



Canadian Peer Group Selection Methodology and Issuer Submission Process

Frequently Asked Questions

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METHODOLOGY

1. How are peer companies determined?

ISS constructs a comparison group of between 11 and 24 Canadian peer companies for each subject company covered by the Pay-For-Performance methodology. Peer groups for all S&P/TSX Composite Index companies analyzed under this methodology are constructed twice a year, based on data provided by an independent source (Research Insight Quarterly Data Download [QDD]). The following criteria are used to determine peer companies:

- › the GICS industry classification of the subject company
- › the GICS industry classifications of the company's disclosed pay benchmarking peers
- › Size constraints for both revenue (or assets for certain financial companies) and market value, utilizing four market cap "buckets" (micro, small, mid, and large)

Subject to the size constraints, and while choosing companies that push the subject company's size closer to the median of the peer group, peers are selected from a potential peer universe in the following order:

1. from the subject's own 8-digit GICS group
2. from the subject's peers' 8-digit GICS groups
3. from the subject's 6-digit GICS group
4. from the subject's peers' 6-digit GICS groups
5. from the subject's 4-digit GICS group
6. from the subject's 2-digit GICS group
7. from the subject's "Super GICS" group (described further below)

If 11 comparator group members are not selected from the companies in the universe that share the subject company's eight-digit GICS category, the process is repeated with companies in the comparison universe that share the company's peers' eight-digit GICS category, maintaining the company at the median position where possible, until 11 or more comparison companies are selected; if 11 comparison companies cannot be selected using the peers' eight-digit GICS category, then the process is repeated using the next universe set listed above (i.e., the subject's six-digit GICS group), until 11 or more companies are selected; and so on.

2. What are ISS' size parameters for qualifying a potential peer?

ISS applies two size constraints to qualify potential peers:

1. Revenue¹ (or assets for certain financial companies, as noted below)
In general companies should fall in the range 0.25 to 4.0 times the subject company's revenue (or assets). These ranges are expanded when the subject company's revenue is larger than \$10 billion or smaller than \$200 million in revenue (assets). Companies smaller than \$100 million in revenue or assets are treated as if they have \$100 million in revenue/assets.
2. Market capitalization (defined as 200 day average price multiplied by shares issued and outstanding) .
 - › Companies are classified into market capitalization buckets as follows (in millions):

¹ Peers for companies within the Oil, Gas & Consumable Fuels GICS Industry (8-digit GICS groups 10102010, 10102020, 10102030, 10102040, and 10102050) are determined solely based on market capitalization

Bucket	Low end	High end
Micro	0	200
Small	200	1,000
Mid	1,000	10,000
Large	10,000	No cap

- › A potential peer must have a market cap that falls between 0.25 times the low end and 4 times the high end of the subject's market capitalization bucket.

3. Why does ISS use 0.25x – 4x revenue/asset range (rounded to nearest tenth)?

There is an extensive literature that demonstrates a strong correlation between company size and CEO pay. Among executive compensation practitioners, a size range of 0.5 times to 2 times size (measured by revenue or assets, as appropriate for the company's industry) has emerged as a standard of practice. Given, however, the size of the Canadian market, ISS has expanded this range to capture peers that may be similar in function but do not fall into a narrow size range.

4. What happens if ISS' peer group methodology does not generate at least 11 peer companies?

ISS' standard peer group construction methodology generally produces all or a majority of peer companies used for the relative comparisons in the quantitative component of the pay for performance analysis. There are, however, companies where the standard methodology does not generate a sufficient number of peers. Hence, additional customization is applied to ensure that each analysis is based on a robust comparison group:

For many large Canadian companies, there are a limited number of similar companies within the size and industry criteria mentioned above. These are handled in the following ways:

- › **Relax the revenue/asset criteria:** Peer groups with an insufficient number of peer companies will be augmented by relaxing the revenue (but not market cap) parameters in the peer group selection process while retaining peers selected under the standard methodology. Additional peer companies that are both larger and smaller will be added in order to maintain the subject company as close to the median size level as possible. The revenue criteria can be relaxed to include a few companies that are closest in terms of size to the subject company within reason. Since company size relates strongly with the top executive pay levels, however, we do not believe that expanding the size criteria significantly would benefit peer company selection.
- › **Super GICS:** In some cases where less than 11 peers have been identified using the standard methodology, the industry group to which the subject company belongs is expanded to include companies that are otherwise comparable to the subject company operationally. A Super GICS group combines closely related two-digit GICS groups to create a larger peer universe for companies that have fewer than 11 peers. The Super GICS groups used by ISS are:

Super GICS Category	Two-Digit GICS Included	Names of Included Sectors
A	10, 15, 20, 55	Materials, Industrials, Energy and Utilities
B	25, 30, 35	Consumer Discretionary, Consumer Staples, and Health Care
C	45, 50	Technology and Telecom

- › **Super Group:** Certain very large companies may have insufficient peers generated by the standard methodology because they are unique in being the largest public companies in their GICS and Super GICS categories, and as such are without a sufficient number of peer companies. Since company size correlates strongly with top executive pay levels,

these firms require a special peer group that consists of the 24 largest companies in Canada, as measured by revenues on the semi-annual peer reconstruction date. These companies are similar in size and maturity to the 24 largest companies in Canada. Industry specific performance will also be considered in any resulting qualitative review.

- › **Peers of ISS-Selected Peers:** In very few cases, the above steps will not lead to the generation of a minimum 11-company comparison group. In these cases, ISS will look at the peers of the ISS-selected peer companies. Beginning with the ISS-selected peer company closest in size to the target company, ISS will review the ISS-selected peers of that peer company and select companies from this group to serve as peers of the target company. Comparison companies will be selected from the peer company's peers with the intent of keeping the target company as close to the median of its peer group as possible.

Finally, ISS would like to note that this process is flexible and analysts regularly review company comparator groups to ensure that the comparison companies are appropriate. ISS has and will continue to adjust comparator groups where the comparator companies are deemed inappropriate.

5. Which industry groups will use assets for size comparisons? What happens when a company has potential peers in both asset-based and revenue-based industry groups?

ISS will use balance sheet assets (rather than income statement revenue) to measure the size of companies in the following 8-digit GICS groups.

- › 40101010 Commercial Banks
- › 40101015 Regional Banks
- › 40102010 Thrifts and mortgage
- › 40202010 Consumer Finance
- › 40201020 Other Diversified

Both the subject company and potential peers must be in the asset-based GICS groups listed above in order to be compared on the basis of assets. In cases where a subject company is in one of the asset-based GICS groups and a potential peer is not, revenues will be used for size comparisons. This principle applies to the size comparisons made to qualify a company for potential inclusion as a peer; to the size rankings made to maintain the subject company near the median size of the peer group; and to the size prioritization of peers.

In addition, as deemed appropriate by ISS, additional 8-digit GICS categories may be determined to utilize assets and/or market cap to identify peers.

6. Why does ISS select 11-24 companies?

The Relative Degree of Alignment calculation measures percentile ranks of pay and performance for the subject company. The larger the comparison group, the finer the resolution of the percentile ranks (for instance: in a comparison group of 24, percentile ranks move in approximately 4-point increments, whereas they move in 10-point increments for a group of less than ten). We believe that using 11 or more companies in the comparison groups provides sufficient resolution for the percentile measure, while also allowing us to generate comparison groups for the vast majority of companies within the methodology's size and industry constraints.

7. Do you include the subject company in the derivation of the peer group median? When you say 11 companies minimum for peers, does the 11 include the subject company?

No, neither the CEO pay nor the TSR for the subject company is included in the median calculation. The subject company is also not included in the number of peer companies.

8. Will a company always be at the median of its peer group in terms of size?

The aim of the methodology is to produce a mix of peers larger and smaller than the subject company (ideally putting it at the median); however as long as a company's GICS group peers meet the market cap and revenue/asset range criteria they may be selected. The premise is that any company within the size range may be expected to provide compensation opportunities at around the same level as any other company within its size range.

9. When will the company's peer group have more than 11 companies?

If more than 11 companies within the subject company's eight- and six-digit GICS group meet the applicable size criteria (market cap and revenue/assets), up to 24 of those companies may be selected for the peer group. If less than 11 companies in the subject company's six-digit GICS group meet the size criteria, peers that do not meet the criteria will be selected from the broader GICS groups until 11 or more are identified.

10. Will ISS use companies from countries other than Canada to create the comparison group?

No. For the purpose of selecting peer companies, ISS shall only select Canadian companies with proxy materials filed on SEDAR. Please note that ISS will not consider Canadian incorporated companies that file DEF-14A in the US for the purpose of peer selection because these companies are deemed U.S. domestic reporting issuers under the SEC and are thus covered by ISS U.S. Research using U.S. policy.

11. Does ISS use the same list of peer companies for pay-for-performance as used for a company's allowable cap on an equity plan proposal?

Although there may be an overlap of peers selected under each methodology, the peer companies used to determine allowable cap on an equity plan proposal are not necessarily the same peers used for assessing pay-for-performance. The peer group used for assessing pay for performance alignment is based on a combination of industry and size (revenue/assets and market cap); whereas the peer group used to create the allowable cap to assess a stock based compensation plan is based on industry, with adjustments for market capitalization.

12. Who can I contact if I disagree with the GICS classification?

ISS does not classify companies into the GICS codes. Please contact Standard and Poor's at 1-800-523-4534 if you believe that a company has been misclassified.

13. When and how often will ISS reconstruct peer groups?

Company peer groups will be reconstructed twice a year during July and December. The expectation is that revised peer groups, which are not anticipated to be significant, will be in place for meeting dates taking place on or after-September 1 and February 1, respectively.

UPDATING PEER GROUP INFORMATION

14. If we have made material changes to our peer group, how can this information be communicated to ISS?

To ensure that this important input to our peer selection process is of the highest possible quality, ISS gives companies an opportunity to indicate changes to their self-selected peer groups since their last proxy circular disclosure. Taking this extra step of collecting updated information will help produce a better outcome for investors and issuers alike.

If you have not made changes to your peer group, or do not wish to provide this information in advance, no action is required. ISS will use the peer group information most recently disclosed as of your latest proxy statement. As in prior years, ISS' peer groups are not finalized until the research is published and will not be released in advance of the publication of the research report.

If you wish, however, to provide updated information on your benchmarking peers, ISS has set up a Peer Submission form to collect this information. Additional information is available at <https://www.issgovernance.com/company-peer-group-feedback>.

Starting in 2016, peer submissions are handled via ISS Corporation Solutions' (ICS) Governance Analytics platform to streamline and consolidate company workflow onto a single platform. The peer submission form is available at <https://login.isscorporatesolutions.com>.

15. What will ISS do with the peer group information provided?

The ISS Research team will use peer group information supplied solely for the purpose of constructing peer groups. It will not be shared with any other party within or outside of ISS prior to the publication of the report. The list of company peers that ISS used as an input to its peer group construction will be included within the ISS' proxy research report.

16. Do we need to publicly disclose the updated peer group information provided to ISS?

ISS does not require that companies make any special public disclosure of their updated peer group information at the time it is supplied to ISS.

We would expect, however, that this list of companies matches the benchmarking peers that are disclosed in the upcoming proxy. If the peers provided to ISS through this process are different from the peers disclosed in the proxy, ISS may apply additional scrutiny to this variance as part of its pay-for-performance analysis.

17. We use multiple peer groups in our executive compensation process. Which peer group should we provide to ISS?

ISS uses the company peer group used for benchmarking CEO pay decisions. You should provide the peer group that most closely matches that description.

18. If we use a market index or broad survey for benchmarking purposes, how should this be communicated?

There is space to indicate index or surveys used for peer benchmarking in the feedback web form. Given the breadth of market indices and surveys, however, they cannot be directly used in ISS' peer selection methodology.

19. If we have foreign-domiciled or privately-held peers, how should we convey this information?

The web form allows you to look up most US publicly traded organizations or foreign domiciled companies that file public annual reports. Additionally, there is space in the web form to enter peers that do not appear in the lookup, such as privately held companies.

While the platform allows you to submit peers that are outside of the Canadian market, the ISS peer methodology continues to also maintain a focus on identifying Canadian companies that are reasonably similar to the subject company in terms of industry and size (based on one or more of revenue, assets, and market capitalization). In assessing Canadian issuers, only companies domiciled in Canada are included in the ISS peer construction process and that approach will also apply to a company's self-disclosed peers so that any identified peers not domiciled in Canada will be excluded.

20. We are anticipating making changes to our peer groups for the upcoming fiscal year (2017). Should we send the list reflecting these changes to ISS?

In most cases, ISS would request that companies provide the peer group used for pay decisions for the fiscal year ending prior to your next annual meeting. If the anticipated (forward-looking) changes are due to business events that have made companies in previous peer group no longer relevant (e.g., significant business changes, mergers, spinoffs, or bankruptcies), an updated peer group would certainly be helpful for ISS. In this case, the list provided to ISS should match the disclosure in the upcoming proxy.

21. Several of our self-selected peers have undergone a business change, and are no longer relevant peers. The compensation committee has not yet formally removed them from our peer group. Should we provide an updated peer list?

If circumstances have made certain companies in the previous peer group no longer relevant (e.g., significant business changes, mergers, spinoffs, or bankruptcies), an updated peer group would certainly be helpful for ISS. In this case, the list provided to ISS should match the disclosure in the upcoming proxy.

22. We do not use peer groups in our pay-setting process. We do operate in business lines beyond our primary GICS and would like to provide a list of representative peers as an input to ISS' peer selection methodology. Is that possible?

Yes. This list of relevant comparators would be useful for ISS' peer selection methodology, provided it will also be disclosed in the upcoming proxy.

23. What additional information may companies provide to ISS via this process?

The only information we are seeking at this time is any updates companies have made to their peer groups since the prior proxy circular disclosure. As described above, ISS will continue to utilize a consistent methodology to construct peer groups for use in the screening phase of our pay-for-performance evaluations, so only that information is relevant.

Note: The questions and answers in this FAQ page are intended to provide high-level guidance regarding the way in which ISS' Global Research Department will generally analyze certain issues in the context of preparing proxy analyses and vote recommendations for Canadian companies. However, these responses should not be construed as a guarantee as to how ISS' Global Research Department will apply its benchmark policy in any particular situation.

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