or (iv) the creation or maintenance of reporting lines and information flows with related parties.[66]

For Bangladeshi companies, it is noted that those companies are obligated to report related party transactions to the audit committee and to disclose such transactions in their annual report.[67]

Related-party transactions will be evaluated on a case-by-case basis. The Benchmark Policy generally considers that the management of businesses and the decisions associated with business operations are best left to management and the board, absent a showing of egregious or illegal conduct that might threaten shareholder value. The Benchmark Policy also considers that board members can be held accountable on these issues when they face re-election, and that management and the board are in the best position to determine what operational decisions are the best in the context of the business. The Benchmark Policy therefore generally recommends shareholders vote in favor of proposals to approve a mandate to enter related-party transactions, unless significant cause for shareholder concern is identified. The Benchmark Policy will generally abide by the following principles:

- The terms of the transaction, including the transaction amounts or valuation, the parties, and their affiliation must be disclosed. Where the terms are partially disclosed, or where no details are disclosed, the Benchmark Policy will recommend shareholders oppose the proposed transaction(s).
- For transactions involving major or controlling shareholders, the transaction(s) must be related to or necessary for the ordinary day-to-day operations of the company.
- Where the transaction occurs between a parent company and/or fellow subsidiary or controlled subsidiary, the Benchmark Policy will generally support the transaction unless the transaction is not part of the day-today operations of a company.
- If the transaction(s) between entities that have overlapping directors and the duration of the transaction is for an indefinite or undisclosed timeframe, the Benchmark Policy will recommend shareholders not support the transaction(s).

Corporate Guarantees

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

- The overall disclosure relating to the corporate guarantees;
- The relationship between the company providing the corporate guarantees and those entities receiving the corporate guarantees;
- The benefits for provision of guarantees to the company itself and its shareholders as a whole, ensuring that the provision of guarantees will not only benefit select major shareholders;
- The size of the corporate guarantees compared to a company's net assets; and/or

[66] Section 3(7)(iii), Banking Act Direction No. 11 of 2007.
[67] Sections 1(5)(vi) and 5(2)(j) of the BSEC Corporate Governance Code.

- The rationale for the provision of guarantees.

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

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

Transaction of Other Business

The Benchmark Policy typically recommends that shareholders not give their proxy to management to vote on any other business items that may properly come before the annual meeting, as granting unfettered discretion is unwise.

Virtual Shareholder Meetings

A growing contingent of companies have elected to hold shareholder meetings by virtual means only. Virtual meeting technology can be a useful complement to a traditional, in-person shareholder meeting by expanding participation of shareholders who are unable to attend a shareholder meeting in person (i.e. a "hybrid meeting"). However, virtual-only meetings may have the potential to curb the ability of a company's shareholders to meaningfully communicate with the company's management.

Prominent shareholder rights advocates, including the Council of Institutional Investors, have expressed concerns that such virtual-only meetings do not approximate an in-person experience and may serve to reduce the board's accountability to shareholders. When analyzing the governance profile of companies that choose to hold virtual-only meetings, the Benchmark Policy will look for robust disclosure in a company's proxy statement which assures shareholders that they will be afforded the same rights and opportunities to participate as they would at an in-person meeting.

Examples of effective disclosure include: (i) addressing the ability of shareholders to ask questions during the meeting, including time guidelines for shareholder questions, rules around what types of questions are allowed, and rules for how questions and comments will be recognized and disclosed to meeting participants; (ii) procedures, if any, for posting appropriate questions received during the meeting and the company's answers, on the investor page of their website as soon as is practical after the meeting; (iii) addressing technical and

logistical issues related to accessing the virtual meeting platform; and (iv) procedures for accessing technical support to assist in the event of any difficulties accessing the virtual meeting.

Overall Approach to Environmental, Social & Governance

The Benchmark Policy evaluates all environmental and social issues through the lens of long-term shareholder value. Shareholders are best served when companies consider material environmental and social factors in all aspects of their operations and when they are provided with disclosures that allow them to understand how these factors are being considered and how attendant risks are being mitigated. Governance is a critical factor in how companies manage environmental and social risks and opportunities and the Benchmark Policy is of the view that a well-governed company will be generally managing these issues better than one without a governance structure that promotes board independence and accountability.

Part of the board's role is to ensure that management conducts a complete risk analysis of company operations, including those that have financially material environmental and social implications. Companies can face significant financial, legal and reputational risks resulting from poor environmental and social practices, or negligent oversight thereof. Therefore, in cases where the board or management has neglected to take action on a pressing issue that could negatively impact shareholder value, the Benchmark Policy promotes companies taking necessary actions in order to effect changes that will safeguard shareholders' financial interests.

Given the importance of the role of the board in executing a sustainable business strategy that allows for the realization of environmental and social opportunities and the mitigation of related risks, relating to environmental risks and opportunities, the Benchmark Policy seeks to promote governance structures that protect shareholders and promote director accountability. When management and the board have displayed disregard for environmental or social risks, have engaged in egregious or illegal conduct, or have failed to adequately respond to current or imminent environmental and social risks that threaten shareholder value, the Benchmark Policy will consider holding directors accountable. In such instances, it will generally recommend against responsible members of the board that are specifically charged with oversight of the issue in question.

When evaluating environmental and social factors that may be relevant to a given company, the Benchmark Policy does so in the context of the financial materiality of the issue to the company's operations. Companies in all industries face risks associated with environmental and social issues. However, these risks manifest themselves differently at each company as a result of its operations, workforce, structure, and geography, among other factors. Accordingly, the Benchmark Policy places a significant emphasis on the financial implications of a company's actions with regard to impacts on its stakeholders and the environment.

When evaluating environmental and social issues, the Benchmark Policy examines companies':

Direct environmental and social risk — Companies should evaluate financial exposure to direct environmental risks associated with their operations. Examples of direct environmental risks include those associated with oil or gas spills, contamination, hazardous leakages, explosions, or reduced water or air quality, among others. Social risks may include non-inclusive employment policies, inadequate human rights policies, or issues that adversely affect the company's stakeholders. Further, firms should consider their exposure to risks emanating from a broad range of issues, over which they may have no or only limited control, such as insurance companies being affected by increased storm severity and frequency resulting from climate change.

Risk due to legislation and regulation — Companies should evaluate their exposure to changes or potential changes in regulation that affect current and planned operations. Regulation should be carefully monitored in all jurisdictions in which the company operates. The Benchmark Policy looks closely at relevant and proposed legislation and evaluates whether the company has responded proactively.

Legal and reputational risk — Failure to take action on important environmental or social issues may carry the risk of inciting negative publicity and potentially costly litigation. While the effect of high-profile campaigns on shareholder value may not be directly measurable, it is prudent for companies to carefully evaluate the potential impacts of the public perception of their impacts on stakeholders and the environment. When considering investigations and lawsuits, the Benchmark Policy is mindful that such matters may involve unadjudicated allegations or other charges that have not been resolved. The Benchmark Policy will not assume the truth of such allegations or charges or that the law has been violated. Instead, it focuses more broadly on whether, under the particular facts and circumstances presented, the nature and number of such concerns, lawsuits or investigations reflects on the risk profile of the company or suggests that appropriate risk mitigation measures may be warranted.

Governance risk — Inadequate oversight of environmental and social issues carries significant risks to companies. When leadership is ineffective or fails to thoroughly consider potential risks, such risks are likely unmitigated and could thus present substantial risks to the company, ultimately leading to loss of shareholder value.

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