Canadian Corporate Governance Policy

2013 Updates

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Institutional Shareholder Services Inc.

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ISS' Canadian Corporate Governance Policy
2013 Updates

Effective for Meetings on or after Feb. 1, 2013
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INTRODUCTION

Each year, ISS' Global Policy Board conducts a robust and transparent global policy formulation process which culminates in benchmark guidelines to be used in its proxy voting research for the upcoming year. To that end, ISS is pleased to announce its 2013 Global Policy Updates.

The complete set of ISS Global 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. The updates contained in this document reflect changes to regional proxy voting policies. These changes are based on significant engagement and outreach with multiple constituents in the corporate governance community, along with a thorough analysis of regional regulatory changes, best practices, voting trends, and academic research.

The 2013 policy updates are grouped by region, including separate documents that specifically address US, Europe, Canada, and International policy changes. Highlights and key changes for the upcoming year include:

- Pay for Performance Evaluation, including peer groups and realizable pay (US)
- Board Responsiveness to Majority Supported Proposals (US)
- Pledging of Company Stock (US)
- Pay for Performance Evaluation, including quantitative and qualitative factors (Canada)
- Voto di Lista (Italy)
- Overboarded Directors (Hong Kong and Singapore)
- Board Tenure (Hong Kong and Singapore)
- Director Nominee Disclosure (Global)

In addition to creating the updates to ISS' Global Policies, the ISS Research team collaborates with over 400 custom clients to ensure that their voting policies reflect their voting philosophy and are updated to take into account trends, practices, and regulatory changes in each market in which they invest.

The full text of the updates, along with detailed results from the Policy Survey, as well as comments received during the open comment period, are all available on ISS' Web site under the Policy Gateway.

The ISS 2013 Global Policy Updates will be effective for meetings on or after February 1, 2013.

This document presents the changes being made to ISS' Benchmark Canadian Corporate Governance Policies. If you have any questions, please contact ca-research@issgovernance.com.

BOARD

Corporate Governance Issue:

Voting on Director Nominees in Uncontested Elections (TSX and TSXV)

Slate Ballots (Bundled Director Elections)

Current Recommendation for TSX Companies only: Generally WITHHOLD votes from all directors nominated by slate ballot at the annual/general or annual/special shareholders' meetings of TSX reporting issuers where ISS has identified (i) additional corporate governance practices that fall short of best practice for the Canadian market; or (ii) concerns about compensation practices and the alignment of pay with performance. This policy will not apply to contested director elections.

Any one of the following board-related governance practices in addition to a slate ballot which has the effect of insulating directors from shareholder votes may result in a WITHHOLD:

- Less than majority independent board;
- Less than majority independent key committees;
- Insiders on key committees;
- Lack of separate nominating or compensation committee;
- Less than 75 percent director attendance without acceptable reason, or director attendance has not been disclosed;
- No disclosure of audit fees broken down by category as required by regulatory disclosure rules;
- Non-audit fees (Other fees) paid to the external audit firm exceed audit and audit-related fees;
- Former CEO/CFO on the audit or compensation committee;
- Lack of independent chairman of the board or independent lead director identified; or
- Board is classified.

The following may also be taken into consideration and contribute to a WITHHOLD from the entire slate:

- Dual Class Capital Structure (common share capital structure with unequal voting rights);
- Pay for performance disconnect;
- Problematic pay practices;
- Performance concerns as indicated by TSR in the bottom half of the company's GICS group median;
- Disclosure concerns; or
- Other significant corporate governance concerns.

The above policy may not apply if the company has:

- Graduated in the last year from the TSX Venture Exchange to the TSX; or
- Committed to replace slate director elections with individual director elections within a year.

Key Changes:

- Update the current Slate Ballot Policy for TSX-Listed issuers to remove the double trigger that requires additional governance concerns; and carve-out conditions that exempt newly graduated companies from the venture exchange or accept a commitment to eliminate a slate ballot at the next meeting.

- Update the TSXV Policy to include the new slate ballot policy.

New Recommendation – TSX and TSXV: Generally WITHHOLD votes from all directors nominated by slate ballot at the annual/general or annual/special shareholders' meetings. This policy will not apply to contested director elections.

Rationale for Update: The Toronto Stock Exchange released amendments to Part IV of the Company Manual, on Oct. 4, 2012. The new rules, effective Dec. 31, 2012, focus on how a listed issuer elects its board of directors.
Highlights of the new rules include requirements for the:

- Annual election of directors;
- Election of directors by way of individual resolution rather than single slate ballots;
- Public disclosure of the votes received for the election of each director;
- Adoption of a majority voting director resignation policy or explanation of why such policy has not been adopted; and
- Notice to the TSX if a director receives a majority of "withhold" votes and the issuer has not adopted a majority voting policy.

Given the recent prohibition on single slate ballot election of directors at TSX-Listed issuers and the notice issued by the TSXV reiterating the prohibition on single slate ballots under TSX Venture listing rules, the updated policies reflect these regulatory rules, while maintaining flexibility to address specific circumstances that would warrant a case-by-case approach.

Considerations for Majority Owned Companies

Current Recommendation: No policy consideration for majority-owned companies. The current policy is as follows:

Vote CASE-BY-CASE on director nominees, examining the following factors when disclosed:

- Independence of the board and key board committees;
- Attendance at board and committee meetings;
- Corporate governance provisions and takeover activity;
- Long-term company performance;
- Directors' ownership stake in the company;
- Compensation practices;
- Responsiveness to shareholder proposals;
- Board accountability; and
- Adoption of a Majority Voting (director resignation) policy.

Board Structure and Independence - TSX

Generally vote WITHHOLD from any insider or affiliated outside director (and the whole slate if the slate includes such individual directors) where:

- The board is less than majority independent; OR
- The board lacks a separate compensation or nominating committee.

Insiders on Key Committees - TSX

Vote WITHHOLD from individual directors (and the whole slate if the slate includes such individual directors) who:

- Are insiders on the audit, compensation, or nominating committee.

Include cautionary language for all affiliated outside directors who sit on the audit, compensation, or nominating committee, to the effect that corporate governance best practices dictate that such committees should be comprised entirely of independent directors.

Insiders on Key Committees - TSXV

Generally vote WITHHOLD from individual directors (and the whole slate if the slate includes such individual directors) who:

- Are insiders on the audit committee.

Generally vote WITHHOLD from individual directors (and the whole slate if the slate includes such individual directors) who:

- Are insiders on the compensation committee or the nominating committee and the committee is not majority independent.

Generally vote WITHHOLD from individual directors who:

- Are insiders (and the whole slate if the slate includes such individual directors) and the entire board fulfills the role of a compensation committee or a nominating committee and the board is not majority independent.

Key Change: Update the Board Structure and Independence policy and the Insiders on Key Committees policy, describing the Policy Considerations for Majority Owned Companies under which ISS may support the election of a non-independent director who is the controlling shareholder or representative of the controlling shareholder having a majority equity investment in the common shares of a company with a single class share structure and where the company meets independence and governance criteria that protects minority shareholder interests.

New Recommendation:

Policy Considerations for Majority Owned Companies[1]

ISS policies support a one-share, one-vote principle. In recognition of the substantial equity stake held by certain shareholders, on a CASE-BY-CASE basis, director nominees who are or who represent a controlling shareholder of a majority owned company, who will be designated as controlling insiders, may generally be supported under ISS' board and committee independence policies, if the company meets **all** of the following independence and governance criteria:

- Individually elected directors*;*
- The number of related directors should not exceed the proportion of the common shares controlled by the controlling shareholder, to a maximum of two-thirds, however if the CEO is related to the controlling shareholder, then at least two-thirds of the directors should be independent of management;
- If the CEO and chair roles are combined or the CEO is or is related to the controlling shareholder, then there should be an independent lead director and the board should have an effective and transparent process to deal with any conflicts of interest between the company, minority shareholders, and the controlling shareholder; and
- A majority of the audit and nominating committees should be either independent directors or related directors who are independent of management. All members of the compensation committee should be independent of

[1] A majority owned company is defined for the purpose of this policy as a company controlled by a shareholder or group of shareholders who together have an economic ownership interest under a single class common share capital structure that is commensurate with their voting entitlement of 50% or more of the outstanding common shares.

management, and, if the CEO is related to the controlling shareholder, no more than one member of the compensation committee should be a related director;
- Prompt disclosure of detailed vote results following each shareholder meeting; and
- Adoption of a majority vote standard with a director resignation policy for uncontested elections OR a public commitment to adopt a majority voting standard with a director resignation policy for uncontested elections if the controlling shareholder ceases to control 50 percent or more of the common shares[2]

ISS will also consider the following:

- Nominating committee has process to receive and discuss suggestions from shareholders for potential director nominees; and
- If the CEO is related to the controlling shareholder, the board's process to evaluate the performance, leadership, compensation, and succession of management should be led by independent directors.

ISS will also take into consideration any other concerns related the conduct of the subject director and any controversy or questionable actions on the part of the subject director that are deemed not to be in the best interests of all shareholders.

Rationale for Update: Canadian corporate law provides significant shareholder protections; for example, a shareholder or group of shareholders having a 5-percent ownership stake in a company may requisition a special meeting for the purposes of replacing or removing directors. Directors may be removed by a simple majority vote. Shareholders also benefit from the ability to bring an oppression action against the board or individual directors of Canadian incorporated public companies.

Against this legal backdrop, Canadian institutions have taken steps to acknowledge and support the premise that a shareholder who has an equity stake in the common shares of a reporting issuer under a single class common share structure has a significant interest in protecting the value of that equity stake in the company and is therefore deemed to have significant alignment of interests with minority shareholders. There is evidence of significant differences in the corporate governance practices of majority owned companies versus dual class share controlled companies. As noted in the October 2012 IRRC Institute publication *Controlled Companies in the Standard & Poor's 1500: A Ten Year Performance and Risk Review*[3]*: "The governance provisions of controlled firms with a single class of stock often differ from those with multiclass capital structures, and in some respects more closely resemble those of non-controlled firms. Controlled firms with a single class of stock have more conventional governance features with respect to board accountability and shareholder rights compared to controlled firms with multiclass capital structures."*

As well, a number of controlled companies in Canada have been vocal in their criticism of a lack of response on the part of Canadian regulators in this regard. In 2005, the Canadian Securities Administrators (CSA) adopted *National Policy 58-201 - Corporate Governance Guidelines* which set forth a number of suggested guidelines on corporate governance practices, including minimum levels of board and key committee independence. At the time of adoption, the CSA acknowledged concerns expressed by some reporting issuers as to whether the CSA's view of director independence was appropriate to companies that have a majority shareholder. To date, the CSA has not published any update on how NI 58-201 treats controlled companies.

In October 2011, the Canadian Coalition of Good Governance (CCGG) published its report, Governance Differences of Equity Controlled Corporations. This document supplements the March 2010 report, Building High Performance Boards to take into account the legitimate governance differences of equity controlled corporations. The CCGG represents 46 institutional investor members representing nearly $2 trillion in assets, thus support for the approach outlined by the CCGG for equity controlled corporations would be widespread among Canadian institutional investors.

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[2] On Oct. 4, 2012, the TSX announced a further amendment to proposed listing requirements for TSX listed companies mandating majority voting which may take the form of a policy with a director resignation requirement, and disclosure of detailed vote results for director elections, which are intended to take effect Dec. 31, 2013.

[3] **http://irrcinstitute.org/pdf/FINAL-Controlled-Company-ISS-Report.pdf**

The CCGG's October 2011 report accounts for the legitimate governance differences of dual class capital structure controlled companies (whereby a shareholder may exert majority control by virtue of a less than majority economic investment in multiple voting or superior voting shares) versus equity-controlled companies (whereby the economic interest of the controlling shareholder is equal to the voting control entitlement enjoyed by the controlling shareholder) while maintaining a rigorous set of requirements to ensure that the board:

- Is accountable and independent;
- Has experienced, knowledgeable, and effective directors committed to the highest level of integrity;
- Has clear roles and responsibilities; and
- Engages with its shareholders.

Based on institutional investor feedback in the Canadian market, support for this policy approach is broad based. Thirteen of Canada's largest institutional investors were key in the creation of the CCGG policy. ISS has canvassed additional Canadian institutional clients who are also in support.

As indicated in the new recommendation, the updated policy firmly supports the one-share, one-vote principle and is intended to recognize the substantial equity stake held by certain shareholders under a single class share structure whose interest in protecting the value of their investment would be deemed to be aligned with the interests of minority shareholders. For clarification purposes, the above exemption will not be considered at dual class companies.

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Compensation

Corporate Governance Issue:

Voting on Say-on-Pay Resolutions: Pay for Performance Evaluation (TSX only)

Current Methodology:

1. Pay for Performance

This policy will be applied at all S&P/TSX Composite Index Companies and for all Management Say-On-Pay Resolutions

Evaluate the alignment of the CEO's total compensation with company performance over time, focusing particularly on companies that have underperformed their peers over a sustained period. From a shareholder's perspective, performance is predominantly gauged by the company's share price performance over time. Even when financial or operational measures are used as the basis for incentive awards, the achievement related to these measures should ultimately translate into superior shareholder returns in the long term.

Generally vote AGAINST an MSOP resolution and/or WITHHOLD votes from the compensation committee members and/or vote AGAINST an equity-based compensation plan proposal if:

- There is a pay for performance disconnect between the CEO's total compensation and company's stock performance;
- The CEO's total compensation has increased from the prior year;
- If an equity-based plan is on the agenda, the main source of the increase (over half) is equity based, where the CEO is a participant of the equity proposal.

A pay for performance disconnect is defined as an increase in CEO's total compensation and the company's one-year and three-year total shareholder returns are in the bottom half (50 percent) of its industry group (four-digit GICS - Global Industry Classification Group). CEO total compensation is defined as the sum of base salary, short-term (annual) and long-term non-equity incentives, grant date fair value of stock awards and options, target value of performance shares/units, pension value and all other compensation as reported in the Summary Compensation Table. Newly appointed CEOs who have been with the company less than the past two complete fiscal years are exempted from the policy.

If a company falls in the bottom half of its four-digit GICS group, further analysis of the Compensation Discussion and Analysis (CD&A) is required to better understand the various pay elements and whether they create or reinforce shareholder alignment. Other considerations include:

- The CEO's pay relative to the company's TSR over a time horizon of at least five years. The most recent year-over-year increase or decrease in pay remains a key consideration, but there will be additional emphasis on the long-term trend of CEO total compensation relative to shareholder return;
- The mix of performance-based compensation relative to total compensation. In general, standard stock options or time-vested restricted stock are not considered to be performance-based. If a company provides performance-based incentives to its executives, the company is highly encouraged to provide the complete disclosure of the performance measure and associated target goals (hurdle rates) so that shareholders can assess the rigor of the performance program. The use of non-GAAP financial metrics also makes it very challenging for shareholders to ascertain the rigor of the program as shareholders often cannot tell the type of adjustments being made and whether the adjustments were made consistently. Complete and transparent disclosure helps shareholders to better understand the company's pay-for-performance linkage.

Key Change: Utilize a new methodology to measure potential long-term pay-for-performance alignment based on the following factors:

Quantitative

Relative:

1. The Relative Degree of Alignment (RDA) is the difference between the company's TSR rank and the CEO's total pay rank within a peer group[4], measured over a one-year and three-year period;
2. Multiple of Median (MOM) is the total compensation in the last reported fiscal year relative to the median compensation of the peer group; and

Absolute:

3. The CEO pay-to-TSR Alignment (PTA) over the prior five fiscal years, i.e., the difference between absolute pay changes and absolute TSR changes during the prior five-year period (or as long a period as company disclosure permits);

The new methodology generated pay for performance (P4P) screen will replace the current P4P screen (TSR below the GICS group median for both one- and three-year periods).

Qualitative

Companies identified by the methodology as having a potential P4P misalignment will receive a qualitative assessment to determine the ultimate recommendation, considering a range of case-by-case factors. These may include the ratio of performance- to time-based equity awards; the overall ratio of performance-based compensation; the completeness of disclosure and rigor of performance goals; actual results of other financial metrics; special circumstances related to a new CEO in the prior FY; and any other factors deemed relevant.

New Recommendation:

This policy is applicable to all S&P/TSX Composite Index companies and for all management say-on-pay resolutions.

ISS will evaluate executive pay and practices on a CASE-BY-CASE basis.

Generally vote AGAINST management say-on-pay (MSOP) proposals, and/or AGAINST/WITHHOLD on compensation committee members (or, in rare cases where the full board is deemed responsible, all directors including the CEO), and/or AGAINST an equity-based incentive plan proposal if:

- There is significant long-term misalignment between CEO pay and company performance (pay for performance).

The determination of long-term pay-for-performance alignment is a two step process: step one is a quantitative screen, which includes a relative and absolute analysis on pay for performance, and step two is a qualitative assessment of the CEO's pay and company performance. A P4P disconnect will be determined as follows:

4. The peer group is generally comprised of 11-24 companies that meet the following criteria:

- Revenue/assets between 0.25X and 4X the subject company's size;
- In the closest GICS industry group (8-digit, 6-digit, 4-digit, or 2-digit) to the subject company's GICS category; and
- Market Cap between 0.25X and 4X of the company's market cap group

In exceptional cases of very large or very small companies, peer groups will be determined on a customized basis.

Step I: Quantitative Screen

Relative:

1. The Relative Degree of Alignment (RDA) is the difference between the company's TSR rank and the CEO's total pay rank within a peer group[5], measured over a one-year and three-year period;
2. Multiple of Median (MOM), i.e., total compensation in the last reported fiscal year relative to the median compensation of the peer group[2]; and

Absolute:

3. CEO pay-to-TSR Alignment (PTA): This measures the alignment between the trend of CEO pay and the trend of company performance over the prior five fiscal years, i.e., the difference between absolute annual pay changes and absolute annualized TSR changes during the prior five-year period (or as long a period as company disclosure permits).

Step II: Qualitative Assessment

Companies flagged as having a potential P4P misalignment will receive a qualitative assessment to determine the ultimate recommendation, this assessment shall consider a range of case-by-case factors that may include:

- The ratio of performance- to time-based equity grants and the overall mix of performance-based compensation relative to total compensation (considering whether the ratio is more than 50 percent); standard time-vested stock options and restricted shares are not considered to be performance-based in this evaluation.
- The quality of disclosure and appropriateness of the performance measure(s) and goal(s) utilized, so that shareholders can assess the rigor of the performance program. The use of non-GAAP financial metrics also makes it challenging for shareholders to ascertain the rigor of the program as shareholders often cannot tell the type of adjustments being made and if the adjustments were made consistently. Complete and transparent disclosure helps shareholders to better understand the company’s pay and performance linkage.
- The trend in other financial metrics, such as growth in revenue, earnings, return measures such as ROE, ROA, ROIC, etc.
- The trend considering prior years' P4P concern.
- Extraordinary situation due to a new CEO in the last reported FY.[6]
- Any other factors deemed relevant.

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5. The peer group is generally comprised of 11-24 companies that meet the following criteria:

- Revenue/assets between 0.25X and 4X the subject company's size;
- In the closest GICS industry group (8-digit, 6-digit, 4-digit, or 2-digit) to the subject company's GICS category; and
- Market cap within limits that vary according to the company's market value, utilizing four market cap "buckets" (micro, small, mid, and large); ISS may expand size boundaries as necessary to achieve a minimum peer group size, while always striving to maintain the target company as close to the median as possible.

In exceptional cases of very large or very small companies, peer groups will be determined on a customized basis.

[6] Note that the longer-term emphasis of the new methodology alleviates concern about impact of CEO turnover. Thus, except in extenuating circumstances, a "new" CEO will not exempt the company from consideration under the methodology since the compensation committee is also accountable when a company is compelled to significantly "overpay" for new leadership due to prior poor performance.

Rationale for Update: The current ISS P4P policy is a combination of quantitative and qualitative factors, whereby decision making is largely on a case-by-case basis. However, market perception is often focused on the initial quantitative screen, that is, whether the company underperformed its four-digit GICS group for the prior one- and three-fiscal periods, and CEO compensation increased over the last fiscal year. Issuers and institutional investor clients have expressed their concern that this "test" is inadequate and potentially misleading. In addition, there has also been concern that the current screening process does not address companies that deliver high pay and pay opportunities in contrast to mediocre performance that marginally exceeds the peer group median.

Institutional investors have indicated that pay-for-performance is the critical factor in determining their votes on management say-on-pay (MSOP) proposals.[7] Vote results from the 2012 proxy season provide support for the new methodology; although no company received less than majority support[8] for its MSOP proposal, the companies triggered in the initial testing of the proposed methodology received lower support than the median support for an MSOP proposal in the 2012 proxy season. In Canada, MSOP is not mandatory, and, as of Sept. 1, 2012, a total of 106 companies have voluntarily adopted a say-on-pay.

In addition, ISS' 2012-2013 policy survey indicated that size matters in selection of peer group, when evaluating the alignment between pay and performance in the U.S. market, but also relevant to Canada. A two-thirds majority of investor respondents cited that ISS should create its own peer group and provide the company's peer group as an alternative view. Investors (84 percent) have also indicated that having the ISS-selected peer within a specified range of the target company is a very to somewhat important factor in the peer selection process.

Client feedback has further highlighted a need for change in specific aspects of the current ISS policy approach, including: reliance solely on 4-digit GICS peers to evaluate performance (since it is broad and contains companies of varying revenues and market caps); reliance on a one-year pay change, which emphasizes a short-term trend.

The updated P4P evaluation addresses these concerns, while continuing to focus on the CEO's annual pay (including earned pay and incentive grants), since the CEO's compensation "sets the pay pace" at most companies and is directly approved by the compensation committee, which is accountable to shareholders. Further, granted pay most directly reflects compensation committee decisions about appropriate executive compensation – i.e., the pay that the committee intended to deliver. While prospective incentive grants generally represent pay opportunities that may not be earned or may decline in value in the wake of poor company performance, ISS recognizes that equity-based pay is also highly sensitive to general market trends and may (or may not) deliver significant value regardless of the company's or executive's performance. Investors expect compensation committees to ensure that compensation (including incentive award metrics and goals) follows a pay-for-performance approach. If granted pay is misaligned with actual performance over time, investors want assurance that it is rigorously linked to specific performance improvement.

ISS' view, particularly supported by client feedback from 2011 roundtable discussions, is that investors ultimately benefit only from the returns on their ownership stake; thus, over time, TSR remains the key performance metric for shareholders. However, ISS' 2012 policy survey indicates that a majority (52 percent) of investor respondents would "very likely" consider other metrics in addition to TSR in the U.S. market, but also relevant to Canada. The new methodology continues to evaluate performance on the basis of total shareholder return, while trends in other performance metrics (both absolute and relative) may be considered on a case-by-case basis.

[7] Fifty-nine percent of institutional respondents to the 2009 ISS survey indicated pay for performance as a critical consideration in say-on-pay evaluations, while 35 percent considered it very important, making it the most prevalent consideration. Notably, only 36 percent of institutional respondents to the 2010 policy survey indicated ISS' current P4P evaluation to be among the top three factors in their evaluation, versus 77 percent indicating disclosure of performance metrics (and their link to the company's business strategy), 52 percent indicating evaluation of nonperformance-based pay elements, and 38 percent citing a company's risk-mitigating practices as the most important factors.

[8] Based on total votes cast, including votes cast by controlling shareholders

Shareholder Rights & Defenses

Corporate Governance Issue:

Voting on Bylaws/Articles-Related Proposals (TSX and TSXV)

Advance Notice Requirement

Current Recommendation: None

Key Change: To establish a Canadian policy on proposals to adopt advance notice requirements.

New Recommendation: Vote CASE-BY-CASE on proposals to adopt an Advance Notice Board Policy or to adopt or amend bylaws containing or adding an advance notice requirement, giving support to those proposals that provide a reasonable framework for shareholders to nominate directors by allowing shareholders to submit director nominations as close to the meeting date as reasonably possible and within the broadest window possible, recognizing the need to allow sufficient notice for company, regulatory, and shareholder review.

To be reasonable, the company's deadline for notice of shareholders' director nominations must not be more than 65 days and not less than 30 days prior to the meeting date.

In general, support additional efforts by companies to ensure full disclosure of a dissident shareholder's economic and voting position in the company so long as the informational requirements are reasonable and aimed at providing shareholders with the necessary information to review any proposed director nominees.

Rationale for Update: All shareholders should be provided with sufficient disclosure and time to make appropriate decisions on the election of their board representatives. Advance Notice Requirement Policies typically provide a transparent, structured, and fair director nomination process, whereby all shareholders, irrespective of whether they are voting by proxy or attending the meeting, are made aware of potential proxy contests in advance of the meeting. Shareholders are also provided with important information pertaining to proposed dissident director nominees within a specified time frame, allowing shareholders to fully participate in the director election process in an informed and effective manner.

Adopt/Amend Bylaws/Articles - Alternate Director Provision

Current Recommendation:

Generally vote FOR proposals to amend or replace bylaws if:

- The purpose of the amendment is to clarify ambiguity, reflect changes in corporate law, streamline years of amendments or other “housekeeping” amendments, and
- The bylaws as amended will not result in any of the four unacceptable governance provisions set out in the following paragraph.

Vote AGAINST a new bylaw proposal, if any of the following conditions apply:

- The quorum for a meeting of shareholders is set below two persons holding 25 percent of the eligible vote (this may be reduced to no less than 10 percent in the case of a small company that can demonstrate, based on publicly disclosed voting results, that it is unable to achieve a higher quorum and where there is no controlling shareholder);
- The quorum for a meeting of directors is less than 50 percent of the number of directors;
- The chair of the board has a casting vote in the event of a deadlock at a meeting of directors;

- The proposed Articles/Bylaws raise other corporate governance concerns, such as granting blanket authority to the board with regard to future capital authorizations or alteration of capital structure without shareholder approval.

Key Change: Add a specific additional area of concern that would result in an AGAINST recommendation to article and bylaw voting items, namely, opposing a provision that would permit appointment by a director of an alternate director[9] who has not been elected to the board by shareholders.

New Recommendation: Generally vote FOR proposals to adopt or amend Articles/Bylaws unless the resulting document contains any of the following:

- The quorum for a meeting of shareholders is set below two persons holding 25 percent of the eligible vote (this may be reduced to no less than 10 percent in the case of a small company that can demonstrate, based on publicly disclosed voting results, that it is unable to achieve a higher quorum and where there is no controlling shareholder);
- The quorum for a meeting of directors is less than 50 percent of the number of directors;
- The chair of the board has a casting vote in the event of a deadlock at a meeting of directors;
- An alternate director provision that permits a director to appoint another person to serve as an alternate director to attend board or committee meetings in place of the duly elected director;
- Other corporate governance concerns, such as granting blanket authority to the board with regard to future capital authorizations or alteration of capital structure without further shareholder approval.

Rationale for Update: Alternate directors have neither been elected nor has their appointment been ratified by shareholders. As such, the use of a director substitute or replacement to fill in for a duly elected board representative raises serious concerns, including whether an alternate may be bound to serve in the best interests of shareholders. Also, regular directors must be willing to earmark sufficient time and effort to serving on the board, once they have accepted the responsibility entrusted to them by shareholders.

Article or bylaw provisions permitting alternate directors generally indicate that the alternate director will be counted for quorum purposes, may attend and vote on matters raised at board meetings and act on behalf of the regular elected director in all respects, and may act as alternate for more than one director in some cases. As well, this provision may also provide that there is no limit to the number of alternates that may be appointed for any meeting.

Allowing shareholders the opportunity to elect directors is a fundamental shareholder right. As shareholders continue to push for increased rights, such as majority voting with a director resignation policy, to ensure that they have a meaningful voice in the election of their board representatives, the inclusion of an alternate director provision in a reporting issuer's articles or bylaws runs counter to the higher director accountability being sought by these shareholder rights improvements. Furthermore, as garnered from discussions with several institutional investors, the majority raised concerns with an alternate director provision.

[9] Generally described as a person who is qualified to act as a director

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SOCIAL/ENVIRONMENTAL ISSUES
Corporate Governance Issue:
Global Approach

Current Recommendation: Generally vote CASE-BY-CASE taking the following into consideration:

- Whether adoption of the proposal is likely to enhance or protect shareholder value;
- Whether the information requested relates to a meaningful percentage of the company’s business as measured by sales, assets and earnings;
- The degree to which the company’s stated position on the issue raised, or lack thereof, could affect its reputation or sales, or leave it vulnerable to boycott or selective purchasing, or investor, regulatory or legal sanctions;
- Whether the issues presented are more appropriately/effectively dealt with through government regulation or policy changes;
- Whether the company has already responded in an appropriate manner to the request embodied in the proposal;
- Whether the company’s analysis and voting recommendation to shareholders are persuasive;
- Whether the proposal itself is well framed and the cost of preparing a report, if requested, is reasonable;
- General industry standards for dealing with the issue taking into consideration the impact of globalization and acceptable standards for transnational corporations;
- Whether implementation of the proposal would achieve the objectives sought in the proposal;
- Whether the subject of the proposal is best left to the discretion of the board;
- Whether the requested information is available to shareholders from the company or other publicly available sources; and
- Whether providing this information would reveal proprietary or confidential information that would place the company at a competitive disadvantage.

Key Change: Establish overarching principles for social and environmental proposals for all markets.

New Recommendation: Issues covered under the policy include a wide range of topics, including consumer and product safety, environment and energy, labor standards and human rights, workplace and board diversity, and corporate political issues. While a variety of factors goes into each analysis, the overall principle guiding all vote recommendations focuses on how the proposal may enhance or protect shareholder value in either the short term or long term.

Generally vote CASE-BY-CASE, taking into consideration whether implementation of the proposal is likely to enhance or protect shareholder value, and, in addition, the following will be considered:

- If the issues presented in the proposal are more appropriately or effectively dealt with through legislation or government regulation;
- If the company has already responded in an appropriate and sufficient manner to the issue(s) raised in the proposal;
- Whether the proposal's request is unduly burdensome (scope, timeframe, or cost) or overly prescriptive;
- The company's approach compared with any industry standard practices for addressing the issue(s) raised by the proposal;
- If the proposal requests increased disclosure or greater transparency, whether or not reasonable and sufficient information is currently available to shareholders from the company or from other publicly available sources; and
- If the proposal requests increased disclosure or greater transparency, whether or not implementation would reveal proprietary or confidential information that could place the company at a competitive disadvantage.

Rationale for Update: This policy update codifies the overarching principles that are applied to all markets, globally, and clarifies the factors that ISS considers in its case-by-case evaluation of environmental and social shareholder proposals. In markets where shareholder proposals on specific environment and social issues are routinely or frequently observed on company ballots, ISS has more nuanced policies that stem from these principles to address those issues.

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