Canada

GLASS LEWIS

2025 Benchmark Policy Guidelines

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Guidelines Introduction

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.

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". These requirements 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 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.

In the wake of the introduction of disclosure requirements for "designated groups" at CBCA companies, regulatory rule-changes on diversity disclosure also look to be on the way for non-CBCA issuers. On April 13, 2023, the CSA published for comment two proposed alternative amendments on diversity disclosure, each of which was endorsed by different provincial regulators.

Under Form A, endorsed by regulators in Alberta, British Columbia, Saskatchewan and the Northwest Territories, issuers would be required to disclose their approach to diversity in respect of the board and executive officers, but disclosure would not be mandated in respect of any specific groups, other than women. An issuer would be required to describe its chosen diversity objectives and how it would measure progress against these objectives. If an issuer chooses to collect data with respect to specific groups it identifies as being relevant for the issuer's approach to diversity, this data must be disclosed in a manner determined by the issuer.

Form B, endorsed by the Ontario Securities Commission, is more in line with the diversity disclosure requirements under the CBCA. Specifically, this amendment would require reporting, in a standardized tabular format, on the representation of five designated groups: women, Indigenous peoples, racialized persons, persons with disabilities and LGBTQ2SI+ persons, on boards and in executive officer positions. An issuer may also choose to voluntarily provide disclosure in respect of other groups beyond the designated groups.

The consultation period ended on September 29, 2023, and the CSA have confirmed that they are currently working towards publishing final amendments. In addition to potential legislation requiring increased diversity disclosure, regulation mandating an annual advisory say-on pay-vote remains in the pipeline, with a CBCA amendment 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 vote.

Summary of Changes for 2025

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 Oversight of Artificial Intelligence

In a new section of these guidelines, we have outlined our expectation under the benchmark policy that boards be cognizant of, and take steps to mitigate exposure to, any material risks that could arise from their use or development of AI. Companies that use or develop AI technologies should adopt strong internal frameworks that include ethical considerations and ensure effective oversight of AI. Clear disclosure on how boards are overseeing AI and expanding their collective expertise and understanding in this area is likely to be of value to shareholders.

In instances where there is evidence that insufficient management of AI technologies has resulted in material harm to shareholders, the benchmark policy may recommend that shareholders vote against the re-election of accountable directors, or other matters up for a shareholder vote, as appropriate, should we find the board's oversight, response or disclosure concerning AI-related issues to be insufficient.

Please refer to the "Board Oversight of Artificial Intelligence" section of these guidelines for further information.

Shareholder Meeting Format

We have updated the previous "Virtual Shareholder Meetings" section of these guidelines to clarify that we are tracking shareholder meeting format in the following categories – in-person only meeting, virtual-only meeting, hybrid meeting (shareholders have equal access to participate virtually and in-person) and in-person meeting with virtual element (shareholders can attend the online meeting but do not have the same capacity to participate as the in-person attendees). We do not currently have a benchmark policy voting recommendation based solely on the shareholder meeting format chosen by a company, although we continue to expect clear disclosure guaranteeing shareholders' ability to meaningfully participate in the virtual-only meeting format.

We have clarified our benchmark policy expectation that, given the concerns raised by institutional shareholders on shareholder meetings that do not allow for in-person attendance, companies should engage with their shareholders on this matter and provide rationale for their choice of shareholder meeting format when in-person attendance is not permitted. We have also added language to this section to confirm that the benchmark policy may recommend against the chair of the governance committee, or another relevant director, in cases where a board has failed to sufficiently respond to legitimate shareholder concerns regarding the shareholder meeting format.

Please refer to the "Shareholder Meeting Format" section of these guidelines for further information.

Disclosure of Professional Skills and Experience

We have added language to the "Professional Skills and Experience" section of these guidelines to note the importance of companies providing substantive disclosure in their proxy filings about the experience and expertise of board nominees. In cases where the disclosure of a S&P/TSX 60 company does not allow for a meaningful assessment of the key skills and experience of incumbent directors and nominees to a board, the benchmark policy may recommend a vote against the chair of the nominating committee (or equivalent).

Please refer to the "Professional Skills and Experience" section of these guidelines for further information.

Clarifying Amendments

The following clarifications of our existing policies are included this year:

Approach to Executive Pay Program

We have provided some clarifying statements to the section titled "The Link Between Compensation and Performance" to emphasize the benchmark policy's holistic approach to analyzing executive compensation programs. There are few program features that, on their own, lead to an unfavorable recommendation from the benchmark policy for a say-on-pay proposal, with pay programs reviewed on a case-by-case basis. Glass Lewis benchmark policy does not utilize a pre-determined scorecard approach when considering individual features such as the allocation of the long-term incentive between performance-based awards and time-based awards. Unfavorable factors in a pay program are reviewed in the context of rationale, overall structure, overall disclosure quality, the program's ability to align executive pay with performance and the shareholder experience and the trajectory of the pay program resulting from changes introduced by the compensation committee.

Governance Committee Meetings

We have clarified that the Glass Lewis benchmark policy expects the governance committee on all TSX boards to meet at least once during the year in review. In cases where the governance committee fails to have at least one meeting, the benchmark policy will generally recommend against the chair of the committee in question or, in the absence of a chair, the senior member of this committee.

A Board of Directors that Serves the Interests of Shareholders

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[1] 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 the director's compliance with the applicable listing requirements on independence, as well as their 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 preexisting 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

[1] 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.

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 they have 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 relationships 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.
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> **Affiliated Director** — A director is affiliated if they have 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.
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> 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.[2]

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:

- 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;
- 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. 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;

[2] 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.

- 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.

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.[3] 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.

[3] National Instrument 58-201 — Effective Corporate Governance.

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:

- 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.[4]
- 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.[5]
- 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).
- A director who exhibits a pattern of poor oversight in the areas of executive compensation, risk management or director recruitment/nomination.

[4] 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.

[5] National Instrument 52-109 requires the certification of all financial fillings by each the CEO and CFO.

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 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.

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.[6] 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

[6] 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.

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 governance committee chair when a board does not have some established form of independent leadership.[7]

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

[7] 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 non-executive board chair. In the absence of a non-executive board chair, we will recommend withholding votes from the senior non-executive director.

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 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."[8]

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.

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[8] Commission on Public Trust and Private Enterprise. The Conference Board. 2003.

At a minimum, we believe audit committees should have at least one member with demonstrable audit experience, who we would designate as an "audit financial expert". In order for a director to be designated as an "audit financial expert", we would generally expect company disclosure of such a director's experience as one or more of the following: (i) a chartered accountant; (ii) a certified public accountant; (iii) a former or current CFO of a public company or corporate controller of similar experience; (iv) a current or former partner of an audit company; or (v) having similar demonstrably meaningful audit experience.[9]

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:

- 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 for one year.
- All members of the audit committee who served on the committee during the period in question, if audit and audit-related fees total less than 50% of the fees billed by the auditor for consecutive years.
- 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.
- All members of the audit committee who sit on an excessive number of public company audit committees.[10]
- The audit committee chair if there is not at least one member who can reasonably be considered an audit financial expert as defined above. We will generally refrain from making recommendations solely on this basis, except where we have identified other concerns with the performance of the audit committee.
- The audit committee chair if the audit committee did not meet at least four times during the year.
- 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).
- 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.
- All members of the audit committee who served at a time when financial statements had to be restated due to negligence or fraud.
- All members of the audit committee if the company has repeatedly failed to file its financial reports in a timely fashion.
- 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.

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[9] This is a stricter definition than the CSA's 'financial literacy' requirement and would be closer to that of the SEC for audit committee financial experts. We now consider the audit financial expert designation distinctly from the financial skill in our skills matrix, which encompasses more generalized financial professional experience beyond accounting or audit experience.

[10] 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 audit 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 audit 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.

- All members of the audit committee who served at a time when accounting fraud occurred in the company.
- 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.[11]
- 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.
- 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.
- All members of the audit committee who served on the committee during a period where the company has reported: (i) a material weakness in its controls over financial reporting which has been outstanding for more than one year without clear disclosure of an updated remediation plan outlining the company's progress toward remediating the material weakness, or (ii) a material weakness for which a credible remediation plan has not been disclosed, or (iii) different material weaknesses over consecutive years.
- The audit committee chair if the company has not disclosed a breakdown of the fees paid to the external auditing firm for audit and non-audit services.

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

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[11] 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.

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 "The Link Between Compensation and Performance".

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

- 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.
- 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.
- The compensation committee chair and/or all members of the compensation committee who are up for election and served when the company failed to align pay with performance, particularly in cases where shareholders are not provided with an advisory vote on executive compensation at the annual meeting.[12]
- All members of the compensation committee (from the relevant time period) if the company has entered into excessive employment agreements and/or severance arrangements.
- 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.
- All members of the compensation committee if excessive employee perquisites and benefits were allowed.

[12] If a company provides shareholders with a say-on-pay proposal, we 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 may then recommend against the chair and/or all members of the compensation committee, in addition to recommending voting against the say-on-pay proposal, depending on our assessment of the degree of severity. 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.

- The compensation committee chair if the compensation committee did not meet during the year.
- The compensation committee chair if the committee consists of fewer than two members for the majority of the fiscal year (taking into account the effect of departures from the board in the short-term).
- The chair of the compensation committee when "mega-grants" have been granted and the awards present concerns such as excessive quantum, lack of sufficient performance conditions, and/or are excessively dilutive, among others.

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 Committee Performance

The nominating committee is responsible and accountable for the selection of objective and competent directors. Consistent with Glass Lewis' philosophy that boards should have diverse backgrounds and members with a breadth and depth of relevant experience, we believe that the nominating committee 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:

- 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.
- The nominating committee chair if the nominating committee did not meet during the year.[13]
- 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).
- 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.[14]

[13] 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.

[14] Considering that shareholder disapproval 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.

- 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.
- At companies listed on the TSX, the nominating committee chair of a board that is not at least 30 percent gender diverse or all members of the nominating committee of a board with no gender diverse directors.[15] For companies not listed on the TSX, we will recommend voting against the nominating committee chair if there are no gender diverse directors. 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 gender diverse membership.
- 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; rather, insufficient board refreshment may be a contributing factor in our recommendations when additional board-related concerns have been identified.
- The nominating committee chair if the committee consists of fewer than two members for the majority of the fiscal year (taking into account the effect of departures from the board in the short-term).

Governance Committee Performance

The governance committee, as the agent for shareholders, is responsible for the board's governance of the company and its executives. 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.

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

- The governance committee chair[16] when the board chair is not independent and an independent lead or presiding director has not been appointed.
- 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.
- The governance committee chair, or the most senior member of the committee in the absence of a committee chair, if the governance committee did not meet during the year in review.
- All members of the governance committee when the board fails to adopt a majority voting policy.[17]
- The governance committee chair when the board has provided poor, contradictory or outdated disclosure on key issues, such as the identity of its chair, composition of key committees, other directorships, or other information necessary for shareholders to properly evaluate the board.

[15] Women and directors that identify with a gender other than male or female.

[16] 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 non-executive board chair. In the absence of a non-executive board chair, we will recommend withholding votes from the senior non-executive director.

[17] Only applies to companies listed on the Toronto Stock Exchange.

- The governance committee chair when the board has provided poor or contradictory disclosure around transactions with related parties, particularly in cases where a company discloses that a director provides material consulting services or other material professional services but does not make clear which director has this potential conflict of interest or fails to disclose the amount received by the director in question.
- The governance committee chair when the board has failed to disclose detailed voting results from the previous annual meeting.
- The governance committee chair when: (i) records for board and committee meeting attendance are not disclosed, and: (ii) the number of audit committee, compensation committee, nominating committee and/or governance committee meetings that took place during the most recent year is not disclosed.
- The governance committee chair at companies with a multi-class share structure and unequal voting rights when the company does not provide for a reasonable sunset of the multi-class share structure (generally seven years or less). [18]
- The governance committee chair where the board is planning to hold a virtual-only or hybrid shareholder meeting and the company does not provide disclosure outlining minimum best practice shareholder protections as outlined under the section of these guidelines entitled "Virtual Shareholder Meetings".
- The governance committee chair if the committee consists of fewer than two members for the majority of the fiscal year (taking into account the effect of departures from the board in the short-term).

Environmental and Social Risk Oversight

Board Oversight of Environmental and Social Issues

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 all 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. These risks could include, but are not limited to, matters related to climate change, human capital management, diversity, stakeholder relations, and health, safety & environment.

For companies listed on the TSX 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. Furthermore, given the importance of the board's role in overseeing environmental and social risks, Glass Lewis will generally recommend voting against

[18] We may consider recommending against a representative of the major shareholder instead if we deem it more appropriate to hold them accountable for this issue (refer to “Multi-Class Share Structures” section for further information).

the governance committee chair of a company in the S&P/TSX Composite index which 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. 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 material environmental and socially impacts.

Cyber Risk Oversight

Companies and consumers are exposed to a growing risk of cyber-attacks. These attacks can result in customer or employee data breaches, harm to a company's reputation, significant fines or penalties, and interruption to a company's operations. Further, in some instances, cyber breaches can result in national security concerns, such as those impacting companies operating as utilities, defense contractors, and energy companies.

In response to these issues, regulators have increasingly been focused on ensuring companies are providing appropriate and timely disclosures and protections to stakeholders that could have been adversely impacted by a breach in a company's cyber infrastructure.

Given the regulatory focus on, and the potential adverse outcomes from, cyber-related issues, it is our view that cyber risk is material for all companies. We therefore believe that it is critical that companies evaluate and mitigate these risks to the greatest extent possible. With that view, we encourage all issuers to provide clear disclosure concerning the role of the board in overseeing issues related to cybersecurity, including how companies are ensuring directors are fully versed on this rapidly evolving and dynamic issue. We believe such disclosure can help shareholders understand the seriousness with which companies take this issue.

In the absence of material cyber incidents, we will generally not make voting recommendations on the basis of a company's oversight or disclosure concerning cyber-related issues. However, in instances where cyber-attacks have caused significant harm to shareholders we will closely evaluate the board's oversight of cybersecurity as well as the company's response and disclosures.

Moreover, in instances where a company has been materially impacted by a cyber-attack, we believe shareholders can reasonably expect periodic updates communicating the company's ongoing progress towards resolving and remediating the impact of the cyber-attack. We generally believe shareholders are best served when such updates include (but are not necessarily limited to) details such as when the company has fully restored its information systems, when the company has returned to normal operations, what resources the company is providing for affected stakeholders, and any other potentially relevant information, until the company considers the impact of the cyber-attack to be fully remediated. These disclosures should focus on the company's response to address the impacts to affected stakeholders and should not reveal specific and/or technical details that could impede the company's response or remediation of the incident or that could assist threat actors.

In such instances, we may recommend voting against appropriate directors should we find the board's oversight, response or disclosure concerning cybersecurity-related issues to be insufficient or this information is not provided to shareholders.

Board Oversight of Artificial Intelligence

In recent years, companies have rapidly begun to develop and adopt uses for artificial intelligence (AI) technologies throughout various aspects of their operations. Deployed and overseen effectively, AI technologies have the potential to make companies' operations and systems more efficient and productive. However, as the use of these technologies has grown, so have the potential risks associated with companies' development and use of AI. Given these potential risks, boards should be cognizant of, and take steps to mitigate exposure to, any material risks that could arise from their use or development of AI.

Companies that use or develop AI technologies should consider adopting strong internal frameworks that include ethical considerations and ensure they have provided a sufficient level of oversight of AI. As such, boards may seek to ensure effective oversight and address skills gaps by engaging in continued board education and/or appointing directors with AI expertise. With that view, all companies that develop or employ the use of AI in their operations should provide clear disclosure concerning the role of the board in overseeing issues related to AI, including how companies are ensuring directors are fully versed on this rapidly evolving and dynamic issue. Such disclosure can help shareholders understand the seriousness with which companies take this issue.

While it is important that these issues are overseen at the board level and that shareholders are afforded meaningful disclosure of these oversight responsibilities, companies should determine the best structure for this oversight. Glass Lewis' benchmark policy recognizes that this oversight can be effectively conducted by specific directors, the entire board, a separate committee, or combined with the responsibilities of a key committee.

In the absence of material incidents related to a company's use or management of AI-related issues, the benchmark policy will generally not make voting recommendations on the basis of a company's oversight of, or disclosure concerning, AI-related issues. However, in instances where there is evidence that insufficient oversight and/or management of AI technologies has resulted in material harm to shareholders, Glass Lewis will review a company's overall governance practices and identify which directors or board-level committees have been charged with oversight of AI-related risks. We will also closely evaluate the board's response to, and management of, this issue as well as any associated disclosures and may recommend against appropriate directors under the benchmark policy should we find the board's oversight, response or disclosure concerning AI-related issues to be insufficient.

Board Accountability for Environmental and Social Performance

Glass Lewis carefully monitors companies' performance with respect to environmental and social issues, including those related to climate and human capital management. In situations where we believe that a company has not properly managed or mitigated material 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.

For more information on how Glass Lewis evaluates environmental and social issues, please see Glass Lewis' Overall Approach to ESG as well as our comprehensive *Proxy Paper Guidelines for Shareholder Proposals & ESG-Related Issues,* available at www.glasslewis.com/voting-policies-current/.

Board Accountability for Climate-Related Issues

Given the exceptionally broad impacts of a changing climate on companies, the economy, and society in general, we view climate risk as a material risk for all companies. We therefore believe that boards should be considering and evaluating their operational resilience under lower-carbon scenarios. While all companies maintain exposure to climate-related risks, we believe that additional consideration should be given to, and that disclosure should be provided by those companies whose GHG emissions represent a financially material risk.

We believe that companies with this increased risk exposure should provide clear and comprehensive disclosure regarding these risks, including how they are being mitigated and overseen. We believe such information is crucial to allow investors to understand the company's management of this issue, as well as the impact of a lower carbon future on the company's operations.

In line with this view, Glass Lewis will carefully assess whether climate-related disclosures are aligned with the recommendations of the Task Force on Climate-related Disclosures (TCFD) or IFRS S2 Climate-Related Disclosures at TSX 60 companies with material exposure to climate risk stemming from their own operations[19] as well as companies where we believe emissions or climate impacts, or stakeholder scrutiny thereof, represent an outsized, financially material risk. We will also assess whether these companies have disclosed explicit and clearly defined board-level oversight responsibilities for climate-related issues. In instances where we find either or both of these disclosures to be absent or significantly lacking, we may recommend voting against the chair of the committee (or board) charged with oversight of climate related issues, or if no committee has been charged with such oversight, the chair of the governance committee. Further, we may extend our recommendation on this basis to additional members of the responsible committee in cases where the committee chair is not standing for election, or based on other factors, including the company's size and industry and its overall governance profile.

Board Accountability for Human Capital Management

Glass Lewis believes that effective board oversight of human capital management issues is not limited to a company's policies and disclosure on workforce diversity and inclusivity measures; rather, boards should be considered broadly accountable for direct oversight of workplace issues at large, which includes labor practices, employee health and safety, and employee engagement, diversity, and inclusion.[20] In egregious cases where a board has failed to respond to legitimate concerns with a company's human capital management practices, we may recommend voting against the chair of the committee tasked with oversight of the company's

[19] This policy will generally apply to companies in the following SASB-defined industries: agricultural products, air freight & logistics, airlines, chemicals, construction materials, containers & packaging, cruise lines, electric utilities & power generators, food retailers & distributors, health care distributors, iron & steel producers, marine transportation, meat, poultry & dairy, metals & mining, non-alcoholic beverages, oil & gas, pulp & paper products, rail transportation, road transportation, semiconductors, waste management.

[20] SASB Universe of Sustainability Issues.

environmental and/or social issues, the chair of the governance committee, or the chair of the board, as applicable.

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, at TSX companies, we will generally recommend that shareholders oppose the election of a director who:

- Serves as an executive officer of a public company while serving on more than one additional external public company board; or
- Serves as an executive chair/vice chair of a public company while serving on more than two additional external public company boards; or
- Serves as a non-executive director on more than five public company boards in total.[21]

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.

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 in related industries or a director that represents a firm whose sole purpose is to manage a portfolio of investments which include the company. In these cases, we nevertheless believe that it is incumbent on companies to proactively address potential shareholder concerns regarding a director's overall commitment level.

[21] 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).

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:

- 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.
- 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 and a director and the independence profile of the board and its key committees.[22]
- 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 the director's 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.
- 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. In such cases, we will classify as "affiliated" and may recommend against the election of the director at the company in which he/she serves as a non-executive director.[23] On a case-by case basis, we evaluate interlocking relationships beyond those described above, such as interlocks with close family members of executives or within group companies, and may also determine that conflicts of interest exist. Further, we also review multiple board interlocks among non-insiders (i.e., multiple directors serving on the same boards at other companies) for evidence of a pattern of poor oversight.

Board Size

While we do not believe that there is a universally applicable optimal 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

[22] 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.
[23] We would still consider an interlock to exist in cases where individuals do not serve as directors of the companies where they are executives. The interlock policy applies to both public and private companies.

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 committee at boards with fewer than five directors (or the board chair, in the absence of this committee), or four directors for venture issuers. We will also typically recommend withholding votes from the nominating committee chair (or the board chair, in the absence of this committee) for boards consisting of more than 20 directors. [24]

Governance Following an IPO, Spin-Off or Direct Listing

We believe companies that have recently completed an initial public offering (IPO), spin-off, or direct listing 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. Glass Lewis generally 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.

However, some cases warrant shareholder action against the board of a company that has completed an IPO, spin-off, or direct listing within the past year. When evaluating companies that have recently gone public, Glass Lewis will review the terms of the applicable governing documents in order to determine whether shareholder rights are being severely restricted indefinitely. We believe boards that approve highly restrictive governing documents have demonstrated that they may subvert shareholder interests following the IPO. In cases where Glass Lewis determines that the board has approved overly restrictive governing documents, we may recommend voting against members of the governance committee (or the board chair, in the absence of this committee).

In cases where, preceding an IPO, the board adopts a multi-class share structure where voting rights are not aligned with economic interest, we will generally recommend voting against all members of the board who served at the time of the IPO if the board: (i) did not also commit to submitting this provision to a shareholder vote at the company’s first shareholder meeting following the IPO; or (ii) did not provide for a reasonable sunset of this provision (generally seven years or less). If it is put to a shareholder vote, we will examine the level of approval or disapproval attributed to unaffiliated shareholders when determining the vote outcome.

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

[24] Certain exceptions may be made for large banks on a case-by-case basis.

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.

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:

- 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.[25]
- 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.
- 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.[26]
- Nominating and/or 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.[27] In addition, we only require a minimum of one gender diverse director on the boards of these companies rather than the 30% minimum we expect for TSX companies.

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 four external 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

[25] 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.

[26] 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.

[27] 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.

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 Cboe Canada 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:

- 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.
- 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.
- The compensation, nominating and governance committees do not need to consist solely of independent directors.[28] However, we continue to believe that no insiders should serve on the compensation committee.
- 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 makes such a committee both less powerful and less relevant.

[28] 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 may recommend withholding votes from any nominee seeking appointment to these committees, regardless of the company's controlled status.

- 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.
- 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.[29]

Trusts & 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[30] 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[31] 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.

[29] 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.

[30] 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.

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

Policies for Trusts & 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 summary of significant policy differences:

- Boards may have a minimum of four directors, rather than five.
- 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.
- 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.

We will note as a potential concern instances where the average tenure of non-executive directors is 10 years or more and no new directors have joined the board in the past five years. While we will be highlighting this as a potential area of concern, we will not be making voting recommendations strictly on this basis, unless we have identified other governance or board performance concerns.

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 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 from 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 committee, unless the rule was waived with sufficient explanation, such as consummation of a corporate transaction.

Diversity

Glass Lewis recognizes the importance of ensuring that the board is composed 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. Glass Lewis closely reviews the composition of the board for representation of diverse director candidates.

At companies listed on the TSX, we will generally recommend against the chair of the nominating committee of a board that is not at least 30 percent gender diverse, or the entire nominating committee of a board with no gender diverse directors. For boards of issuers on junior exchanges (see section on "TSX Venture Exchange Companies"), our minimum threshold remains one gender diverse director on the board.

When making these voting recommendations, we will carefully review a company's disclosure of its diversity considerations and may refrain from recommending that shareholders vote against directors when boards have provided a sufficient rationale or plan to address the lack of diversity on the board, including a timeline of when the board intends to appoint additional gender diverse directors (generally by the next annual meeting or as soon as is reasonably practicable).

Professional Skills and 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.[32] In cases where the disclosure of a S&P/TSX 60 company does not allow for a meaningful assessment of the key skills and experience of incumbent directors and nominees to a board, we will consider recommending voting against the chair of the nominating committee (or equivalent) under the benchmark policy.

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.

32 See Board Skills Appendix for an overview of skills Glass Lewis considers in relation to certain key sectors, as of 2020.

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.[33]

[33] 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 Proposals & ESG-Related Issues,*, available at www.glasslewis.com/guidelines.

Transparency and Integrity in Financial Reporting

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 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. 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:

- When audit fees and audit-related fees total less than 50% of overall fees.[34]
- 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).[35]
- When the company has aggressive accounting policies.
- When the company has poor disclosure or a lack of transparency in its financial statements.
- 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.
- 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.
- 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.

[34] 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).

[35] 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

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. 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 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:

- The extent to which the company has utilized performance goals in determining overall compensation.
- 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.
- The extent to which the disclosed performance metrics, targets and goals are demonstrably linked to enhancing company performance.
- The selected peer group(s), so that shareholders can make a comparison of pay and performance across the appropriate peer group.
- 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.

- The amount of discretion granted to management or the compensation committee to deviate from defined performance metrics and goals in granting awards.

The practice of approving a company's compensation reports is standard in many markets and has been a requirement for companies in the UK, Australia, U.S. and Europe since 2003, 2005, 2011 and 2020, respectively. In Canada, advisory votes on executive compensation were introduced voluntarily by some companies in 2010 and have been quickly adopted by others, with more 200 companies now offering their shareholders a "say-on-pay", and the prospect of as-yet not effective CBCA amendments potentially requiring annual sayon-pays in the future.

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.[36] Such votes are particularly relevant in cases where companies are justifying pay decisions by citing pay levels in markets where these votes are a requirement. In cases where S&P/TSX Composite companies choose not to hold a say-on-pay vote, we note this as a potential concern in our analysis of the compensation committee's performance. In such instances, we would expect to see disclosure of how these companies are facilitating investor dialogue and taking shareholder feedback regarding their compensation structure into account.

Say-on-Pay Voting Recommendations

Glass Lewis applies a highly nuanced approach when analyzing executive compensation programs for the say on pay. We review each pay program 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.

[36] Where we have identified significant concerns with a company's pay practices and the company does not include a say-on-pay vote on the ballot, we will recommend that shareholders vote against the election of the compensation committee chair and/or all committee members.

- 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. Additionally, while we recognize their rarity in the Canadian market, beneficial features such as, but not limited to, post-vesting and/or post-retirement holding requirements may be viewed positively in our holistic analysis.

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.

Glass Lewis reviews all factors related to named executive officer compensation, including quantitative analyses, structural features, the presence of effective best practice policies, disclosure quality and trajectory-related factors. Except for particularly egregious pay decisions and practices, no one factor would ordinarily lead to an unfavorable recommendation without a review of the company's rationale and/or the influence of such decisions or practices on other aspects of the pay program, most notably the company's ability to align executive pay with performance and the shareholder experience.

Although not an exhaustive list, we believe the following practices are indications of problematic pay practices. When weighted together, they may cause Glass Lewis benchmark policy to recommend against a say-on-pay vote:

- Inappropriate or outsized self-selected peer group and/or benchmarking issues, such as compensation targets set well above the median without adequate justification.
- Egregious or excessive bonuses, equity awards, perquisites or severance payments, including golden handshakes and golden parachutes.
- Discretionary bonuses paid when short or long-term incentive plan targets were not met.
- Insufficient response to low shareholder support.
- Insufficiently challenging performance targets and/or high potential payout opportunities.
- Performance targets lowered without justification.
- Adjustments to performance results that lead to problematic pay outcomes.
- Problematic contractual payments, such as guaranteed bonuses.
- High executive pay relative to peers that is not justified by outstanding company performance.
- The terms of the long-term incentive plans are inappropriate (please see "Long-Term Incentives").

The aforementioned issues 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 and market-leading practices, a “Fair” rating represents a compensation program with some concerns but general adherence to best practices 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. 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. 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 recommend that shareholders vote against the chair and/or additional members of the compensation committee, as well as the say-on-pay vote. We may also recommend voting against committee members for decisions made in relation to the most recent year if particularly concerning practices took place, such as approving large one-off payments or the inappropriate use of discretion.

Company Responsiveness

When companies receive a significant level of shareholder opposition to a say-on-pay proposal, which occurs when there is more than 20% opposition to the proposal, we believe the board should demonstrate a commensurate level of engagement and responsiveness to the concerns behind the disapproval, with a particular focus on responding to shareholder feedback. When assessing the level of opposition to say-on-pay proposals, we may further examine the level of opposition among disinterested shareholders as an independent group. 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 demonstrate in the CD&A 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 disapproval over time.

Responses we consider appropriate include engaging with large shareholders, especially dissenting shareholders, to identify their concerns, and, where reasonable, implementing changes and/or making commitments that directly address those concerns within the company’s compensation program. In cases where particularly egregious pay decisions caused the say-on-pay proposal to fail, Glass Lewis will closely consider whether any changes were made directly relating to the pay decision that may address structural concerns that shareholders have. In the absence of any evidence in the disclosure 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 practices.

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, which serves as our primary quantitative assessment, 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 under our primary analysis, 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:

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

Separately, a specific comparison between the company's executive pay and its peers' executive pay levels may be 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 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, supplemental quantitative factors like realized pay levels may be considered, and 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 pay-for-performance letter grades, Glass Lewis utilizes a proprietary methodology that considers both market and industry peer, along with each company's self-disclosed peers and peers of those company-disclosed peers. Each component is considered on a weighted basis and is subject to size-based ranking and screening.

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 may also presented in the Proxy Paper for comparative purposes and for supplemental analyses.

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 STI plans to be based on company-wide or divisional financial measures as well as non-financial, qualitative or non-formulaic factors such as those related to employee turnover, safety, environmental issues, and customer satisfaction when they are material to the company's overall health. 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.

Glass Lewis recognizes that some measures or performance targets may involve commercially confidential information. Therefore, we believe it may be reasonable to exclude such information in some cases as long as the company provides sufficient justification for non-disclosure.[37] 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.

Further, the threshold, target and maximum performance goals 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.

Where management has received significant short-term incentive payments but overall performance and/or the shareholder experience over the measurement year prima facie appears to be poor or negative, we believe 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 prorating performance periods, we expect a robust discussion of why the decision was necessary.

Adjustments to IFRS/GAAP figures may be considered in Glass Lewis' assessment of the effectiveness of the incentive at tying executive pay with performance. We believe that where companies use non-IFRS/GAAP or bespoke metrics, clear reconciliations between these figures and IFRS/GAAP figures in audited financial statement should be provided. Moreover, in circumstances where significant adjustments were applied to performance results, a thorough and detailed discussion of adjustments akin to a IFRS/GAAP-to-non-IFRS/GAAP reconciliation and their impact on payouts within the proxy statement is necessary and appropriate. The absence of such enhanced disclosure for significant adjustments will impact Glass Lewis' assessment of the

[37] National Instrument 51-102F6, Item 2.1 (4).

quality of disclosure and, in turn, may play a role in the overall benchmark policy recommendation for the advisory vote on executive compensation.

Glass Lewis recognizes the importance of the compensation committee's prudent and responsible exercise of discretion over incentive pay outcomes to account for significant, material events that would otherwise be excluded from performance results of selected metrics of incentive programs. For instance, litigation settlement charges are typically removed from non-IFRS/GAAP results before the determination of formulaic incentive payouts, or health and safety failures may not be reflected in performance results where companies do not expressly include health and safety metrics in incentive plans. Such events may nevertheless be consequential to corporate performance results, impact the shareholder experience, and, in some cases, may present material risks. Conversely, certain events may adversely impact formulaic payout results despite being outside executives' control. We believe that companies should provide thorough discussion of how such events were considered in the committee's exercise of discretion over incentive payouts.

We do not generally recommend against a pay program due to the use of a non-formulaic plan. 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 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 be-tween 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.

There are features that are common to most well-structured long-term incentive (LTI) programs. These include:

- 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.
- Reasonable individual award 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.
- Additional post-vesting holding periods to encourage long-term executive share ownership.

In evaluating long-term incentive grants, Glass Lewis generally believes that at least half of the grant should consist of performance-based awards, putting a material 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. Given the reduction in rigor and accountability in the pay program, Glass Lewis will assess the revision's impact on the pay program's ability to align executive pay with performance and shareholder experience; programs that fail our assessments may receive an unfavorable recommendation. They may also lead to an unfavorable recommendation from Glass Lewis benchmark policy if the change is not offset by meaningful revisions such as to pay quantum and vesting periods, particularly in the absence of cogent rationale.

As with the short-term incentive, Glass Lewis recognizes the importance of the compensation committee's judicious and responsible exercise of discretion over incentive pay outcomes to account for significant events that would otherwise be excluded from performance results of selected metrics of incentive programs. We believe that companies should provide thorough discussion of how such events were considered in the committee's decisions to exercise discretion or refrain from applying discretion over incentive pay outcomes.

Furthermore, considerations related to the use of non-IFRS/GAAP metrics under the STI plan similarly apply to the long-term incentive program. 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 Option Plans

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 equity compensation 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 Award Plans

The use of "full-value" awards, often tied to performance criteria or vesting schedules, is also 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."

When the value ultimately received by executives 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. The so-called "mega-grant", an outsized award to one individual sometimes valued at over $100 million is sometimes but not always provided as a front-loaded award. We believe shareholders should generally be wary of this granting 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 or to respond to other unforeseen factors. Additionally, if structured poorly, early vesting of such awards may reduce or eliminate the retentive power at great cost to shareholders. 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, and may compare this result to prior practice and peer data, among other benchmarks. Additionally, for awards that are granted in the form of equity, Glass Lewis may consider the total potential dilutive effect of such award on shareholders.

In situations where the front-loaded award was meant to cover a certain portion of the regular long-term incentive grant for each year during the covered period, our analysis of the value of the remaining portion of the regular long-term incentives granted during the period covered by the award will account for the annualized value of the front-loaded portion, and we expect no supplemental grant be awarded during the vesting period of the front-loaded portion.

Meanwhile, for individual equity award proposals where the recipient of the proposed grant is also a large shareholder of the company whose vote can materially affect the passage of the proposal, we believe that the company should strongly consider the level of approval from disinterested shareholders before proceeding with the proposed grant. Glass Lewis recognizes potential conflicts of interests when vote outcomes can be heavily influenced by the recipient of the grant. A required abstention vote or non-vote for an equity award proposal in these situations can help to avoid such conflicts and will be viewed positively in our assessment. The structure, disclosure, dilution, provisions etc. related to the individual award will likewise be assessed for their alignment with long-term shareholder interests.

Linking Executive Pay to Environmental and Social Criteria

Glass Lewis believes that explicit environmental and/or social (E&S) criteria in executive incentive plans, when used appropriately, can serve to provide both executives and shareholders a clear line of sight into a company's ESG strategy, ambitions, and targets. Although we are strongly supportive of companies' incorporation of material E&S risks and opportunities in their long-term strategic planning, we believe that the inclusion of E&S metrics in compensation programs should be predicated on each company's unique circumstances. In order to establish a meaningful link between pay and performance, companies must consider factors including their industry, size, risk profile, maturity, performance, financial condition, and any other relevant internal or external factors.

When a company is introducing E&S criteria into executive incentive plans, we believe it is important that companies provide shareholders with sufficient disclosure to allow them to understand how these criteria align with their strategies. Additionally, Glass Lewis recognizes that there may be situations where certain E&S performance criteria are reasonably viewed as prerequisites for executive performance, as opposed to behaviors and conditions that need to be incentivized. For example, we believe that shareholders should interrogate the use of metrics that award executives for ethical behavior or compliance with policies and regulations. It is our view that companies should provide shareholders with disclosures that clearly lay out the rationale for selecting specific E&S metrics, the target-setting process, and corresponding payout opportunities. Further, particularly in the case of qualitative metrics, we believe that shareholders should be provided with a clear understanding of the basis on which the criteria will be assessed. Where quantitative targets have been set, we believe that shareholders are best served when these are disclosed on an ex-ante basis, or the board should outline why it believes it is unable to do so.

While we believe that companies should generally set long-term targets for their environmental and social ambitions, we are mindful that not all compensation schemes lend themselves to the inclusion of E&S metrics. We also are of the view that companies should retain flexibility in not only choosing to incorporate E&S metrics in their compensation plans, but also in the placement of these metrics. For example, some companies may resolve that including E&S criteria in the annual bonus may help to incentivize the achievement of short-term milestones and allow for more maneuverability in strategic adjustments to long-term goals. Other companies may determine that their long-term sustainability targets are best achieved by incentivizing executives through metrics included in their long-term incentive plans.

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, Glass Lewis reviews grants of supplemental awards on a case-by-case, company-by-company basis to give adequate consideration for unique circumstances. 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 and a discussion of how the quantum of the award and its structure were determined. 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. However, where Glass Lewis determines that such predetermined payouts are particularly problematic or unfavorable to shareholders, we may consider the execution of such payments in a negative recommendation for the advisory vote on executive compensation.

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. Companies that allow for committee discretion over the treatment of unvested awards should commit to providing clear rationale for how such awards were ultimately treated in the event a change in control occurs.

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.

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.

Glass Lewis believes that clawback provisions play an important role in mitigating excessive risk-taking that may be encouraged by poorly structured variable incentive programs. Current U.S. listing standards, relevant to many Canadian companies, require recoupment of erroneously awarded payouts to current and former executive officers in the event of an accounting restatement or correction to previous financial statements that is material to the current period, regardless of fault or misconduct.

Glass Lewis recognizes that excessive risk-taking that can materially and adversely impact shareholders may not necessarily result in such restatements. We believe that clawback policies should allow recovery from current and former executive officers in the event of a restatement of financial results or similar revision of performance indicators upon which the awards were based. Additionally, recoupment policies should provide companies with the ability to clawback variable incentive payments (both time-based and performance-based) when there is evidence of problematic decisions or actions, such as material misconduct, a material reputational failure, material risk management failure, or a material operational failure, the consequences of which have not already been reflected in incentive payments and where recovery is warranted.

In situations where the company ultimately determines not to follow through with recovery, Glass Lewis will assess the appropriateness of such determination for each case. A thorough, detailed discussion of the company's decision to not pursue recoupment and, if applicable, how the company has otherwise rectified the disconnect between executive pay outcomes and the shareholder experience will be considered. The absence of such enhanced disclosure may impact Glass Lewis' assessment of the quality of disclosure and, in turn, may play a role in Glass Lewis' overall recommendation for the advisory vote on executive compensation. The clawback provision should provide recoupment authority regardless of whether the employment of the executive officer was terminated with or without cause.

Executive Ownership Guidelines

The alignment between shareholder interests and those of executives helps to ensure that executives are acting in the best long-term interests of disinterested shareholders. Companies should facilitate this relationship through the adoption and maintenance of meaningful, minimum executive share ownership requirements. Companies should clearly disclose their executive ownership requirements in their Compensation Discussion and Analysis section and how the various types of outstanding equity awards are counted or excluded from the ownership level calculation.

In determining whether executives have met the requirements or not, the inclusion of unearned performance-based full value awards and/or unexercised stock options without cogent rationale may be viewed as problematic. While Glass Lewis views the inclusion of unearned performance-based equity in the ownership determination renders executive share ownership policies less effective, we continue to believe that performance-based equity compensation plays an important role in the separate issue of aligning executive pay with performance.

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

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 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.

Shareholder Meeting Format

Glass Lewis tracks shareholder meeting format in the following categories – in-person only meeting, virtual-only meeting, hybrid meeting (shareholders have equal access to participate virtually and in-person) and in-person meeting with virtual element (shareholders can attend the online meeting but do not have the same capacity to participate as the in-person attendees). We do not currently have a benchmark policy voting recommendation based solely on the shareholder meeting format chosen by a company.

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. However, virtual-only meetings also 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.

Given the concerns raised by some shareholders on virtual meetings, shareholders can reasonably expect companies to disclose the reasons for which the board has elected to hold the meeting in this manner. In addition, companies should actively engage with their shareholders on the topic of shareholder meeting format. In egregious cases where a board has failed to address legitimate, publicly disclosed shareholder concerns regarding the shareholder meeting format, under the benchmark policy we may recommend that shareholders vote against the re-election of the governance committee chair or other accountable directors.

In addition, 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[38].

[38] See Canadian Securities Administrators (CSA) updated guidance on virtual shareholder meetings.

Examples of effective disclosure include addressing the following matters:

- 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.
- The 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.
- The procedure and requirements to participate in the meeting and access the virtual meeting platform.
- The procedures for accessing technical support to assist in the event of any difficulties accessing the virtual meeting.

The benchmark policy will generally recommend voting against the chair of the governance committee where the board is planning to hold a virtual-only shareholder meeting and the company does not provide such disclosure, the disclosure provided is ambiguous or the company discloses that shareholders participating virtually are not afforded the protections outlined above.

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 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.[39]

With regard to authorizations and/or increases in preferred shares, Glass Lewis is generally against such authorizations which allow the board to determine the preferences, limitations and rights of the preferred shares (known as "blank-check preferred stock"). We believe that granting such broad discretion should be of concern to common shareholders, since blank-check preferred stock could be used as an anti-takeover device or in some other fashion that adversely affects the voting power or financial interests of common shareholders. Therefore, we will generally recommend voting against such requests, unless the company discloses a commitment to not use such shares as an anti-takeover defense or in a shareholder rights plan, or has disclosed a commitment to submit any shareholder rights plan to a shareholder vote prior to its adoption.

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

[39] Pursuant to the CBCA, companies may only increase their share capital subsequent to shareholder approval of a special resolution.

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.[40]

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.

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 will generally recommend against proposals to adopt a new class of common stock. Similarly, we typically recommend that shareholders vote in favor of recapitalization proposals to eliminate multi-class share structures. However, as part of our review of proposals to unwind multi-class share structures, we will analyze any financial compensation being offered to holders of shares with superior rights.

During the 2022 proxy season, we began to recommend voting against the chair of the governance committee at companies with a multi-class share structure and unequal voting rights when the company does not provide for a reasonable sunset of the multi-class share structure (generally seven years or less). Since 2023, in such cases, we may consider recommending against a representative of the major shareholder instead if we deem it more appropriate to hold them accountable for this issue. We may also consider exempting directors from a negative

[40] 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.

recommendation on this basis if we see multi-year evidence of recent exemplary governance practices and responsiveness to shareholders at the relevant company.

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. In cases where evidence exists that a company with a multi-class share structure is unresponsive to the concerns of minority shareholders, we believe it is appropriate to hold the governance committee chair accountable.

In the case of a board that adopts a multi-class share structure in connection with an IPO, spin-off, or direct listing within the past year, we will generally recommend against the chair of the governance committee or most senior representative of the major shareholder up for election if the board: (i) did not also commit to submitting the multi-class structure to a shareholder vote at the company's first shareholder meeting following the IPO; or (ii) did not provide for a reasonable sunset of the multi-class structure (generally seven years or less).

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.

On August 31, 2022, amendments to the CBCA came into effect that require "majority voting" for any candidate nominated as a director in uncontested director elections of CBCA-incorporated reporting issuers. In such cases, if an incumbent director is not elected by a majority of votes cast at the meeting, they are only permitted to continue in office until the earlier of: (a) the 90th day after the day of the election; and (b) the day on which their successor is appointed or elected.

Shareholder Proposals

Glass Lewis believes that shareholders should seek to promote governance structures that protect shareholders, support effective ESG oversight and reporting, and encourage director accountability. Accordingly, Glass Lewis places a significant emphasis on promoting transparency, robust governance structures and companies' responsiveness to and engagement with shareholders. We also believe that companies should be transparent on how they are mitigating material ESG risks, including those related to climate change, human capital management, and stakeholder relations.

To that end, we evaluate all shareholder proposals on a case-by-case basis with a view to promoting long-term shareholder value. While we are generally supportive of those that promote board accountability, shareholder rights, and transparency, we consider all proposals in the context of a company's unique operations and risk profile.

For a detailed review of our policies concerning compensation, environmental, social, and governance shareholder proposals, please refer to our comprehensive *Proxy Paper Guidelines for Shareholder Proposals & ESG-Related Issues*, available at www.glasslewis.com/voting-policies-current/.

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.

Overall Approach to Environmental, Social and Governance Issues

Glass Lewis evaluates all environmental and social issues through the lens of long-term shareholder value. We believe that companies should be considering material environmental and social factors in all aspects of their operations and that companies should provide shareholders with disclosures that allow them to understand how these factors are being considered and how attendant risks are being mitigated. We also are of the view that governance is a critical factor in how companies manage environmental and social risks and opportunities and that a well-governed company will be generally managing these issues better than one without a governance structure that promotes board independence and accountability.

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

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

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

When evaluating environmental and social issues, Glass Lewis examines companies':

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

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

Legal and reputational risk — Failure to take action on important environmental or social issues may carry the risk of inciting negative publicity and potentially costly litigation. While the effect of high-profile campaigns on shareholder value may not be directly measurable, we believe it is prudent for companies to carefully evaluate the potential impacts of the public perception of their impacts on stakeholders and the environment. When considering investigations and lawsuits, Glass Lewis is mindful that such matters may involve unadjudicated allegations or other charges that have not been resolved. Glass Lewis does not assume the truth of such allegations or charges 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 concerns, lawsuits or investigations reflects on the risk profile of the company or suggests that appropriate risk mitigation measures may be warranted.

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

Glass Lewis believes that one of the most crucial factors in analyzing the risks presented to companies in the form of environmental and social issues is the level and quality of oversight over such issues. When management and the board have displayed disregard for environmental risks, have engaged in egregious or illegal conduct, or have failed to adequately respond to current or imminent environmental risks that threaten shareholder value, we believe shareholders should consider holding directors accountable. When companies have not provided for explicit, board-level oversight of environmental and social matters and/or when a substantial environmental or social risk has been ignored or inadequately addressed, we may recommend voting against members of the board. In addition, or alternatively, depending on the proposals presented, we may also consider recommending voting in favor of relevant shareholder proposals or against other relevant management-proposed items, such as the ratification of auditor, a company's accounts and reports, or ratification of management and board acts.

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