



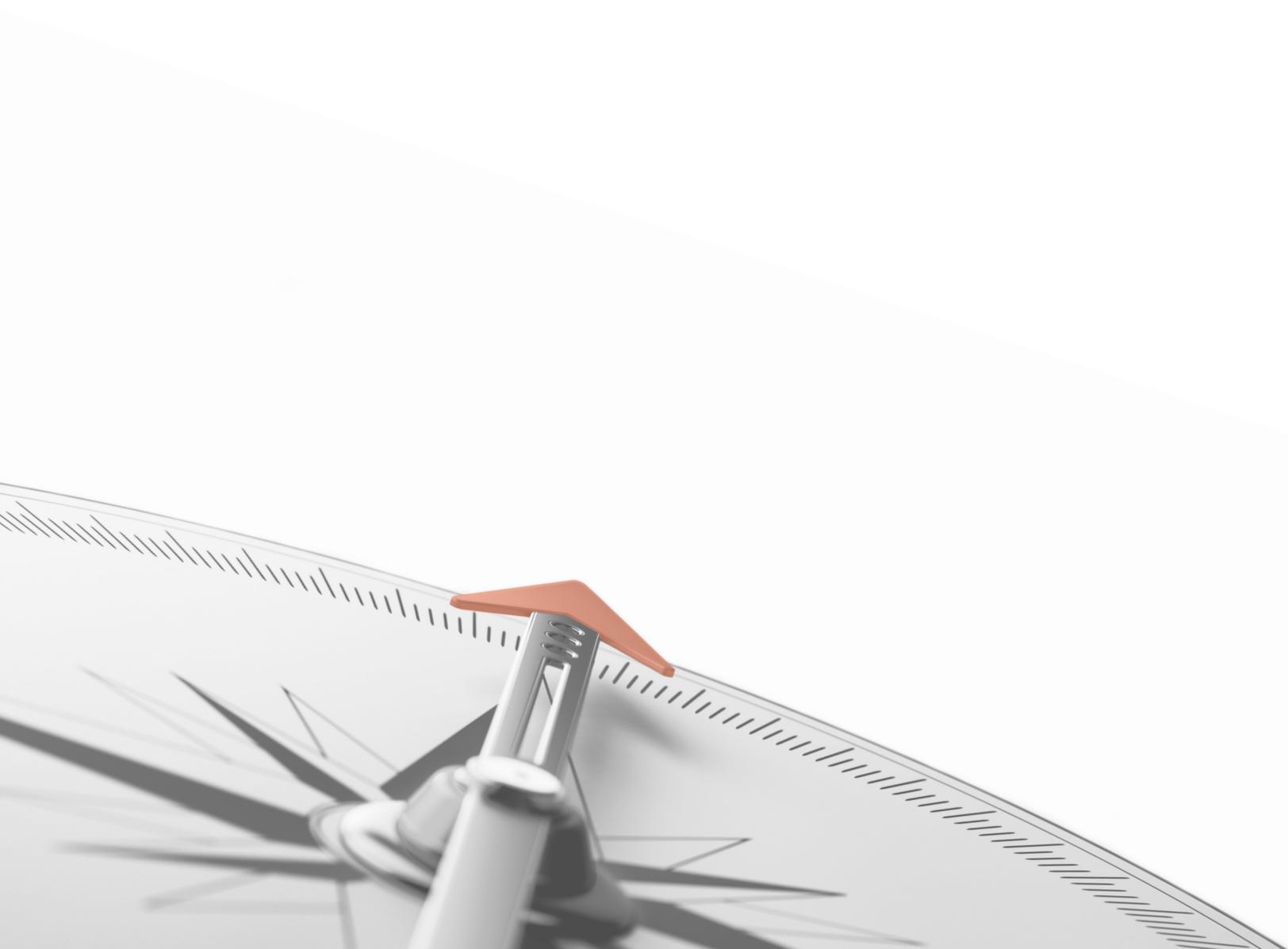
**2021**

PROXY PAPER™

# GUIDELINES

AN OVERVIEW OF THE GLASS LEWIS APPROACH TO PROXY ADVICE

# CANADA



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# Guidelines Introduction

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## MARKET OVERVIEW

Each territory and province in Canada is responsible for its own securities regulation. There is no federal regulatory agency like in many markets, such as the Securities and Exchange Commission in the United States. Most provincial regulatory authorities, however, use as a guide the rulemaking of the Ontario Securities Commission (“OSC”), which oversees the Toronto Stock Exchange (“TSX”) and administers and enforces the provincial Securities Act, the Commodities Futures Act and certain provisions of the Canada Business Corporations Act (“CBCA”). These acts set out the OSC’s authority to develop and enforce rules that help safeguard investors, deter misconduct and foster fair and efficient capital markets and confidence throughout Canadian markets. In addition, the TSX Company Manual provides a set of unified listing requirements to which issuers must adhere.

The Canadian Securities Administrators (“CSA”) is an umbrella organization of Canada’s provincial and territorial securities regulators who work collaboratively to improve, coordinate and harmonize regulation of the Canadian capital markets. The CSA regulates the securities markets through policies set out in a number of multilateral or national instruments. The 13 provincial regulatory bodies in Canada operate under a “passport” system, whereby each has agreed to adopt the decisions made by other agencies. While the OSC is not technically a part of the passport system, the 12 other agencies have agreed to abide by its decisions. The OSC continues to separately analyze decisions made by the other regulatory bodies.

Many Canadian market rules are similar to U.S. corporate governance legislation; however, contrary to the U.S. “rules-based” approach, the Canadian “principles-based” approach requires companies to publicly disclose the extent of their compliance with best practices and to describe the procedures they have implemented to meet each principle.

## REGULATORY UPDATES

Since an amendment to the CBCA that entered force on January 1, 2020, there are additional disclosure obligations around organization diversity at federally incorporated corporations. The primary effect of the CBCA amendment is to broaden the meaning of diversity beyond gender to include other “designated groups”. The new requirements will apply to all CBCA reporting issuers, including issuers listed on the Toronto Stock Exchange (TSX), TSX Venture Exchange (TSXV) and Canadian Securities Exchange (CSE). Aside from women, other now designated groups include Aboriginal persons, members of “visible minorities,” and persons with disabilities. Companies may also voluntarily disclose further groups they feel contribute to diversity of board and management.

Like existing securities rules, the amendment imposes a “comply or explain” regime. Companies must disclose the number and proportion of directors and senior officers who are of such designated groups, and also whether they have adopted policies relating to diversity. However, companies are not required to adopt policies or quotas.

Further legal and regulatory rule-changes are in the pipeline, with a CBCA amendment mandating an annual advisory say on pay passed but not yet declared in force. Further, the Ontario Capital Markets Modernization Taskforce (the “CMM Taskforce”) has suggested a number of changes including mandating an annual advisory say on pay and similar diversity disclosure to the above CBCA requirements. If adopted, these would affect all TSX-listed companies, though are unlikely to be in force until 2022 at the earliest.

## SUMMARY OF CHANGES FOR THE 2021 CANADA POLICY GUIDELINES

Glass Lewis evaluates these guidelines on an ongoing basis and formally updates them on an annual basis. This year we've made noteworthy revisions in the following areas, which are summarized below but discussed in greater detail in the relevant section of this document:

### BOARD GENDER DIVERSITY

We have expanded our policy on board gender diversity at TSX-listed issuers. Beginning in 2021, we will note as a concern boards consisting of fewer than two female directors. Our voting recommendations in 2021 will be based on our current requirement of at least one female board member; but, beginning with shareholder meetings held after January 1, 2022, we will generally recommend voting against the nominating committee chair of a board with fewer than two female directors. For boards with six or fewer total members, our existing voting policy requiring a minimum of one female director will remain in place.

When making these voting recommendations, we will carefully review a company's disclosure of its diversity considerations, targets and timelines, and may refrain from recommending that shareholders vote against directors on this basis when boards have provided a sufficient rationale or plan to address the lack of diversity on the board.

### BOARD SKILLS

We have updated these guidelines to reflect the fact that we may recommend voting against the chair of the nomination committee if a board has not addressed major issues of board composition, including the composition, mix of skills, and experience of the non-executive element of the board.

### BOARD REFRESHMENT

Glass Lewis strongly supports periodic board refreshment to foster the sharing of diverse perspectives and new ideas. Beginning in 2021, we will note as a potential concern instances where the average tenure of non-executive directors is 10 years or more and no new independent directors have joined the board in the past five years. We will not be making voting recommendations solely on this basis in 2021; however, insufficient board refreshment may be a contributing factor in our recommendations when additional board-related concerns have been identified.

### ENVIRONMENTAL AND SOCIAL RISK OVERSIGHT

We have updated our guidelines with respect to board-level oversight of environmental and social issues. Beginning in 2021, Glass Lewis will note as a concern when boards of companies in the S&P/TSX 60 index do not provide clear disclosure concerning the board-level oversight afforded to environmental and/or social issues. Beginning with shareholder meetings held after January 1, 2022, we will generally recommend voting against the governance chair of a company in the aforementioned index who fails to provide explicit disclosure concerning the board's role in overseeing these issues.

While we believe that it is important that these issues are overseen at the board level and that shareholders are afforded meaningful disclosure of these oversight responsibilities, we believe that companies should determine the best structure for this oversight for themselves. In our view, this oversight can be effectively conducted by specific directors, the entire board, a separate committee, or combined with the responsibilities of a key committee.

### FINANCIAL EXPERTISE

We will increase our scrutiny of the level of professional expertise on audit committees, which we believe should have at least one member with experience as a certified public accountant, CFO or corporate controller of similar experience, or demonstrably meaningful experience overseeing such functions as senior execu-

tive officers (“financial expert”). This is a slightly stricter definition than the CSA’s ‘financial literacy’ requirement and would be closer to that of the SEC for ‘audit committee financial experts’. Beginning 2021 for TSX companies, we will flag as a concern such shortfalls in audit committee member professional experience. We will generally refrain from making recommendations solely on this basis, except where we raise other concerns with the performance of the audit committee.

## **DIRECTOR ATTENDANCE/COMMITTEE MEETING DISCLOSURES**

As announced last year, in 2021 we will begin recommending against the governance committee chair when: (i) records for board and committee meeting attendance are not disclosed, and; (ii) the number of audit committee meetings that took place during the most recent year is not disclosed. We will recommend against the audit committee chair if the audit committee did not meet at least four times during the year.

## **EXCLUSIVE FORUM PROVISIONS**

In response to an uptick in article amendment proposals requesting to adopt exclusive forum provisions to restrict lawsuits to a specific provincial jurisdiction, we lay out our policy on company adoptions of exclusive forum provisions.

## **CHANGE OF CONTINUANCE**

We have expanded our discussion around governance structure and the shareholder franchise to include our policy on proposals requesting a change of continuance. We will analyze each change individually, and decide if the proposed change of continuance, on balance is in the best interests of the Company and its shareholders.

## **POOR DISCLOSURE**

Since company disclosure is critical when assessing governance standards and the performance of board members, Glass Lewis will enact a stricter voting policy at companies where disclosure standards are poor, unclear, outdated or contradictory. Included under this assessment will be the quality and clarity of federally incorporated (CBCA) companies disclosing the rate of representation of Designated Groups at board and management-level. We intend to hold the chair of the governance committee responsible for poor disclosure standards.

## **OTHER CLARIFYING AMENDMENTS**

### **INDEPENDENCE CLASSIFICATION**

We clarify that we consider employees of significant shareholders and explicit designees of such shareholders to be affiliated. We will consider a employees of a company’s ongoing major beneficial shareholder or party of interest through a material financial relationship (related party transaction) to be affiliated for three years after they cease to be employed by such party, so long as the party continues to have a relationship with the company in question.

### **COMPENSATION COMMITTEE PERFORMANCE**

We emphasize that compensation committee member reelection at an annual meeting will receive particularly close scrutiny at the boards of companies that do not provide shareholders with an advisory vote on executive compensation.

### **SHORT-TERM INCENTIVES**

We have codified additional factors Glass Lewis will consider in assessing a company’s short-term incentive plan. Specifically, we expect clearly disclosed justifications to accompany any significant changes to a com-

pany's short-term incentive plan structure, as well as any instances in which performance goals have been lowered from the previous year. Additionally, we have expanded our description of the application of upward discretion to include instances of retroactively prorated performance periods.

## **LONG-TERM INCENTIVES**

We have codified additional factors we will consider in assessing long-term incentive plan structure. Specifically, we have defined inappropriate performance-based award allocation as a criterion which may, in the presence of other major concerns, contribute to a negative recommendation. Additionally, any decision to significantly roll back performance-based award allocation will be reviewed as a regression of best practices, that outside of exceptional circumstances, may lead to a negative recommendation.

Additionally, we have defined that clearly disclosed explanations are expected to accompany long-term incentive equity granting practices, as well as any significant structural program changes or any use of upward discretion.

## **OPTION EXCHANGES AND REPRICING**

We have added language clarifying our approach in evaluating option exchanges and repricing proposals, which emphasizes the importance of the exclusion of officers and board members from the program, as well as that the program be value-neutral or value -creative, in driving any exceptions to Glass Lewis' general opposition to such proposals.

## **PEER GROUP METHODOLOGY**

In the section titled Pay for Performance, we have clarified that, in determining the peer groups used in our A-F pay-for-performance letter grades, Glass Lewis utilizes a proprietary methodology, as previously announced in 2019. In forming this proprietary peer group, Glass Lewis considers both country-based and sector-based peers, along with each company's network of self-disclosed peers. Each component is considered on a weighted basis and is subject to size-based ranking and screening. The peer groups used are provided to Glass Lewis by CGLytics based on Glass Lewis' methodology and using CGLytics' data.

Lastly, we have made several minor edits of a housekeeping nature in order to enhance clarity and readability.

# A Board of Directors that Serves the Interests of Shareholders

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## ELECTION OF DIRECTORS

The purpose of Glass Lewis' 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. Glass Lewis looks for talented boards with a record of protecting shareholders and delivering value over the medium- and long-term. We believe that boards working to protect and enhance the best interests of shareholders are (i) independent, (ii) have directors with diverse backgrounds, (iii) have a record of positive performance, and (iv) have members with a breadth and depth of experience.

## SLATE ELECTIONS

Glass Lewis views the use of slate elections as a significant hindrance to the director election process that results in substantially reduced individual accountability. Therefore, when reviewing a slate election, if significant concerns<sup>1</sup> exist concerning any of the nominees, we may recommend withholding votes from the entire slate. However, when our concerns are limited to poor attendance or an excessive number of public company directorships or audit committee memberships, and the aggregate number of directors with these issues represent less than one-third of the total board, we will recommend that shareholders vote for the entire slate of directors. Nonetheless, slate elections are very uncommon in Canada, owing to their prohibition under TSX listing rules.

## INDEPENDENCE

The independence of directors, or lack thereof, is ultimately demonstrated through their decisions. In assessing the independence of directors, we will take into consideration whether a director has a track record indicative of making objective decisions. Ultimately, we believe the determination of a director's independence must take into consideration his/her compliance with the applicable listing requirements on independence, as well as his/her past decisions.

We look at each individual on the board and examine his or her relationships with the company, its associated entities and executives, and other board members. The purpose of this inquiry is to determine whether pre-existing personal, familial or such financial relationships (apart from compensation as a director) are likely to

impact the decisions of that board member. We believe the existence of personal, familial or financial relationships make it difficult for a board member to put the interests of the shareholders above personal interests.

To that end, we classify directors in three categories based on the type of relationships they have with the company:

**Independent Director** — A director is independent if s/he has no direct or indirect material financial or familial connections with the company, its executives, its independent auditor or other board members, except for service on the board and the standard fees paid for that service. Employee rela-

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<sup>1</sup> Such concerns generally relate to: (i) the presence of non-independent directors on a committee; (ii) the absence of an independent chair/lead director or compensation committee; (iii) an insufficiently independent board; (iv) excessive non-audit fees paid to the company's auditor; or (v) significant related-party transactions.

tionships that have existed within the past five years and other relationships that have existed within the three years prior to the inquiry are usually considered to be “current” for purposes of this test. However, Glass Lewis 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.

**Affiliated Director** — A director is affiliated if s/he has a material, financial, familial or other relationship with the company, its independent auditor or its executives, but is not an employee of the company. This includes directors whose primary employers have a material financial relationship with the company, as well as those who own or control at least 20% of either the company’s issued share capital, or its outstanding voting rights, or explicitly serve as executives or director representatives of such significant shareholders.

We will apply a three-year look-back to directors who are no longer employed by an ongoing related party or large shareholder.. We note that in every instance in which a company classifies one of its directors as non-independent, that director will be classified as an affiliate by Glass Lewis.<sup>2</sup>

We view 20% shareholders as affiliates because they typically have access to and involvement with the management of a company that is fundamentally different from that of ordinary shareholders. More importantly, 20% holders may have interests that diverge from those of ordinary holders, for reasons such as the liquidity (or lack thereof) of their holdings, personal tax issues, etc. Glass Lewis applies a three-year look back period to all directors who have an affiliation with the company other than former employment, for which we apply a five-year look back.

Definition of “**Material**”: A material relationship is one in which the dollar value exceeds:

(i) C\$50,000 (C\$25,000 for venture firms), or where no amount is disclosed, for directors who personally receive compensation for a service they have agreed to perform for the company, outside of their service as a director, including professional or other services;

(ii) C\$100,000 (C\$50,000 for venture firms), or where no amount is disclosed, for those directors employed by a professional services firm such as a law firm, investment bank or consulting firm where the firm is paid for services but not the individual directly (see section on TSX Venture Companies for exceptions). This dollar limit would also apply to charitable contributions to schools where a board member is a professor, or charities where a board member serves on the board or is an executive, or any other commercial dealings between the company and the director or the director’s firm;

(iii) 1% of either company’s consolidated gross revenue for other business relationships (e.g., where the director is an executive officer of a firm that provides or receives services or products to or from the company).

Definition of “**Familial**” as used herein includes a person’s spouse, parents, children, siblings, grandparents, uncles, aunts, cousins, nieces and nephews, in-laws, and anyone (other than domestic employees) who share such person’s home.

Definition of “**Company**” includes any parent or subsidiary in a consolidated group with the company or any entity that merged with, was acquired by, or acquired the company.

**Inside Director** — An inside director is one who simultaneously serves as a director and as 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.

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<sup>2</sup> If the reason for a director’s non-independent status cannot be discerned from the company’s documents, we will footnote the director in the board table as “Not considered independent by the board.” In all other cases where the director is considered affiliated or is an insider, we will footnote the reasons or circumstances for the director’s status.

## VOTING RECOMMENDATIONS ON THE BASIS OF INDEPENDENCE

Glass Lewis believes that a board will most effectively perform the oversight necessary to protect the interests of shareholders if it is independent. In general, at least a majority of a board should consist of independent directors.<sup>3</sup> However, Glass Lewis believes boards of companies in the S&P/TSX Composite Index should have a greater level of independence, reflecting both these companies' size and best practice in Canada. Therefore, we will expect such companies' boards to be at least two-thirds independent. Further, for venture-listed issuers, we apply a more lenient standard, requiring boards to have at least two independent directors, representing no less than one-third of the board. In the event that a board fails to meet these thresholds, we typically recommend shareholders withhold their votes from some of the inside and/or affiliated directors in order to satisfy these independence standards.

We are firmly committed to the belief that only independent directors should serve on a company's audit, compensation and nominating and/or governance committees (we may refer to these as "key committees"). As such, we typically recommend that shareholders withhold their votes from affiliated or inside directors seeking appointment to these committees; however, we allow for exceptions to this rule, including carve outs for significant shareholders and for controlled companies and firms listed on the TSX Venture Exchange, as discussed below. These exceptions do not extend to audit committee memberships nor do they extend to members or affiliates of management seeking appointment to the compensation committee.

## SIGNIFICANT SHAREHOLDERS

Where an individual or entity holds between 20-50% of a company's voting power, we will allow for proportional representation on the board and committees (excluding the audit committee) based on the individual or entity's percentage of ownership.

## PERFORMANCE

The most crucial test of a board's commitment to the company and its shareholders lies in the actions of the board and its members. We look at the performance of these individuals as directors and executives of the company and of other companies where they have served.

We find that a director's past conduct is often indicative of future conduct and performance. We often find directors with a history of overpaying executives or of serving on boards where avoidable disasters have occurred serving on the boards of companies with similar problems.

## VOTING RECOMMENDATIONS ON THE BASIS OF PERFORMANCE

We typically recommend that shareholders vote against directors who have served on boards or as executives of companies with records of poor performance, inadequate risk oversight, excessive compensation, audit- or accounting-related issues, and/or other indicators of mismanagement or actions against the interests of shareholders. We will reevaluate such directors based on, among other factors, the length of time passed since the incident giving rise to the concern, shareholder support for the director, the severity of the issue, the director's role (e.g., committee membership), director tenure at the subject company, whether ethical lapses accompanied the oversight lapse, and evidence of strong oversight at other companies.

Likewise, we examine the backgrounds of those who serve on key board committees to ensure that they have the required skills and diverse backgrounds to make informed judgments about the subject matter for which the committee is responsible.

We believe shareholders should avoid electing directors who have a record of not fulfilling their responsibilities to shareholders at any company where they have held a board or executive position. We typically recommend voting against:

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<sup>3</sup> National Instrument 58-201 – Effective Corporate Governance.

1. A director who fails to attend a minimum of 75% of board meetings and/or key committee meetings in the absence of a reasonable explanation for their poor attendance record.<sup>4</sup>
2. A director who is also the CEO of a company where a serious and material restatement has occurred after the CEO had previously certified the pre-restatement financial statements.<sup>5</sup>
3. A director who has received two against recommendations from Glass Lewis for identical reasons within the prior year at different companies (the same situation must also apply at the company being analyzed).
4. A director who exhibits a pattern of poor oversight in the areas of executive compensation, risk management or director recruitment/nomination.

## BOARD RESPONSIVENESS

Glass Lewis believes that boards should be responsive to shareholder concerns and issues that may adversely affect shareholder value. These include instances when 20% or more of shareholders: (i) withhold votes from (or vote against) a director nominee; (ii) vote against a management-sponsored proposal; or (iii) vote for a shareholder proposal. In our view, a 20% threshold is significant enough to warrant a close examination of the underlying issues and an evaluation of whether or not the board responded appropriately following the vote, particularly in the case of a compensation or director election proposal. While the 20% threshold alone will not automatically generate a negative vote recommendation from Glass Lewis on a future proposal (e.g., to recommend against a director nominee, against a say-on-pay proposal, etc.), it may be a contributing factor to our recommendation to vote against management proposals or certain directors in the event we determine that the board or a board committee did not respond appropriately to an ongoing issue.

With regards to companies where voting control is held through a multi-class share structure with disproportionate voting and economic rights, we will carefully examine the level of approval or disapproval attributed to unaffiliated shareholders when determining whether board responsiveness is warranted. Where vote results indicate that a majority of unaffiliated shareholders supported a shareholder proposal or opposed a management proposal, we believe the board should demonstrate an appropriate level of responsiveness.

As a general framework, our evaluation of board responsiveness involves a review of publicly available disclosures (e.g., the management information circular, press releases, company website, etc.) released following the date of the company's last annual meeting up through the publication date of our most current Proxy Paper. Depending on the specific issue, our focus typically includes, but is not limited to, the following:

- At the board level, any changes in directorships, committee memberships, disclosure of related party transactions, meeting attendance, or other responsibilities.
- Any revisions made to the company's articles of incorporation, bylaws or other governance documents.
- Any press or news releases indicating changes in, or the adoption of, new company policies, business practices or special reports.
- Any modifications made to the design and structure of the company's compensation program.

Our Proxy Paper analysis will include a case-by-case assessment of the specific elements of board responsiveness that we examined along with an explanation of how that assessment impacts our current vote recommendations.

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<sup>4</sup> However, where a director has served for less than one full year, we will typically not recommend voting against for failure to attend 75% of meetings. Rather, we will note the poor attendance with a recommendation to track this issue going forward. We will also refrain from recommending to vote against directors when the proxy discloses that the director missed the meetings due to serious illness or other extenuating circumstances.

<sup>5</sup> National Instrument 52-109 requires the certification of all financial filings by each the CEO and CFO.

## SEPARATION OF THE ROLES OF CHAIR AND CHIEF EXECUTIVE

Glass Lewis believes that separating the roles of corporate officers and the board chair is typically a better governance structure than a combined executive/chair position.<sup>6</sup> The role of executives is to manage the business on the basis of the course charted by the board. Executives should report to the board regarding their performance in achieving goals previously set by the board. This is needlessly complicated when a CEO chairs the board, since we presume a CEO/chair will have significant influence over the board.

It can become difficult for a board to fulfill its roles as overseer and policy-setter when the chief executive/chair controls the agenda and the discussion in the boardroom. A combination of these roles generally provides chief executives with leverage to entrench their position, leading to longer-than-optimal terms, fewer checks on management, less scrutiny of the operation of the business and increased limitations on independent, shareholder focused goal-setting by the board.

We view an independent chair as better able to oversee the executives of the company and set a pro-shareholder agenda without the management conflicts that a chief executive or other insiders often face. This, in turn, leads to a more proactive and effective board of directors that is looking out for the interests of shareholders above all else. We will recommend shareholders withhold votes from the nominating/governance committee chair when a board does not have some established form of independent leadership.

We typically do not recommend that shareholders withhold votes from chief executives who chair the board. However, we generally encourage our clients to support a separation between the roles of board chair and chief executive whenever that question is posed in a proxy, as we believe such a governance structure is in the best long-term interests of the company and its shareholders.

Furthermore, Glass Lewis strongly supports the existence of an independent presiding or lead director with the authority to set the agenda for meetings and lead sessions outside the presence of the insider chair.

## BOARD COMMITTEES

### THE ROLE OF A COMMITTEE CHAIR

Glass Lewis believes that a designated committee chair maintains primary responsibility for the actions of his or her respective committee. As such, many of our committee-specific vote recommendations reference the applicable committee chair rather than the entire committee (depending on the severity of the issue). However, in cases where we would ordinarily recommend voting against a committee chair but one has not been appointed or disclosed, we apply the following general rules, which apply throughout our guidelines:

- If there is no committee chair, we recommend voting against the longest-tenured committee member or, if the longest-serving committee member cannot be determined, the longest-serving board member serving on the committee (i.e., in either case, the “senior director”);
- If there is no committee chair, but multiple senior directors serving on the committee, we recommend voting against one, both (or all) such senior directors as applicable.

In our view, companies should clearly disclose which director is charged with overseeing each committee. In cases where this simple framework is ignored and a reasonable analysis cannot determine which committee member is the designated leader, we believe shareholder action against the longest serving committee member(s) is warranted. To be clear, this only applies in cases where we would ordinarily recommend voting against the committee chair but no such position exists or there is no designated director in such role.

When we would ordinarily recommend that shareholders vote against the committee chair but that committee

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<sup>6</sup> National Instrument 58-201 states that the chair of the board should be an independent director and that where this is not appropriate, an independent director should be appointed to act as “lead director.” Either an independent chair or an independent lead director should act as the effective leader of the board and ensure that the board’s agenda will enable it to successfully carry out its duties.

does not exist, we will instead recommend that shareholders vote against the non-executive chair, or in the absence thereof, the longest-serving non-executive director on the board. Similarly, when we would otherwise recommend that shareholders vote against the board chair for a perceived governance failure, but the chair either cannot be identified or serves as an executive, we will recommend that shareholders vote against the senior non-executive member of the board.

## AUDIT COMMITTEE PERFORMANCE

Audit committees play an integral role in overseeing the financial reporting process because stable capital markets depend on reliable, transparent, and objective financial information to support an efficient and effective capital market process. Audit committees play a vital role in providing this disclosure to shareholders.

When assessing an audit committee's performance, we are aware that this committee does not prepare financial statements, is not responsible for making the key judgments and assumptions that affect the financial statements, and does not audit the numbers or other disclosures provided to investors. Rather, the audit committee monitors and oversees the processes and procedures that management and auditors perform. The 1999 Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees stated it best:

*"A proper and well-functioning system exists, therefore, when the three main groups responsible for financial reporting — the full board including the audit committee, financial management including the internal auditors, and the outside auditors — form a 'three legged stool' that supports responsible financial disclosure and active participatory oversight. However, in the view of the Committee, the audit committee must be 'first among equals' in this process, since the audit committee is an extension of the full board and hence the ultimate monitor of the process."*

## STANDARDS FOR ASSESSING THE AUDIT COMMITTEE

For an audit committee to function effectively on investors' behalf, it must include members with sufficient knowledge to diligently carry out their responsibilities. In its audit and accounting recommendations, the Conference Board Commission on Public Trust and Private Enterprise said "members of the audit committee must be independent and have both knowledge and experience in auditing financial matters."<sup>7</sup>

Glass Lewis generally assesses audit committees against the decisions they make with respect to their oversight and monitoring role. Shareholders should be provided with reasonable assurance as to the material accuracy of financial statements based on: (i) the quality and integrity of the documents; (ii) the completeness of disclosures necessary for investors to make informed decisions; and (iii) the effectiveness of internal controls. The independence of the external auditors and the results of their work provide useful information for assessing the audit committee.

At a minimum, we believe audit committees should have at least one member with experience as a certified public accountant, CFO or corporate controller of similar experience, or demonstrably meaningful experience overseeing such functions as senior executive officers ("financial expert"). This is a slightly stricter definition than the CSA's 'financial literacy' requirement and would be closer to that of the SEC for audit committee financial experts. As a general rule of thumb, we would consider audit committee members [to be financial experts](#) if they meet our definition of having experience in Financial/Audit & Risk matters under our skills appendix.

When assessing the decisions and actions of an audit committee, we typically defer judgment to its members; however, we may recommend withholding votes from the following members under these circumstances:

1. The chair of the audit committee who served on the committee at the time of the audit, if audit and audit-related fees total less than 50% of the fees billed by the auditor; in the second consecutive year of excessive non-audit fees, all members of the audit committee who served on the committee

<sup>7</sup> Commission on Public Trust and Private Enterprise. The Conference Board. 2003.

during the period in question.

2. All members of the audit committee who presided over a significant failure to oversee material environmental and social risks, in the absence of a separate committee with dedicated environmental and social risk oversight functions.
3. All members of the audit committee who sit on an excessive number of public company audit committees.<sup>8</sup>
4. The audit committee chair if there is not at least one member can reasonably be considered a financial expert as defined above. We will generally refrain from making recommendations solely on this basis in 2021, except where we have identified other concerns with the performance of the audit committee.
5. The audit committee chair if the audit committee did not meet at least four times during the year.
6. The audit committee chair if the audit committee consisted of fewer than three members for the majority of the fiscal year (see section on venture firms for exceptions).
7. All members of the audit committee who served at a time when the company failed to report or have its auditors report material weaknesses in internal controls.
8. All members of the audit committee who served at a time when financial statements had to be restated due to negligence or fraud.
9. All members of the audit committee if the company has repeatedly failed to file its financial reports in a timely fashion.
10. All members of the audit committee if the committee re-appointed an auditor that we no longer consider to be independent for reasons unrelated to fee proportions.
11. All members of the audit committee who served at a time when accounting fraud occurred in the company.
12. All members of the audit committee if recent non-audit fees have included charges for services that are likely to impair the independence of the auditor.<sup>9</sup>
13. All members of the audit committee if non-audit fees include charges for tax services for senior executives of the company, or include services related to tax avoidance or tax shelter schemes.
14. All members of the audit committee if options have recently been backdated, and: (i) there are inadequate internal controls in place, or, (ii) there was a resulting restatement and disclosures indicate there was a lack of documentation with respect to option grants.
15. All members of the audit committee who served on the committee during a period where the company has reported a material weakness in its controls over financial reporting which has been outstanding for more than one year or for which a credible remediation plan has not been disclosed.

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<sup>8</sup> For audit committee members of TSX-listed companies, we generally consider three audit committee memberships to be a reasonable limit, and four for directors with demonstrable financial expertise such as a former CFO. For audit committee members of companies listed on the TSX Venture exchange, we generally consider four audit committees to be a reasonable limit, and five for directors with financial expertise. Factors that we will consider include company size, their geographical distribution and an audit committee member's level of expertise and overall commitments; ultimately we will evaluate a director's level of commitment on a case-by-case basis.

<sup>9</sup> Such services include: (i) bookkeeping or other services related to the accounting records or financial statements of the audit client; (ii) financial information systems design and implementation; (iii) appraisal or valuation services, fairness opinions, or contribution-in-kind reports; (iv) actuarial services; (v) internal audit outsourcing services; (vi) management functions or human resources; (vii) broker or dealer, investment adviser, or investment banking services; (viii) legal services and expert services unrelated to the audit; and (ix) any other service that the board determines, by regulation, is impermissible.

In making recommendations on the basis of audit committee performance, we will consider the severity of the issues identified, any extenuating facts and circumstances, whether issues have been ongoing for multiple accounting periods, the overall composition of the committee and a company's disclosure regarding its oversight of audit related issues.

## COMPENSATION COMMITTEE PERFORMANCE

Compensation committees have a critical role in determining the compensation of executives. 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 establishment of employment agreements, including the terms for such items as base pay, pensions and severance arrangements. It is important for compensation arrangements to be based on a company's long-term economic performance and returns to shareholders.

Compensation committees are also responsible for overseeing the transparency of compensation. This oversight includes disclosure of various compensatory elements, including the overall disclosure of arrangements, pay-for-performance matrices and the use of compensation consultants. It is important that investors be provided clear and complete disclosure of the significant terms of compensation arrangements in order to help them reach informed opinions regarding the compensation committee's actions.

Finally, compensation committees are responsible for the oversight of internal controls in the executive compensation process. This duty includes supervising controls over gathering information used to determine compensation, establish equity award plans, and grant equity awards. Deficient controls can contribute to conflicting information being obtained, for example, through the use of non-objective consultants. Deficient controls can also contribute to the granting of improper awards, such as backdated or spring-loaded options, or unmerited bonuses.

Central to understanding the actions of a compensation committee is a careful review of the Compensation Discussion and Analysis ("CD&A") report included in each company's proxy. We review the CD&A in our evaluation of the overall compensation practices of a company, as overseen by the compensation committee. The CD&A is also integral to the evaluation of compensation proposals at companies, such as management-submitted advisory compensation vote proposals, which allow shareholders to vote on the compensation paid to a company's top executives. For more information on our approach to executive compensation, please refer to Section III — The Link Between Compensation and Performance.

We may recommend withholding votes from the following compensation committee members under the following circumstances:

1. All members of a compensation committee during whose tenure the committee failed to address shareholder concerns following majority shareholder opposition to a say-on-pay proposal in the previous year. Where the proposal was approved but there was a significant shareholder vote (i.e., greater than 20% of votes cast) against the say-on-pay proposal in the prior year, if the board did not respond sufficiently to the vote including actively engaging shareholders on this issue, we will also consider recommending voting against the compensation committee chair or all members of the compensation committee, depending on the severity and history of the compensation problems and the level of shareholder opposition.
2. The compensation committee chair if the CD&A fails to provide a reasonable level of disclosure that allows shareholders to fully comprehend executive compensation policies or practices.
3. All members of the compensation committee who are up for election and served when the company failed to align pay with performance if shareholders are not provided with an advisory vote on execu-

tive compensation at the annual meeting.<sup>10</sup>

4. All members of the compensation committee (from the relevant time period) if the company has entered into excessive employment agreements and/or severance arrangements.
5. All members of the compensation committee if performance goals were changed (e.g., lowered) when employees failed or were unlikely to meet original goals, or if performance-based compensation was paid despite goals not being attained.
6. All members of the compensation committee if excessive employee perquisites and benefits were allowed.
7. The compensation committee chair if the compensation committee did not meet during the year.

We also believe that any company that pays its executives should maintain a committee to provide the necessary oversight for related matters. Therefore, we will usually recommend that shareholders withhold votes from the board chair or senior non-executive director when this key committee has not been established. The merits of compensation committee member reelection at an annual meeting will receive particularly close scrutiny at the boards of companies that do not provide shareholders with an advisory vote on executive compensation.

## NOMINATING AND GOVERNANCE COMMITTEE PERFORMANCE

The nominating and governance committee, as the agent for shareholders, is responsible for the board's governance of the company and its executives. In performing this role, the board is responsible and accountable for the selection of objective and competent directors. It is also responsible for providing leadership on governance policies adopted by the company, such as the implementation of shareholder proposals that have received a majority vote. In Canada, the committees that are charged with fulfilling these roles may be combined or separated. As such, our voting recommendations may fluctuate depending on the specific duties charged to each committee.

Consistent with Glass Lewis' philosophy that boards should have diverse backgrounds and members with a breadth and depth of relevant experience, we believe that nominating and governance committees should consider diversity when making director nominations within the context of each specific company and its industry. In our view, shareholders are best served when boards make an effort to ensure a constituency that is not only reasonably diverse on the basis of age, race, gender and ethnicity, but also on the basis of geographic knowledge, industry experience, board tenure and culture.

Regarding the nominating committee, we may recommend that votes be withheld from the following members under these circumstances:

1. All members of the nominating 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 an inability to represent shareholder interests.
2. The nominating committee chair if the nominating committee did not meet during the year.<sup>11</sup>
3. The nominating committee chair and/or all members of the committee when the number of directors on the board is more than 20 or fewer than five directors (or four for venture exchange listed issuers).

<sup>10</sup> If a company provides shareholders with a say-on-pay proposal, we will initially only recommend voting against the company's say-on-pay proposal and will not recommend voting against the members of the compensation committee unless there is a pattern of failing to align pay and performance and/or the company exhibits egregious compensation practices. However, if the company repeatedly fails to align pay and performance, we will then recommend against the members of the compensation committee in addition to recommending voting against the say-on-pay proposal. For cases in which the disconnect between pay and performance is marginal and the company has outperformed its peers, we will consider not recommending against compensation committee members.

<sup>11</sup> In the absence of a chair, we will recommend that shareholders withhold votes from the senior member of this committee or, in the absence of this committee, the board chair. In the absence of a board chair, we will recommend withholding votes from the senior non-executive director.

4. The nominating committee chair, when a director who did not receive support from a majority of voting shares in the previous election was allowed to remain on the board and, further, the issues that raised shareholder concern were not addressed.<sup>12</sup>
5. The chair of the nominating committee where the board's failure to ensure the board has directors with relevant experience, either through periodic director assessment or board refreshment, has contributed to a company's poor performance, taking into account whether the board has addressed major issues of board composition, including the mix of skills and experience of the non-executive element of the board.
6. The nominating committee chair when the board has no female directors and has not provided sufficient explanation or disclosed a plan to address the lack of diversity on the board. Mitigating factors may include the existence of a diversity policy with non-boilerplate language and clear targets or disclosure around the board's timeline for increasing its female membership.
7. The nominating committee chair, beginning 2022, where the board has fewer than two female directors. For boards with six or fewer total directors, our existing voting policy requiring a minimum of one female director will remain in place.
8. The nominating committee chair when, alongside other governance or board performance concerns, the average tenure of non-executive directors is 10 years or more and no new independent directors have joined the board in the past five years. We will not be making voting recommendations solely on this basis in 2021; however, insufficient board refreshment may be a contributing factor in our recommendations when additional board-related concerns have been identified.

We may recommend withholding votes from the following members of the governance committee in these circumstances:

1. The governance committee chair<sup>13</sup> when the board chair is not independent and an independent lead or presiding director has not been appointed.
2. All members of the governance committee who served at a time when the board failed to implement a shareholder proposal approved by shareholders with a direct and substantial impact on shareholders and their rights.
3. All members of the governance committee when the board fails to adopt a majority voting policy.<sup>14</sup>
4. The governance committee chair when the board has provided poor, contradictory or outdated disclosure on key issues, such as the identity of its chair, related-party transactions, composition of key committees, other directorships, or other information necessary for shareholders to properly evaluate the board.
5. The governance committee chair when the board has failed to disclose detailed voting results from the previous annual meeting.
6. The governance committee chair when: (i) records for board and committee meeting attendance are not disclosed, and: (ii) the number of audit committee meetings that took place during the most recent year is not disclosed.

<sup>12</sup> Considering that shareholder discontent clearly relates to the director who received a greater than 50% against vote rather than the nominating chair, we review the validity of the issue(s) that initially raised shareholder concern, follow-up on such matters, and only recommend voting against the nominating chair if a reasonable analysis suggests that it would be most appropriate. In rare cases, we will consider recommending against the nominating chair when a director receives a substantial (i.e., 20% or more) vote against based on the same analysis.

<sup>13</sup> In the absence of a chair, we will recommend that shareholders withhold votes from the senior member of this committee or, in the absence of this committee, the senior non-executive director.

<sup>14</sup> Only applies to companies listed on the Toronto Stock Exchange.

## OTHER CONSIDERATIONS

### DIRECTOR COMMITMENTS

We believe that directors should have the necessary time to fulfill their duties to shareholders. In our view, 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, we generally recommend that shareholders vote against a director who serves as an executive officer of any public company while serving on more than two public company boards and any other director who serves on more than five public company boards.<sup>15</sup>

Because we believe that executives will primarily devote their attention to executive duties, we generally will not recommend that shareholders vote against overcommitted directors at the companies where they serve as an executive.

When determining whether a director's service on an excessive number of boards may limit the ability of the director to devote sufficient time to board duties, we may consider relevant factors such as the size and location of the other companies where the director serves on the board, the director's board roles at the companies in question, whether the director serves on the board of any large privately-held companies, the director's tenure on the boards in question, and the director's attendance record at all companies. In the case of directors who serve in executive roles other than CEO (e.g., executive chair), we will evaluate the specific duties and responsibilities of that role in determining whether an exception is warranted.

We may also refrain from recommending against certain directors if the company provides sufficient rationale for their continued board service. The rationale should allow shareholders to evaluate the scope of the directors' other commitments, as well as their contributions to the board including specialized knowledge of the company's industry, strategy or key markets, the diversity of skills, perspective and background they provide, and other relevant factors. We will also generally refrain from recommending to vote against a director who serves on an excessive number of boards within a consolidated group of companies or a director that represents a firm whose sole purpose is to manage a portfolio of investments which include the company.

### CONFLICTS OF INTEREST

In addition to the above three key characteristics we analyze in evaluating board members — independence, performance and experience — we also consider other issues in making voting recommendations.

We believe that a board should be wholly free of people who have identifiable conflicts of interest. Accordingly, we generally recommend shareholders withhold votes from affiliated or inside directors in the following circumstances:

1. A CFO currently serving on the board. In our view, the CFO holds a unique position relative to financial reporting and disclosure to shareholders. Given the critical importance of financial disclosure and reporting, we believe the CFO should report to the board and not be a member of it.
2. A director, or an immediate family member of a director, who provides material consulting or other material professional services to the company. These services may include legal, consulting, or financial services. We question the need for the company to have consulting relationships with its directors. We view such relationships as creating 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. However, we will consider the specific nature of the professional services relationship between the company

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<sup>15</sup> Given the reduced time commitment and after consideration of all relevant circumstances (including attendance, company size, and a director's overall expertise and performance), we generally permit directors at TSX Venture firms to sit on up to nine boards (refer to "TSX Venture Companies" section for further information).

and a director and the independence profile of the board and its key committees.<sup>16</sup>

3. A director, or an immediate family member of a director, who engages in, or receives benefits from, commercial deals, including perquisite type grants from the company, which we believe may force the director in question to make unnecessarily complicated decisions that pit his/her interests against those of shareholders. Given the pool of director talent and the limited number of directors on any board, we believe shareholders are best served by directors who are independent of such relationships.
4. A director who has interlocking directorships with one of the company's executives. Top executives serving on each other's boards creates an interlock that poses conflicts that should be avoided to ensure the promotion of shareholder interests above all else.

## BOARD SIZE

While we do not believe that there is a universally applicable optimum board size, we do believe that boards should have a minimum of five directors in order to ensure that there is a sufficient diversity of views and breadth of experience in every decision the board makes. At the other end of the spectrum, we believe that boards with more than 20 directors 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 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, we typically recommend withholding votes from the chair of the nominating and/or governance committee at boards with fewer than five directors (or the board chair, in the absence of this committee), or four directors for venture issuers. For boards consisting of more than 20 directors, we typically recommend withholding votes from the nominating committee chair (or governance committee, in the absence of a nominating committee).<sup>17</sup>

## EXCEPTIONS FOR RECENT IPOs

We believe 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. We believe a one-year grace period immediately following the date of a company's IPO is sufficient time for most companies to comply with all relevant regulatory requirements and to meet such corporate governance standards. Except in egregious cases, Glass Lewis refrains from issuing voting recommendations on the basis of corporate governance best practices (e.g., board independence, committee membership and structure, meeting attendance, etc.) during the one-year period following an IPO.

## DUAL-LISTED COMPANIES

For those companies whose shares trade on exchanges in multiple countries or are traded and incorporated in two different jurisdictions, and which may seek shareholder approval of proposals in accordance with varying exchange- and country-specific rules, we will apply the governance standards most relevant in each situation. We will consider a number of factors in determining which Glass Lewis country-specific policy to apply, including but not limited to: (i) the corporate governance structure and features of the company including whether the board structure is unique to a particular market; (ii) the nature of the proposals; (iii) the location of the company's primary listing, if one can be determined; (iv) the regulatory/governance regime that the board is reporting against; and (v) the availability and completeness of the company's proxy filings.

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<sup>16</sup> We provide an exception when companies structure compensation so that executives are paid as consultants rather than provided with salaries, as is common practice among venture companies.

<sup>17</sup> Certain exceptions may be made for large banks on a case-by-case basis.

## ENVIRONMENTAL AND SOCIAL RISK OVERSIGHT

Glass Lewis recognizes the importance of ensuring the sustainability of companies' operations. We believe that insufficient oversight of material environmental and social issues can present direct legal, financial, regulatory and reputational risks that could serve to harm shareholder interests. Therefore, we believe that these issues should be carefully monitored and managed by companies, and that 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.

To that end, Glass Lewis believes that companies should ensure that boards maintain clear oversight of material risks to their operations, including those that are environmental and social in nature. Accordingly, for large-cap companies and in instances where we identify material oversight concerns, Glass Lewis 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.

Beginning in 2021, Glass Lewis will note as a concern when boards of companies in the S&P/TSX 60 index do not provide clear disclosure concerning the board-level oversight afforded to environmental and/or social issues. Beginning with shareholder meetings held after January 1, 2022, we will generally recommend voting against the governance chair of a company in the aforementioned index who fails to provide explicit disclosure concerning the board's role in overseeing these issues.

While we believe that it is important that these issues are overseen at the board level and that shareholders are afforded meaningful disclosure of these oversight responsibilities, we believe that companies should determine the best structure for this oversight for themselves. In our view, this oversight can be effectively conducted by specific directors, the entire board, a separate committee, or combined with the responsibilities of a key committee. When evaluating the board's role in overseeing environmental and/or social issues, we will examine a company's proxy statement and governing documents (such as committee charters) to determine if directors maintain a meaningful level of oversight of and accountability for a company's environmental and/or socially-related impacts and risks.

In situations where we believe that a company has not properly managed or mitigated environmental or social risks to the detriment of shareholder value, or when such mismanagement has threatened shareholder value, Glass Lewis may recommend that shareholders vote against the members of the board who are responsible for oversight of environmental and social risks. In the absence of explicit board oversight of environmental and social issues, Glass Lewis may recommend that shareholders vote against members of the audit committee. In making these determinations, Glass Lewis will carefully review the situation, its effect on shareholder value, as well as any corrective action or other response made by the company.

### TSX VENTURE EXCHANGE COMPANIES

The TSX Venture Exchange is a marketplace for emerging companies with generally fewer resources and employees than firms trading on the main market of the TSX. Venture firms usually follow more lenient governance standards, and while we make several exceptions to our independence standards for them, we still expect venture companies to maintain a minimum degree of director independence on their boards and central committees.

The independence exceptions we make for venture firms are as follows:

1. We do not require venture firms to meet the same independence thresholds we apply for companies listed on the main market of the TSX. We believe such companies can more reasonably be expected to have at least two independent directors, as long as they represent at least one-third of the board.<sup>18</sup>

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<sup>18</sup> TSX Venture Exchange Policy 3.1 stipulates that venture firms have at least two independent directors. However, we believe that the two independent directors should comprise at least one-third of the entire board in order to ensure an effective level of independent oversight. When this is not the case, we generally recommend withholding votes from non-independent directors or the board chair or senior non-executive director, as applicable.

2. Although the TSX only requires the audit committees of venture firms to be majority independent, we believe they should be entirely independent, with at least two members.
3. While the TSX does not require venture firms to maintain a compensation committee, we believe any public firm that pays its executives should have a compensation committee to oversee such payments. For venture firms, this committee should be majority independent, with no insiders.<sup>19</sup>
4. Nominating/governance committees, if they exist, should consist of a majority of independent directors.

Also, we believe venture firms should maintain a board of at least four members, as opposed to the five-member minimum standard applied to other TSX companies.<sup>20</sup>

Further, as these smaller companies typically require less time and action from their boards than their larger counterparts, we would not apply our overcommitment policies to directors who serve as an executive officer of a public company and on up to five TSXV boards, or any non-executive director who serves on up to nine venture boards. Factors which we will consider include company size and a director's overall attendance record and expertise. We note that a large number of directors at venture companies tend to serve on multiple public company boards, but given that many of these firms could benefit from the guidance and oversight provided by an experienced and knowledgeable board member, we believe that a higher threshold is appropriate.

We also note that directors often serve on a mix of TSX and venture boards. In these cases we will apply a case-by-case approach to evaluating the director's commitments in the aggregate.

Note that for other small exchanges, such as the Canadian Securities Exchange ("CSE") and Aequitas Neo Exchange, we will apply our TSX Venture guidelines.

## CONTROLLED COMPANIES

For controlled companies, we provide an exception to our independence standards. The board of directors' function is to protect the interests of shareholders; however, when a single individual or entity owns more than 50% of the voting shares, the interests of the majority of shareholders are the interests of that entity or individual. Consequently, Glass Lewis does not recommend withholding votes from boards whose composition reflects the makeup of the shareholder population. In other words, affiliated directors and insiders who are associated with the controlling entity are not subject to our standard independence thresholds.

However, we believe that there should be enough independent directors in order to fairly reflect minority shareholder interests. As such, we would consider, particularly where control is only held through a multi-class mechanism, recommending shareholders withhold votes from certain directors if there is not a sufficient representation of minority shareholder interests on the board.

We make the following exceptions for controlled companies:

1. We do not require controlled companies to meet our standard independence thresholds. So long as the insiders and/or affiliated directors are connected with the controlling entity, we accept the presence of non-independent directors on the board.
2. We do not require controlled companies to meet our minimum board size threshold (five directors on the TSX, four on the TSXV). We continue to believe that 20 directors is an acceptable maximum board size for Canadian issuers, including for controlled companies.

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<sup>19</sup> We generally recommend withholding votes from the board chair when a company does not have a standing compensation committee. In the absence of a chair, we recommend withholding votes from the senior non-executive director.

<sup>20</sup> TSX Venture Exchange Policy 3.1 requires all issuers to have at least three directors. However, we do not believe three directors can adequately protect the interests of shareholders.

3. The compensation, nominating and governance committees do not need to consist solely of independent directors.<sup>21</sup>
4. We believe that controlled companies do not need to have standing nominating and corporate governance committees. Although a committee charged with the duties of searching for, selecting and nominating independent directors can be of benefit to all companies, the unique composition of a controlled company's shareholder base make such a committee both less powerful and less relevant.
5. In a similar fashion, controlled companies do not need to have an independent chair or lead director. While we believe an independent director in a position of authority on the board — such as the chair or presiding director — is best able to ensure the proper discharge of the board's duties, controlled companies serve a unique shareholder population whose voting power ensures the protection of its interests.
6. We do not require controlled companies to adopt a majority voting policy for the election of directors. Although we believe a majority voting policy generally increases board accountability and performance, we understand that this may be irrelevant given the influence a controlling shareholder has on all matters requiring shareholder approval.

We do not make independence exceptions for controlled companies in the case of audit committee membership. We believe audit committees should consist solely of independent directors regardless of the company's controlled status. The interests of all shareholders must be protected by ensuring the integrity and accuracy of the company's financial statements. Allowing affiliated directors to discharge the duties of audit oversight could present an insurmountable conflict of interest.<sup>22</sup>

## TRUSTS AND FUNDS

Investment trusts pool investors' money and invest in the shares of a wider range of companies than most people could practically invest in themselves. Generally the task of investing is delegated to a professional fund manager. Investment trusts often maintain no permanent employees.

National Instrument 81-107 requires all publicly offered investment funds to have an independent review committee ("IRC") to oversee decisions involving conflicts of interest faced by the person or company that directs the business, operations and affairs of the investment fund. The manager<sup>23</sup> must appoint each member of an investment fund's first IRC, and thereafter, the IRC must fill any vacancy that arises.

A member of the IRC is considered independent if the member has no material relationship<sup>24</sup> with the manager, the investment fund, or an entity related to the manager. A current or former independent member of the board of directors of an investment fund, or a former independent member of the board of directors of the manager, may be considered independent; however, it would be unlikely that a current member of the board of directors of a manager could be considered independent. Investment funds may share an IRC with investment funds managed by another manager.

## POLICIES FOR TRUSTS AND FUNDS

Given the different structure of investment trusts relative to other publicly traded companies, we believe it is appropriate to apply a different set of corporate governance guidelines to such firms. The following is a sum-

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21 However, National Instrument 58-201 stipulates that companies must provide additional disclosure to describe the steps taken by the board to ensure that objective nomination and compensation processes are utilized. In the absence of a reasonable justification, we recommend withholding votes from any nominee seeking appointment to these committees, regardless of the company's controlled status.

22 National Instrument 52-110 provides that, in the case of a controlled company, an audit committee member who sits on the board of directors of an affiliated entity is exempt from the requirement that every audit committee member must be independent, if the member, except for being a director of the company and the affiliated entity, is otherwise independent of the company and the affiliated entity.

23 A manager is defined as a person or company who directs the business, operations and affairs of an investment fund, and includes a group of members on the board of an investment fund where they act in the capacity of decision-maker. We interpret this term broadly.

24 A material relationship means a relationship that could reasonably be perceived to interfere with the member's judgment regarding a conflict of interest.

mary of significant policy differences:

1. Boards may have a minimum of four directors, rather than five.
2. Boards need not maintain standing compensation or nomination committees. However, in the event that a trust does not have a compensation committee, we believe it should disclose the procedures it utilizes to ensure objectivity in the setting of compensation levels. Compensation and nomination committees need not be entirely independent; however, they must consist solely of non-executive directors, a majority of whom are independent.
3. Trusts need not put their auditors up for ratification, unless there was a change of auditor in the previous fiscal year or a change of auditor is expected following the annual general meeting. However, we continue to recommend withholding votes from the chair of the audit committee if fees paid to the external auditor have not been disclosed, or if there are other audit-related issues.

## **BOARD COMPOSITION AND DIVERSITY**

### **REFRESHMENT**

Glass Lewis strongly supports routine director evaluation, including independent external reviews, and periodic board refreshment to foster the sharing of diverse perspectives in the boardroom and the generation of new ideas and business strategies. Further, we believe the board should evaluate the need for changes to board composition based on an analysis of skills and experience necessary for the company, as well as the results of the director evaluations, as opposed to relying solely on age or tenure limits. When necessary, shareholders can address concerns regarding proper board composition through director elections.

In our view, a director's experience can be a valuable asset to shareholders because of the complex, critical issues that boards face. This said, a lack of periodic refreshment can may inhibit board responsiveness to poor company performance and emerging challenges.

On occasion, age or term limits can be used as a means to remove a director for boards that are unwilling to police their membership and enforce turnover. If a board adopts term/age limits, it should follow through and not waive such limits. If the board waives its term/age limits, Glass Lewis will consider recommending shareholders vote against the nominating and/or governance committees, unless the rule was waived with sufficient explanation, such as consummation of a corporate transaction like a merger.

### **DIVERSITY**

Glass Lewis recognizes the importance of ensuring that the board is comprised of directors who have a diversity of skills, thought and experience, as such diversity benefits companies by providing a broad range of perspectives and insights. As such, Glass Lewis closely reviews the composition of the board for representation of diverse director candidates.

Glass Lewis will generally recommend voting against the nominating committee chair of a board that has no female members. Beginning in 2021, we will note as a concern boards consisting of fewer than two female directors. Beginning with shareholder meetings held after January 1, 2022, we will generally recommend voting against the nominating committee chair of a board that has fewer than two female directors. For boards with six or fewer total directors, our existing voting policy requiring a minimum of one female director will remain in place.

When making these voting recommendations, we will carefully review a company's disclosure regarding diversity matters, including with respect to targets and timelines for increasing female representation.

## PROFESSIONAL SKILLS & EXPERIENCE

Glass Lewis believes companies should disclose sufficient information to allow a meaningful assessment of a board's skills and competencies. Our analyses of director elections at large-cap TSX index companies include board skills matrices in order to assist in assessing a board's competencies and identifying any potential skills gaps.<sup>25</sup>

## PROXY ACCESS

In lieu of running their own contested election, proxy access would not only allow certain shareholders to nominate directors to company boards but the shareholder nominees would be included on the company's ballot, significantly enhancing the ability of shareholders to play a meaningful role in selecting their representatives. Glass Lewis generally supports affording shareholders the right to nominate director candidates to management's proxy as a means to ensure that significant, long-term shareholders have an ability to nominate candidates to the board.

Companies generally seek shareholder approval to amend company bylaws to adopt proxy access in response to shareholder engagement or pressure, usually in the form of a shareholder proposal requesting proxy access, although some companies may adopt some elements of proxy access without prompting. Glass Lewis considers several factors when evaluating whether to support proposals for companies to adopt proxy access including the specified minimum ownership and holding requirement for shareholders to nominate one or more directors, as well as company size, performance and responsiveness to shareholders.

When resolutions requesting U.S.-style proxy access are proposed at companies that are outside of the United States, Glass Lewis will review on a case-by-case basis. We will carefully examine the relevant regulatory landscape to assess if existing proxy access rights are sufficient or preferable to those requested by the proposal. In instances where we believe that existing laws, policies or regulations either provide shareholders with adequate proxy access rights or would prohibit a company's adoption of the requested provision, we will recommend that shareholders vote against such proposals. However, we will continue to carefully monitor how other companies within the target company's market are responding to issues related to proxy access as well as any regulatory changes that may affect the manner in which shareholders may access management's proxy and will make our voting recommendations accordingly.<sup>26</sup>

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<sup>25</sup> See [Board Skills Appendix](#) for an overview of skills Glass Lewis considers in relation to certain key sectors, as of 2020.

<sup>26</sup> For a discussion of recent regulatory events in this area, along with a detailed overview of the Glass Lewis approach to Shareholder Proposals regarding Proxy Access, refer to Glass Lewis' Proxy Paper Guidelines for Shareholder Initiatives, available at [www.glasslewis.com/guidelines](http://www.glasslewis.com/guidelines).

# Transparency and Integrity in Financial Reporting

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## ALLOCATION OF PROFITS/DIVIDENDS

Unlike many other countries, Canadian companies are not required to submit the allocation of income for shareholder approval, and the board has the sole discretion to determine the amount of any dividends it intends to distribute. However, the CBCA prohibits the allotment of a dividend if there are reasonable grounds for believing that a company would be unable to pay its liabilities as they become due, or if the realizable value of the company's assets would be less than the aggregate of its liabilities and stated capital after payment.

## AUDITOR RATIFICATION

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 conduct a thorough analysis of a company's books to ensure that the information provided to shareholders is complete, accurate, fair, and a reasonable representation of a company's 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. As with directors, auditors should be free from conflicts of interest and should avoid situations requiring a choice between the interests of the auditor and the public. Almost without exception, shareholders should be able to annually review an auditor's performance and ratify a board's auditor selection. Additionally, Glass Lewis believes auditor rotation can ensure both the independence of the auditor and the integrity of the audit; we will typically recommend supporting proposals to require auditor rotation when the proposal uses a reasonable period of time (usually not less than 5-7 years) particularly at companies with a history of accounting problems.

In early 2017, the The Auditing and Assurance Standards Board ("AASB") approved enhanced auditor reporting standards. In late 2018, the AASB approved amendments to Canadian Auditing Standard 701, Communicating Key Audit Matters in the Independent Auditor's Report ("CAS 701") requiring auditors to communicate key audit matters ("KAMs") in the auditor's report. For companies listed on the TSX, with fiscal year end dates on or after December 15, 2020 communication of KAMs will be required with a requirement for companies not listed on the TSX with fiscal year end dates on or after December 15, 2022. KAMs are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period.

Glass Lewis believes the additional reporting requirements are beneficial for investors. The additional disclosures can provide investors with information that is critical to making an informed judgment about an auditor's independence and performance. Furthermore, we believe the additional requirements are an important step toward enhancing the relevance and usefulness of auditor reports, which too often are seen as boilerplate compliance documents that lack the relevant details to provide meaningful insight into a particular audit.

## VOTING RECOMMENDATIONS

We generally support management's recommendation regarding the selection of an auditor and granting the board the authority to fix auditor fees, except in cases where we believe the independence of a returning auditor or the integrity of the audit has been compromised.

Some of the reasons why we may not recommend voting in favor of the auditor and/or authorizing the board to set auditor fees include:

1. When audit fees and audit-related fees total less than 50% of overall fees.<sup>27</sup>
2. When there have been any recent restatements or late filings by the company where the auditor bears some responsibility for the restatement or late filing (e.g., a restatement due to a reporting error).<sup>28</sup>
3. When the company has aggressive accounting policies.
4. When the company has poor disclosure or a lack of transparency in its financial statements.
5. When there are other relationships or issues of concern with the auditor that might suggest a conflict between the interests of the auditor and those of shareholders.
6. When the company is changing auditors as a result of a disagreement between the company and auditor on a matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures.
7. In determining whether shareholders would benefit from rotating the company's auditor, where relevant we will consider factors that may call into question an auditor's effectiveness, including auditor tenure, a pattern of inaccurate audits, and any ongoing litigation or significant controversies. When Glass Lewis considers ongoing litigation and significant controversies, it is mindful that such matters may involve unadjudicated allegations. Glass Lewis does not assume the truth of such allegations or that the law has been violated. Instead, Glass Lewis focuses more broadly on whether, under the particular facts and circumstances presented, the nature and number of such lawsuits or other significant controversies reflects on the risk profile of the company or suggests that appropriate risk mitigation measures may be warranted.

In addition, we will generally support a board's decisions to change auditors. We believe that rotating auditors is an important safeguard against the relationship between the auditor and companies becoming too close, resulting in a lack of oversight due to complacency or conflicts of interest. However, we will apply heightened scrutiny in these instances to ensure that there were no significant disagreements between management and the auditor that led to the auditor's resignation.

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<sup>27</sup> We make an exception in cases where the non-audit fees exceed 50% of the total fees as a result of transactions of a one-time nature (e.g., initial public offerings or merger and acquisition transactions).

<sup>28</sup> An auditor does not perform an audit of interim financial statements and accordingly, in general, we do not believe auditors should be opposed for a restatement of interim financial statements, unless the nature of the misstatement is clear from a reading of the incorrect financial statements.

# The Link Between Compensation and Performance

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Glass Lewis carefully reviews the compensation awarded to senior executives, as we believe that this is an important area in which the board's priorities are revealed. Glass Lewis strongly believes executive compensation should be linked directly with the performance of the business the executive is charged with managing. We typically look for compensation arrangements that provide for a mix of performance-based short- and long-term incentives in addition to fixed pay elements.

## EVALUATION OF EXECUTIVE COMPENSATION AND SAY-ON-PAY

Comprehensive, timely and transparent disclosure of executive pay is critical to allowing shareholders to evaluate the extent to which pay is keeping pace with company performance. When reviewing proxy materials, Glass Lewis examines whether the company discloses the performance metrics used to determine executive compensation. Performance metrics vary significantly between companies and industries and may include a wide variety of financial measures as well as industry-specific performance indicators.

It is rarely in shareholders' interests to disclose competitive data about individual salaries below the senior executive level. Such disclosure could create internal personnel discord that would be counterproductive for the company and its shareholders. While we favor full disclosure for senior executives and we view pay disclosure at the aggregate level (e.g., the number of employees being paid over a certain amount or in certain categories) as potentially useful, we do not believe shareholders need or will benefit from detailed reports about individual management employees other than the most senior executives.

In accordance with National Instrument 51-102, companies are now required to include a Compensation Discussion and Analysis ("CD&A") in each proxy filing, which replaces the previously required Statement of Executive Compensation. The CD&A is intended to enhance disclosure of compensation policies and practices in a uniform format across Canada, as well as provide shareholders with a transparent and comprehensive rationale for executive compensation levels.

We review the CD&A as part of our evaluation of the overall compensation practices of a company. In our evaluation of the CD&A, we examine, among other factors, the following:

1. The extent to which the company has utilized performance goals in determining overall compensation.
2. How clearly the company has disclosed performance metrics and goals, as well as how the metrics and goals were determined, so that shareholders may make an independent determination that goals were met.
3. The extent to which the disclosed performance metrics, targets and goals are demonstrably linked to enhancing company performance.
4. The selected peer group(s), so that shareholders can make a comparison of pay and performance across the appropriate peer group.

5. The terms of executive employment agreements, including the inclusion of single and double trigger change-of-control provisions and “golden parachutes” that result in large guaranteed payouts upon termination of employment.
6. The amount of discretion granted to management or the compensation committee to deviate from defined performance metrics and goals in granting awards.

## SAY-ON-PAY VOTING RECOMMENDATIONS

The practice of approving a company’s compensation reports is standard in many markets and has been a requirement for companies in the United Kingdom and Australia since 2003 and 2005, respectively. In Canada, advisory votes on executive compensation were introduced voluntarily by some companies in 2010 and have been quickly adopted by others, with around 200 companies offering their shareholders a “say on pay” in the first half of 2019, and the prospect of as-yet not effective CBCA amendments potentially requiring annual say on pays after the 2020 proxy season. We believe these proposals should be submitted annually, as they provide an effective mechanism for enhancing transparency in setting executive pay, improving accountability to shareholders and providing for a more effective link between pay and performance.

Glass Lewis applies a highly nuanced approach when analyzing advisory votes on executive compensation. We review each advisory vote on a case-by-case basis, with the belief that each company must be examined in the context of industry, size, financial condition, its historic pay-for-performance practices, and any other mitigating internal or external factors.

We believe that each company should design and apply specific compensation policies and practices that are appropriate to the circumstances of the company and, in particular, will attract and retain competent executives and other staff, while motivating them to grow the company’s long-term shareholder value. Where we find those specific policies and practices serve to reasonably align compensation with performance, and such practices are adequately disclosed, Glass Lewis will recommend supporting the company’s approach. If, however, those specific policies and practices fail to demonstrably link compensation with performance, Glass Lewis will generally recommend voting against the say-on-pay proposal.

Glass Lewis reviews say-on-pay proposals on both a qualitative basis and a quantitative basis, with a focus on several main areas:

- The overall design and structure of the company’s executive compensation program, including selection and challenging nature of performance metrics.
- The implementation and effectiveness of the company’s executive compensation programs including pay mix and use of performance metrics in determining pay levels.
- The quality and content of the company’s disclosure.
- The quantum paid to executives.
- The link between compensation and performance as indicated by the company’s pay-for-performance practices.

We also review any significant changes or modifications, including post fiscal year end changes and one-time awards, particularly where the changes touch upon issues that are material to Glass Lewis recommendations.

In cases where our analysis reveals a compensation structure in drastic need of reform, we may recommend that shareholders vote against the say-on-pay proposal. Generally such instances include evidence of a pattern of poor pay-for-performance practices, unclear or questionable disclosure regarding the overall compensation structure (i.e., limited information regarding benchmarking processes, limited rationale for bonus performance metrics and targets, etc.), questionable adjustments to certain aspects of the overall compensation structure

(i.e., limited rationale for significant changes to performance targets or metrics, the payout of guaranteed bonuses or sizable retention grants, etc.), and/or other egregious compensation practices.

Although not an exhaustive list, we believe the following practices are indications of problematic pay practices which may cause Glass Lewis to recommend against a say on pay vote:

- Inappropriate or oversized self-selected peer group and/or benchmarking issues, such as compensation targets set well above self-selected peers.
- Egregious or excessive bonuses, equity awards or severance payments, including golden handshakes and golden parachutes.
- Targeting overall levels of compensation at higher than median without adequate justification.
- Discretionary bonuses paid when short or long-term incentive plan targets were not met.
- Insufficient response to low shareholder support.
- Performance targets which are not sufficiently challenging, and/or provide for high potential payouts.
- Performance targets lowered without justification.
- Problematic contractual payments, such as guaranteed bonuses.
- Executive pay that is comparably high (as compared to the company's peers), and is not reinforced by outstanding company performance.
- The terms of the long-term incentive plans are inappropriate (please see "Long-Term Incentives").

The aforementioned issues may also influence Glass Lewis' assessment of the structure of a company's compensation program. We evaluate structure on a "Good, Fair, Poor" rating scale whereby a "Good" rating represents a compensation program with little to no concerns, a "Fair" rating represents a compensation program with some concerns and a "Poor" rating represents a compensation program that deviates significantly from best practice or contains one or more egregious compensation practices.

We believe that it is important for companies to provide investors with clear and complete disclosure of all the significant terms of compensation arrangements. Similar to structure, we evaluate disclosure on a "Good, Fair, Poor" rating scale whereby a "Good" rating represents a thorough discussion of all elements of compensation, a "Fair" rating represents an adequate discussion of all or most elements of compensation and a "Poor" rating represents an incomplete or absent discussion of compensation. In instances where a company has simply failed to provide sufficient disclosure of its policies, we may recommend shareholders vote against this proposal solely on this basis, regardless of the appropriateness of compensation levels.

In general, most companies will fall within the "Fair" range and Glass Lewis largely uses the "Good" and "Poor" ratings to highlight outliers.

In the case of companies that maintain poor compensation policies year after year without any apparent steps to address the issues, we may also recommend that shareholders vote against the chair and/or additional members of the compensation committee. We may also recommend voting against the committee based on the practices or actions of its members, such as approving large one-off payments, the inappropriate use of discretion, or sustained poor pay for performance practices.

## COMPANY RESPONSIVENESS

For companies that receive a significant level of shareholder opposition (20% or greater) to the say-on-pay proposal at the previous annual meeting, we believe the board should demonstrate some level of engagement and responsiveness to the shareholder concerns behind the discontent, particularly in response to shareholder feedback.

While we recognize that sweeping changes cannot be made to a compensation program without due consideration, and that often a majority of shareholders may have voted in favor of the proposal, given that the average approval rate for say-on-pay proposals is about 90%, we believe the compensation committee should provide some level of response to a significant vote against. In general, our expectations regarding the minimum appropriate levels of responsiveness will correspond with the level of shareholder opposition, as expressed both through the magnitude of opposition in a single year, and through the persistence of shareholder discontent over time.

Responses we consider appropriate include engaging with large shareholders to identify their concerns, and, where reasonable, implementing changes that directly address those concerns within the company's compensation program. In the absence of any evidence that the board is actively engaging shareholders on these issues and responding accordingly, we may recommend holding compensation committee members accountable for failing to adequately respond to shareholder opposition. Regarding such recommendations, careful consideration will be given to the level of shareholder protest and the severity and history of compensation.

## PAY FOR PERFORMANCE

Glass Lewis believes an integral part of a well-structured compensation package is a successful link between pay and performance. Our proprietary pay-for-performance model was developed to better evaluate the link between pay and performance. Generally, compensation and performance are measured against a peer group of appropriate companies that may overlap, to a certain extent, with a company's self-disclosed peers. This quantitative analysis provides a consistent framework and historical context for our clients to determine how well companies link executive compensation to relative performance. Companies that demonstrate a weaker link are more likely to receive a negative recommendation; however, other qualitative factors such as overall incentive structure, significant forthcoming changes to the compensation program or reasonable long-term payout levels may mitigate our concerns to a certain extent.

While we assign companies a letter grade of A, B, C, D or F based on the alignment between pay and performance, the grades derived from the Glass Lewis pay-for-performance analysis do not follow the traditional U.S. school letter grade system. Rather, the grades are generally interpreted as follows:

- A: The company's percentile rank for pay is significantly less than its percentile rank for performance;
- B: The company's percentile rank for pay is moderately less than its percentile rank for performance;
- C: The company's percentile rank for pay is approximately aligned with its percentile rank for performance;
- D: The company's percentile rank for pay is higher than its percentile rank for performance; and
- F: The company's percentile rank for pay is significantly higher than its percentile rank for performance.

For the avoidance of confusion, the above grades encompass the relationship between a company's percentile rank for pay and its percentile rank in performance. Separately, a specific comparison between the company's executive pay and its peers' executive pay levels is discussed in the analysis for additional insight into the grade. Likewise, a specific comparison between the company's performance and its peers' performance is reflected in the analysis for further context.

We also use this analysis to inform our voting decisions of say-on-pay proposals. As such, if a company receives a “D” or “F” grade from our proprietary model, we are more likely to recommend that shareholders vote against the say-on-pay proposal. However, other qualitative factors such as an effective overall incentive structure, the relevance of selected performance metrics, significant forthcoming enhancements or reasonable long-term payout levels may give us cause to recommend in favor of a proposal even when we have identified a disconnect between pay and performance.

In determining the peer groups used in our A-F pay-for-performance letter grades, Glass Lewis utilizes a proprietary methodology that considers both country-based and sector-based peers, along with each company’s network of self-disclosed peers. Each component is considered on a weighted basis and is subject to size-based ranking and screening. The peer groups used are provided to Glass Lewis by CGLytics based on Glass Lewis’ methodology and using CGLytics’ data.

Selecting an appropriate peer group to analyze a company’s compensation program is a subjective determination, requiring significant judgment and on which there is not a “correct” answer. Since the peer group used is based on an independent, proprietary technique, it will often differ from the one used by the company which, in turn, will affect the resulting analyses. While Glass Lewis believes that the independent, rigorous methodology it uses provides a valuable perspective on the company’s compensation program, the company’s self-selected peer group is also presented in the proxy paper research report for comparative purposes.

## ELEMENTS OF INCENTIVE-BASED COMPENSATION

### SHORT-TERM INCENTIVES

A short-term bonus or incentive (“STI”) should be demonstrably tied to performance. Whenever possible, we believe a mix of corporate and individual performance measures is appropriate. We would normally expect performance measures for STIs to be based on company-wide or divisional financial measures as well as non-financial factors such as those related to employee turnover, safety, environmental issues, and customer satisfaction. While we recognize that companies operating in different sectors or markets may seek to utilize a wide range of metrics, we expect such measures to be appropriately tied to a company’s business drivers.

Further, Glass Lewis recognizes that some measures or performance targets may involve the disclosure of commercially confidential information but we believe companies should justify such non-disclosure.<sup>29</sup> However, where a short-term bonus has been paid, companies should disclose the extent to which performance has been achieved against relevant targets, including disclosure of the actual target achieved.

Where management has received significant STIs but short-term performance over the previous year appears, prima facie, to be poor or negative, the company should provide a clear explanation of why these significant short-term payments were made. We also believe any significant changes to the program structure should be accompanied by rationalizing disclosure. Further, where a company has applied upward discretion, which includes lowering goals mid-year, increasing calculated payouts or retroactively pro-rating performance periods, we expect a robust discussion of why the decision was necessary.

The threshold, target and potential maximum performance and corresponding payout levels that can be achieved under STI plans should be disclosed. Shareholders should expect stretching performance targets for the maximum award to be achieved. Any increase in the potential target and maximum award should be clearly justified to shareholders, as should any decrease in target and maximum performance levels from the previous year.

Given the pervasiveness of non-formulaic plans in this market, we do not generally recommend against a pay program on this basis alone. If a company has chosen to rely primarily on a subjective assessment or the board’s discretion in determining short-term bonuses, we believe that the proxy statement should provide a meaningful discussion of the board’s rationale in determining the bonuses paid as well as a rationale for the

<sup>29</sup> National Instrument 51-102F6, Item 2.1 (4).

use of a non-formulaic mechanism. Particularly where the aforementioned disclosures are substantial and satisfactory, such a structure will not provoke serious concern in our analysis on its own. However, in conjunction with other significant issues in a program's design or operation, such as a disconnect between pay and performance, the absence of a cap on payouts, or a lack of performance-based long-term awards, the use of a non-formulaic bonus may help drive a negative recommendation.

## LONG-TERM INCENTIVES

Glass Lewis recognizes the value of equity-based incentive programs, which are often the primary long-term incentive ("LTI") for executives. When used appropriately, they can provide a vehicle for linking executive pay to company performance, thereby aligning their interests with those of shareholders. In addition, equity-based compensation can be an effective way to attract, retain and motivate key employees.

We feel that executives should be compensated with equity when their performance and that of the company warrants such rewards. While we do not believe that equity-based compensation plans for all employees need to be based on overall company performance, we do support such performance limitations for grants to senior executives (although even some equity-based compensation of senior executives without performance criteria is acceptable, such as in the case of moderate incentive grants included in an initial offer of employment).

In evaluating LTI grants, Glass Lewis generally believes that a significant portion of the grant should consist of performance-based awards, putting a portion of executive compensation at-risk and demonstrably linked to the performance of the company. While we will consistently raise concern with programs that do not meet this criterion, we may refrain from a negative recommendation in the absence of other significant issues with the program's design or operation. However, in cases where performance-based awards are significantly rolled back or eliminated from a company's long-term incentive plan, such decisions will generally be viewed negatively outside of exceptional circumstances, and may lead to a recommendation against the proposal. As with short-term incentive plans, the basis for any adjustments to metrics or results should be clearly explained, as should any use of upward discretion and any significant changes to the performance program structure.

Glass Lewis believes that companies should strive for full-value award plans with the following features:

- The inclusion of performance metrics.
- Performance periods of at least three years.
- At least one relative performance metric that compares the company's performance to a relevant peer group or index.
- No re-testing or lowering of performance conditions.
- Performance metrics that cannot be easily manipulated by management.
- Stretching metrics that incentivize executives to strive for outstanding performance.
- Individual limits expressed as a percentage of base salary.
- Reasonable plan limits as a percentage of the company's issued share capital.
- Equity granting practices that are clearly disclosed.

Performance measures should be carefully selected and should relate to the specific business/industry in which the company operates and, especially, the key value drivers of the company's business.

While cognizant of the inherent complexity of certain performance metrics, as discussed above Glass Lewis generally believes that measuring a company's performance with multiple metrics serves to provide a more

complete picture of the company's performance than a single metric, which may focus too much management attention on a single target. When utilized for relative measurements, external benchmarks such as a sector index or peer group should be disclosed and transparent. The rationale behind the selection of a specific index or peer group should be disclosed. Internal benchmarks should also be disclosed and transparent, unless a cogent case for confidentiality is made and fully explained.

## STOCK OPTIONS

Stock options remain the most common form of long-term incentive in Canada. While option plans rarely include performance goals, options are generally granted at market price (or at a discount of up to 25%, for venture issuers, as permitted by the TSX Venture Exchange).

Many Canadian companies operate "rolling" option plans, whereby a company is authorized to issue a fixed percentage of its issued share capital (typically 10%) as compensatory shares. Venture firms utilizing rolling maximum plans must resubmit them for shareholder approval on an annual basis, while firms on the main market are required to resubmit such plans for approval every three years.

Such frequent requisite approval affords shareholders the opportunity to closely monitor equity compensation practices and express their approval, or lack thereof, on a regular basis. This practice increases management's accountability to shareholders for the company's remuneration practices, which should inhibit irresponsible behavior and limit unduly generous compensation arrangements.

We use a number of different analyses to evaluate stock option plans, comparing the program with both a carefully chosen peer group and reasonable absolute limits that we believe (and academic studies have shown) are key to equity value creation. In general, our model seeks to determine whether the proposed plan is either: (i) more than one standard deviation away from the average plan for the peer group on a range of criteria, such as projected annual cost compared to operating income, net income, revenue, enterprise value, etc.; or (ii) exceeds one of the absolute limits we have put in place to safeguard against creeping averages. Each analysis is weighted and plans are scored in accordance with that weight.

Our recommendations regarding stock option plans are guided by our stock option plan analysis model. When a proposal seeks shareholder approval for a new plan or changes to any quantitative element of an existing stock option plan, we will evaluate the plan using our stock option model.

If the proposal contains only non-quantitative amendments to an existing stock option plan, e.g., is not seeking additional shares, we will assess the proposed amendments against general principles of equity-based compensation plans and current best practice.

We evaluate option plans based on the following overarching principles:

- Companies should seek more shares only when needed.
- In the case of rolling equity plans, generally, the maximum percentage of shares available for issuance should not exceed 10%.
- Fixed plans should be small enough that companies should seek approval every three to four years.
- Annual net share count and voting power dilution should be limited.
- The annual cost of the plan (especially if not shown on the income statement) should be reasonable as a percentage of financial results and in line with the peer group(s).
- The expected annual cost of the plan should be proportional to the value of the business.
- The intrinsic value received by option grantees in the past should be reasonable compared with the

financial results of the business.

- The plan should deliver value on a per-employee basis when compared with programs at peer companies.
- Plans should not permit the repricing of stock options without shareholder approval.
- Plans should not contain excessively liberal administrative or payment terms.
- Plans should be administered by independent directors.
- Plans should not contain provisions allowing for excessive payouts in the event of a change of control.

Options are a very important component of compensation packages that are used to attract and retain experienced executives and other key employees. Tying a portion of an executive's compensation to the performance of the company also provides an effective incentive to maximize shareholder value by those in the best position to affect those values. However, we believe that such plans should include reasonable limits so as not to provide out-sized award levels or excessively dilute existing shareholders.

## FULL VALUE AWARDS

The use of "full-value" awards, often tied to performance criteria or vesting schedules, is becoming more common in Canada. These awards are often granted in conjunction with stock options, and may be referred to as "medium-term" or "long-term" incentives. Some of the common full-value plans seen in Canada are "Restricted Share Plans", "Deferred Share Plans", "Share Award Plans" and "Incentive Compensation Plans."

Because the value ultimately received by executives typically depends on achievement of specific performance goals rather than share price gains, we generally consider such awards to provide better alignment with shareholder interests than stock options. However, because executives receive the full value of vested awards at no cost, an appropriate structure, including challenging performance targets and vesting schedules, is necessary to ensure that such awards accurately reflect performance. Some of the provisions of full-value award plans that could contribute to an "against" recommendation from Glass Lewis include the following:

- A plan limit set at a rolling maximum of more than 5% of a company's share capital.
- The absence of any performance conditions or vesting provisions.
- Failure to disclose a clear description of performance hurdles and vesting schedules.
- Participation of non-executive directors on the same basis as company executives.
- Administration of the plan by non-independent members of the board.
- The inclusion of a single-trigger change of control provision.

Some companies have sought to adopt full-value award plans that employ the same 10% rolling maximum limit commonly prescribed for Canadian stock option plans (see "Stock Options" section). Given the substantially greater cost of full-value award grants, we consider rolling limits above 5% to be excessive. However, for omnibus plans with a rolling limit greater than 5% we will consider the company's historical granting practices, the composition of the awards granted (i.e., the proportion of full value awards granted to options granted), and any associated performance conditions in making our recommendations.

Finally, Glass Lewis will also take into consideration the company's historic equity granting practices and over-all executive compensation structure. Companies with a history of excessive equity-granting practices or

poorly structured, or disclosed, executive compensation practices are more likely to have similar issues with their full-value award plans, which will be taken into consideration when determining our voting recommendation for the renewal or adoption of such a plan.

## **GRANTS OF FRONT-LOADED AWARDS**

While most Canadian companies utilize annual grants of cash and equity awards, some firms have chosen to instead provide larger grants that are intended to serve as compensation for multiple years. This practice, often called front-loading, is taken up either in the regular course of business or as a response to specific business conditions and with a predetermined objective. We believe shareholders should generally be wary of this approach, and we accordingly weigh these grants with additional scrutiny.

While the use of front-loaded awards is intended to lock-in executive service and incentives, the same rigidity also raises the risk of effectively tying the hands of the compensation committee. As compared with a more responsive annual granting schedule program, front-loaded awards may preclude improvements or changes to reflect evolving business strategies. The considerable emphasis on a single grant can place intense pressures on every facet of its design, amplifying any potential perverse incentives and creating greater room for unintended consequences. In particular, provisions around changes of control or separations of service must ensure that executives do not receive excessive payouts that do not reflect shareholder experience or company performance.

We consider a company's rationale for granting awards under this structure, and also expect any front-loaded awards to include a firm commitment not to grant additional awards for a defined period, as is commonly associated with this practice. Even when such a commitment is provided, unexpected circumstances may lead the board to make additional payments or awards for retention purposes, or to incentivize management towards more realistic goals or a revised strategy. If a company breaks its commitment not to grant further awards, we may recommend voting against its say-on-pay proposal unless a convincing rationale is provided.

The multiyear nature of these awards generally lends itself to significantly higher compensation figures in the year of grant than might otherwise be expected. In our qualitative analysis of the grants of front-loaded awards to executives, Glass Lewis considers the quantum of the award on an annualized basis, rather than the lump sum, and may compare this result to prior practice and peer data, among other benchmarks.

## **ONE-TIME AWARDS**

Glass Lewis believes shareholders should generally be wary of awards granted outside of the standard incentive schemes outlined above, as such awards have the potential to undermine the integrity of a company's regular incentive plans, the link between pay and performance or both. We generally believe that if the existing incentive programs fail to provide adequate incentives to executives, companies should redesign their compensation programs rather than make additional grants.

However, we recognize that in certain circumstances, additional incentives may be appropriate. In these cases, companies should provide a thorough description of the awards, including a cogent and convincing explanation of their necessity and why existing awards do not provide sufficient motivation. Further, such awards should be tied to future service and performance whenever possible.

Additionally, we believe companies making supplemental or one-time awards should also describe if and how the regular compensation arrangements will be affected by these additional grants. In reviewing a company's use of supplemental awards, Glass Lewis will evaluate the terms and size of the grants in the context of the company's overall incentive strategy and granting practices, as well as the current operating environment.

## **CONTRACTUAL PAYMENTS AND ARRANGEMENTS**

Beyond the quantum of contractual payments, Glass Lewis will also consider the design of any entitlements. Certain executive employment terms may help to drive a negative recommendation, including, but not limited

to:

- Excessively broad change in control triggers;
- Inappropriate severance entitlements;
- Inadequately explained or excessive sign-on arrangements;
- Guaranteed bonuses (especially as a multiyear occurrence); and
- Failure to address any concerning practices in amended employment agreements.

In general, we are wary of terms that are excessively restrictive in favor of the executive, or that could potentially incentivize behaviors that are not in a company's best interest.

## **SIGN-ON AWARDS AND SEVERANCE BENEFITS**

We acknowledge that there may be certain costs associated with transitions at the executive level. In evaluating the size of severance and sign-on arrangements, we may consider the executive's regular target compensation level, or the sums paid to other executives (including the recipient's predecessor, where applicable) in evaluating the appropriateness of such an arrangement.

We believe sign-on arrangements should be clearly disclosed and accompanied by a meaningful explanation of the payments and the process by which the amounts were reached. Further, the details of and basis for any "make-whole" payments (paid as compensation for awards forfeited from a previous employer) should be provided.

With respect to severance, we believe companies should abide by predetermined payouts in most circumstances. While in limited circumstances some deviations may not be inappropriate, we believe shareholders should be provided with a meaningful explanation of any additional or increased benefits agreed upon outside of regular arrangements.

In the Canadian market, most companies maintain severance entitlements based on a multiple of salary and, in many cases, bonus. In almost all instances we see, the relevant multiple is three or less, even in the case of a change in control. We believe the basis and total value of severance should be reasonable and should not exceed the upper limit of general market practice. We consider the inclusion of long-term incentives in cash severance calculations to be inappropriate, particularly given the commonality of accelerated vesting and the proportional weight of long-term incentives as a component of total pay. Additional considerations, however, will be accounted for when reviewing atypically structured compensation approaches.

## **CHANGE IN CONTROL**

Glass Lewis considers double-trigger change in control arrangements, which require both a change in control and termination or constructive termination, to be best practice. Any arrangement that is not explicitly double-trigger may be considered a single-trigger or modified single-trigger arrangement.

Further, we believe that excessively broad definitions of change in control are potentially problematic as they may lead to situations where executives receive additional compensation where no meaningful change in status or duties has occurred.

## **AMENDED EMPLOYMENT AGREEMENTS**

Any contractual arrangements providing for problematic pay practices which are not addressed in materially amended employment agreements will potentially be viewed by Glass Lewis as a missed opportunity on the part of the company to align its policies with current best practices. Such problematic pay practices include,

but are not limited to, excessive change in control entitlements, modified single-trigger change in control entitlements, and multi-year guaranteed awards.

## OPTION EXCHANGES AND REPRICING

Glass Lewis is generally opposed to the repricing of employee and director options regardless of how it is accomplished. Employees should have some downside risk in their equity-based compensation program and repricing eliminates any such risk. As shareholders have substantial risk in owning stock, we believe that the equity compensation of employees and directors should be similarly situated to align their interests with those of shareholders. We believe this will facilitate appropriate risk- and opportunity-taking for the company by employees.

We are concerned that option grantees who believe they will be “rescued” from underwater options will be more inclined to take unjustifiable risks. Moreover, a predictable pattern of repricing or exchanges substantially alters a stock option’s value because options that will practically never expire deeply out of the money are worth far more than options that carry a risk of expiration. In short, repricing and option exchange programs change the bargain between shareholders and employees after the bargain has been struck.

There is one circumstance in which a repricing or option exchange program may be acceptable: if macroeconomic or industry trends, rather than specific company issues, cause a stock’s value to decline dramatically and the repricing is necessary to motivate and retain employees. In viewing the company’s stock decline as part of a larger trend, we would expect the impact to approximately reflect the market or industry price decline in terms of timing and magnitude. In this circumstance, we think it fair to conclude that option grantees may be suffering from a risk that was not initially foreseeable.

In general, we evaluate option repricing proposals on a case-by-case basis. While we are generally inclined to recommend voting against any proposal to reprice options, there are circumstances in which an option repricing may be appropriate, provided that the following criteria are true:

- Officers and board members cannot participate in the program; and
- Management and the board make a cogent case for needing to incentivize and retain existing employees.

In our evaluation of the appropriateness of the program design, we also consider the inclusion of the following features:

- The vesting requirements on exchanged or repriced options are extended beyond one year;
- Management and the board make a cogent case for needing to incentivize and retain existing employees.

## TSX RULES ON EQUITY PLAN AMENDMENTS

TSX rules currently require that, in order for a company to amend an equity-based pay plan, that plan must specify whether shareholder approval is required for the relevant type of amendment. TSX rules also provide that shareholder approval is required for an extension of the terms or repricing of options held by insiders. As a result, we have seen, and will most likely continue to see, proposals seeking to automatically extend the expiry date of an option in the event that the option expires during or shortly after a blackout period. We do not believe such proposals are of concern to shareholders, provided that the proposed expiration provisions have been adequately disclosed to shareholders, and that the terms are such that: (i) the extension is only available when the blackout period is self-imposed by the company (i.e., not where the company or insiders are subject to a cease trade order); (ii) the extension is for a reasonable and fixed period of time (i.e., five to ten business days) that is not subject to board discretion; and (iii) the extension is available to all eligible participants under the plan, under the same terms and conditions.

## LIMITS ON EXECUTIVE COMPENSATION

Generally, Glass Lewis believes shareholders should not be directly involved in setting executive pay. Such matters should be left to the compensation committee. In the absence of an advisory “Say-on-Pay” vote, we view the election of compensation committee members as an appropriate mechanism for shareholders to express their disapproval or support of board policy on executive pay. Further, we believe that companies whose pay-for-performance is in line with their peers should be able to pay their executives in a way that drives growth and profit, without destroying ethical values, giving consideration to their peers’ comparable size and performance.

## RECOUPMENT PROVISIONS (“CLAWBACKS”)

Glass Lewis supports the use of clawback or ‘malus’ provisions to safeguard against unwarranted short- and long-term incentive awards and to similarly encourage executives and senior management to take a more comprehensive view of risk when making business decisions. Such provisions generally allow, at a minimum, for some or all of an annual incentive award to be recouped in the case of a material misstatement of financial results or fraud.

We are increasingly focusing attention on the specific terms of recoupment policies. More expansive policies allow for the recoupment of both short and long-term incentive awards in cases of financial restatement or misconduct that results in reputational or other types of harm to the company. While the terms and conditions associated with a company’s recoupment policy (or lack thereof) are not directly determinative of our recommendations with respect to say-on-pay proposals, the inclusion of appropriately robust policies informs our overall view of a company’s compensation program.

## DIRECTOR COMPENSATION

Glass Lewis believes that non-employee directors should receive reasonable and appropriate compensation for the time and effort they spend serving on the board and its committees. In particular, we recognize that well-designed compensation plans that include option grants or other equity-based awards can help to align the interests of outside directors with those of shareholders. However, such grants for non-employee directors should not be tied to performance conditions, as a focus on specific aspects of financial performance could hinder a director’s independence. Rather, we prefer a compensation structure that provides directors with the option of receiving some or all of their fees in deferred share units or common shares that are restricted until the director leaves the board. In our opinion, even share options without performance conditions run the risk of focusing the attention of directors on the short-term performance of the company’s share price.

Director fees should be reasonable in order to retain and attract qualified individuals. At the same time, excessive fees represent a financial cost to the company and threaten to compromise the objectivity and independence of non-employee directors. We compare the costs of these plans to the plans of peer companies with similar market capitalizations in the same country to help inform our judgment on this issue.

# Governance Structure and the Shareholder Franchise

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## AMENDMENTS TO THE ARTICLES OF ASSOCIATION

We will evaluate proposed amendments to a company's articles of association on a case-by-case basis. We are opposed to the practice of bundling several amendments under a single proposal because it prevents shareholders from evaluating each amendment on its own merits. In such cases, we will analyze each change individually and recommend voting for the proposal only when we believe that, on balance, all of the amendments are in the best interests of shareholders. We may recommend a vote against proposals if a clear summary of amendments or a copy of past/proposed articles are not available and the disclosure is sufficiently vague that it is not possible to determine the full extent of what is being changed.

## QUORUM REQUIREMENTS

Glass Lewis believes that a company's quorum requirement should be set at a level high enough to ensure that a broad range of shareholders are represented in person or by proxy, but low enough that the company can transact necessary business. Pursuant to section 139 of the CBCA, irrespective of the number of persons present at a meeting, a majority of shares entitled to vote, either in person or by proxy, shall constitute a quorum. However, companies are permitted to stipulate a lower quorum requirement in the articles of association with the approval of shareholders. As such, should a company seek shareholder approval of a lower quorum requirement, we will generally permit a reduced quorum of at least 33% of shares entitled to vote, either in person or by proxy, when evaluating such proposals in consideration of the specific facts and circumstances of the company such as size and shareholder base.

However, when companies adopting new articles set quorum at 25% or higher, we will support the adoption so long as the new quorum represents an increase, or remains unchanged from prior levels. Additionally, with regard to the number of directors required to constitute an acceptable quorum for a meeting of directors, Glass Lewis looks for a requisite quorum of a majority of the directors of the board.

## ADVANCE NOTICE POLICIES

Glass Lewis recognizes the significant risks to shareholders from so-called "stealth proxy contests" whereby a shareholder nominates a director for election at a company's annual meeting without prior notice to the company or other shareholders. This could result in the election of a shareholder-nominated director with little to no support from other shareholders, in some cases exacerbated by low quorum requirements. It is reasonable, therefore, for companies to seek means, such as advance notice provisions, to ensure they (and shareholders) receive adequate notice in advance shareholder meetings of the intention of a shareholder to nominate one or more directors at the meeting.

However, we believe such provisions should be limited in scope to balance providing timely notice of the nomination to the company and shareholders against inhibiting the exercise of the nomination right. Glass Lewis therefore believes restrictions imposed under advance notice provisions should be reasonable so as not to present excessive impediments on shareholders who wish to nominate directors under such a policy. Accordingly, Glass Lewis will review such policies in consideration of the required time frames for shareholders to submit director nominations as well as other provisions setting forth requirements shareholders must meet to nominate directors.

Specifically, we will generally recommend that shareholders support policies that establish a reasonable notification period (generally 30 days) prior to the date of the annual meeting for shareholders to nominate one or more directors and that require a reasonably broad time period (e.g., a 35-day window) during which shareholders may submit such nominations.

Glass Lewis may consider recommending that shareholders vote against advance notice provisions if the minimum notice period is either too close to (e.g., 10 days) or too far in advance of (e.g., 60 days) the annual meeting. In addition, we will generally recommend that shareholders oppose such provisions where an advance notice policy does not allow for the commencement of a new time period for shareholder nominations in the event of an adjournment or postponement of the annual meeting.

Further, we will review advance notice policies to determine whether an issuer has implemented any unnecessarily burdensome or onerous requirements on shareholders seeking to nominate directors. In particular, Glass Lewis will review impediments to the nominations process such as excessive disclosure requirements (e.g., of sensitive, personal or irrelevant information), required commitments or undertakings to abide by unnecessarily broad or restrictive agreements, requirements to meet with certain individuals such as incumbent board members or other impediments that may frustrate shareholders ability or willingness to avail themselves of the nomination process.

## **EXCLUSIVE FORUM**

Glass Lewis recognizes that companies may be subject to frivolous and opportunistic lawsuits, particularly in conjunction with a merger or acquisition, that are expensive and distracting. In response, companies have sought ways to prevent or limit the risk of such suits by adopting bylaws regarding where the suits must be brought or shifting the burden of the legal expenses to the plaintiff, if unsuccessful at trial.

Glass Lewis believes that charter or bylaw provisions limiting a shareholder's choice of legal venue are not in the best interests of shareholders. Such clauses may effectively discourage the use of shareholder claims by increasing their associated costs and making them more difficult to pursue. As such, shareholders should be wary about approving any limitation on their legal recourse including limiting themselves to a single jurisdiction (e.g., Alberta) without compelling evidence that it will benefit shareholders.

For this reason, we recommend that shareholders vote against any amendments to the bylaws or articles seeking to adopt an exclusive forum provision unless the company: (i) provides a compelling argument on why the provision would directly benefit shareholders; (ii) provides evidence of abuse of legal process in other, non-favored jurisdictions; (iii) narrowly tailors such provision to the risks involved; and (iv) maintains a strong record of good corporate governance practices.

Moreover, in the event a board seeks shareholder approval of a forum selection clause pursuant to a bundled bylaw amendment rather than as a separate proposal, we will weigh the importance of the other bundled provisions when determining the vote recommendation on the proposal.

## **CHANGE OF CONTINUANCE**

Occasionally, companies may opt to undergo a change in continuance, in which a company will cease to operate as an entity in one Canadian province in favor of another. There may be a variety of justifications for such a move including tax, regulatory and more practical considerations. In such cases where such a move is presented before shareholders at an annual or special meeting, we will expect shareholders to be presented with a comparison of the substantive changes between the two jurisdictions; allowing shareholders to make an informed decision regarding the advantages, disadvantages and overall effect on the governance of the company and shareholder rights. We will analyse each change individually, and decide if the proposed change of continuance, on balance is in the best interests of the Company and its shareholders.

## VIRTUAL SHAREHOLDER MEETINGS

Glass Lewis believes that 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, we also believe that virtual-only meetings 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, we 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.

We will generally recommend voting against members of the governance committee where the board is planning to hold a virtual-only shareholder meeting and the company does not provide such disclosure or shareholder protections.

## DIRECTOR AND OFFICER INDEMNIFICATION

While Glass Lewis strongly believes that directors and officers should be held to the highest standard when carrying out their duties to shareholders, some protection from liability is reasonable to protect them against certain suits so that these officers feel comfortable taking measured risks that may benefit shareholders. As such, we find it appropriate for a company to provide indemnification and/or enroll in liability insurance to cover its directors and officers so long as the terms of such agreements are reasonable.

## ANTI-TAKEOVER MEASURES

### POISON PILLS (SHAREHOLDER RIGHTS PLANS)

Glass Lewis believes that poison pill plans generally are not in the best interests of shareholders. Specifically, they can reduce management accountability by substantially limiting opportunities for corporate takeovers. Rights plans can thus prevent shareholders from receiving a buy-out premium for their stock.

We believe that boards should be given wide latitude in directing the activities of the company and charting the company’s course. However, where the link between the financial interests of shareholders and their right to consider and accept buyout offers is so substantial, we believe that shareholders should be allowed to vote on whether or not they support such a plan’s implementation. This issue is different from other matters that are typically left to the board’s discretion since its potential impact on and relation to shareholders is direct and substantial. It is also an issue in which the interests of management may be very different from those of shareholders, and therefore ensuring shareholders have a voice is the only way to safeguard their interests.

Subject to the inclusion of certain standard provisions, we will generally support a limited poison pill to accomplish a particular objective, such as the closing of an important merger, or a pill that contains what we believe to be a reasonable “qualifying offer” clause. We will consider supporting a poison pill plan if the trigger threshold is not unreasonably low (i.e., lower than 20%) and the provisions of the qualifying offer clause include the following attributes: (i) the form of offer is not required to be an all-cash transaction; (ii) the offer

is not required to remain open for more than 105 business days; (iii) the offeror is permitted to make amendments to the offer, to reduce the offer or otherwise change the terms; (iv) there is no fairness opinion requirement; (v) there is a low to no premium requirement; and (vi) the plan does not allow the board the discretion to amend material provisions without shareholder approval.

Additionally, Glass Lewis will review the definition of beneficial ownership in such plans to ensure that ownership is strictly defined as shares held by an individual and does not include shares that are not owned, but can be directed to vote by a shareholder; Glass Lewis will generally oppose the adoption of such pills, also known as “voting pills,” that expand the circumstances when a pill would be triggered including in the absence of a bid for the company. When these requirements are met, we typically feel comfortable that shareholders will have the opportunity to voice their opinion on any legitimate offer. Further, it should be noted that poison pills must be approved by shareholders every three years.

## **INCREASE IN AUTHORIZED SHARES**

Glass Lewis believes that adequate share capital is important to the operation of a company. Companies generally seek an increase in authorized share capital in order to conduct equity fundraisings, stock splits or declare share dividends. We believe that it is critical for management to have access to a sufficient amount of the share capital in order to allow for quick decision-making and effective operations. However, prior to any significant transaction, we prefer that management justifies its use of any additional shares to shareholders, rather than simply asking for a blank check in the form of large pools of unallocated shares that can be used for any purpose.

In general, we will support proposals to increase authorized shares by up to 100% of the number of shares currently authorized; however, if the proposed increase would result in less than 30% of all authorized shares being outstanding, then we may recommend shareholders reject the proposal.<sup>30</sup>

## **ISSUANCE OF SHARES**

We recognize the viable reasons companies may have to issue shares; however, we also recognize that issuing shares dilutes existing holders in most circumstances. 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, when we find that a company has not detailed a plan for the use of the proposed shares, or when the number of shares is excessive, we typically recommend shareholders vote against the issuance. In the case of a private placement, we will also consider whether the company is offering the securities at a discount to its share price.<sup>31</sup>

In November 2009, the TSX updated its requirements to provide that shareholder approval be required when a company intends to issue shares in excess of 25% of issued share capital as payment for an acquisition. In general, we will support proposals to issue shares with preemptive rights of up to 100% of the number of shares currently issued, and proposals to issue shares without preemptive rights of up to 20% of the current issued share capital. However, note that there are no preemptive rights in Canada unless specifically called for in a company’s articles of association.

## **VOTING STRUCTURE**

### **MULTI-CLASS SHARE STRUCTURES**

Glass Lewis believes 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 are able to weigh in on issues set forth by the board.

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<sup>30</sup> Pursuant to the CBCA, companies may only increase their share capital subsequent to shareholder approval of a special resolution.

<sup>31</sup> Pursuant to the TSX Listing Rules, shareholder approval is required for issuances of stock by private placement of more than 25% of the number of shares outstanding in any six month period. However, issuances below this threshold are at the discretion of the board, which may issue any number of shares and determine their rights, privileges and restrictions.

Furthermore, we believe 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, we believe 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.

We generally consider a multi-class share structure to reflect negatively on a company's overall corporate governance. Because we believe that companies should have share capital structures that protect the interests of non-controlling shareholders as well as any controlling entity, we typically recommend that shareholders vote in favor of recapitalization proposals to eliminate multi-class share structures. Similarly, we will generally recommend against proposals to adopt a new class of common stock.

With regards to our evaluation of corporate governance following an IPO or spin-off within the past year, we will consider the presence of multi-class share structures as a 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, we will carefully examine the level of approval or disapproval attributed to unaffiliated shareholders when determining whether board responsiveness is warranted. Where vote results indicate that a majority of unaffiliated shareholders supported a shareholder proposal or opposed a management proposal, we believe the board should demonstrate an appropriate level of responsiveness.

## **SUPERMAJORITY VOTE REQUIREMENTS**

Glass Lewis believes that supermajority vote requirements impede shareholder action on ballot items critical to shareholder interests. An example is in the takeover context, where supermajority vote requirements can strongly limit the voice of shareholders in making decisions on such crucial matters as selling the business. This in turn degrades share value and can limit the possibility of buyout premiums to shareholders. Moreover, we believe that a supermajority vote requirement can enable a small group of shareholders to overrule the will of the majority of shareholders. We believe that a simple majority is appropriate to approve all matters presented to shareholders.

## **MAJORITY VOTING**

Over the past several decades, shareholders have sought a mechanism by which they might have a genuine voice in the election of directors. The common plurality vote standard ensures that directors who receive the highest number of votes are elected to serve on the board of directors. This system, at face value, appears to be a fair conduit through which the most favored candidates will be selected for service on the board. This system loses its efficacy, however, when the number of director candidates is equal to the number of open seats on the board, thereby permitting a nominee who receives a minority of shareholder support (as little as one vote) to assume a seat on the board. Majority voting, to the contrary, requires that each nominee receive the affirmative vote of at least a majority of shareholder votes cast in an election. In this manner a majority vote standard enhances shareholders' ability to determine who will serve as their representatives in the boardroom, resulting in increased board accountability and performance.

Since June 30, 2014 the TSX Company Manual requires all TSX-listed issuers (with an exception for controlled companies) to adopt majority voting for the election of directors.

Almost all companies that have adopted majority voting policies have opted for a director resignation policy in which any director who has received a majority of the total votes "withheld" from him or her (in an uncontested election) promptly tenders their resignation to the board or its nominating/corporate governance committee for consideration. The board or committee then considers the resignation and makes a decision on whether to accept or reject it. Such policies typically provide for 90 days to consider the resignation, after which the board will make its final decision known by way of a press release.

Although these policies are certainly preferable to no policy at all, since they require the board to consider the outcome of the vote and address shareholders' concerns, we believe there should be no need for further action by the board or any of its committees to have the candidate removed from the board. The board should not have the opportunity to ignore shareholders' will and allow the nominee to continue to serve as a director. The system ultimately leaves the decision-making process in the hands of board members, and not with shareholders, where we believe the power should lie.

## **TRANSACTION OF OTHER BUSINESS**

We typically recommend that shareholders not give their proxy to management to vote on any other business items that may properly come before the annual meeting. In our opinion, granting unfettered discretion is unwise.

# Environmental, Social & Governance Initiatives

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Glass Lewis believes it is important for companies to effectively oversee and manage material environmental, social and governance (“ESG”) issues. We believe shareholders should seek to promote governance structures that protect shareholders, support effective ESG oversight and reporting, and encourage director accountability. It is our belief that companies’ management of governance and shareholder rights-related issues are often indicative of their management of other issues, including those that are environmental and social in nature. Accordingly, Glass Lewis places a significant emphasis on promoting transparency, robust governance structures and companies’ responsiveness to and engagement with shareholders.

We believe that part of the board’s role is to ensure that management conducts a complete risk analysis of company operations, including those that have environmental and social implications. We believe that directors should monitor management’s performance in mitigating environmental and social risks in order to eliminate or minimize the risks to a company and its shareholders. Companies face significant financial, legal and reputational risks resulting from poor ESG-related practices, or negligent oversight thereof. Therefore, in cases where the board or management has neglected to take action on pressing issues that could negatively impact shareholder value, we believe shareholders should take necessary action in order to effect changes that will safeguard their financial interests.

To that end, Glass Lewis generally supports shareholder resolutions that seek to enhance companies’ governance structures, as we believe that, in most cases, this enhancement benefits shareholders. With respect to shareholder resolutions related to environmental and social issues, we evaluate each on a case-by-case basis and in the context of financial materiality. We believe that all companies face risks associated with ESG issues. However, we recognize that these risks manifest themselves differently at each company as a result of its unique operations, workforce, structure, and geography, among other factors. With a view to these risks, Glass Lewis will generally recommend in favor of resolutions that we believe will promote more and better disclosure of relevant risk factors where such disclosure is lacking or inadequate or that will otherwise serve the best long-term interests of shareholders. Further, when we believe that a company has not adequately managed environmental or social issues to the detriment of shareholders, Glass Lewis will note our concerns and may recommend that shareholders vote to signal these concerns on any applicable management or shareholder proposal.

For a detailed review of our policies concerning compensation, environmental, social and governance shareholder initiatives, please refer to our comprehensive *Proxy Paper Guidelines for Environmental, Social & Governance Initiatives*, available at [www.glasslewis.com](http://www.glasslewis.com).

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