



# CANADA

## Equity Plan Scorecard Frequently Asked Questions

---

Updated January 10, 2020

New and materially updated questions are highlighted in yellow

*This FAQ is intended to provide general guidance regarding the way in which ISS' Global Research Department will analyze certain issues in the context of preparing proxy analyses and determining 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.*



## TABLE OF CONTENTS

<b>Canadian Equity Plan Scorecard</b> .....	<b>3</b>
<b>General Questions</b> .....	<b>3</b>
1. What changes were made to the Canadian Equity Plan Scorecard (EPSC) policy for 2020?.....	3
2. How does the Canadian EPSC work? .....	3
3. Does the Canadian EPSC apply to all Canadian companies? .....	3
4. What are the models of the Canadian EPSC and how do they differ? .....	3
5. How many points are required for a positive EPSC recommendation? .....	4
6. Which types of equity compensation proposals will be evaluated under the EPSC policy? .....	4
7. What factors are considered in the EPSC, and why?.....	4
8. Are factors weighted equally? .....	5
9. How are factors scored?.....	5
10. Which factors cause a negative recommendation regardless of the overall EPSC score? .....	8
<b>NED Participation Policy Questions</b> .....	<b>8</b>
11. Why does ISS have a policy regarding non-employee director (NED) participation?.....	8
12. What is ISS' policy regarding NED participation? .....	8
13. How does the NED participation factor assess DSUs or other equity awards received in lieu of cash fees? .....	9
14. Does ISS require a percentage limit for NED participation?.....	9
15. Why does the ISS NED Limit policy distinguish between stock options and FVAs?.....	9
<b>Amendment Provision Policy Questions</b> .....	<b>9</b>
16. What is ISS' policy regarding equity plan amendment provisions?.....	9
17. How does ISS' amendment provision policy differ from TSX requirements? .....	10
<b>Stock Option Repricing Policy Questions</b> .....	<b>10</b>
18. What is ISS' policy regarding stock option repricing? .....	10
19. What constitutes repricing? .....	11
20. What is ISS' policy regarding options with declining exercise prices?.....	11
<b>Factor Methodology Questions</b> .....	<b>11</b>
21. How will the EPSC operate if multiple equity plans are on the ballot? .....	11
22. How will the EPSC operate where the full text of the plan document has not been disclosed? .....	12
23. How will the EPSC treat plans with a rolling share reserve? .....	12
24. How is SVT calculated? .....	12
25. What date does ISS use for the data in the equity plan analysis?.....	13
26. How does ISS treat equity plans funded by shares purchased on the open market? .....	14
27. How is dilution calculated?.....	14
28. How is burn rate calculated? .....	14
29. How are performance-based equity awards defined? .....	15
30. How is the financial assistance factor assessed? .....	15
31. How are the vesting factors assessed? .....	15
32. How are equity clawback provisions defined? .....	15
33. How are post-exercise/settlement holding periods defined?.....	15

## Canadian Equity Plan Scorecard

### General Questions

#### 1. What changes were made to the Canadian Equity Plan Scorecard (EPSC) policy for 2020?

There were no changes made to the Canadian Equity Plan Scorecard (EPSC) policy for 2020.

#### 2. How does the Canadian EPSC work?

The EPSC considers a range of positive and negative factors to evaluate equity incentive plan proposals. In general, a plan's total EPSC score – based on an assessment of the plan provisions and certain grant practices – will determine whether a "For" or "Against" recommendation is warranted.

In addition, ISS will continue to apply its longstanding Canadian policies regarding plan amendment provisions, stock option repricing, and non-employee director participation (referred to within the EPSC as "Overriding Negative Factors"). Equity plans offside of these policies will continue to receive an "Against" recommendation regardless of the plan's score under the EPSC.

#### 3. Does the Canadian EPSC apply to all Canadian companies?

No. The EPSC only applies to TSX-listed companies. Issuers listed on the TSX-Venture Exchange or the Canadian Securities Exchange are assessed based on dilution and burn rate (see [ISS' Proxy Voting Guidelines for Venture Companies for details](#)).

#### 4. What are the models of the Canadian EPSC and how do they differ?

The Canadian EPSC uses two model groups based on constituency within the S&P/TSX Composite Index. Constituents of the index are assessed using the **S&P/TSX Composite Index Model**, while other TSX-listed issuers are assessed using **Non-Composite TSX Model**.

The scorecard incorporates both a standard version of these models, and a **Special Cases** version. The Special Cases model variations do not include the burn rate factor within the Grant Practices pillar. These models will be applied in cases where historic grant data are unavailable (e.g. following emergence from bankruptcy or recent IPOs).

Only the two S&P/TSX Composite Index models apply the Holding Period scoring factor. Otherwise, and aside from the absence of burn rate in the Special Cases models, all models apply the same factors.

The chart below summarizes the four EPSC models and number of points which may be earned under each pillar within that model:

Pillar	S&P/TSX Composite Index	Non-Composite TSX	S&P/TSX Composite Index (Special Cases)	Non-Composite TSX (Special Cases)
Plan Cost	40	40	50	50
Plan Features	20	25	20	25
Grant Practices	40	35	30	25
<b>Total</b>	100	100	100	100

## 5. How many points are required for a positive EPSC recommendation?

A score of 50 (out of a total of 100 possible points) generally results in a positive recommendation for the proposal absent any overriding negative factors (see Question 10).

## 6. Which types of equity compensation proposals will be evaluated under the EPSC policy?

Proposals related to the following types of equity-based incentive program proposals will be evaluated under the EPSC policy:

- Approve Stock Option Plan
- Amend Stock Option Plan
- Approve Restricted Stock Plan (e.g. RSU Plan, PSU Plan)
- Amend Restricted Stock Plan (e.g. RSU Plan, PSU Plan)
- Approve Omnibus Stock Plan
- Amend Omnibus Stock Plan

Other types of equity-based compensation proposals are evaluated as provided under ISS' policy for Other Compensation Plans (see [ISS' Proxy Voting Guidelines for TSX-listed Companies](#) for details).

## 7. What factors are considered in the EPSC, and why?

EPSC factors fall under three categories (referred to as "**pillars**") in each EPSC model:

**Plan Cost:** this pillar considers the potential cost of the transfer of equity from shareholders to employees. Cost is a key consideration for investors who want equity to be used as efficiently as possible to motivate and reward employees. The EPSC considers the total potential cost of the company's equity plans relative to industry/market cap peers, measured by **Shareholder Value Transfer (SVT)**.

SVT represents the estimated cost of shares issued under company's equity incentive plans, differentiating between full value shares and stock options where applicable. ISS' SVT model determines SVT benchmarks (expressed as a percentage of the company's market capitalization) based on regression analysis that uses variables such as a company's market cap, industry, and performance indicators that are strongly correlated to industry TSR performance. The EPSC measures a company's SVT relative to two benchmark calculations that consider:

- new shares requested plus shares remaining for future grants, plus outstanding unvested/unexercised grants; and
- only new shares requested plus shares remaining for future grants.

The second measure reduces the impact of grant overhang on the overall cost evaluation, recognizing that high grant overhang is a sunk, expensed cost, and also may reflect long-term positive stock performance, long vesting periods for grants, and/or employee confidence in future stock performance.

**Plan Features:** this pillar assesses the terms of the plan beyond its SVT cost, including:

- **Reasonable dilution**, which is assessed against absolute thresholds. These thresholds are informed by best practices within the Canadian market.
- **Disclosure of change-in-control provisions**, without which shareholders cannot know whether the plan could provide for windfall equity compensation upon a change-in-control.
- **Disclosure of the full text of the plan document**, without which shareholders cannot know the full extent to which a given equity plan may be contrary to their interests.
- **Absence of financial assistance** to plan participants for the purpose of exercising or settling equity awards. Company loans to employees are contrary to best practices within the Canadian market.

**Grant Practices:** factors under this pillar assess the company's historic use of equity and the practices and features surrounding the company's equity plan regime. This pillar considers both long-standing principles of compensation governance and emerging best practices within the Canadian market. These include:

- **Reasonable three-year average burn rate**, which is assessed relative to absolute thresholds informed by best practices within the Canadian market. During the Canadian EPSC policy development process, two-thirds of Canadian investor participants identified burn rate as an important factor in determining votes for equity plans.
- **Robust vesting provisions** affixed to the CEO's most recent grant of equity awards, which help to gear equity awards toward mid- and long-term incentivization and which limit the participant's ability to take advantage of short-term fluctuations in share price. This factor separately assesses vesting provisions affixed to stock options and full-value awards (e.g. RSUs).
- **Use of performance-based equity** in the CEO's compensation, which may increase the alignment between executive pay and company performance and improve the incentive value of the equity award.
- **Presence of a clawback provision applicable to equity awards**, which mitigates the risk associated with equity plans and helps to ensure that executives do not benefit from material misrepresentations resulting in the restatement of financial results or material errors.
- **Post-exercise/settlement holding periods** for the CEO, which extend the incentive-value of equity awards beyond the vesting period. This factor is applied only to equity plans scored using the S&P/TSX Composite Index Model or its Special Cases variant.

## 8. Are factors weighted equally?

EPSC factors are not equally weighted. Each factor is assigned a maximum number of potential points, which may vary by model. Some are binary, but others may generate partial points. For all models, the total maximum points that may be accrued is 100. The passing score is 50 in all cases (e.g. half of the potential maximum factor scores).

## 9. How are factors scored?

### **SVT – A+B+C Shares**

- **Definition:** SVT for this factor is calculated using: new shares requested + shares remaining available for future grant + outstanding grants and awards. In addition, certain adjustments are made for plans which using a rolling share reserve (see Question 23 for details).
- **Scoring Basis:** Scaled depending on company SVT versus ISS' SVT benchmarks.

### **SVT – A+B Shares**

- **Definition:** SVT for this factor is calculated using: new shares requested + shares remaining available for future grant. In addition, certain adjustments are made for plans which using a rolling share reserve (see Question 23 for details).
- **Scoring Basis:** scaled depending on company SVT versus ISS' SVT benchmarks.

#### *Dilution*

- **Definition:** dilution is calculated using the sum of the plan's A, B, and C shares (see above) divided by shares outstanding as of the record date. In addition, certain adjustments are made for plans with a rolling share reserve (see Question 23 for details).
- **Scoring Basis:** scoring for this factor differs depending on whether an S&P/TSX Composite Index model or non-Composite TSX model is being applied:
  - **S&P/TSX Composite Index Models:** scaled between 6 percent (full points) and 11 percent (minimum points). Dilution in excess of 11 percent yields zero points.
  - **Non-Composite TSX Models:** three tiers of scoring:
    - Less than 9 percent: full points.
    - Between 9 and 11 percent: half points.
    - Above 11 percent: zero points.

#### *Change-in-Control Equity Vesting*

- **Definition:** Disclosure of the specific vesting treatment for outstanding time- and performance-based award upon a change-in-control.
- **Scoring Basis:** Disclosure of the specific CIC vesting treatment for both time- and performance-based awards yields full points; otherwise, if the plan is silent on the CIC vesting treatment of either type of award or the plan provides for merely discretionary vesting for either type of award, zero points.
  - Disclosure regarding performance-based awards is not considered if the plan does not allow for them as an award type.

#### *Plan Disclosure*

- **Definition:** issuers can meet the standard for disclosure of the full text of the equity plan by either:
  - Including a copy of the full text of the equity plan with the proxy circular; or
  - Disclosing the date of filing of the full text of the equity plan on SEDAR within the circular.
  - Where the company is seeking re-approval of an extant equity plan, publication of the plan text on SEDAR within the past three years or with the management information circular for the meeting at which the plan was last approved may be deemed to represent sufficient disclosure.
- **Scoring Basis:** acceptable disclosure yields full points; otherwise, zero points.

#### *Financial Assistance*

- **Definition:** plans which issue financial assistance to plan participants for the purpose of exercising or settling equity awards.
- **Scoring Basis:** If no, full points; otherwise, zero points.

#### *Burn Rate (not applied to Special Cases models)*

- **Definition:** three-year average unadjusted burn rate measured against absolute benchmarks.
- **Scoring Basis:** scoring for this factor differs depending on whether the S&P/TSX Composite Index or non-Composite TSX model is being applied:
  - **S&P/TSX Composite Index Models:** less than 0.3 percent (full points), between 0.3 and 1.5 percent (scaled points) and greater than 1.5 percent (zero points).

- **Non-Composite TSX Models:** less than 0.5 percent (full points), between 0.5 and 2.5 percent (scaled points) and greater than 2.5 percent (zero points).

#### *Vesting Provisions – Stock Options*

- **Definition:** the total duration of the vesting period of the most recent grant of stock options awarded to the CEO with a three-year lookback.
- **Scoring Basis:** Three tiers of scoring:
  - Five or More Years: full points.
  - Three or More but Less than Five Years: half points.
  - Less than Three Years: zero points.
  - In the event that no stock options have been issued in the past three years, full points will be awarded.

#### *Vesting Provisions – Full Value Awards (FVAs)*

- **Definition:** the total duration of the vesting period of the most recent grant of FVAs (e.g. RSUs, PSUs) awarded to the CEO with a three-year lookback.
- **Scoring Basis:** Two tiers of scoring:
  - Three or More Years: full points.
  - Less than Three Years: zero points.
  - In the event that no equity awards have been issued in the past three years, half points will be awarded.

#### *CEO Performance-based Equity*

- **Definition:** whether or not the CEO has received performance-based equity awards within the most recent year.
- **Scoring Basis:** If yes, full points. Otherwise, zero points. In the event that no equity awards have been issued in the past year, half points will be awarded. In the case that no performance-based equity plans are in effect, and the company has included a performance-based equity plan on the agenda of the meeting, then full points will be awarded regardless of whether the CEO has received any performance-based equity within the most recent year.

#### *Equity Clawback Provision*

- **Definition:** whether the company has adopted a clawback provision which is applicable to equity awards.
- **Scoring Basis:** If yes, full points. Otherwise, zero points.

#### *Post-Exercise/Settlement Holding Period (S&P/TSX Composite Index only)*

- **Definition:** whether the company has adopted a holding period for the CEO for options or shares acquired following the exercise or settlement of equity awards. This factor is applied only to plans assessed using the S&P/TSX Composite Index or S&P/TSX Composite Index (Special Cases) models.
- **Scoring Basis:** three tiers of scoring:
  - At least 12 months or until end of employment/retirement: full points.
  - Less than 12 months or until share ownership guidelines met, or no holding period/silent holding period: zero points.

## 10. Which factors cause a negative recommendation regardless of the overall EPSC score?

The Canadian EPSC has three key overriding negative factors which represent ISS' long-standing Canadian policies toward equity plans. These policies/factors relate to:

- Non-employee director participation in equity plans;
- Plan amendment provisions; and
- Stock option repricing.

The overriding negative factors do not themselves impact the score generated by the EPSC. Plans which are offside of these policies/factors will, however, generally receive an "Against" recommendation regardless of the score generated by the other EPSC factors. See the following sections for details on these policies/factors.

In addition to the above, ISS may recommend "Against" an equity plan proposal regardless of its EPSC score where the plan is a vehicle for problematic pay practices or a pay-for-performance disconnect, or if any other plan features or company practices related to equity compensation are deemed detrimental to shareholder interests.

## NED Participation Policy Questions

### 11. Why does ISS have a policy regarding non-employee director (NED) participation?

Canadian institutional investors do not generally support stock options as an appropriate form of equity compensation for non-employee directors (NEDs), and at a minimum require that option grants to NEDs be substantially restricted. As well, plans which provide the board with broad discretion to grant itself equity raises concerns relating to conflict of interest and the potential overcompensation of otherwise independent directors.

### 12. What is ISS' policy regarding NED participation?

NED participation in equity plans should be limited to **no more than \$150,000 per annum per director across all equity plans in aggregate**. Of this \$150,000, **no more than \$100,000 may be in the form of stock options**. More specifically:

- **Stock option plans** in which NEDs participate must provide for a maximum limit of no more than \$100,000 in awards per NED per annum.
- **Full-value award (FVA) plans** in which NEDs participate (e.g. an RSU plan) must provide for a limit of no more than \$150,000 in awards per NED per annum.
- **Omnibus plans** (which issue both stock options and FVAs) in which NEDs participate must provide for a limit of no more than \$150,000 in aggregate with an additional sub-limit of no more than \$100,000 in stock options per NED per annum (assuming NEDs are eligible to receive both FVAs and stock options).
- If a company has **multiple equity plans**, the plan texts must state that these limits extend across awards issued under all plans in aggregate and that the total value of equity awards issuable to any one NED in any one year will not exceed \$100,000 in stock options and \$150,000 in total equity regardless of which plans such awards were issued from.
- If the company has adopted a **percentage limit** on NED participation (i.e., a limit based on the number of awards which NEDs may hold as a group in aggregate expressed as a percentage of outstanding shares), this limit may not exceed 1 percent. An acceptable dollar value limit is still required regardless of whether the company has adopted a percentage limit.
- If the company has **not disclosed any limits** on NED participation in the equity plan document, ISS assumes that NED participation is discretionary.



- **One-time initial grants** under equity plans to a new director upon joining the board of directors, is not subject to the ISS NED Limit policy *per se*. However, the award will be reviewed on a case-by-case basis under the ISS Director Compensation policy (see ISS' [Proxy Voting Guidelines for TSX-listed Companies](#) for details).

ISS will generally recommend "Against" equity plans which are not acceptably limited in accordance with the above.

### 13. How does the NED participation factor assess DSUs or other equity awards received in lieu of cash fees?

DSUs or other equity awards that NEDs receive in place of cash fees are not counted toward the NED participation limit, provided that the equity granted has the same value as the cash fees given up in exchange. Any DSUs issued to non-employee directors from treasury on a discretionary basis or in any way other than as a value-for-value alternative to cash compensation will result in the grant being considered for the purposes of the non-employee director equity participation limit.

The initial value of DSUs issued must be equal to the value of the fees deferred. Any policies which increase the initial dollar value of a director's compensation should the director elect to receive said compensation as equity rather than cash (for example, a policy where the company will match every DSU the director takes in lieu of cash with an additional DSU) will not be exempt from the participation limit.

### 14. Does ISS require a percentage limit for NED participation?

ISS policy is concerned with the annual individual dollar value limit imposed on NED grants and explicitly set out in the terms of the equity plan being approved by shareholders. A company may, however, find it advantageous to also express the NED reserve within the plan reserve as a percentage so that this information may be considered by all of the company's shareholders in determining their vote.

### 15. Why does the ISS NED Limit policy distinguish between stock options and FVAs?

While shareholders continue to harbour concern regarding option grants to non-executive directors, shareholders also believe that director compensation should adequately reward directors for their experience, expertise, and time devoted to the company. Given regulatory updates and increased shareholder engagement activity, the role of non-employee directors has expanded substantially. Therefore, an increase in the level of non-employee director share based (non-option) compensation, as permitted under the ISS limit for full value awards, may be considered appropriate to attract and retain qualified and experienced directors. In addition, as shareholders generally prefer full value awards over stock options as a means of compensating non-employee directors, the limit for full-value awards is less strict in order to encourage their use.

## Amendment Provision Policy Questions

### 16. What is ISS' policy regarding equity plan amendment provisions?

In the case of an equity plan that **grants stock options** (e.g. a stock option plan or omnibus plan), ISS will generally recommend "Against" the plan where shareholder approval is not required for the following types of amendments:

- Any increase in the number of shares reserved for issuance under a plan or plan maximum;
- Any reduction in exercise price or cancellation and reissue of options or other entitlements;
- Any amendment that extends the term of options beyond the original expiry date;

- Amendments to eligible participants that may permit the introduction or reintroduction of non-employee directors on a discretionary basis or amendments that increase limits previously imposed on non-employee director participation;
- Any amendment which would permit options granted under the plan to be transferable or assignable other than for normal estate settlement purposes; and
- Amendments to the plan amendment provisions.

In the case of an equity plan that **does not grant stock options** (e.g. an RSU or PSU plan), ISS will generally recommend "Against" the plan where shareholder approval is not required for the following types of amendments:

- Any increase in the number of shares reserved for issuance under a plan or plan maximum;
- Amendments to eligible participants that may permit the introduction or reintroduction of non-employee directors on a discretionary basis or amendments that increase limits previously imposed on non-employee director participation;
- Amendments to the plan amendment provisions.

### 17. How does ISS' amendment provision policy differ from TSX requirements?

ISS' amendment provision policy is structured to support other long-standing ISS policy positions that have been informed by institutional investor engagement.

Although the TSX requires shareholder approval for re-pricing only if the options being repriced are held by an insider, institutional investors have continued to voice strong opposition to any form of repricing of outstanding options and ISS policy therefore requires that the repricing of non-insider options should also require shareholder approval. The incentive value of stock options is diminished when the exercise price of out-of-the-money options can be adjusted downwards, and such adjustments are not supportable when shareholders must suffer the consequences of a downturn in share price.

Discretionary participation by non-employee directors in equity compensation plans, while permitted by the TSX, is unacceptable from a corporate governance and accountability viewpoint because administrators of the plan should not have the unrestricted ability to issue awards to themselves. Directors who are able to grant themselves equity awards on a discretionary basis could find their independence compromised. Therefore, ISS supports amendment provisions which prohibit the board from altering equity-plan participation provisions to include non-employee directors without shareholder approval. As well, any amendment to a non-employee director limit established in the plan should require shareholder approval.

The TSX also does not require that any amendment to an equity plan which would allow options to be transferable or assignable require shareholder approval. The practice of transferring or assigning options other than for the purpose of estate settlement diminishes the purpose of granting options to retain employees and align their interests with shareholders in the long term. Therefore, ISS requires that any amendment to an equity plan which would permit options to be transferable or assignable should require shareholder approval.

## Stock Option Repricing Policy Questions

### 18. What is ISS' policy regarding stock option repricing?

Canadian institutional investors have long opposed any form of option repricing and therefore ISS policy takes the position that any proposal to reduce the price of outstanding options, including those held by non-insiders, should be approved by shareholders before being implemented. Stock options are intended to be at-risk incentive compensation which aligns the interests of option-holders and shareholders. This incentive value is diminished

when the exercise price of out-of-the-money options can be adjusted downwards, or the term of an option can be extended.

ISS will recommend "Against" any equity plan put forward by a company which has repriced stock options without shareholder approval within the past three years. In addition, ISS will generally recommend "Against" proposals to reprice outstanding options.

### 19. What constitutes repricing?

The following and any other adjustments that can be reasonably considered repricing will generally not be supported:

- reduction in exercise price or purchase price;
- extension of the term of outstanding options;
- cancellation and reissuance of options;
- substitution of options with cash or other awards the terms of which are more favourable to the recipient.

### 20. What is ISS' policy regarding options with declining exercise prices?

A select few TSX companies issue or have issued options wherein the exercise prices of these options decrease relative to the value of regular ordinary dividends issued by the company. Institutional shareholders have indicated little tolerance for this practice, and ISS therefore considers this gradual decrease in the exercise price of an option to be repricing.

## Factor Methodology Questions

### 21. How will the EPSC operate if multiple equity plans are on the ballot?

When approval is sought for multiple equity plans, the EPSC will evaluate the plans in aggregate as follows:

- The Plan Cost pillar will consider the cost of all plans on the ballot in aggregate; and
- The Plan Features and Grant Practices pillars will evaluate the factors based on the "worst case" scenarios among the plans.

If a passing score is generated through this aggregate assessment, all plans will be considered passed (absent overriding negative factors). If a failing score is generated through this aggregate assessment, then the following logic will apply, subject to the overriding negative factors:

- If each plan's individual score is a failing score, then each plan fails.
- If only one plan's individual score is a passing score, then that plan will pass and the other plan(s) fail.

If more than one but not all plans pass individually:

- The plan of the type foremost from the following list will pass and the other plans will fail:
  - Full-value award plan
  - Omnibus plan
  - Stock option plan
- If there are multiple plans within the highest applicable tier above, the plan with the highest acceptable SVT (on an A/B/C basis) from within that tier will pass and the other plans will fail.

In other words, where multiple plans pass individually but fail in aggregate, the methodology will pass a plan which grants only full-value awards over plans which grant stock options. If no plan which only grants full-value awards is being proposed, the methodology will pass a plan which grants both stock options and full-value awards over a plan which only grants stock options. This is done as many investors prefer full-value awards to stock options and as plans which issue full-value awards more frequently provide for performance-vesting criteria compared to plans which issue stock options.

In the rare event that a company is seeking approval for multiple plans of the most-preferred type (e.g. seeking approval for two full-value award plans), both of which pass individually but which fail when considered in aggregate, ISS will select the plan with the highest acceptable SVT. This is done in order to provide the company with the greatest degree of flexibility while ensuring that shareholders' interests are prioritized.

## 22. How will the EPSC operate where the full text of the plan document has not been disclosed?

Generally, the EPSC will assess provisions as disclosed within the plan document. If, however, the full text of the plan has not been made available, individual factors will be assessed based on the summary information provided in the circular. Where the circular is silent on a given topic relevant to an EPSC factor or provides insufficient disclosure for a meaningful assessment of an EPSC factor, that factor will generally assume the worst case scenario (i.e. issue the fewest possible points).

## 23. How will the EPSC treat plans with a rolling share reserve?

In the case of an equity plan with a **rolling share reserve** (i.e. a share reserve fixed to a percentage of outstanding shares, rather than an absolute number of shares), the number of A shares will be increased. This assumption will impact the calculation of both SVT and dilution.

The TSX requires shareholder approval of rolling equity plans every three years. Based on analyses of year-over-year increases in outstanding share capital across the TSX, ISS assumes that a given company's number of outstanding shares will increase at a rate of 3.3 percent per year cumulatively. Consequently, over the course of its three-year duration, a rolling equity plan's share reserve is also assumed to increase at a rate of 3.3 percent per year cumulatively.

The following example illustrates the impact of this assumption. This example assumes that:

- The company has 1,000,000 shares outstanding at the time the plan is proposed;
- The equity plan in question is a 10 percent rolling equity plan (i.e. bearing an initial reserve of 100,000 shares); and
- The company has no equity awards outstanding and no shares reserved under other equity plans.

Year	Shares Outstanding (Year Start)	Increase in Shares Outstanding	Shares Outstanding (Year End)	Plan Reserve (Year Start)	Plan Reserve (Year End)
1	1,000,000	33,000	1,033,000	100,000	103,300
2	1,033,000	34,089	1,067,089	103,300	106,709
3	1,067,089	35,214	1,102,303	106,709	110,230

## 24. How is SVT calculated?

SVT is calculated using the same core components as under prior ISS policies:

Shares	Share Allocation	Average Award Value	SVT (\$)
A shares	Share allocation of new share request	x A Shares Avg. Award Value	= A Shares SVT
B shares	Share allocation under existing plans	x B Shares Avg. Award Value	= B Shares SVT
C shares	Share allocation from outstanding awards	x C Shares Avg. Award Value	= C Shares SVT
<b>Total:</b>	<b>Total share allocation</b>		<b>= Total Equity Plan SVT</b>

This Total Equity Plan SVT is then converted into a percentage of the company's Market Value:

$$SVT \text{ (percentage)} = SVT \text{ (dollar value)} / \text{Market Value}$$

Unlike previous ISS policies, however, the Canadian EPSC includes two SVT measures:

- The new share request ("A shares" above) plus all shares that remain available for issuance ("B shares") plus unexercised/unvested outstanding awards ("C shares").
- The second includes only A shares and B shares, excluding C shares.

The additional calculation of SVT using only A and B shares, and a separate issuance of points based on that calculation, is intended to reduce the impact of grant overhang on the overall cost evaluation, recognizing that high grant overhang is a sunk, expensed cost and may reflect long-term positive stock performance, long vesting periods for grants, and/or employee confidence in future stock performance.

EPSC points allocated for each SVT factor are based on the relationship of the company's SVT measures (ABC and AB) to their respective ISS benchmarks. The ISS benchmark SVT is based on regression analysis for the company's GICS industry group, market cap size, and operational and financial metrics identified as correlated with total shareholder return performance in the industry. Maximum potential EPSC points are accrued for proposals with total costs at or less than approximately 65 percent of the ISS benchmark SVT (which is equivalent to the SVT "Allowable Cap" under prior policy). SVT in excess of the ISS benchmark may result in negative points.

Market Value is calculated as the 200-day average share price (taken from an outside vendor) multiplied by the number of common shares outstanding as disclosed in the most recent information circular. For companies where the 200-day average share price is not available, such as recent IPO companies, the 50-day share price will be used, or, if that is also not available, the most recent price history will be employed as an estimate.

For FVA awards, the share price used to calculate market value is used to determine the "Average Award Value" for the purposes of calculating SVT. In the case of stock options and stock appreciation rights, average award value is determined using a binomial pricing model. The factors examined by the model include: 1) dividend yield; 2) stock volatility; 3) stock price; 4) option exercise price; 5) risk-free interest rate; and 6) option term.

In the case of an omnibus plan which issues multiple award types, if the company discloses sub-limits or sub-caps on the number of shares within the plan's reserve which may be granted as specific award types, such information will be used to determine the shareholder value transfer as different award types result in different SVT. If the company does not disclose the number of shares within the reserve that may be granted under each specific award type or provides the company with a discretionary ability to determine award type, ISS will cost the share reserve for future grants as the most expensive type of award.

## 25. What date does ISS use for the data in the equity plan analysis?

In order to perform option valuations and generate company-specific SVT benchmarks, ISS downloads company-specific data points from an outside vendor. These inputs include the 200-day average stock price, stock price volatility, risk-free interest rate, and other market and accounting-based performance factors.

ISS downloads the option pricing model inputs for all companies four times per year. This quarterly data download (QDD) occurs on December 1, March 1, June 1, and September 1. The company's index membership (which generally determines the applicable EPSC model) is also locked in as of the QDD. The QDD used for a given analysis will depend on the shareholder meeting date for the company as shown below:

Shareholder Meeting Date	Data Download Date
March 1 to May 31	December 1
June 1 to August 31	March 1
September 1 to November 30	June 1
December 1 to February 28	September 1

## 26. How does ISS treat equity plans funded by shares purchased on the open market?

Only equity plans which are funded through treasury shares require shareholder approval as it is the issuance of treasury shares which leads to the dilution of shareholder value. Equity plans funded through shares purchased on the open market, while more expensive to the company, have no direct impact on shareholder dilution. In cases where a plan may be funded by shares either issued from treasury or purchased on the open market, shareholder approval will be required, and ISS will assume that the plan is funded by treasury shares.

## 27. How is dilution calculated?

For purposes of the dilution scoring factor, dilution is calculated as the sum of a plan's A, B, and C shares (as defined above with respect to SVT) divided by the number of shares outstanding as disclosed in the most recent circular. For informational purposes, full dilution (i.e. including shares allocated from equity plans as well as warrants and convertible debentures) is also included in research reports but does not impact the EPSC's dilution factor.

## 28. How is burn rate calculated?

ISS uses unadjusted three-year average burn rate when assessing equity plans. Unadjusted annual burn rate is determined using weighted average common shares outstanding to smooth out the impact of share buybacks and share issuances. Within a given single year, unadjusted burn rate is calculated as:

$$\frac{\text{Number of equity awards granted}}{\text{Weighted average common shares outstanding (basic)}}$$

For informational purposes, adjusted three-year average burn rate is also included in research reports but does not impact the EPSC's burn rate factor. Adjusted burn rate applies a multiplier to the number of FVAs granted within a given year. This is done as FVAs have no exercise price and are therefore considered to be a more expensive form of equity from a shareholder perspective. Within a given single year, adjusted burn rate is calculated as:

$$\frac{\text{Number of stock options granted} + (\text{Number of full value shares granted} * \text{FVA multiplier})}{\text{Weighted average common shares outstanding (basic)}}$$

### 29. How are performance-based equity awards defined?

For the purposes of the CEO Performance-based Equity Factor, which assesses whether the CEO has received performance-based equity, a performance-based equity award is defined as any form of equity award where:

- the ultimate value of the award is tied, through vesting requirements, to the achievement of pre-established and disclosed performance goals; and/or
- the award is granted based on the achievement of pre-established and disclosed performance goals.

Time-vesting stock options are not deemed to be performance-based awards.

### 30. How is the financial assistance factor assessed?

Any provision within the plan indicating that financial assistance may be provided to plan participants for the purposes of settling or exercising equity awards will result in a negative assessment of the factor (i.e. a score of zero points for the factor).

### 31. How are the vesting factors assessed?

The EPSC assesses the total length of the vesting period of equity awards in the most recent fiscal year in which awards were granted to the CEO. In the event that multiple equity awards of the same type (i.e. multiple grants of stock options or full value awards) were granted to the CEO in a given fiscal year, the EPSC will assess the grant with the longest vesting period.

### 32. How are equity clawback provisions defined?

Clawback provisions (either in the plan text, the plan participant's employment agreement, or other company policies) allow the board to retract or cancel previously issued compensation to executives in the event of a material restatement of financial statements, particularly restatements caused by negligence, misconduct, or fraud. While many Canadian issuers have adopted clawback provisions, some of these provisions implicitly or explicitly carve out certain forms of compensation as being exempt from the clawback provision.

In order to be deemed acceptable by the Equity Clawback Provision EPSC Factor, the clawback must apply to all forms of equity awards which might have been issued to an executive subject to the clawback provision. The provision must also apply to the CEO. Disclosure which indicates only that the company has adopted a clawback provision with no further details regarding the extent of the provision will not be sufficient to warrant a positive assessment of this factor.

### 33. How are post-exercise/settlement holding periods defined?

Holding periods refer to provisions (either in the plan text, the plan participant's employment agreement, or other company policies) which require the awardee to hold shares acquired through either the exercise of stock options or the settlement of FVAs for a set period of time. The holding period must apply to the CEO.

---

**We empower investors and companies to build  
for long-term and sustainable growth by providing  
high-quality data, analytics, and insight.**

---

## GET STARTED WITH ISS SOLUTIONS

Email [sales@issgovernance.com](mailto:sales@issgovernance.com) or visit [issgovernance.com](http://issgovernance.com) for more information.

---

Founded in 1985, the Institutional Shareholder Services group of companies ("ISS") is the world's leading provider of corporate governance and responsible investment solutions alongside fund intelligence and services, events, and editorial content for institutional investors, globally. ISS' solutions include objective governance research and recommendations; responsible investment data, analytics, and research; end-to-end proxy voting and distribution solutions; turnkey securities class-action claims management (provided by Securities Class Action Services, LLC); reliable global governance data and modeling tools; asset management intelligence, portfolio execution and monitoring, fund services, and media. Clients rely on ISS' expertise to help them make informed investment decisions.

---

This document and all of the information contained in it, including without limitation all text, data, graphs, and charts (collectively, the "Information") is the property of Institutional Shareholder Services Inc. (ISS), its subsidiaries, or, in some cases third party suppliers.

The Information has not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body. None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), or a promotion or recommendation of, any security, financial product or other investment vehicle or any trading strategy, and ISS does not endorse, approve, or otherwise express any opinion regarding any issuer, securities, financial products or instruments or trading strategies.

The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information.

ISS MAKES NO EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION AND EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY, AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.

Without limiting any of the foregoing and to the maximum extent permitted by law, in no event shall ISS have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits), or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not by applicable law be excluded or limited.

© 2019 | Institutional Shareholder Services and/or its affiliates