MERIDIAN
COMPENSATION PARTNERS

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Institutional Shareholder Services Canada Corp.
67 Yonge Street, Suite 1400
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Response to Request for Comments on Proposed 2013 Proxy Voting Policies

In response to your request, following are our comments regarding Institutional Shareholder Services (ISS) proposed pay-for-performance (Canada) voting policy:

Learning from the United States (U.S.) Experience

We understand that the proposed pay-for-performance proxy voting policy for Canada generally follows ISS's 2012 pay-for-performance policy applicable to U.S. issuers. We also understand that ISS has requested comments on proposed updates to its existing U.S. pay-for-performance policy. We would encourage ISS to delay changing the policy for Canada this coming year. This would allow ISS to implement a proxy voting pay-for-performance policy for Canada that applies the lessons learned in the U.S. from 2012 and 2013.

Peer Group Construction

We are concerned that the issues which arose in the U.S. with respect to peer group selection will be exacerbated in the smaller Canadian market, where there are significantly fewer companies from which to select a peer group. Recognizing the difficulties in identifying a sufficient number of peer companies for Canadian-based companies, ISS is proposing peer group size parameters that are significantly more expansive than under its U.S. policy:

- For Canadian companies, ISS is proposing peer group size parameters between 0.25 times and 4.00 times of a subject company's revenues (or assets if applicable);
- For U.S. companies, those parameters are currently between 0.45 times and 2.1 times of a subject company's revenues (or assets if applicable).

We believe that utilizing the expanded size parameters for Canadian companies will lead to the inclusion of peer companies which could bear little resemblance to the subject company in terms of size and complexity. Therefore, we suggest that ISS narrow its proposed peer group size parameters to between one-third and 3 times the revenues (or assets if applicable) of the subject company. As under its U.S. policy, we further suggest that the median revenues (or assets if applicable) of the peer group approximate the revenues (or assets if applicable) of the subject company. Additionally, we recommend that in selecting peer companies, ISS take into account the following:

- The companies chosen by the subject company as its peers.
- Relative asset size for capital intensive businesses in addition to financial institutions.
- Life-cycle maturity phase of the business (i.e., generally a start-up should not be compared with a mature business).

In addition, to expand the universe from which appropriate and reasonable peer companies may be drawn, we recommend that ISS consider including U.S. based companies in a subject company's peer group. Many Canadian companies operate in both Canada and the U.S. and compete for capital and talent on a North American basis.

Overall, the peer group selection process adopted by ISS should be transparent and follow a formula, so companies have an opportunity to evaluate their CEO pay for performance under the proposed relative alignment test.

Relative Degree of Alignment Test

ISS's proposed pay-for-performance policy includes three quantitative tests. One test, the Relative Degree of Alignment ("RDA"), measures the difference between a subject company's total shareholder return (TSR) rank and the CEO's total pay rank within a peer group, measured over a 1-year and 3-year period.

We suggest that ISS evaluate whether it may be appropriate to apply the proposed RDA test over periods longer than 3 years for companies within certain industry groups that have prolonged business cycles. For example, companies within the mining and oil & gas sector experience longer economic cycles than companies within most other industry sectors. In such a case, we recommend that the proposed RDA test be performed over a 5-year period which is consistent with the time-period ISS will use under its proposed "Absolute" quantitative test.

Determination of CEO Total Pay

To conduct the quantitative tests under the proposed pay-for-performance policy, ISS is required to determine a CEO's "total pay." ISS proposes to determine total pay based, in part, on the prospective (not actual or realizable) values of equity grants made to the CEO, using the full term rather than the expected life of the award in the case of options. Performance-based compensation is forward looking in nature. Once granted, companies' financial and stock performance generally drives the ultimate realized value of equity compensation. For most companies, CEO pay opportunities show much lower correlation to TSR rank than total realized CEO pay, which has a closer relationship to a company's TSR rank. Therefore, we recommend that ISS measure CEO total pay on a realizable rather than prospective pay basis. This approach is consistent with the fundamental notions of pay for performance.

Determination of Significant Long-Term Misalignment

Under its proposed policy, ISS will generally recommend AGAINST management Say on Pay proposals, and/or recommend AGAINST/WITHHOLD on compensation committee members (or in rare cases where the full board is deemed responsible, all directors including the CEO), and/or recommend AGAINST an equity based incentive plan if there is **<u>significant long-term</u> misalignment** between CEO pay and company performance.

We recommend that ISS provide clear and comprehensive guidance as to when it would find a "significant long-term misalignment" exists between CEO pay and company performance.

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Thank you in advance, for receiving and considering our comments.

Best regards,

Meridian Compensation Partners

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SENT VIA EMAIL