BlackRock.

Board independence in Asia-Pacific

A stewardship perspective

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Executive Summary

BlackRock Investment Stewardship (BIS) encourages companies to have sound corporate governance and business practices that support the long-term, durable financial returns that our clients depend on to achieve their investing goals. As part of our fiduciary responsibilities as an asset manager to act in our clients' long-term economic interests, we assess a range of risks and opportunities that can affect the financial performance of the companies in which we invest on their behalf. We engage companies to understand their approach to the material drivers of risk and financial value in their business models, provide feedback and raise any concerns, as appropriate. We may signal continuing concerns through our voting, where clients have authorized us to vote on their behalf. We vote to advance the long-term financial interests of our clients as shareholders. Through this report, we aim to provide our clients with deeper insights into how we are promoting sound corporate governance at companies in the Asia-Pacific (APAC) region.[1]

In the APAC region, we have identified board independence as a major corporate governance issue that may have an impact on the ability of local companies to create long-term financial value for shareholders, including minority shareholders such as BlackRock's clients. Independent non-executive directors (INEDs) play a key role in ensuring objectivity in the decision-making of a company board and its ability to advise and oversee the management team. This is particularly important given controlling shareholders[2] are common in the region. INEDs can provide a balance to the influence of the controlling structure and help ensure appropriate management of potential conflicts of interest that may be detrimental to the interests of minority shareholders, such as those inherent in related-party transactions. The appointment of INEDs, however, is often dependent on controlling shareholders, who have a significant say on director nominations and the largest vote in director elections.

In the 2021-2022 proxy year,[3] independence concerns resulted in BIS not supporting directors standing for election at 1,108 companies in APAC. This represented a quarter of the APAC companies where BIS voted on director elections[4] and almost three quarters of the votes cast globally where we signaled concerns about director independence. Companies in the Association of Southeast Asian Nations (ASEAN),[5] Hong Kong, and Japan markets made up the highest proportion of companies where concerns about director independence prompted BIS to vote to signal concerns. A major factor driving decisions not to support the election of directors was concerns about the independence of long-tenured INEDs.

There are certain structural challenges in the region undermining the ability of INEDs to fulfill their responsibilities as independent board members:

1. **Lack of independent board chairs or lead independent directors (Lead INEDs)**
2. **Disproportionate accountability to controlling shareholders due to limited INED access for minority shareholders**
3. **Long-tenured INEDs nominated for re-election by nomination committees that are insufficiently independent**

Encouragingly, there are signs of some companies addressing investor concerns about board independence. **Almost half of the companies where BIS withheld support in the 2018-2021 proxy year period due to a lack of director independence took sufficient steps to enable us to support directors on independence grounds in the 2021-2022 proxy year.[6]**

From our perspective as a long-term, engaged, minority shareholder, we offer observations on four main opportunities for companies in this region to enhance the independence of the boards:

- **INED empowerment** is key to their effectiveness in resolving potential conflicts of interest between controlling and minority shareholders. The appointment of a Lead INED is often a key differentiator among companies with more effective boards and INEDs, particularly in controlling shareholder structures.
- An effective **nomination, election, and removal process** is important given the prevalence of controlling shareholder structures in the region. In our view, boards that assess director tenure in the context of performance and have transparent and independent INED nomination and removal processes are more likely to act in the long-term financial interests of all shareholders.
- Directors' **expertise and capacity** underpin board effectiveness. In addition to ensuring INEDs are qualified and have capacity to meaningfully contribute, companies and investors benefit when there are INEDs on the board who have adequate financial expertise to assess the fairness and soundness of related-party transactions, which are prevalent in the region.
- A well-functioning board requires appropriate **incentives** for directors, particularly at medium-sized and smaller companies. Greater transparency is also essential for shareholders to understand potential risk of moral hazard[7] arising from director insurance. While we recognize the need to provide reasonable liability protection for INEDs, this should not extend to cover for gross negligence of directors.

BIS' approach to board independence in APAC

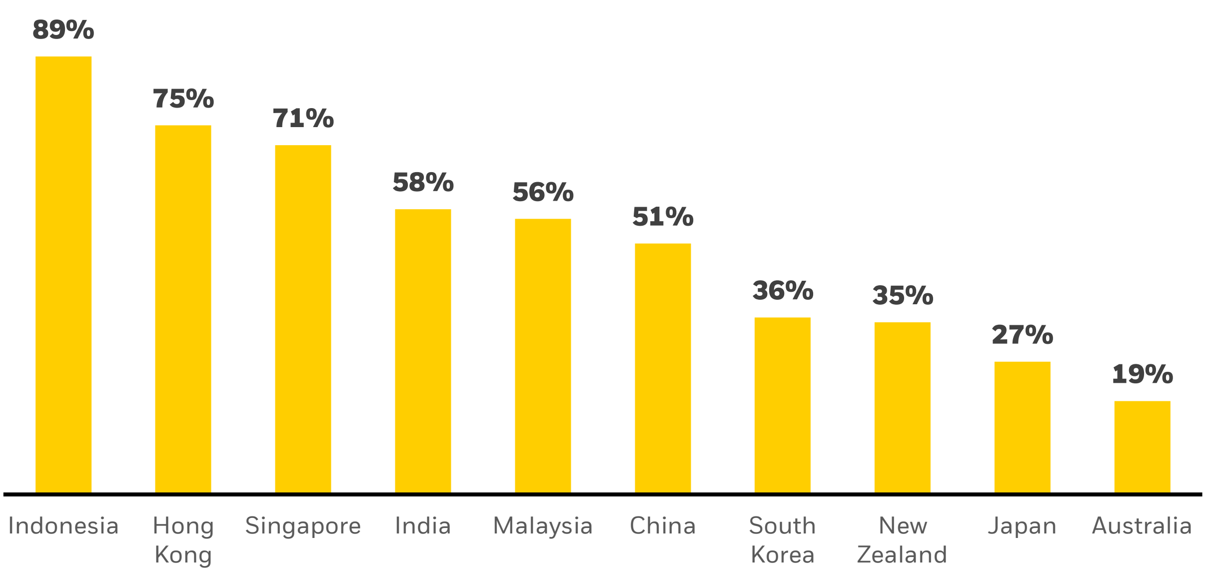
An essential factor in sound corporate governance is director independence — from management, significant shareholders, or other related parties. We look to boards to have a sufficient number of INEDs, free from conflicts of interest or undue influence from connected parties, to bring an objective view to board decisions and ensure that the interests of all shareholders are protected. In our experience, an independent board is better able to oversee management and ensure that business models are aligned with the goal of delivering durable, long-term financial performance. Our regional voting guidelines include criteria that we use as a benchmark in each market to assess whether a director is independent.[8] These reflect local norms, board and ownership structures, and governance standards and therefore differ slightly across regions.

Board independence issues in APAC

Share ownership concentration

As evidenced by Figure 1, other than Australia and Japan, most APAC markets are characterized by a high concentration of share ownership. Thus, the primary corporate governance issue and role for INEDs in Asia[9] is the management of potential conflicts of interest between controlling and minority shareholders. In contrast, for markets where dispersed shareholding is the dominant structure, governance is focused on managing potential conflicts of interest between management and dispersed shareholders. A major source of such potential conflicts, common in Asia, is related-party transactions between listed companies and their controlling shareholders (or other related parties), which may be detrimental to the financial interests of minority shareholders.

Figure 1. Percentage of listed companies where the three largest shareholders held more than 50% of the equity, as of end 2020+



Source: OECD Corporate Governance Factbook 2021.

+ The figure presents the percentage of companies where the three largest shareholders held more than 50% of the equity out of the total number of listed companies in each market by year-end 2020.

BIS' proxy voting on director elections

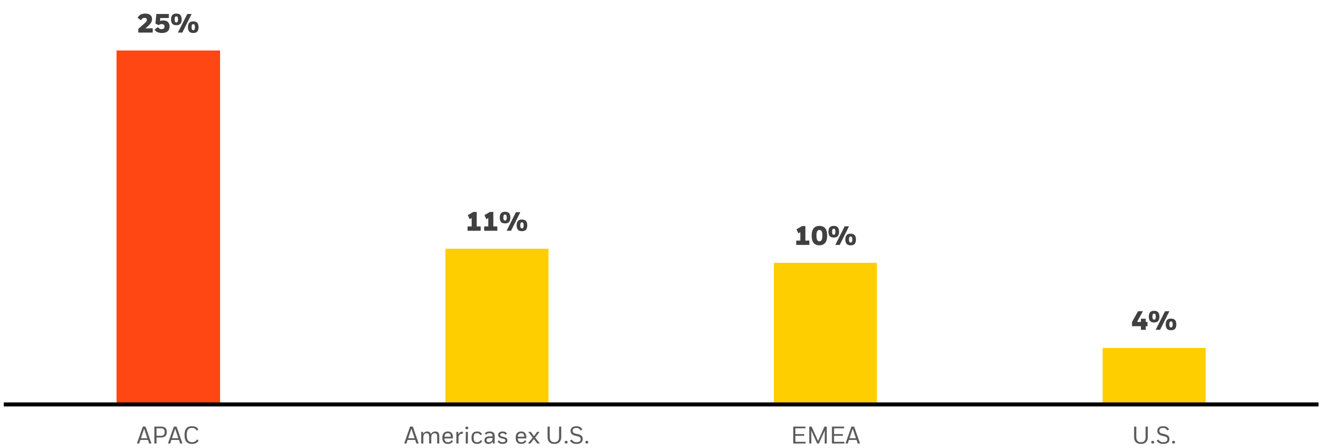
Inadequate independence was the top reason for BIS not supporting a director(s) election or director-related proposals in APAC.[10] Our assessment considered a number of factors, including the balance of independent and non-independent directors and the tenure of individual directors and the overall board on average.

The main reasons BIS signaled concerns about director independence in our voting decisions on behalf of clients in APAC in the 2021-2022 proxy year were: 1) insufficient level of overall board independence; and 2) lack of majority independence at board committees, specifically the remuneration and nomination committees. Other reasons included a lack of majority independence at the audit committee, board committee chairs not being independent, and executive directors serving on the audit committee.

As seen in Figure 2, in APAC we did not support one or more directors on independence concerns in one out of four companies where we voted on director elections in the 2021-2022 proxy voting year.[11]

A major factor driving our voting decisions not to support director elections was concerns about the independence of long-tenured INEDs. We believe that longer serving directors may be less able to act independently as they were involved in prior decisions that may need to be revisited and have, over time, established close relationships with management, other directors and, possibly, the controlling shareholder. In Asia, BIS considers INEDs that have served on a board for 12 or more years as non-independent, unless local market regulation has determined a lower limit of nine years.[12] Many APAC companies do not formalize an orderly board renewal process. Examining about 9,300 INEDs serving on boards in Asian companies where data is available, we found that 10% of INEDs in Asian companies are long-tenured under our classification.[13] Across the region, it is common to find directors who remain classified as independent even though they have been on the board for 20 years or more.

Figure 2. Percentage of companies where BIS did not support at least one director due to independence-related concerns by region in the 2021-2022 proxy year+

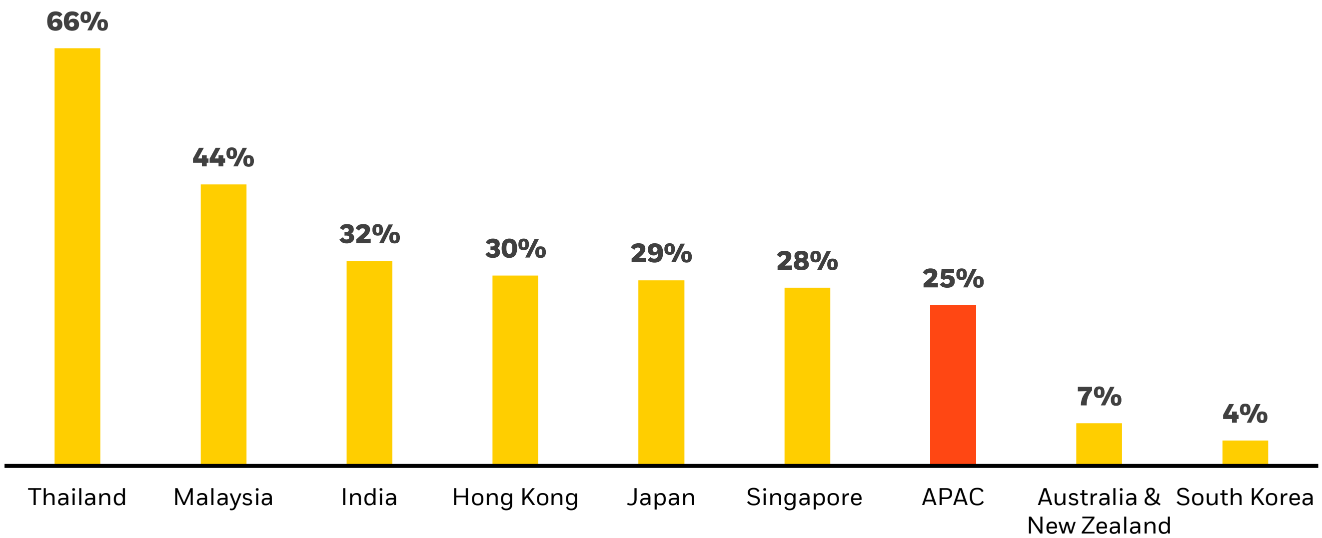


Source: BlackRock, Institutional Shareholder Services (ISS). Data as of June 29, 2022. Sourced on June 29, 2022, reflecting votes cast by BIS for meetings between July 1, 2021 through June 29, 2022.

+ Votes where BIS did not support at least one director in unique companies includes director elections only, abstentions included. Other director-related proposals are excluded from this analysis to allow for a better comparison across regions. Other director-related proposals may be included in other figures across this report to allow for a better comparison within the APAC region, as some markets, such as the Philippines and Taiwan, apply a cumulative voting system. Cumulative voting refers to a voting structure where individuals can pool their votes together for certain candidates. To learn more please refer to Cornell Law School's Legal Information Institute directory here.

Votes where we did not support director elections for independence concerns were particularly high in some of the ASEAN markets. BIS did not support elections of one director or more due to independence-related concerns at 66% of companies in Thailand and 44% in Malaysia. In Hong Kong, India, Japan, and Singapore, BIS did not support one or more directors due to independence concerns at approximately 30% of the companies where we voted on director elections. South Korea, however, saw higher levels of support on independence given tight regulatory limits on INED tenure.[14]

Figure 3. Percentage of APAC companies where BIS did not support at least one director due to independence-related concerns in the 2021-2022 proxy year+



Source: BlackRock, ISS. Sourced on September 1, 2022, reflecting data from July 1, 2021 through June 30, 2022.

+ Votes where BIS did not support at least one director in unique companies includes director elections only, abstentions included.

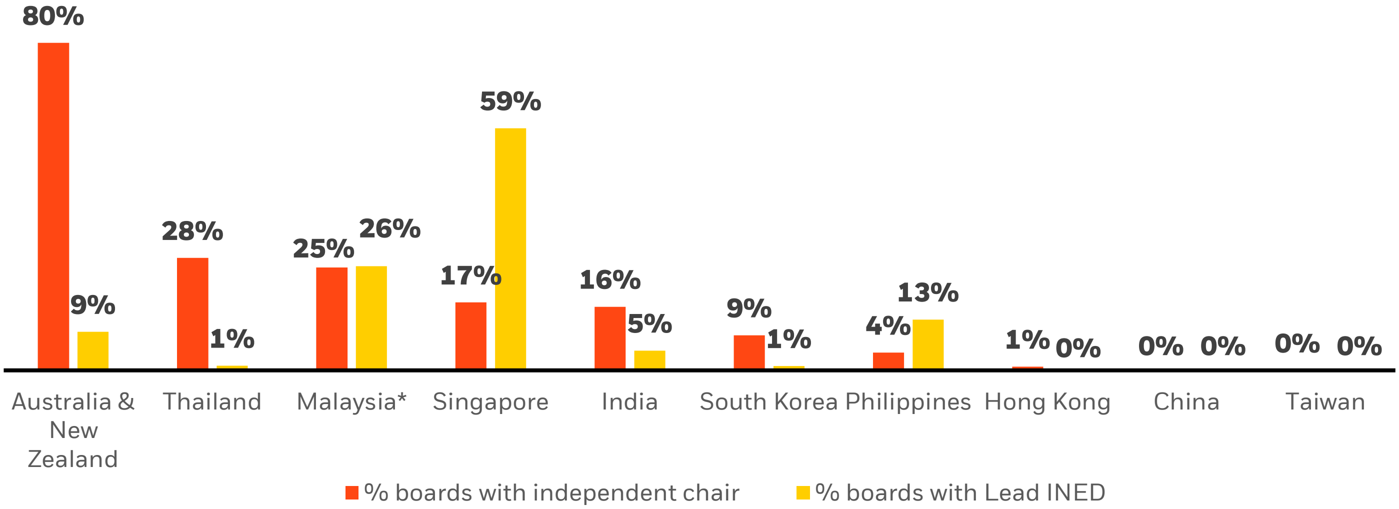
Note: This analysis includes votes on director elections only, abstentions included. Other director-related proposals, such as elections by cumulative voting, are excluded from this analysis to allow for a better comparison across regions. Hence, China, Taiwan, and the Philippines are excluded from Figure 3 as directors are elected by cumulative voting in most of the companies in these markets.

INEDs lacking a lead

In our experience, boards are most effective at overseeing and advising management when there is a senior independent board leader. This director may chair the board, or, where the chair is not independent, be designated as a Lead INED. The role of the designated Lead INED is to enhance the effectiveness of the independent members of the board through shaping the agenda, ensuring adequate information is provided to the board, and encouraging independent director participation in board deliberations. A Lead INED is able to strengthen communication among INEDs and between INEDs and the rest of the board. Importantly, this provides an independent counterbalance to controlling shareholder structures in Asia. Long term-investors tend to benefit when the Lead INED, or another appropriate director identified by the board, is available to shareholders in situations where an INED is better placed to provide detail of a company's approach to particular issues. This is still a nascent practice in most parts of the APAC region. Even at companies with a Lead INED, we note the reluctance of many companies in Asia ex-Japan to hold direct engagements between INEDs and minority shareholders. In addition to engaging with minority shareholders, a Lead INED's role can usefully include direct interaction with other key stakeholders that contribute to a company's long-term success. It is helpful to INEDs to understand key stakeholder views so they can better engage management on the related risks and opportunities.

Figure 4 shows that, while 80% of companies in Australia and New Zealand have independent chairs, independent board leadership is rare across Asia.[15] Singapore is the only market where a Lead INED is commonly appointed in the absence of an independent board chair.[16] Malaysia comes next but, we estimate, only about a quarter of companies have designated a Lead INED.[17]

Figure 4. Percentage of companies with an independent board chair+ and a Lead INED



Source: ISS, Minority Shareholder Watchdog Group (MSWG). Sourced on October 25, 2022, reflecting data as of October 25, 2022. The company universe includes companies where BIS voted on shareholder meetings in the 2021-2022 proxy year.

+ The independence of an independent board chair is assessed by BIS' assessment criteria of independence in APAC.

* Given missing data of lead or senior independent directors in Malaysia, the percentage is estimated based on a survey by the MSWG which indicates that for 2021 calendar year, 41.5% of companies in Malaysia that did not have an independent chair had a senior independent director. According to the same data source, 38% of companies where BIS voted on shareholder meetings in the 2021-2022 proxy year in Malaysia had an independent board chair according to company's own designation. Hence, it is estimated that 26% (= (100% - 38%) x 41.5%) of companies in Malaysia had a senior independent director.

In our experience, minority shareholder access to INEDs reinforces their accountability to the broader shareholder base. We find that direct interaction between INEDs and minority shareholders is almost non-existent in most Asian markets. In calendar year 2021, BIS held engagements with INEDs at 97% of the companies we engaged with in Australia and New Zealand. In Japan, although INEDs were not typically present in our engagements, we were able to meet with an INED if we asked. In all other Asian markets, there were only 12 BIS engagements where an INED was present, accounting for approximately 4% of the companies we engaged in these markets.[18]

Boards and board committees often lacking independence

INEDs can help ensure objectivity in decision-making by the board. However, in our assessment of 10 markets in the region,[19] these companies generally do not have a majority of INEDs based on BIS' assessment of independence. In Thailand, Hong Kong, Taiwan, and Philippines, INEDs generally account for one third or less of the board members at investee companies.

Board committees have the responsibility of overseeing matters such as audit, director nominations and compensation, which require a high level of independence. We observe that audit committees in APAC are generally composed of a majority of INEDs and chaired by an INED. There is greater divergence in the independence of remuneration and nomination committees. For example, INEDs generally constitute less than a majority on nomination and remuneration committees in the Philippines and Thailand.[20] Based on BIS' assessment of independence, more than half of the nomination committees in Hong Kong are chaired by non-independent directors and similarly for the nomination and remuneration committees in the Philippines.[21]

INEDs' compensation and share ownership

Excessive compensation of INEDs is not a major issue in Asian markets, in general, as controlling shareholders by and large limit the fees paid to directors. However, despite varying disclosure formats and data constraints in the different markets, we observe significant variation in INED compensation in the region. For FY2021, we find INEDs received median fees equivalent to approximately U.S. $160,000 in Australia but only approximately U.S. $64,000 in Asian markets, on average. Within Asia, INEDs were paid approximately U.S. $110,000 in Singapore, but between a quarter and half this amount in the other Asian markets.[22]

Within the markets, there is also a significant divergence in INED fees between the larger companies and most of the medium and smaller companies. Based on the same sample, we find the smaller companies typically pay their INEDs half as much as the larger constituents in the respective market indices. While the assessment of reasonable INED compensation is also a function of general income levels in the respective countries, a potential concern is that the relatively low fees paid to INEDs may partly indicate the modest expectations placed on them.

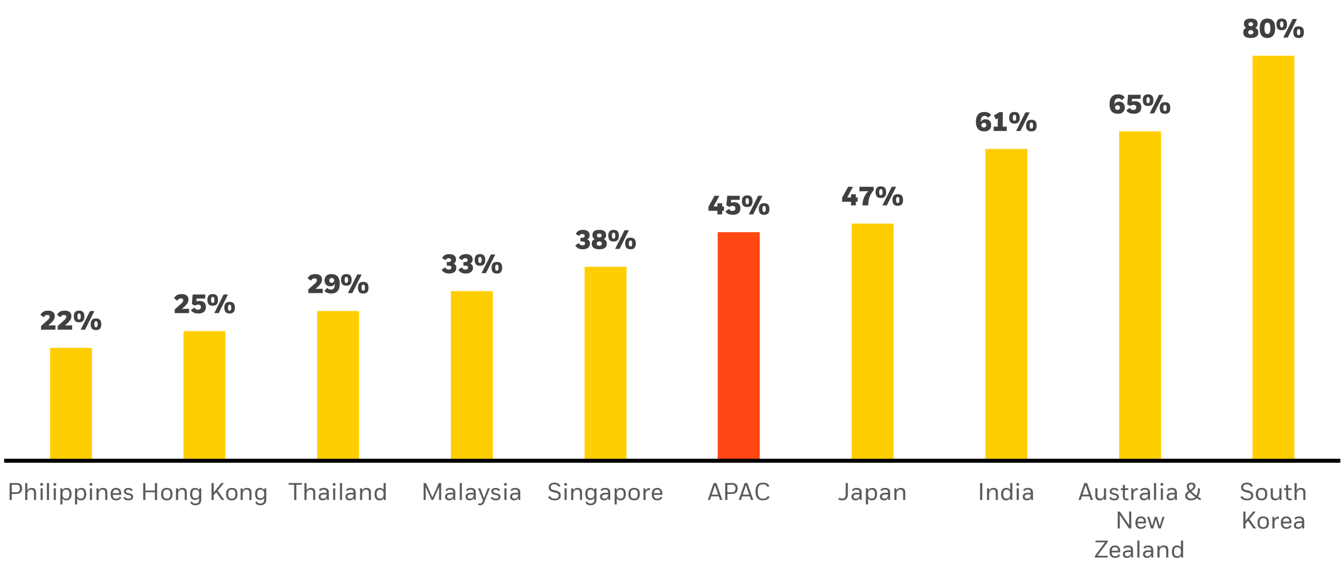
Some INEDs are over-committed

As the role of a director is increasingly demanding, directors must be able to commit an appropriate amount of time to board and committee matters. This is particularly true when emergencies arise, requiring greater time and attention of the directors to support management. From our analysis, we observe the most over-committed INEDs in Hong Kong and India.[23]

Votes on director-related proposals: Signal of progress

We see companies making progress addressing shareholders' independence concerns. Looking at the universe of companies where BIS did not support proposals over concerns about board independence in the past three proxy years, we observe that 45% of the companies took sufficient steps to address independence issues. As a result, we supported directors on independence grounds at these companies in the 2021-2022 proxy year.[24] Yet, the extent of progress varies considerably across markets as demonstrated in Figure 5, with higher rates of improvement in South Korea, Australia and New Zealand, and India for the 2021-2022 proxy year.[25]

Figure 5. Number of companies where BIS supported director-related proposals on independence grounds in the 2021-2022 proxy year+ as a percentage of companies BIS did not support on independence-related concerns at least once in the prior three proxy years



Source: BlackRock, ISS. Sourced on September 1, 2022.

+ Votes where BIS did not support at least one director in unique companies; includes all director-related proposals and abstentions.

Note: This graph indicates the companies where BIS voted to support director-related proposals on independence grounds in the 2021-2022 proxy year as a percentage of the companies where BIS: 1) did not support at least one director-related proposal due to independence-related concerns in the 2018-2021 proxy years, and 2) voted on at least one director-related proposal in the 2021-2022 proxy year. China and Taiwan are excluded as most companies in these markets re-elect directors once every three years, making the data difficult to compare.

Enhancing board independence in APAC

Enabling and incentivizing INEDs to act independently in fulfilling their responsibilities requires structural changes and the support of various market participants beyond the investor community. Given companies in Asia commonly have controlling shareholders, a key purpose of INEDs should be to resolve potential conflicts of interest between controlling and minority shareholders.

Regulators in all major APAC markets now require INEDs to be independent from controlling shareholders, in recognition of the key role they play in providing a balance to those who have significant control in a company.[26] Yet, despite this requirement, in practice, it is not clear that INEDs are positioned or incentivized to act independently as intended, i.e. as a balance to the controlling shareholders who would often be instrumental in their election. In our experience, the most effective INEDs are those who are able to act independently, are incentivized to do so, and are aware that they are accountable to all shareholders.

Based on BIS' experience engaging with APAC companies on board independence matters, and from our perspective as an engaged, minority long-term shareholder, we have identified recommendations to advance governance structures and enhance the independence of APAC company boards.

INED empowerment

INEDs need to be empowered to be effective. A key differentiator in companies seeking to enhance the independence of their board is the appointment of a Lead INED, and in particular when the board chair is not independent.

The Lead INED's responsibility should include engagement with investors. Alternatively, boards could designate an INED to be responsible for engaging with minority shareholders. We find it useful when companies regularly disclose the number of engagements between INEDs and minority shareholders to better evaluate accessibility of INEDs and to encourage stronger and more direct communication channels between the board and key stakeholders.

To constitute an effective independent voice, we believe at least one-third and ideally a majority of the board should be comprised of INEDs,[27] especially when the board chair is not independent. In our experience, objective oversight of matters such as audit, director nominations, and compensation is better achieved when board committees are composed of a majority of INEDs and chaired by one. In particular, committees that oversee related-party transactions should be fully independent, in our view. Vetting significant related-party transactions will often require the advice of an independent financial advisor. Although the cost is borne by the company, to be truly independent, the external financial advisor should be appointed by the INEDs rather than management. To strengthen their monitoring role, it is also necessary for INEDs to have oversight of whistleblowing mechanisms and complaints.

Nomination, election, and removal

In the context of controlling shareholder structures in the region and concerns about the independence of the nomination process, an effective renewal process would ensure INEDs do not serve for such lengths of time that their independence may get eroded as they develop deeper relationships with controlling shareholders and management. If a company seeks to retain INEDs who have been on the board for 12+ years for their skills, it may consider reclassifying them as non-independent while maintaining a sufficient level of board independence after such reclassification.

For INEDs to be more likely to be independent from the controlling shareholder, we find it useful if the nomination process is independent from management and controlling shareholders. We find effective nomination committees to be constituted and chaired by directors who are seen to be genuinely independent. Companies often need the services of external search firms to identify independent candidates beyond the circle of acquaintances of incumbent directors and management.

There is an inherent potential conflict when controlling shareholders are able to vote on the election of INEDs, whose role is to counter the influence of such shareholders. Accordingly, we find it effective when voting by the controlling shareholder of INED elections is subject to limitations, as seen in certain markets globally.[28] At a minimum, we find it useful to disclose the votes in support by minority shareholders for each INED nominee.

In our view, the removal of INEDs should be subject to a minority shareholder vote. When boards and/or controlling shareholders submit a proposal to remove an INED, minority shareholders need a thorough explanation of why removing the INED is in the interests of the company and all shareholders.

Expertise, capacity, and ongoing evaluation

We encourage companies to provide an explanation of the capacity of INEDs to contribute in situations where a board candidate is serving as a director on more than six public company boards. We also look to companies to document and disclose the attendance of all directors at board and relevant committee meetings as one of several indicators of whether directors are performing their function. Meanwhile, with related-party transactions being common in Asia, it is crucial for at least some INEDs to have sufficient financial expertise to assess the fairness and soundness of these transactions.

Companies seeking to ensure that the board is effective will generally conduct board evaluations, facilitated by an independent third party at regular intervals, ideally once every three years. BIS finds it useful when, following such an exercise, companies disclose a statement on any gaps identified and recommendations on the board.

Incentives and director insurance

We support boards in ensuring INEDs are appropriately and reasonably compensated and encourage share ownership by INEDs, although noting that granting options (rather than ordinary shares) or any compensation with time-based or performance-based vesting to INEDs could misalign their incentives and impair independent oversight. It is helpful for investors when companies disclose director compensation, including INED compensation on an individual and named basis, as well as information on the various forms of compensation that may be provided.

BIS finds it helpful to have an effective enforcement mechanism when INEDs breach their fiduciary duties. The provision of Directors and Officers (D&O) insurance to INEDs impacts the liabilities they bear personally. Companies need to determine within their national context and governance norms the appropriate balance between giving INEDs a sense of security while not raising the moral hazard risk of directors being negligent in performing their function. In APAC, where INEDs potentially lack incentives to provide a balance to the controlling shareholder structure, there is a risk that the protection provided by D&O insurance would further undermine such incentives. We look to companies to provide sufficient disclosure regarding D&O insurance purchased for directors. We would be concerned if gross negligence or willful misconduct is in effect included in D&O insurance coverage.

Conclusion

As we detail in this report, in our analysis, the quality and independence of company boards in APAC has been, and continues to be, a governance issue of focus. Over the past few years, we have observed encouraging progress from companies in addressing shareholders' concerns about board independence. We believe that companies can continue to make progress to enhance their corporate governance by appointing Lead INEDs, instituting effective processes for INED nomination, appointment, and removal, ensuring directors have the necessary experience and time to be fully engaged, and incentivizing independent actions aligned with the interests of all shareholders. We hope that these insights, informed by our extensive experience as a steward of our clients' assets in the APAC region, inform our clients about our perspectives on sound corporate governance and its effect on long-term financial value creation. BIS will continue to engage with companies on behalf of our clients to share our approach to board independence and sound corporate governance and will monitor the progress made by companies in the region.

This is a summary of a BIS working paper on board independence in APAC. For any inquiries, please email contactstewardshipapac@blackrock.com.

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Endnotes

1. For the purpose of this report, the APAC region includes the following markets: Australia, Hong Kong, India, Indonesia, Japan, China, Malaysia, New Zealand, Philippines, Singapore, South Korea, Taiwan, and Thailand.
2. Controlling shareholders include those that individually or collectively hold over 50% of a company's listed equities and thus have significant influence over corporate decision-making. The threshold is lower than 50% in certain markets (e.g. 30% in Hong Kong). A controlled company is one with this share ownership structure.
3. The 2021-2022 proxy year covers the period from July 1, 2021, to June 30, 2022, representing the U.S. Securities and Exchange Commission's (SEC) 12-month reporting period for U.S. mutual funds, including iShares.
4. For further details, see "2022 Voting Spotlight: A look into the 2021-2022 proxy voting year." In some Asian markets, the full board of directors stand for election on a three-year cycle, which means that at many companies, shareholders do not have the opportunity to vote on director elections in certain years.
5. ASEAN markets referred to in this report include Indonesia, Malaysia, the Philippines, Singapore, and Thailand.
6. We may have not supported directors at some of these same companies over concerns about other material governance or sustainability-related risks.
7. A moral hazard is a situation where a party has an incentive to increase its exposure to risk because it does not bear the full costs of the risk.
8. Our regional voting guidelines for the APAC region are publicly available under the "Stewardship policies" section on the BIS website.
9. For the purpose of this paper, Asia is defined as APAC excluding Australia and New Zealand.
10. "Director elections" is a category of management originated proposals which includes the election of directors by statutory voting and the discharge of directors or boards. "Director-related items or proposals" are a category of management originated, director-related proposals, such as supervisory board matters, declassification of boards, implementation of majority voting, among others. In this report, director-related proposals include director elections by both statutory voting and cumulative voting.
11. Votes where we did not support management includes votes withheld and abstentions. Votes where we did not support directors reflect only director elections.
12. As explained across this report, BIS considers INEDs who have been on the board for 12 or more years as long-tenured INEDs and hence essentially non-independent in Asia. Based on existing local market regulations and guidelines, that number is nine years in Singapore, Malaysia, and the Philippines; unless a cogent explanation is provided by the board, justifying the retention of the director as independent. We observe that different jurisdictions in APAC have different thresholds for defining long-tenured INEDs, ranging from six to 12 years of service on the board. While there is no consensus, BIS considers that a 12-year threshold, in general, provides the board the flexibility for retaining capable directors whilst still promoting board independence and succession planning. Similar to other developed markets, in Australia and New Zealand, nomination committees are not generally in the shadow of a controlling shareholder. In these markets we look at the average tenure of all the INEDs rather than any individual director.
13. Source: International Shareholder Services (ISS). Sourced on October 25, 2022, reflecting data as of October 25, 2022. The scope includes INEDs serving on the boards of companies where BIS voted on shareholder meetings in the 2021-2022 proxy year.
14. South Korea has a six-year limit for INEDs' tenure, which is set by law. For financial institutions, the tenure limit for INEDs is five years in South Korea. See: "Enforcement Decree Of The Commercial Act" based on translation by the Korea Law Translation Center.
15. Estimate based on BIS' assessment of independence.
16. Singapore requires the appointment of a Lead INED when the chairman is not independent on a comply-or-explain basis. See: Monetary Authority of Singapore, "Code of Corporate Governance." 2023.
17. MSWG. "Malaysia-ASEAN Corporate Governance 2021." The appointment of a senior INED is recommended by the regulator in Malaysia. See: Securities Commission Malaysia. "Malaysian Code on Corporate Governance." 2021. For the purpose of this paper, "senior INED" and "Lead INED" are used interchangeably.
18. Source: BlackRock. Sourced on September 1, 2022, reflecting data from January 1, 2021, through December 31, 2021.
19. The scope includes companies where BIS voted on shareholder meetings in the 2021-2022 proxy year in Australia and New Zealand, China, Hong Kong, India, Malaysia, Philippines, Singapore, South Korea, Taiwan, and Thailand. Source: ISS. Sourced on October 25, 2022, reflecting data as of October 25, 2022.
20. Source: ISS. Sourced on October 25, 2022, reflecting data as of October 25, 2022. The scope includes companies where BIS voted on shareholder meetings in the 2021-2022 proxy year and where the respective key committees were established.
21. Source: ISS. Sourced on October 25, 2022, reflecting data as of October 25, 2022. The scope includes companies where BIS voted on shareholder meetings in the 2021-2022 proxy year and where a chair of the respective key committees was identified.
22. Source: Company disclosure, ISS, Wind, FactSet. All figures are converted to USD based on exchange rates as of December 31, 2021. BIS has sampled 20 companies for each of the markets. The sample includes representation of the seven largest, six medium-sized, and seven smallest companies in the respective MSCI market indices. Annual individual or average INED compensation data is then collected for each of the sample companies and inputted into the calculation of median compensation. Data of independent board leaders such as board chair or lead independent director is excluded since their responsibilities and compensation tend to be significantly different from other INEDs.
23. Source: ISS. Sourced on October 25, 2022, reflecting data as of October 25, 2022. Over-committed INEDs are INEDs who serve on more than six public company boards. The scope includes INEDs serving on the boards of companies where BIS voted on shareholder meetings in the 2021-2022 proxy year. An over-committed INED serving on multiple companies in BIS' coverage would only be counted once.
24. We may have not supported directors at some of these same companies over concerns about other material governance or sustainability-related risks.
25. South Korea, Australia, New Zealand, and India demonstrated a higher level of responsiveness in addressing independence-related concerns, measured in terms of the falling proportion of our votes signaling concerns on board independence on director-related proposals in the 2021-2022 proxy year against the prior three proxy years. It should be noted, however, that the timing of certain market-level policies coming into effect may have played a role. For instance, in South Korea, the regulation on tenure limit was amended to six years, effective in January 2021. See: Amendment on Article 34 of Enforcement Decree Of The Commercial Act was announced and came effective on January 29, 2020. Please see "ADDENDA <Presidential Decree No. 30363, Jan. 29, 2020>."
26. See Chapter 3 "Varieties of Independent Directors in Asia" in Dan W. Puchniak, Harald Baum, Luke Nottage. "Independent Directors in Asia: A Historical, Contextual and Comparative Approach." 2017, for a discussion on the evolution of the concept of INED in Asia, especially in Japan and Singapore.
27. In Taiwan, BIS withholds support for boards that are below one-third independence only at large companies, i.e. those in the MSCI Taiwan Index, since current regulation still permits boards composed of only one-fifth INEDs. In Japan, BIS withholds support for boards that are below one-third independence only at companies listed on Prime market in the Japan Exchange Group or companies with an audit committee or adopting the three-committee structure.
28. The UK for instance has set up a dual voting process for INEDs in premium-listed companies, where the appointment of an INED is subject to a vote by all shareholders and a separate vote by only independent shareholders, although a failed proposal can still be passed by a similar majority of all shareholders after a 90-day cooling off period.

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