Canadian Corporate Governance Policy
TSX-Listed Companies

2012 Updates

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Institutional Shareholder Services Inc.

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ISS' Canadian Corporate Governance Policy
2012 Updates

Effective for Meetings on or after Feb. 1, 2012
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The following guidelines will apply to TSX-Listed issuers only

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INTRODUCTION

The primary purpose of a public corporation is to create sustainable value for its shareowners. To that end, ISS designs its proxy voting guidelines to enhance shareholders' long-term economic interests. ISS' Benchmark proxy voting guidelines serve as a tool to assist institutional investors in meeting their fiduciary requirements with respect to voting by promoting shareholder value creation and risk mitigation at their portfolio firms.

ISS reviews and updates its proxy voting guidelines each year, taking into account emerging issues and trends, the evolution of market standards, regulatory changes, and feedback provided by ISS' institutional clients.

ISS' robust and transparent policy formulation process includes an exhaustive review of relevant empirical studies and other factual data, an annual policy survey of institutional clients and corporate issuers, policy roundtables with a wide range of industry constituents, and an open comment period on draft policy changes. ISS also conducts internal research to validate assumptions and policy positions.

The Benchmark Policy Guidelines consider market-specific recommended best practices, transparency, and disclosure when addressing issues such as board structure, director accountability, corporate governance standards, executive compensation, shareholder rights, corporate transactions, and social/environmental issues.

ISS' policy guidelines require the consideration of company-specific circumstances. When issuing a vote recommendation on a proposal, ISS considers historical operating and investment performance, company disclosure (and proponent/dissident disclosure, if applicable), the company's governance structure and historical practices, and its industry.

In applying these policies, ISS often engages with public issuers, shareholders, activists, and other stakeholders to seek additional information and to gain insight and context in order to provide our clients with informed vote recommendations. This engagement process enhances dialogue and promotes a higher level of understanding between investors and the companies in which they invest.

In formulating proxy voting policies, ISS assesses the potential costs and benefits of the adoption or rejection of the underlying ballot items. Where the economic impact of a ballot item is not apparent and may involve trade-offs, the guidelines direct analysts to consider the economic consequences as well as potential risks to shareholders of approval.

This document presents the changes being made to ISS' Benchmark Canadian Corporate Governance Policies. The document, along with other policy documents, is available on our Web site under the Policy Gateway. If you have any questions, please contact ca-research@issgovernance.com.

These policy changes will be effective for meetings on or after Feb. 1, 2012.

BOARD

Corporate Governance Issue:
Voting on Director Nominees in Uncontested Elections

Board Accountability – Governance Failures

Current Recommendation: Under extraordinary circumstances, vote AGAINST or WITHHOLD from directors individually, committee members, or the entire board, due to:

- Material failures of governance, stewardship, or fiduciary responsibilities at the company;
- Failure to replace management as appropriate; or
- Egregious actions related to the director(s)' service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.

Key Change: Adding an explicit reference to risk oversight.

New Recommendation: Under extraordinary circumstances, vote AGAINST or WITHHOLD from individual directors, members of a committee, or the entire board, due to:

- Material failures of governance, stewardship, risk oversight, or fiduciary responsibilities at the company;
- Failure to replace management as appropriate; or
- Egregious actions related to a director's service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.

Rationale for Update: This policy update clarifies ISS' existing policy by highlighting the significance of risk oversight within the broader concept of directors' fiduciary responsibilities. The intention of this update is not to penalize boards for taking prudent business risks or for exhibiting reasonable risk appetite, but is instead intended to address situations where there has been a material failure in a board's role in overseeing the company's risk management practices.

Over the past few years, the market has seen a multitude of well-publicized failures of board risk oversight. These failures are not limited to the financial sector, as evidenced by the events leading up to the Deepwater Horizon oil spill of 2010, or the scandals surrounding News Corporation's U.K. operations in 2011. The importance of proper risk oversight has been further highlighted by a number of national and international codes of best practice, including, but not necessarily limited to, the International Corporate Governance Network's TCRO guidelines, and the Council of Institutional Investors' Corporate Governance Policies.

COMPENSATION

Corporate Governance Issue:
Employee Share Purchase Plans (ESPPs, ESOPs)

Current Recommendation:

Vote CASE-BY-CASE basis on employee stock purchase plans.

Generally vote FOR broadly based (preferably all employees of the company with the exclusion of individuals with 5 percent or more beneficial ownership of the company) employee stock purchase plans where all of the following apply:

- Limit on employee contribution (expressed as a percentage of base salary excluding bonus, commissions, and special compensation);
- Purchase price is at least 80 percent of fair market value with no employer contribution; OR
- No discount purchase price with maximum employer contribution of up to 20 percent of employee contribution;
- Offering period is 27 months or less; and
- Potential dilution together with all other equity-based plans is 10 percent of outstanding common shares or less.

Generally recommend AGAINST proposals to approve Share Purchase Plan Amendment Procedures if shareholder approval is not required to amend any of the above criteria.

Treasury Funded Plans

An Employee Stock Purchase Plan (ESPP) where: i) the plan is funded by treasury shares; and ii) the effective purchase price is less than 50 percent of fair market value, will be evaluated by running the compensation model.

Key Changes:

(1) Increase the acceptable allowable employer matching contribution to up to 25 percent of the employee contribution.

- ESPPs/ESOPs that provide for an employer matching contribution of more than 25 percent of the employee contribution will be evaluated by assessing the cost of the plan in conjunction with all other equity-based plans at the company against its allowable cap using the ISS binomial compensation model. On this basis, an employer match of more than 25 percent of the employee contribution may be acceptable if the SVT cost of the plan is within the allowable cap.

(2) Delete the offering period requirement.

- This requirement was previously adopted from U.S. qualified plan policy which is not relevant for Canadian-based ESPPs. The U.S. policy for these plans will apply if the plan is meant to be a qualified ESPP put in place for U.S. based employees.

(3) Add the following key factors:

- Other compensation plans, and, in particular, pension plans may be taken into account
- Eligibility and administration are also key factors that will be assessed in each case.

(4) Plan amendment provisions that require shareholder approval have been amended to reflect the key elements under the revised policy.

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New Recommendation:

Generally vote FOR broadly based (preferably all employees of the company with the exclusion of individuals with 5 percent or more beneficial ownership of the company) employee stock purchase plans where the following apply:

- Reasonable limit on employee contribution (may be expressed as a fixed dollar amount or as a percentage of base salary excluding bonus, commissions and special compensation);
- Employer contribution of up to 25 percent of employee contribution and no purchase price discount or employer contribution of more than 25 percent of employee contribution and SVT cost of the company's equity plans is within the allowable cap for the company;
- Purchase price is at least 80 percent of fair market value with no employer contribution;
- Potential dilution together with all other equity-based plans is 10 percent of outstanding common shares or less; and
- Plan Amendment Provision requires shareholder approval for amendments to:
  - The number of shares reserved for the plan;
  - The allowable purchase price discount;
  - The employer matching contribution amount.

Treasury-funded ESPPs, as well as market purchase funded ESPPs requesting shareholder approval, will be considered to be incentive-based compensation if the employer match is greater than 25 percent of the employee contribution. In this case, the plan will be run through the ISS compensation model to assess the Shareholder Value Transfer (SVT) cost of the plan together with the company's other equity-based compensation plans.

Eligibility and administration are also key factors in determining the acceptability of an ESPP/ESOP plan.

ISS will also take into account other compensation and benefit programs, in particular pensions.

Rationale for Update:

According to an article in the Ivey Business Journal (May/June 2004), *Making Executive Pay Work,* due to the large discounts applied to employee stock option grants which increase the cost of using this type of incentive compensation, it is recommended that companies use a mix of stock-based plans to increase the perceived value received by employees and simultaneously reduce accounting costs. The use of share purchase plans has the benefit of creating more direct share ownership, influencing retention and changing executive behavior according to studies conducted by Watson Wyatt, which conclude further that high stock ownership yields superior returns to shareholders.

Companies in Canada typically offer up to a 50 percent employer match and many offer up to 100 percent, the cost of which may be spread over the vesting period. A company may gain some tax advantage if, upon vesting, the employer matching amount is settled through open market share purchases or in cash. This tax advantage makes employer matching preferable over purchase price discounts for non-treasury funded plans in Canada, although both employer matching and purchase price discounts are seen at treasury-funded plans. Assessing the SVT cost of the proposed plan in conjunction with a company's other equity based compensation plans will permit an employer match of more than 25 percent of the employee contribution, reflecting current market practice, as long as the SVT cost is acceptable when compared to the company's allowable cap, and as long as all other criteria specified in this policy are acceptable.

ISS generally supports share purchase plans due to their typically low dilution along with the benefits outlined above. It is appropriate at this time, as pay mix continues to change with stock options falling further out of favor and companies looking for attractive viable alternatives, to encourage the use of such plans by relaxing the acceptable employer matching

threshold in our Canadian policy. Our guidelines provide that total dilution for a share purchase plan in combination with all other stock-based plans at any one company must be no more than 10 percent with a limited purchase price discount or employer match, or the SVT cost of the company's equity plans must be within the allowable cap for the company if the employer matching contribution is more than 25 percent of the employee contribution.

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