Canada

GLASS LEWIS

2026 Benchmark Policy Guidelines

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

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

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

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

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info@glasslewis.com | www.glasslewis.com

Purpose

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

Guidelines Introduction

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.

Summary of Changes for 2026

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

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

In addition, the following noteworthy revisions have been made to the Benchmark Policy, which are summarized below and discussed in greater detail in the relevant section of this document.

Financial Restatements

The Benchmark Policy's approach to financial restatements in the section "Standards for Assessing the Audit Committee" has been updated to include certain financial criteria for evaluating restatements. Specifically, when annual and/or multiple interim financial statements have been restated, the Benchmark Policy will generally recommend that shareholders withhold votes from all members of the audit committee who served at the time when financial statements had to be restated, and any of the following factors apply: (i) the restatement results in a greater than 5% adjustment to cost of goods sold, operating expense, or operating cash flows; or (ii) the restatement results in a greater than 5% adjustment to net income, 10% adjustment to assets or shareholders equity, or cash flows from financing or investing activities. In addition, the Benchmark Policy will generally recommend shareholders oppose the election of all members of the audit committee when the restatement involves revenue recognition, fraud or manipulation by insiders, or is accompanied by an investigation by a provincial securities commission or a federal investigation.

Pay-for-Performance Methodology

The "Pay for Performance" section of these guidelines has been updated to reflect enhancements and modifications to our proprietary pay-for-performance model. Rather than a single letter grade of "A" through "F", the model will use a scorecard-based approach, consisting of up to six tests. Each test will receive a rating, which will be aggregated on a weighted basis to determine an overall score ranging from 0 to 100. To better understand the model, please see the Pay-for-Performance Methodology Overview.

Clarifying Amendments

The following sections of the Benchmark Policy have been clarified:

Majority Vote for Election of Directors

The Benchmark Policy's discussion on voting standards for the election of directors has been updated to make certain clarifying changes. There have been no changes in policy or approach as a result of these updates.

A Board of Directors that Serves the Interests of Shareholders

Election of Directors

The Benchmark Policy looks for talented boards with a record of protecting shareholders and delivering value over the medium- and long-term. It takes the view that a board can best protect and enhance the interests of shareholders if it is sufficiently independent, has a record of positive performance, and consists of individuals with diverse backgrounds and a breadth and depth of relevant experience.

Slate Elections

The Benchmark Policy is of the view that the use of slate elections can be 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, the Benchmark Policy may recommend withholding votes from the entire slate. However, when 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, the Benchmark Policy 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, the Benchmark Policy will take into consideration whether a director has a track record indicative of making objective decisions. 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.

The Benchmark Policy looks at each individual on the board examines their relationships with the company, its associated entities and executives, and other board members. The purpose of this inquiry is to determine whether pre-existing personal, familial or financial relationships (apart from compensation as a director) are likely to impact the decisions of that board member. The existence of personal, familial or financial relationships may make it difficult for a board member to put the interests of the shareholders above personal interests.

[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.

To that end, the Benchmark Policy puts directors into three categories based on the type of relationships they have with the company:

Independent Director — An independent director has no direct or indirect material financial or familial connections with the company, its executives, its independent auditor or other board members, except for service on the board and the standard fees paid for that service. Employee relationships that have existed within the past five years and other relationships that have existed within the past three years are usually considered to be "current" for purposes of this test. However, the Benchmark Policy does not apply the five-year look-back period to directors who have previously served as executives of the company on an interim basis for less than one year.

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.

The Benchmark Policy applies a three-year look-back to directors who are no longer employed by a related party or large shareholder. If a company does not consider a non-employee director to be independent, that director will be classified as an affiliate under the Benchmark Policy.[2]

The Benchmark Policy considers 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 shareholders, for reasons such as the liquidity (or lack thereof) of their holdings, personal tax issues, etc. The Benchmark Policy applies a three-year look-back period to all directors who have an affiliation with the company other than former employment, for which it applies 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, 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, the Benchmark Policy 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, the Benchmark Policy 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**" 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

Prevailing market practice indicates 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, 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, the Benchmark Policy expects these companies' boards to be at least two-thirds independent. However, for venture-listed issuers, the Benchmark Policy applies 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, the Benchmark Policy will typically recommend shareholders withhold their votes from some of the inside and/or affiliated directors in order to satisfy these independence standards.

Only independent directors should serve on a company's audit, compensation and nominating and/or governance committees (generally referred to as "key committees"). As such, the Benchmark Policy typically recommends that shareholders withhold their votes from affiliated or inside directors seeking appointment to these committees; however, the Benchmark Policy provides for exceptions to this rule, including carve outs for significant shareholders, controlled companies and firms listed on the TSX Venture Exchange, as discussed below. These exceptions do not extend to audit committee memberships or 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, the Benchmark Policy provides for proportional representation on the board and committees (excluding the audit committee) based on the individual or entity's percentage of ownership.

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[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. The Benchmark Policy looks at the performance directors and executives at the company, as well as at other companies where these individuals have served.

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

Voting Recommendations on the Basis of Performance

The Benchmark Policy typically recommends that shareholders vote against directors who have served on boards or as executives of companies with records of poor performance, inadequate risk oversight, excessive compensation, audit- or accounting-related issues, and/or other indicators of mismanagement or actions that do not serve the best interests of shareholders. The Benchmark Policy will evaluate 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, the backgrounds of those who serve on key board committees are examined 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.

Many shareholders generally 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. The Benchmark Policy typically recommends 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 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, the Benchmark Policy will typically not recommend voting against for failure to attend 75% of meetings. Rather, the Benchmark Policy will note the poor attendance with a recommendation to track this issue going forward. The Benchmark Policy also refrains 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

Boards should generally be responsive to shareholder concerns and to 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; or
(ii) vote against a management-sponsored proposal.

Many investors view a 20% threshold as 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 director election or compensation proposal. While the 20% threshold alone will not automatically generate a negative vote recommendation under the Benchmark Policy on a future proposal on the same topic, it may be a contributing factor to a recommendation to vote against management proposals or certain directors in the event that the Benchmark Policy determines that the board or a board committee did not respond appropriately to an ongoing issue.

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

As a general framework, the evaluation of board responsiveness involves a review of publicly available disclosures (e.g., the management information circular, press releases, company website, etc.) released after the company's last annual meeting up through the publication date of the most current Proxy Paper. Depending on the specific issue, the analysis 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 to, or the adoption of, company policies, business practices or special reports.
- Any modifications made to the design and structure of the company's compensation program.

The Benchmark Policy analysis will include a case-by-case assessment of the specific elements of board responsiveness that were examined along with an explanation of how that assessment impacts the current voting recommendations.

Separation of the Roles of Chair and Chief Executive

In line with National Policy 58-201, 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 based on the course charted by the board. Executives should report to the board regarding their performance in achieving goals previously set by the board. This is needlessly complicated when a CEO chairs the board, since 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.

An independent chair can better 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. The Benchmark Policy will recommend shareholders withhold votes from the governance committee chair when a board does not have some established form of independent leadership.[7]

The Benchmark Policy typically does not recommend that shareholders withhold votes from chief executives who chair the board. However, it typically recommends that shareholders s support the separation of the roles of board chair and CEO whenever that question is posed in a proxy, generally in the form of a shareholder proposal.

Furthermore, the Benchmark Policy 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

Given their assigned leadership roles and additional responsibilities, designated committee chairs are generally considered to have primary responsibility for the actions of their respective committee. As such, many of the Benchmark Policy's committee-specific vote recommendations reference the applicable committee chair, rather than the entire committee (depending on the severity of the issue). In cases where the Benchmark Policy would

[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.

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

ordinarily recommend voting against a committee chair, but one has not been appointed or disclosed, the following general rules are applied:

- If there is no committee chair, the Benchmark Policy recommends 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 serve on the committee, the Benchmark Policy generally recommends voting against one or more senior directors, as applicable.

In accordance with prevailing market practice, 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, many investors take the view that shareholder action against the longest serving committee member(s) is warranted. This only applies in cases where the Benchmark Policy would ordinarily recommend voting against the committee chair but no such position exists or there is no designated director in such role.

When the Benchmark Policy would ordinarily recommend that shareholders vote against the committee chair, but that committee does not exist, the Benchmark Policy 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 the Benchmark Policy 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, the Benchmark Policy 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, investors should be aware that an audit 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 knowledge sufficient 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]

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

At a minimum, audit committees should have at least one member with demonstrable audit experience designated as an "audit financial expert" under the Benchmark Policy. In order for a director to be designated as an "audit financial expert", the Benchmark Policy generally expects 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, the Benchmark Policy typically defers to the judgment of the committee members and generally recommends voting in favor of its members. However, the Benchmark Policy will consider recommending that shareholders withhold votes under the following 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.

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

[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. The Benchmark Policy considers the audit financial expert designation distinctly from the financial skill in the skills matrix included in Proxy Papers, which encompasses more generalized financial professional experience beyond accounting or audit experience.

- 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. The Benchmark Policy will generally refrain from making recommendations solely on this basis, except where other concerns with the performance of the audit committee have been identified.
- 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 "TSX Venture Exchange Companies" section of these guidelines 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 an audit committee who served at a time when annual and/or multiple interim financial statements had to be restated, and any of the following factors apply:
    - The restatement involves negligence, fraud, or manipulation by insiders;
    - The restatement is accompanied by an investigation by a provincial securities commission or a federal investigation;
    - The restatement involves revenue recognition;
    - The restatement results in a greater than 5% adjustment to costs of goods sold, operating expense, or operating cash flows; or
    - The restatement results in a greater than 5% adjustment to net income, 10% adjustment to assets or shareholders equity, or cash flows from financing or investing activities.
- 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 may no longer be considered to be independent for reasons unrelated to fee proportions.
- All members of the audit committee who served at a time when accounting fraud occurred at 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]

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

[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.

- 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, the Benchmark Policy 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 ensuring the appropriate disclosure of various compensatory elements, including the overall disclosure of arrangements, pay-for-performance matrices and the use of compensation consultants. It is important that investors be provided clear and complete disclosure of the significant terms of compensation arrangements in order to help them reach informed opinions regarding the compensation committee's actions.

Finally, compensation committees are responsible for the oversight of internal controls in the executive compensation process. This duty includes supervising controls over gathering information used to determine compensation, establishing equity award plans, and granting 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.

The Compensation Discussion and Analysis (CD&A) report included in each company's proxy is central to understanding the actions of a compensation committee. The Benchmark Policy analysis includes a review of the CD&A in its evaluation of a company's overall compensation practices. The CD&A is also integral to the evaluation of compensation proposals, such as management-submitted advisory compensation proposals, which allow shareholders to vote on the compensation paid to a company's top executives. For more information on the Benchmark Policy's approach to executive compensation, please refer to the "The Link Between Compensation and Performance" section of these guidelines.

When assessing the performance of compensation committee members, the Benchmark Policy will consider recommending that shareholders withhold votes 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, the Benchmark Policy will also consider recommending voting against the compensation committee chair or all members of the compensation committee, depending on the severity of the issue, the history of 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 on the committee when the company failed to align pay with performance if shareholders are not provided with an advisory vote on executive compensation at the annual meeting.[12]
- All members of the compensation committee serving at the time a company entered into excessive employment agreements and/or severance arrangements.
- All members of the compensation committee if performance goals were changed (e.g., lowered) when executives 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.
- 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.

In accordance with National Policy 58-201, any company that pays its executives should maintain a committee to provide the necessary oversight for related matters. Therefore, the Benchmark Policy will usually recommend that shareholders withhold votes from the board chair or senior non-executive director when this key committee has not been established. When facing reelection, members of a compensation committee will

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[12] If a company provides shareholders with a say-on-pay proposal, the Benchmark Policy will initially only recommend voting against the company's say-on-pay proposal and will not recommend voting against the members of the compensation committee unless there is a pattern of failing to align pay and performance and/or the company exhibits egregious compensation practices. For cases in which the disconnect between pay and performance is marginal, and the company has outperformed its peers, the Benchmark Policy may consider not recommending against compensation committee members.

receive particularly close scrutiny if they serve on 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. Many investors take the view that boards should have diverse backgrounds and members with a breadth and depth of relevant experience, and that the nominating committee should consider diversity when making director nominations within the context of each specific company and its industry. Shareholders are generally 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. For further information on board diversity, please see the In-Depth Report: Board Gender Diversity.

Regarding the nominating committee, the Benchmark Policy will consider recommending that shareholders withhold votes under the following 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 fewer than 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 the issues that raised shareholder concern were not addressed.[14]
- 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% gender diverse or all members of the nominating committee of a board with no gender diverse

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[13] In the absence of a chair, the Benchmark Policy 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, the Benchmark Policy 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, the Benchmark Policy will 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, the Benchmark Policy 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.

directors.[15] For companies not listed on the TSX, the Benchmark Policy 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. The Benchmark Policy will not make voting recommendations solely on this basis; rather, insufficient board refreshment may be a contributing factor in 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).

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.

Regarding the governance committee, the Benchmark Policy will consider recommending that shareholders withhold votes under the following 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.
- 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 has failed 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.
- 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.

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

[16] In the absence of a chair, the Benchmark Policy 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, the Benchmark Policy 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: (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 "Virtual Shareholder Meetings" section of these guidelines.
- 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).

Environmental and Social Risk Oversight

Board Oversight of Environmental and Social Issues

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, shareholders generally benefit when such issues are carefully monitored and managed by companies, and when companies 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, the Benchmark Policy looks to companies to 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. Given the importance of the board's role in overseeing environmental and social risks, this responsibility should be formally designated and codified in the appropriate committee charters or other governing documents.

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

For companies listed on the TSX and in instances where material oversight concerns are identified, the Benchmark Policy will review a company's overall governance practices and identify which directors or board-level committees have been charged with oversight of environmental and/or social issues. Furthermore, given

[18] The Benchmark Policy may consider recommending against a representative of the major shareholder instead if it deems it more appropriate to hold them accountable for this issue (refer to "Multi-Class Share Structures" section for further information).

the importance of the board's role in overseeing environmental and social risks, the Benchmark Policy will generally recommend voting against the governance committee chair of a company in the S&P/TSX Composite index that fails to provide explicit disclosure concerning the board's role in overseeing these issues.

When evaluating the board's role in overseeing environmental and/or social issues, the Benchmark Policy 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 social impacts.

Board Oversight of Technology

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 an 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, many investors view cyber risk as material for all companies. Accordingly, it is critical that companies evaluate and mitigate these risks to the greatest extent possible. [19] With that view, all issuers are encouraged 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. Such disclosure can help shareholders understand the seriousness with which companies take this issue.

In the absence of material cyber incidents, the Benchmark Policy 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, the board's oversight of cybersecurity as well as the company's response and disclosures will be closely evaluated.

Moreover, in instances where a company has been materially impacted by a cyber-attack, it is reasonable for shareholders to expect periodic updates communicating the company's ongoing progress towards resolving and remediating the impact of the cyber-attack. 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.

[19] CII Policies on Corporate Governance, 2.7; ICGN Global Principles, 6.2.

In such instances, the Benchmark Policy may recommend against appropriate directors if the board's oversight, response or disclosure concerning cybersecurity-related issues is found to be insufficient, or are 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 market best practice indicates that it is important that these issues are overseen at the board level and that shareholders are afforded meaningful disclosure of these oversight responsibilities, generally, companies should determine the best structure for this oversight. 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, the Benchmark Policy will review a company's overall governance practices and identify which directors or board-level committees have been charged with oversight of AI-related risks. It 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 if the board's oversight, response or disclosure concerning AI-related issues is found to be insufficient.

Board Accountability for Environmental and Social Performance

The Benchmark Policy carefully monitors companies' performance with respect to environmental and social issues, including those related to climate and human capital management. In situations where 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, the Benchmark Policy 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, the Benchmark Policy may recommend that shareholders vote against members of the audit committee. In making these determinations, the Benchmark Policy 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 the Benchmark Policy evaluates environmental and social issues, please see the "Overall Approach to ESG" section of these guidelines as well as the comprehensive *Benchmark Policy 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, climate risk can present a material risk for companies in all industries. Accordingly, it is important that boards consider and evaluate their operational resilience under lower-carbon scenarios. While all companies maintain exposure to climate-related risks, additional consideration should be given to, and disclosure should be provided by, those companies whose own GHG emissions represent a financially material risk. For companies with this increased risk exposure, the Benchmark Policy evaluates whether companies are providing clear and comprehensive disclosure regarding these risks, including how they are being mitigated and overseen. Such information is crucial to allow investors to understand the company's management of this issue as well as the potential impact of a lower carbon future on the company's operations.

In line with this view, the Benchmark Policy will carefully examine the climate-related disclosures provided by companies in the TSX 60 index with material exposure to climate risk stemming from their own operations,[29] as well as companies where their emissions, climate impacts, or stakeholder scrutiny thereof, represent an outsized, financially material risk, in order to assess whether they have produced disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), IFRS S2 Climate-related Disclosures, or other equivalent climate reporting framework. The Benchmark Policy will also assess whether these companies have disclosed explicit and clearly defined board-level oversight responsibilities for climate-related issues. In instances where either (or both) of these disclosures are found to be absent or significantly lacking, the Benchmark Policy 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, the Benchmark Policy may extend this recommendation on this basis to additional members of the responsible committee in cases where the committee chair is not standing for election due to a classified board, or based on other factors, including the company's size, industry and its overall governance profile.

Board Accountability for Human Capital Management

It is generally accepted 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, the

[20] SASB Universe of Sustainability Issues.

Benchmark Policy may recommend voting against the chair of the committee tasked with oversight of the company's human capital management, the chair of the governance committee, or the chair of the board, as applicable.

Other Considerations

Director Commitments

Directors should have the necessary time to fulfill their duties to shareholders, as 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, the Benchmark Policy 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;
- 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 a total of five public company boards.[21]

Because executives will primarily devote their attention to executive duties, the Benchmark Policy 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, the Benchmark Policy may consider other potentially 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.

The Benchmark Policy 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. The Benchmark Policy will also generally refrain from recommending a 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, 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), the Benchmark Policy generally permits 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— independence, performance and experience — used to evaluate board members, the Benchmark Policy also considers conflicts of interest and the size of the board of directors when making voting recommendations.

Board members should be wholly free of identifiable and substantial conflicts of interest, regardless of the overall independence of the board. Accordingly, the Benchmark Policy recommends that shareholders withhold votes from the following types of directors:

- A CFO currently serving on the board. The CFO holds a unique position relative to financial reporting and disclosure to shareholders. Due to the critical importance of financial disclosure and reporting, the CFO should report to the board and not be a member of it.
- A director if they or their immediate family member provides material consulting or other material professional services to the company. These services may include legal, consulting, or financial services. Such relationships may create conflicts for directors, since they may be forced to weigh their own interests against shareholder interests when making board decisions. In addition, a company's decisions regarding where to turn for the best professional services may be compromised when doing business with the professional services firm of one of the company's directors. However, the Benchmark Policy 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, if they or their immediate family member engages in, or receives benefits from, commercial deals, including perquisite type grants from the company, which 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, 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, the Benchmark Policy will classify the director as "affiliated" and may recommend against the election of the director at the company in which they serve as a non-executive director.[23] On a case-by case basis, the Benchmark Policy evaluates 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, the Benchmark Policy also reviews 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 there is no consensus on a universally applicable optimal board size, market best practice indicates that, absent compelling circumstances, boards should have a minimum of five directors in order to ensure that there

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[22] The Benchmark Policy provides 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] The Benchmark Policy 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.

is a sufficient diversity of views and breadth of experience in every decision the board makes. At the other end of the spectrum, 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, the Benchmark Policy typically recommends 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. The Benchmark Policy 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

Companies that have recently completed an initial public offering (IPO), spin-off, or direct listing should generally be allowed adequate time to fully comply with marketplace listing requirements as well as to meet basic corporate governance standards. 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. As such, the Benchmark Policy generally refrains from issuing vote 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, the Benchmark Policy will review the terms of the applicable governing documents in order to determine whether shareholder rights are being severely restricted on an indefinite basis. Many investors view board approval of highly restrictive governing documents as a problematic governance practice and believe that such boards have demonstrated that they may subvert shareholder interests following the IPO. In cases where the Benchmark Policy determines that the board has approved overly restrictive governing documents, it 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, the Benchmark Policy 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, the Benchmark Policy 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

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

exchange- and country-specific rules, the Benchmark Policy will apply the governance standards most relevant in each situation[25]. The Benchmark Policy will consider a number of factors in determining which country-specific Benchmark Policy to apply, including but not limited to: (i) the corporate governance structure and features of the company, including whether the board structure is unique to a particular market; (ii) the nature of the proposals; (iii) the location of the company's primary listing, if one can be determined; (iv) the regulatory/governance regime that the board is reporting against; and (v) the availability and completeness of the company's proxy filings.

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 the Benchmark Policy provides several exceptions to the independence standards for these companies, they should still maintain a minimum degree of director independence on their boards and key committees.

The independence exceptions the Benchmark Policy may make for venture firms are as follows:

- The Benchmark Policy does not require venture firms to meet the same independence thresholds it applies for companies listed on the main market of the TSX. 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.[26]
- Although the TSX only requires the audit committees of venture firms to be majority independent, the Benchmark Policy takes the view that they should be entirely independent and have at least two members.
- While the TSX does not require venture firms to maintain a compensation committee, the Benchmark Policy takes the view that 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.[27]
- Nominating and/or governance committees, if they exist, should consist of a majority of independent directors.

[25] Where a company is not included in a relevant stock index (i.e. S&P/TSX 60) due to its status as a dual-listed or foreign-incorporated company and has comparable market capitalization as companies included in the relevant index, the Benchmark Policy will generally apply the policies that relate to companies included in the relevant index.

[26] TSX Venture Exchange Policy 3.1 stipulates that venture firms have at least two independent directors. However, the Benchmark Policy takes the view 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, the Benchmark Policy generally recommends withholding votes from non-independent directors or the board chair or senior non-executive director, as applicable.

[27] The Benchmark Policy generally recommends withholding votes from the board chair when a company does not have a standing compensation committee. In the absence of a chair, the Benchmark Policy recommends withholding votes from the senior non-executive director.

In accordance with prevailing market practice in Canada, venture firms should also maintain a board of at least four members, as opposed to the five-member minimum standard applied to other TSX companies.[28] In addition, market best practice indicates that a minimum of one gender diverse director is adequate for the boards of these companies rather than the 30% minimum expected for TSX companies.

Further, as these smaller companies typically require less time and action from their boards than their larger counterparts, the Benchmark Policy does not apply its 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 the Benchmark Policy will consider include company size and a director's overall attendance record and expertise. While a large number of directors at venture companies tend to serve on multiple public company boards, given that many of these firms could benefit from the guidance and oversight provided by an experienced and knowledgeable board member, market best practice indicates that a higher threshold is appropriate.

These directors also often serve on a mix of TSX and venture boards. In these cases, the Benchmark Policy 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, the Benchmark Policy will apply its TSX Venture guidelines.

Controlled Companies

Controlled companies warrant certain exceptions to the Benchmark Policy's independence standards. The primary function of the board of directors 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, the Benchmark Policy 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 the Benchmark Policy's standard independence thresholds.

However, the Benchmark Policy takes the view that there should be enough independent directors to fairly reflect minority shareholder interests. As such, the Benchmark Policy 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.

The independence exceptions made for controlled companies are as follows:

- The Benchmark Policy does not require controlled companies to meet standard independence thresholds. So long as the insiders and/or affiliated directors are connected with the controlling entity, the presence of non-independent directors on the board is acceptable.
- The Benchmark Policy does not require controlled companies to meet the minimum board size threshold (five directors on the TSX, four on the TSXV). However, the Benchmark Policy takes the view

[28] TSX Venture Exchange Policy 3.1 requires all issuers to have at least three directors. However, it is generally accepted that three directors cannot adequately protect the interests of shareholders.

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.[29] However, no insiders should serve on the compensation committee, and no insiders or affiliates should serve on the audit committee.
- 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.
- In a similar fashion, controlled companies do not need to have an independent chair or lead director. Although 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 base whose voting power ensures the protection of its interests.
- Controlled companies are not required to adopt a majority voting policy for the election of directors. Although a majority voting policy generally increases board accountability and performance, the Benchmark Policy recognizes that this may be irrelevant given the influence a controlling shareholder has on all matters requiring shareholder approval.

The Benchmark Policy does not make independence exceptions for controlled companies in the case of audit committee membership. Market best practice indicates that audit committees should consist solely of independent directors regardless of a 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.[30]

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 Policy 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

[29] National Instrument 58-101 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, the Benchmark Policy may recommend withholding votes from any nominee seeking appointment to these committees, regardless of the company's controlled status.

[30] 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.

business, operations and affairs of the investment fund. The manager[31] 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[32] with the manager, the investment fund, or an entity related to the manager. A current or former independent member of the board of directors of an investment fund, or a former independent member of the board of directors of the manager, may be considered independent; however, it would be unlikely that a current member of the board of directors of a manager could be considered independent. Investment funds may share an IRC with investment funds managed by another manager.

Policies for Trusts & Funds

Given the different structures of investment trusts, relative to other publicly traded companies, the Benchmark Policy takes the view that 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, 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, the Benchmark Policy may 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

Many investors strongly support routine director evaluation, including independent external reviews, and periodic board refreshment, in order to foster the sharing of diverse perspectives in the boardroom and the generation of new ideas and business strategies. Further, in line with National Policy 58-201, 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

[31] 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. This term is interpreted broadly.

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

limits. When necessary, shareholders can address concerns regarding proper board composition through director elections.

The Benchmark Policy will note 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 as a potential concern. However, the Benchmark Policy will not make voting recommendations strictly on this basis, unless other governance or board performance concerns are identified.

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, the Benchmark Policy will consider recommending shareholders vote against the nominating committee, unless the rule was waived with sufficient explanation, such as the consummation of a corporate transaction.

Diversity

Many investors consider it important to ensure 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. Accordingly, the Benchmark Policy provides for close review of the board's composition for representation of diverse director candidates. For further information on board diversity, please see *In-Depth Report: Board Gender Diversity.*

Pursuant to an amendment to the CBCA on January 1, 2020, additional disclosure obligations at federally incorporated corporations are required, including for issuers listed on the Toronto Stock Exchange (TSX), TSX Venture Exchange (TSXV) and Canadian Securities Exchange (CSE). Among other changes, the CBCA amendment broadens the meaning of diversity beyond gender to include other "designated groups", including 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. In addition, companies are required to disclose the number and proportion of directors and senior officers who are of such designated groups, and whether they have adopted policies relating to diversity. However, companies are not required to adopt policies or quotas.

At companies listed on the TSX, the Benchmark Policy will generally recommend against the chair of the nominating committee of a board that is not at least 30% 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"), the Benchmark Policy's minimum threshold remains one gender diverse director on the board.

When making these voting recommendations, a careful review of a company's disclosure of its diversity considerations will be made and the Benchmark Policy 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

Companies should disclose information sufficient to allow a meaningful assessment of a board's skills and competencies. The Benchmark Policy's 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.[33] 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 will consider recommending voting against the chair of the nominating committee (or equivalent).

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. Market best practice 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 the 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. The Benchmark Policy considers several factors when evaluating whether to support proposals for companies to adopt proxy access including the specified minimum ownership and holding requirement for shareholders to nominate one or more directors, as well as company size, performance and responsiveness to shareholders.

When resolutions requesting U.S.-style proxy access are proposed by shareholders at companies that are outside of the United States, the Benchmark Policy will review such resolutions on a case-by-case basis. The Benchmark Policy 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 existing laws, policies or regulations either provide shareholders with adequate proxy access rights or would prohibit a company's adoption of the requested provision, the Benchmark Policy will recommend that shareholders vote against such proposals. However, the Benchmark Policy will take into account how other companies within the target company's market are responding to issues related to proxy access, as well as any other regulatory changes that may affect the manner in which shareholders may access management's proxy, and will make voting recommendations accordingly.

33 See the Board Skills Appendix North America for an overview of skills the Benchmark Policy considers in relation to certain key sectors, as of 2020.

For a discussion of Benchmark Policy approach to shareholder proposals regarding proxy access, refer to Glass Lewis' *Benchmark Policy Guidelines for Shareholder Proposals & ESG-Related Issues*, available at www.glasslewis.com.

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.

As such, shareholders should demand an objective, competent and diligent auditor who performs at or above professional standards at every company in which the investors hold an interest. Like directors, auditors should be free from conflicts of interest and should avoid situations requiring a choice between the 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. Auditor rotation can ensure both the independence of the auditor and the integrity of the audit. Accordingly, the Benchmark Policy 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.

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

Voting Recommendations

The Benchmark Policy will generally recommend support for management's choice of an auditor and granting the board the authority to fix auditor fees, except in cases where it appears that the independence of a returning auditor or the integrity of the audit has been compromised.

Some of the reasons why the Benchmark Policy 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, the Benchmark Policy 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 the Benchmark Policy considers ongoing litigation and significant controversies, it is mindful that such matters may involve unadjudicated allegations. The Benchmark Policy does not assume the truth of such allegations or that the law has been violated. Instead, it focuses more broadly on whether, under the particular facts and circumstances presented, the nature and number of such 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, the Benchmark Policy will generally support a board's decisions to change auditors. Many investors take the view 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, the Benchmark Policy will apply heightened scrutiny in these instances to ensure that there were no significant disagreements between management and the auditor that led to the auditor's resignation.

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[34] The Benchmark Policy provides for 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, Thus, the Benchmark Policy generally will not oppose auditor ratification due to 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

The compensation awarded to senior executives is carefully reviewed as it is an important area in which the board's priorities are revealed. Executive compensation should be linked directly with the performance of the business the executive is charged with managing. Market best practice indicates that the most effective compensation arrangements provide for an appropriate mix of performance-based short- and long-term incentives in addition to fixed pay elements while promoting a prudent and sustainable level of risk-taking.

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 aligned with company performance. The disclosure of performance metrics and goals is an important component in assessing executive compensation. Performance metrics must necessarily vary depending on the company and industry, among other factors, and may include a wide variety of financial measures as well as industry-specific performance indicators. However, companies should disclose why the specific performance metrics were selected and how the actions they are designed to incentivize will lead to better corporate performance.

Moreover, 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. Shareholders likely do not need nor would they benefit from detailed reports about individual management employees other than the most senior executives.

In accordance with National Policy 51-102, companies are required to include a 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 and to provide shareholders with a transparent and comprehensive rationale for executive compensation levels.

The CD&A is reviewed as part of the evaluation of the overall compensation practices of a company. In evaluating the CD&A, the following factors, among others, are considered:

- 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 say-on-pays in the future.

The Benchmark Policy is of the view that say on pay 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, it will be noted as a potential concern in the analysis of the compensation committee's performance under the Benchmark Policy. In such instances, disclosure of how these companies are facilitating investor dialogue and taking shareholder feedback regarding their compensation structure into account is generally expected.

Say-on-Pay Voting Recommendations

Given the complexity of most companies' compensation programs, the Benchmark Policy applies a highly nuanced approach when analyzing advisory votes on executive compensation. Each company's compensation is reviewed on a case-by-case basis, recognizing that each company must be examined in the context of industry, size, maturity, performance, financial condition, its historic pay for performance practices, and any other relevant internal or external factors.

Companies 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 specific policies and practices serve to reasonably align compensation with performance, and such practices are adequately disclosed, the Benchmark Policy will typically recommend that shareholders support the company's approach. If, however, those specific policies and practices fail to demonstrably link compensation with performance, additional scrutiny is applied, and the Benchmark Policy may recommend a vote against the say-on-pay proposal.

Say-on-pay proposals are reviewed 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.

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

- The implementation and effectiveness of the company's executive compensation programs including pay mix and use of performance metrics in determining pay levels.
- The quality and content of the company's disclosure.
- The quantum paid to executives.
- The link between compensation and performance as indicated by the company's pay-for-performance practices.

Significant changes or modifications are reviewed, including post fiscal year-end changes and one-time awards, particularly where the changes touch upon issues that are material to the alignment between pay and shareholder interests. Additionally, while generally rare in the North American market, beneficial features such as, but not limited to, post-vesting and/or post-retirement holding requirements may be viewed positively in the holistic analysis.

There are many elements that may drive voting recommendations. Informed by market best practices and widespread investor sentiment, the following factors have been identified as particularly important in Benchmark Policy voting recommendations:

- 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.

The analysis of executive compensation programs is approached on a case-by-case basis. All factors related to named executive officer compensation are reviewed, 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 under the Benchmark Policy 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, based on market best practices and client feedback, the following factors are generally viewed negatively:

- 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 the "Long-Term Incentives" section of these guidelines for more information).

The aforementioned issues influence the assessment of the structure of a company's compensation program. Structure is evaluated 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. However, it should be noted that this rating is independent of any qualitative assessment used in Glass Lewis's proprietary pay-for-performance model.

It is important for companies to provide investors with clear and complete disclosure of all the significant terms of compensation arrangements. Similar to structure, disclosure is evaluated 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, the Benchmark Policy may recommend that shareholders vote against the proposal solely on this basis, regardless of the appropriateness of compensation levels. Regulatory disclosure rules may condone the omission of key executive compensation information. However, companies should provide sufficient information in the proxy statement to enable shareholders to vote in an informed manner.

In general, most companies will fall within the "Fair" range for both structure and disclosure, and the "Good" and "Poor" ratings highlight outliers.

Where egregious compensation practices are identified, shareholder opposition to the compensation committee may be recommended under the Benchmark Policy based on the practices or actions of its members during the year. Such practices may include approving large one-off payments, the inappropriate, unjustified use of discretion, or sustained poor pay for performance practices. (Refer to the section on "Compensation Committee Performance" for more information.)

Company Responsiveness

When companies receive a significant level of shareholder opposition to a say-on-pay proposal, defined as when more than 20% of votes on the proposal are cast as "against", it is considered best practice for the board to 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, the level of opposition among disinterested shareholders as an independent group may also be examined. While sweeping changes may not be made to a compensation program without due consideration, the Benchmark Policy is of the view that the compensation committee should demonstrate its responsiveness to significant opposition in its proxy statement. Although a majority of shareholders may still have voted in favor of the proposal, the average approval rate for say-on-pay proposals is typically above 90%, and support levels substantially below this level are outside of the norm. In general, market expectations regarding the minimum appropriate levels of responsiveness will correspond to the level of shareholder opposition, as expressed both through the magnitude of opposition in a single year, and whether shareholder disapproval continues over a sustained period.

Appropriate responses to significant opposition to compensation plans include engagement with shareholders, especially those that dissented to the proposal, to identify their concerns where possible, 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 a say-on-pay proposal to fail, any changes made that directly address structural concerns about the pay decision are considered. In the absence of any evidence in the disclosure that the board is actively engaging shareholders on these issues and responding accordingly, the Benchmark Policy may hold 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 opposition, the severity of the issue, and the company's historical compensation practices.

Pay for Performance

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 analysis, 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 clients to determine how well companies link executive compensation to relative performance. Our methodology takes a scorecard-based approach in evaluating pay-and-performance alignment. Final alignment scores are determined by the weighted sum of up to six tests, each with their own severity rating. Overall scores and ratings range as follows:

- Severe Concern: 0 to 20 points
- High Concern: 21 to 40 points
- Medium Concern: 41 to 60 points
- Low Concern: 61 to 80 points
- Negligible Concern: 81 to 100 points

The individual tests are as follows:

- Granted CEO Pay vs. TSR
- Granted CEO Pay vs. Financial Performance
- CEO STI Payouts vs. TSR
- Total Granted NEO Pay vs. Financial Performance
- Realized CEO Pay vs. TSR
- Qualitative Factors (Downward Modifier)

Separately, a specific comparison between the company's executive pay levels and its peers' executive pay levels may be discussed in the analysis for additional insight into the score. Likewise, a specific comparison between the company's performance and its peers' performance may be reflected in the analysis for further context.

Companies that demonstrate a weaker link (an overall rating of "Severe Concern" or "High Concern") are more likely to receive a negative recommendation under the Benchmark Policy; however, other qualitative factors are considered in developing recommendations, as each company is reviewed on a case-by-case basis. These additional factors include, but are not limited to: (i) the overall incentive structure; (ii) the trajectory of the program and any disclosed future changes; (iii) the operational, economic and business context for the year in review; (iv) the relevance of selected performance metrics; and (v) reasonable long-term payout levels. These factors may provide sufficient rationale for the Benchmark Policy to recommend in favor of a proposal even if there is an identified disconnect between pay and performance.

In determining the peer groups used in Glass Lewis's pay-for-performance scores, a proprietary methodology is utilized that considers both market and industry peers, 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 is based on an independent, proprietary technique, it will often differ from the one used by the company which, in turn, could affect the resulting analyses. While Glass Lewis's independent, rigorous methodology provides a valuable perspective on the company's compensation program, the company's self-selected peer group may also be 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, a mix of corporate and individual performance measures is appropriate. Based on prevailing market practice, it is generally expected that performance measures for STI plans are based on company-wide or divisional financial measures as well as non-financial, qualitative or non-formulaic factors, such as those related to safety, environmental issues, and customer satisfaction, when such metrics are material to the company's overall health. While companies operating in different sectors or markets may seek to utilize a wide range of metrics, these measures should be appropriately tied to a company's business drivers.

The Benchmark Policy also looks for the disclosure of the threshold, target and maximum performance goals and corresponding payout levels that can be achieved under STI plans and expects 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 goals from the previous year.

Disclosure of some measures or performance targets may involve commercially confidential information. Therefore, in some cases, it may be reasonable to exclude such information, 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.

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, the Benchmark Policy looks to companies to provide a clear explanation of why these significant short-term payments were made. Also, it is generally expected that any significant changes to the program structure should be accompanied by rationalizing disclosure. Further, where a company has applied upward discretion, which includes lowering goals mid-year, increasing calculated payouts or retroactively pro-rating performance periods, a robust discussion of why the decision was necessary is warranted.

Adjustments to IFRS/GAAP figures may be considered in assessing the effectiveness of the incentive at tying executive pay with performance. 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 an IFRS/GAAP-to-non-IFRS/GAAP reconciliation and their impact on payouts within the proxy statement is warranted. The absence of such enhanced disclosure for significant adjustments will impact the assessment of the quality of disclosure and, in turn, may play a role in the overall recommendation for the advisory vote on executive compensation.

The Benchmark Policy 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 financially material risks. The Benchmark Policy looks to companies to provide thorough discussion of how such events were considered in the committee's decisions to exercise discretion over incentive payouts.

The use of a non-formulaic plan, alone, does not generally result in a recommendation against a pay program under the Benchmark Policy. If a company has chosen to rely primarily on a subjective assessment or the board's discretion in determining short-term bonuses, 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 is reviewed within the proxy statement. Particularly where the aforementioned disclosures are substantial and satisfactory, such a structure will not provoke serious concern in the analysis on its own. However, in conjunction with other significant issues in a program's design or operation, such as a disconnect between pay and performance, the absence of a cap on payouts, or a lack of performance-based long-term awards, the use of a non-formulaic bonus may contribute to a negative recommendation under the Benchmark Policy

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

Long-Term Incentives

Equity-based incentive programs, which are often the primary long-term incentive (LTI) for executives, are generally the most significant portion of the overall compensation program. When used appropriately, these programs can provide a vehicle for linking an executive's pay to company performance, thereby aligning an executive's interests with those of shareholders. In addition, equity-based compensation can be an effective way to attract, retain and motivate key employees.

There are certain elements that are common to most well-structured LTI plans. These include:

- No re-testing or lowering of performance conditions;
- Performance metrics that cannot be easily manipulated by management;
- Two or more performance metrics;
- At least one relative performance metric that compares the company's performance to a relevant peer group or index;
- Vesting and/or performance periods of at least three years;
- Stretching metrics that incentivize executives to strive for outstanding performance while not encouraging excessive risk-taking;
- Reasonable individual award limits;
- Equity granting practices that are clearly disclosed and
- Additional post-vesting holding periods to encourage long-term executive share ownership.

In evaluating long-term incentive grants, prevailing market practice generally indicates that at least half of the grant should consist of performance-based awards, putting a material portion of executive compensation at-risk and that the award should be demonstrably linked to the performance of the company. While LTI program structures that do not meet this criterion are noted, such concerns are unlikely to result in negative recommendations under the Benchmark Policy in the absence of other significant issues with program design or operation. Changes to program structure which result in significant reductions or elimination of performance-based vesting conditions will be assessed on a case-by-case basis. Given the resultant reduction in rigor, if changes are not paired with meaningful revisions to other aspects of the program, such as pay quantum and vesting periods, and/or lack a cogent rationale, they are likely to be viewed negatively by many investors.

As with the short-term incentive, many investors recognize 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. 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, to the key value drivers of the company's business. As with the short-term incentive plans, the basis for any adjustments to metrics or results should be clearly explained, as should the company's judgment on the use of discretion and any significant changes to the performance program structure.

While the Benchmark Policy recognizes the inherent complexity of certain performance metrics, measuring a company's performance with multiple metrics can provide a more complete picture of the company's performance than a single metric. Further, reliance on just one metric may focus too much management attention on a single target and is, therefore, more susceptible to manipulation. When utilized for relative measurements, external benchmarks such as a sector index or peer group should be disclosed, as should the rationale for the selection of a specific index or peer group. Internal performance benchmarks should also be disclosed, unless a reasonable case for confidentiality is made and fully explained. Similarly, actual performance and vesting levels for previous grants earned during the fiscal year should be disclosed.

When evaluating potential changes to LTI plans and determining the impact of additional stock awards, the Benchmark Policy will evaluate the relative success of a company's compensation programs, particularly with regard to existing equity-based incentive plans, in linking pay and performance. Within this context, the pay-for-performance analyses for the company (see above for more information) and specifically the proportion of total compensation that is stock-based is also reviewed.

Stock Option Plans

Stock options remain one of the most common forms 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. It also increases management's accountability to shareholders for the company's remuneration practices, which could help to inhibit irresponsible behavior and limit unduly generous compensation arrangements.

The Benchmark Policy uses a number of different analyses to evaluate stock option plans. Comparing the program with both a carefully chosen peer group and reasonable absolute limits are key to equity value creation (as evidenced by academic studies). In general, the Glass Lewis equity 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 put in place to safeguard against creeping averages. Each analysis is weighted and plans are scored in accordance with that weight.

The Glass Lewis equity compensation model helps to guide the Benchmark Policy recommendations on stock option plan proposals. Specifically, when a proposal seeks shareholder approval for a new plan or changes to any quantitative element of an existing stock option plan, the plan will be evaluated using this model.

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

Option plans are evaluated based on the following overarching principles:

- Companies should seek more shares only when needed.
- In the case of rolling equity plans, the maximum percentage of shares available for issuance should generally 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 can be 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 for those in the best position to affect those values. However, such plans should include reasonable limits so as not to provide outsized 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 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, such awards are generally considered 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 under the Benchmark Policy 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 the “Stock Options” section of these guidelines for more information). Given the substantially greater cost of full-value award grants, rolling limits above 5% are generally considered excessive. However, for omnibus plans with a rolling limit greater than 5% of 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 will be considered.

Finally, the Benchmark Policy considers the company’s historic equity granting practices and overall 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 the Benchmark Policy issues a vote 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. The Benchmark Policy is generally wary of this granting approach and, accordingly, may weigh these grants with particular 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 that 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 pressure 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.

A company’s rationale for granting awards under this structure is considered in the analysis, and market expectations are such that any front-loaded awards also 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. Many investors take a negative view if a company breaks its commitment not to grant further awards, particularly if a convincing rationale is not provided. The multi-year nature of these awards generally lends itself to significantly higher compensation figures in the year of grant than might otherwise be expected. In the qualitative analysis of the grants of front-loaded awards to executives, the Benchmark Policy will consider the quantum of the award on an annualized basis and it may be compared to prior practice and peer data, among other benchmarks.

Additionally, for awards that are granted in the form of equity, the total potential dilutive effect of such award on shareholders is considered.

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, 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. Further, the general expectation is that no supplemental grant is awarded during the vesting period of the front-loaded portion.

Linking Executive Pay to Environmental and Social Criteria

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. 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, it is important that shareholders are provided with sufficient disclosure to allow them to understand how these criteria align with the company's strategies. Additionally, 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, such as the use of metrics that award executives for ethical behavior or compliance with policies and regulations. Companies should generally provide shareholders with disclosures that clearly lay out the rationale for selecting specific E&S metrics, the target-setting process, and corresponding payout opportunities. Particularly in the case of qualitative metrics, shareholders should be provided with a clear understanding of the basis on which the criteria will be assessed. Where quantitative targets have been set, 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.

The Benchmark Policy is mindful that not all compensation schemes lend themselves to the inclusion of E&S metrics and is 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 determine 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

Shareholders have shown a general wariness of awards granted outside of the standard incentive schemes, as such awards have the potential to undermine the integrity of a company's regular incentive plans and/or the link between pay and performance. If the existing incentive programs fail to provide adequate incentives to executives, companies should redesign their compensation programs rather than make additional grants.

However, the Benchmark Policy reviews grants of supplemental awards on a case-by-case and company-by-company basis to give adequate consideration for unique circumstances. 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, the Benchmark Policy looks to companies making supplemental or one-time awards to describe if and how the regular compensation arrangements will be affected by these additional grants. In reviewing a company's use of supplemental awards, the terms and size of the grants in the context of the company's overall incentive strategy and granting practices are evaluated, as well as the current operating environment.

Contractual Payments and Arrangements

Beyond the quantum of contractual payments, the design of any entitlement is considered. Certain executive employment terms that may help to drive a negative recommendation under the Benchmark Policy, include, but are 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, shareholders may be 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

There may be certain costs associated with transitions at the executive level. In evaluating the size of severance and sign-on arrangements, the Benchmark Policy considers the executive's regular target compensation level, or the sums paid to other executives (including the recipient's predecessor, where applicable).

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, companies should abide by predetermined payouts in most circumstances. While in limited circumstances some deviations may not be inappropriate, shareholders should be provided with a meaningful explanation of any additional or increased benefits agreed upon outside of regular arrangements. However, where such predetermined payouts are considered particularly problematic or unfavorable to shareholders, the execution of such payments may result in a negative recommendation under the Benchmark Policy for the advisory vote on executive compensation.

In the North American market, most companies maintain severance entitlements based on a multiple of salary and, in many cases, bonus. Prevailing market practice indicates that a multiple of three or less is reasonable, even in the case of a change in control. The basis and total value of severance should be reasonable and should not exceed the upper limit of general market practice. The inclusion of long-term incentives in cash severance calculations is generally considered inappropriate, particularly given the commonality of accelerated vesting of outstanding long-term incentives and the proportional weight of long-term incentives as a component of total pay. However, the Benchmark Policy will account for additional considerations when reviewing atypically structured compensation approaches.

Change in Control

Double-trigger change in control arrangements, which require both a change in control and termination or constructive termination, are widely regarded as 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 the committee's ultimate decision as to how such awards will be treated in the event a change in control occurs.

Further, 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

The Benchmark Policy may view any contractual arrangements providing for problematic pay practices that are not addressed in materially amended employment agreements 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, excise tax gross-ups, and multi-year guaranteed awards.

Option Exchanges and Repricing

The Benchmark Policy generally opposes 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, the equity compensation of employees and directors should be similarly situated to align their interests with those of shareholders. This will facilitate appropriate risk- and opportunity-taking for the company by employees.

Option grantees who believe they will be "rescued" from underwater options may 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, repricings 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, it is generally expected that the impact approximately reflects the market or industry price decline in terms of timing and magnitude. In this circumstance, it is fair to conclude that option grantees may be suffering from a risk that was not foreseeable when the original "bargain" was struck. In such a scenario, the Benchmark Policy may recommend support for a repricing or option exchange program only if sufficient conditions are met.

The following features are viewed positively when assessing a repricing or exchange proposal:

- 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 evaluating the appropriateness of the program design, the Benchmark Policy considers 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 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 the repricing of options held by insiders. As a result, there are proposals that seek to automatically extend the expiry date of an option in the event that the option expires during or shortly after a blackout period. Such proposals are generally not of concern to shareholders, provided that the proposed expiration provisions have been adequately disclosed, 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)

The use of clawback or 'malus' provisions are considered market best practice to safeguard against unwarranted short- and long-term incentive awards and to 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.

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.

Excessive risk-taking that can materially and adversely impact shareholders may not necessarily result in such restatements. Clawback policies should allow for 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 claw back 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, the Benchmark Policy will determine the appropriateness of such determination on a case-by-case basis. In particular, it will carefully evaluate whether the company has provided 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 negative impacts of their actions on the company and the shareholder experience. The absence of such enhanced disclosure may impact the assessment of the quality of disclosure and, in turn, may play a role in the overall Benchmark Policy recommendation for the advisory vote on executive compensation. The clawback policy 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 enforcement of meaningful minimum executive share ownership requirements. They should clearly disclose their executive ownership requirements in their CD&A, as well as 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 the inclusion of unearned performance-based equity in the ownership determination renders executive share ownership policies somewhat less effective, performance-based equity compensation still can play an important role in the separate issue of aligning executive pay with performance.

Director Compensation

Non-employee directors should receive reasonable and appropriate compensation for the time and effort they spend serving on the board and its committees. However, a balance is required. Fees should be competitive in order to retain and attract qualified individuals, but excessive fees represent a financial cost to the company and potentially compromise the objectivity and independence of non-employee directors. The Benchmark Policy will consider supporting compensation plans that include option grants or other equity-based awards that help to align the interests of outside directors with those of shareholders. However, to ensure directors are not incentivized in the same manner as executives but rather serve as a check on imprudent risk-taking in executive compensation plan design, equity grants to directors should not be performance-based. Where an equity plan exclusively or primarily covers non-employee directors as participants, the plan should not provide for performance-based awards in any capacity.

When non-employee director equity grants are covered by the same equity plan that applies to a company's broader employee base, Glass Lewis' propriety equity model may be used, alongside analyst review, to guide the Benchmark Policy's voting recommendations. If such a plan broadly allows for performance-based awards to directors or explicitly provides for such grants, the Benchmark Policy may recommend against the overall plan on this basis, particularly if the company has granted performance-based awards to directors in past.

Governance Structure and the Shareholder Franchise

Amendments to the Articles of Association

The Benchmark Policy evaluates proposed amendments to a company's articles of association on a case-by-case basis. The Benchmark Policy is strongly 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, each proposed change will be analyzed on an individual basis, and the Benchmark Policy will recommend voting for the proposal only when, on balance, all of the amendments are in the best interests of shareholders. Further, the Benchmark Policy 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

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. Companies are permitted to stipulate a lower quorum requirement in their articles of association with the approval of shareholders. However, should a company seek shareholder approval of a lower quorum requirement, the Benchmark Policy will consider supporting 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.

When companies propose adopting new articles set quorum at 25% or higher, the Benchmark Policy will generally 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, the Benchmark Policy looks for a requisite quorum of a majority of the directors of the board.

Advance Notice Policies

The Benchmark Policy 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, 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. Therefore, 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, the Benchmark Policy 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, the Benchmark Policy 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.

The Benchmark Policy 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 (e.g., 60 days) of the annual meeting. In addition, the Benchmark Policy will generally recommend that shareholders oppose an advance notice policy that 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, the Benchmark Policy 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, the Benchmark Policy 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

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.

Some investors and groups, including CII, are of the view that companies should not attempt to restrict the venue for shareowner claims by adopting charter or bylaw provisions that seek to establish an exclusive forum. Charter or bylaw provisions that limit a shareholder’s choice of legal venue are generally not in the best interests of shareholders and could 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 of 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, the Benchmark Policy will generally 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, the Benchmark Policy will weigh the importance of the other bundled provisions when determining the vote recommendation on the proposal.

Change of Continuance

Companies may occasionally 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 cases where such a move is presented before shareholders at an annual or special meeting, shareholders should be presented with a comparison of the substantive changes between the two jurisdictions, allowing them to make an informed decision regarding the advantages, disadvantages and overall effect on the governance of the company and shareholder rights. The Benchmark Policy will analyze each change individually, and determine if the proposed change of continuance, on balance, is in the best interests of the company and its shareholders.

Shareholder Meeting Format

Shareholder meeting format is tracked 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). The Benchmark Policy does not make voting recommendations 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, the Benchmark Policy 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, the Benchmark Policy looks 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]

Examples of effective disclosure include addressing the following matters:

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

- 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 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, many investors take the view that it is 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)

Many investors take the view 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.

Generally, 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, 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, and in accordance with prevailing market practice in Canada, the Benchmark Policy will generally support a poison pill that is limited in scope to accomplish a particular objective, such as the closing of an important merger, or a pill that contains a reasonable "qualifying offer" clause. The Benchmark Policy 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:

- The form of offer is not required to be an all-cash transaction;
- The offer is not required to remain open for more than 105 business days;
- The offeror is permitted to make amendments to the offer, to reduce the offer or otherwise change The terms;
- There is no fairness opinion requirement;
- There is a low to no premium requirement; and
- The plan does not allow the board the discretion to amend material provisions without shareholder approval.

Additionally, the Benchmark Policy will consider 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; the Benchmark Policy 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, it is generally accepted 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

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. 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, management should justify 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, the Benchmark Policy 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 the Benchmark Policy may recommend shareholders reject the proposal.[39]

With regard to authorizations and/or increases in preferred shares, the Benchmark Policy is generally opposed to such authorizations which allow the board to determine the preferences, limitations and rights of the preferred shares (known as "blank-check preferred stock"). 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, the Benchmark Policy will generally recommend voting against such requests, unless the company discloses a

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

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

The Benchmark Policy recognizes the viable reasons companies may have to issue shares; however, it also recognizes that issuing shares dilutes existing holders in most circumstances. Further, the availability of additional shares, where the board has discretion to implement a poison pill, can often serve as a deterrent to interested suitors. Accordingly, when a company has not detailed a plan for the use of the proposed shares, or when the number of shares is excessive, the Benchmark Policy will typically recommend shareholders vote against the issuance. In the case of a private placement, the Benchmark Policy 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, the Benchmark Policy 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

In line with CII's Policies on Corporate Governance, ICGN's Global Governance Principles and broad investor sentiment, each share of a company's common stock should have one vote, companies should not have share classes with unequal voting rights, and certain shareholders should not have power or control disproportionate to their economic interests. 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, many investors agree 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, 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.

Generally, a multi-class share structure reflects negatively on a company's overall corporate governance. Because it is widely expected that companies should have share capital structures that protect the interests of

[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.

non-controlling shareholders as well as any controlling entity, the Benchmark Policy will generally recommend against proposals to adopt a new class of common stock. Similarly, the Benchmark Policy will typically recommend that shareholders vote in favor of recapitalization proposals to eliminate multi-class share structures. As part of the review of proposals to unwind multi-class share structures, the Benchmark Policy will analyze any financial compensation being offered to holders of shares with superior rights.

The Benchmark Policy will generally 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). The Benchmark Policy may consider recommending against a representative of the major shareholder instead if it is more appropriate to hold them accountable for this issue. Further, the Benchmark Policy may also consider exempting directors from a negative recommendation on this basis if there is 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, the Benchmark Policy 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, many investors expect that boards 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, the Benchmark Policy takes the view that 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, the Benchmark Policy 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

Supermajority vote requirements may 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, a supermajority vote requirement can enable a small group of shareholders to overrule the will of the majority of shareholders. In most cases, a simple majority is appropriate to approve all matters presented to shareholders.

In cases where a company seeks to abolish supermajority voting requirements, the Benchmark Policy will evaluate such proposals on a case-by-case basis. In certain instances, such as at companies with large or controlling shareholders, supermajority vote requirements may serve to protect the interests of minority shareholders. Therefore, in analyzing such proposals, the Benchmark Policy will take into account additional factors including: shareholder structure; quorum requirements; impending transactions – involving the company or a major shareholder – and any internal conflicts within the company.

Majority Voting

To promote a basic level of director accountability, investors broadly agree that companies should require that directors must receive a majority of votes cast to be elected. Unlike a plurality vote standard, a majority voting standard allows shareholders to collectively vote to reject a director they believe will not pursue and protect their best interests, which many investors view as leading to more attentive directors.

In line with CII's Policies on Corporate Governance and ICGN's Global Governance Principles and in accordance with broad investor sentiment, directors should generally be elected by a majority of votes cast in uncontested elections. Further, many investors expect that directors who fail to receive the support of a majority of votes cast in an uncontested election step down from the board as soon as practicable and not be reappointed. 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.

Under majority voting, uncontested nominees are elected to the board when they receive a higher number of votes cast "for" than the number of votes cast "against". Most, though not all, majority voting policies contain resignation clauses, whereby nominees who fail to receive a majority of shareholder votes must submit their conditional resignation to the board. The board may opt to either accept or reject the nominee's resignation, which gives the board final authority over whether to accept the outcome of the shareholders' vote.

However, majority voting along with a resignation may be viewed by investors as insufficient, because requiring a director to resign is not the same as requiring a majority vote to elect a director. As such, this modified approach does not allow shareholders to have a definitive voice in the election process.

Although shareholders only rarely fail to support directors, the occasional majority vote against a director's election will likely deter the election of directors with a record of ignoring shareholder interests. Further, most directors who fail to receive a majority shareholder vote in favor of their election do not step down, underscoring the need for true majority voting.

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.

Transaction of Other Business

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

Shareholder Proposals

The Benchmark Policy looks for governance structures that protect shareholders, support effective ESG oversight and reporting, and encourage director accountability. Accordingly, it places a significant emphasis on promoting transparency, robust governance structures and companies' responsiveness to and engagement with shareholders. As such it generally supports proposals that encourage transparency in how companies are mitigating material ESG risks, including those related to climate change, human capital management, and stakeholder relations.

To that end, the Benchmark Policy evaluates all shareholder proposals on a case-by-case basis with a view to protecting long-term shareholder value. While it is generally supportive of those that promote board accountability, shareholder rights, and transparency, it considers all proposals in the context of a company's unique operations and risk profile.

For a detailed review of the Glass Lewis benchmark policies concerning compensation, environmental, social, and governance shareholder proposals, please refer to *Benchmark Policy Guidelines for Shareholder Proposals & ESG-Related Issues*, available at www.glasslewis.com/voting-policies-current/

Overall Approach to Environmental, Social and Governance Issues

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

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

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

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

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

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

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

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

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

Connect with Glass Lewis

Corporate Website | www.glasslewis.com

Email | info@glasslewis.com

Social | @glasslewis Glass, Lewis & Co.

Global Locations

North America

United States
Headquarters
100 Pine Street, Suite 1250
San Francisco, CA 94111
+1 415 678 4110

New York, NY
+1 646 606 2345

2323 Grand Boulevard, Suite 1125
Kansas City, MO 64108
+1 816 945 4525

Canada
65 Front Street East, Suite 201
Toronto, ON M5E 1B5

Asia Pacific

Australia
CGI Glass Lewis
Suite 5.03, Level 5
255 George Street
Sydney NSW 2000
+61 2 9299 9266

Japan
Shinjuku Mitsui Building, 11th floor
2-1-1, Nishi-Shinjuku, Shinjuku-ku,
Tokyo 163-0411, Japan

Philippines
One Ayala East Tower, 1 Ayala Ave
Makati, Metro Manila

Europe

Ireland
15 Henry Street
Limerick V94 V9T4
+353 61 534 343

United Kingdom
80 Coleman Street
Suite 4.02
London EC2R 5BJ
+44 20 7653 8800

France
Proxinvest
6 Rue d'Uzès
75002 Paris
+33 ()1 45 51 50 43

Germany
IVOX Glass Lewis
Kaiserallee 23a
76133 Karlsruhe
+49 721 35 49622

Romania
Calea Aradului 11
Timișoara 300254

Sweden
Norrsken House
Birger Jarlsgatan 57C
113 56 Stockholm

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