CLARKSON
Centre for Board Effectiveness

2013 marks the twelfth edition of the BSCI, and we continue to see improvement among S&P/TSX Composite Index firms.

The CCBE recognizes the generous support of the Canadian Coalition for Good Governance and Ontario Teachers' Pension Plan toward our annual publication of the BSCI.

# Board Shareholder Confidence Index Methodology

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# About the Clarkson Center

The Clarkson Centre for Business Ethics and Board Effectiveness (CCBE) is the locus of corporate governance research and communications at the Rotman School of Management. Our mandate is to monitor Canadian corporate governance trends and to provide guidance to firms looking to improve their board effectiveness and disclosure.

# About the Board Shareholder Confidence Index

Ongoing since 2003, the Board Shareholder Confidence Index (BSCI) is an annual examination of governance practices among Canadian Boards of Directors. While many variables can contribute to Board effectiveness, including those best observed from inside the boardroom, we examine factors which shareholders look for when determining a Board's ability to fulfill their duties. These criteria differ from the TSX Guidelines for effective corporate governance in their emphasis on the shareholder's perception of risk.

The BSCI evaluates and rates Boards of Directors on their potential to act effectively and by their performance as indicated through past practices. The score is developed using criteria separated into three sections, and the result is a transparent, objective, and adaptable rating system. Our scoring criteria are divided into three sections: **Individual Potential**, which focuses on the directors themselves; **Group Potential**, which examines the board as a whole; and **Board Decision Output**, which analyses on a variety of board outputs**.**

# Changes to the BSCI in 2013

In an effort to improve the clarity of the BSCI we have made several changes, not only to the governance variables considered, but also to the weightings of our scoring criteria. We have added 8 new criteria, and removed 3. You will find that with the new additions the focus on CEO compensation has increased, specifically with respect to pay and performance alignment and pay risk management policies.

## CHANGES TO THE BSCI METHODOLOGY

**BSCI 2010-212**

- 251 total deductions possible
- Companies started with 100 points
- Total Score out of 100 converted to letter grades.
- Deductions for each Category converted to letter grades.
- Last Updated 2010.

**BSCI 2013**

- 150 total deductions possible
- Companies start with 150 points
- Score out of 150 disclosed with no conversions.
- Actual numerical deductions for Categories/Criteria are disclosed.
- Updated 2013
  - Added 8 new criteria
  - Removed 3 criteria

**CRITERIA ADDED TO THE BSCI IN 2013:**

- Clawback Policy
- CEO Share Ownership Guideline
- Explicitly Possible for CEO Bonus to be $0.
- CEO Retirement Equity Holding Period
- Double Trigger Change of Control Provisions on Option Vesting
- Double Trigger Change of Control Provisions on Cash Benefits
- Disclosure of Performance Peer Group Constituents
- Disclosure of Rationale used to Select Performance Peer Group Constituents
- Disclosure of Director Election Results from Previous Year in Management Information Circular.

**CRITERIA REMOVED FROM THE BSCI IN 2013:**

- **Annual Elections** - As of 12/31/2012 the TSX requires issuers elect directors annually.
- **Individual Voting** – As of 12/31/2012 the TSX requires issuers to elect directors individually.
- **Detailed Voting Results for Director Elections** – As of 12/31/2012 the TSX requires issuers to disclose the votes received for the election of each director.

# INDIVIDUAL POTENTIAL

The potential of individual directors to contribute a fully-independent point of view is an important element of effective governance. This section gauges how effectively individual directors are positioned to represent shareholders' interests.

Director Independence measures the degree to which a director's decisions may be influenced by factors outside of shareholders' interests. In particular, the criteria in this section examine the potential influence of management, other directors, and other boards.

## BOARD INDEPENDENCE

### INDEPENDENCE FROM MANAGEMENT

In order for shareholders' interests to be fully represented by the Board of Directors, individual Directors must be able to act independently from the interests of management, as relationships with management increase the potential risk that a Director will put executive interests before those of the shareholder.

A director is considered related to management if he/she meets any of the following criteria:

- the Director is employed by the Company being scored or by a company which is a subsidiary, parent, or sister company to the Company being scored (currently or within the last three years);
- the Director is an executive of any affiliated company;
- the Director has, personally or through the Director's firm, provided legal, auditing, or consulting services to the Company (within the last 3 years);
- the Director is kin to the CEO;
- Any other relationship deemed material by the CCBE which does not fall under one of the above categories.

At least two-thirds of the Board must be independent from management or else a deduction is made. The deduction increases as the proportion of related Directors increases.

**SCORING**

| % Independent of Management | Deduction |
|---|---|
| < 50% | -10 |
| ≥ 50% and < 60% | -7 |
| ≥ 60% and < 66.7% | -4 |
| ≥ 66.7% | No deduction |

### DIRECTOR INTERLOCKS

It is also important that relationships between Directors be kept to a minimum. If two Directors sit on more than one Board together, this is referred to as a "Director Interlock." A Director Interlock results in a perceived risk of decisions being made in the interest of another company. If, however, the CEO of the Company being scored has an interlock with a fellow Director who is the CEO of the interlocking board (i.e., both directors are CEOs and sit on each other's company's Board), this is referred to as an "Executive Interlock."

A deduction is made if more than one Director Interlock is present on a Board.[1] Further additional deductions are made for every Executive Interlock present on the Board.

### SCORING

| # of Interlocks | Deduction |
|---|---|
| > 1 Director Interlocks (or 0 three-Director interlocks) and 0 CEO Interlocks | -3 |
| 1 or 0 Director Interlocks (or 0 three-Director interlocks) and ≥ 1 CEO Interlocks | -3 |
| 1 or 0 Director Interlocks (or 0 three-Director interlocks) and 0 CEO Interlocks | No Deduction |

## EXCESSIVE BOARD MEMBERSHIPS

In order to perform effectively, a Director must be able dedicate as much of his or her time to the board as is necessary. As a result, a perceived risk emerges when a director appears to have too many obligations beyond her/his duties on the Board being scored. One of the most frequent ways in which this perceived risk manifests itself is when a director has an excessive number of other public company directorships outside that of the Company being scored.

A deduction is made for every Director who is a member of more than five S&P/TSX Composite Index boards including that of the Company being scored.

### SCORING

| # S&P/ TSX Boards | Deduction |
|---|---|
| At least 1 Director sits on ≥ 5 Total | -3 |
| Otherwise | No Deduction |

1 Previously, scoring in this section had only recognized interlocks between those companies listed on the S&P/TSX Composite Index. Since 2007, however, the scope has been broadened to consider the Boards of all other publicly traded companies upon which Directors serve.

## DIRECTOR ATTENDANCE

Poor director attendance may suggest that a director is overcommitted and unable to dedicate sufficient time to Board matters, or that a director is no longer making his/her role on the Board a priority, thus resulting in a perceived risk.

A deduction is made if a director failed to attend at least ¾ of board or individual committee meetings and no reasonable explanation for these absences is provided. If, however, a director with poor attendance is not standing for re-election, no deduction will be made as it is assumed that the Board has dealt with the problem. A deduction will be automatically made if there is not enough disclosure to determine director attendance.

### SCORING

| Meeting Attendance | Deduction |
|---|---|
| **All directors attended at least 75% of all meetings** | **No Deduction** |
| **At least 1 director attended < 75% of meetings but is not being re-elected** | **No Deduction** |
| **At least 1 director attended <75% of meetings and is standing for re-election** | **-1 per director (max deduction of -5)** |
| **Not enough disclosure to determine if a director missed excessive meetings** | **-5** |

## DIRECTOR SHARE OWNERSHIP

A Director, however independent and experienced, requires motivation to act in the best interest of shareholders. Although motivation is difficult to quantify, stock ownership is generally accepted as an effective and demonstrable means of inciting motivation. As such, director motivation is measured by comparing Directors' stock ownership to their annual retainers.

The value of a Director's annual retainer is calculated as the sum of: (**1**) the stated annual cash retainer; (**2**) the grant date value of any share-based awards; and (**3**) the disclosed fair value of option grants. Fees paid for Committee membership, attendance and chair retainers are excluded.

When Directors receive an annual retainer, a deduction is made when the stock ownership multiple is less than ***three*** times the calculated annual retainer. Where no retainer is paid to Directors, a deduction occurs when a Director's stock ownership is ***less than or equal to*** $30,000.

### WHEN A RETAINER IS AWARDED:

| Ownership Multiple | Deduction |
|---|---|
| 1 director owns less than 3x retainer | -2 per director (max deduction of 15) |
| Otherwise | No deduction |

### WHEN NO RETAINER IS AWARDED:

| Average Share Ownership | Deduction |
|---|---|
| 1 director owns less than $30,000 | -2 per director (max deduction of 15) |
| Otherwise | No deduction |

# GROUP POTENTIAL

In order for Directors to effectively represent shareholder interests, the Board must ensure that its structures and processes allow for clear and open discourse, and for the clear assessment and improvement of the board's collective skillset.

## CEO/CHAIR SPLIT

The perceived potential for the Board to operate independently from management is decreased if the CEO and Chair positions are not separated. This potential is also decreased if the Chair is separate from the CEO but still related to management.

A deduction is made if there is no CEO/Chair split. A smaller deduction is given to companies which have not split the CEO/Chair position but which have appointed an Independent Lead Director to lead Board meetings. A smaller deduction is also given when the Chair is not the CEO but is nevertheless considered related to management through other means.

**SCORING**

| Split? | Deduction |
|---|---|
| **No split/no Lead Director** | **-10** |
| **Roles Split / Chair is Related** | **-8** |
| **No Split / Lead Director Appointed** | **-5** |
| **Roles Split / Related Chair / Lead Director Appointed** | **-5** |
| **Roles Split / Independent Chair** | **No Deduction** |

# BOARD COMMITTEE INDEPENDENCE

## AUDIT, COMPENSATION & NOMINATING COMMITTEES

Full independence of a board's committees is necessary to ensure that executive compensation, company accounting, and board nominations are handled without conflicts of interest between management and shareholders.

Deductions are made if a Director who is considered related to management is a member of the Audit or Compensation committees. In the case of the Nominating committee, some input from management can be of value without creating significant conflicts, and as such a deduction will be made only if two or more Related Directors sit on the committee. Directors who are related to management through their role as executives of a Parent company will not trigger a deduction if they sit on the Nomination or Compensation committees. This is due to the fact that Parents are, in effect, shareholders.

In the case of the Audit and Compensation Committees, additional relationships may render a director related to management exclusively within the context of these committees. If a director is either a non-management major shareholder (i.e., the director holds >30% of outstanding votes) or has a family relationship with a non-management major shareholder, she/he will be considered related with respect to his/her membership on the Audit and/or Compensation committee, but not related with respect to the criteria outlined above under the Individual Potential section.

If an interlock exists between two CEOs on the Compensation Committees of each other's companies, the involved Directors are considered related with respect to these Compensation Committees. This is to discourage situations where CEOs from different companies are determining each other's salaries.

Each committee is scored separately so the total deduction can be -12.

### SCORING

| Committee Independence | Deduction |
|---|---|
| **AUDIT COMMITTEE:**<br>**Related Director(s) OR 1 director with a CEO interlock on the Committee.** | **-4** |
| **COMPENSATION COMMITTEE:**<br>**Related Director(s) or 1 director with a CEO interlock on the Committee.** | **-4** |
| **NOMINATING COMMITTEE:**<br>**2 or more Related Directors on the Committee** | **-4** |
| **Otherwise (per committee)** | **No Deduction** |

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## SHARE STRUCTURE

Many companies have more than one class of share (e.g., Class A, Class B, etc.), and in some cases the different classes do not have equal voting rights.

**EXAMPLE:**

| Class | Votes per Share | Shares Outstanding |
|---|---|---|
| Class A Voting | 1 | 10,000 |
| Class B Non-Voting | 0 | 5,000,000 |

In this case, the entirety of the company's voting rights are associated with a small minority of the outstanding shares. An imbalance of voting rights such as this decreases shareholder influence on Board decisions, which in turn decreases the incentive for Directors to represent the interests of shareholders.

Deductions in this area are graduated. As the disproportion between shares and voting rights increases, so too does the deduction.

### SCORING

| Share Structure | Deduction |
|---|---|
| **<20% of Equity Controls >80% of Votes** | **-12** |
| **<40% or Less Equity Controls >60% or Votes** | **-9** |
| **<50% of Equity controls >50% of Votes** | **-6** |
| **>50% of Equity controls >50% of Votes** | **No Deduction** |
| **No Dual Class or Subordinated Share Structure** | **No Deduction** |

# DIRECTOR ASSESSMENTS

## FULL BOARD & INDIVIDUAL ASSESSMENTS

Formal and regular evaluation processes allow directors to assess and improve the performance of the board while identifying possible trouble spots. The BSCI monitors both Individual Director Evaluations, in which directors use self-assessments or peer reviews to determine their own competencies and areas for improvement, and Full-Board Evaluations, in which the directors evaluate their performance as a cohesive unit. When undertaken effectively and regularly, these separate but related systems provide Shareholders with an assurance of the Board's commitment to ongoing improvement.

In order to receive a perfect score in this category, a company must implement and disclose regular and formal evaluation processes for the Board as a whole and for each of its individual Directors. Scoring is based on disclosure of the evaluation processes; if the general presence of an evaluation system is mentioned, but without details as to processes, a deduction is still made. Full-board and individual director evaluations are scored separately.

### SCORING

| Evaluation Processes | Deduction |
|---|---|
| **No Full-Board Evaluation** | **-5** |
| **No Individual Director Evaluation** | **-5** |
| **Otherwise** | **No Deduction** |



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## BOARD SKILLS MATRIX

The annual Management Information Circular is the primary resource for educating shareholders regarding the directors standing for election. As such, the inclusion of a skills matrix in the Circular helps illustrate to shareholders how the abilities of the board as a whole meet the needs of the organization while also highlighting the specific skills that individual director bring to the boardroom. Use of a skills matrix also provides a framework through which Boards and Shareholders can identify gaps and redundancies in board composition.

Ideally, a skills matrix will disclose two sets of information: first, the skills individual directors standing for nomination possess; and second, the skills the board has determined it requires and how many directors possess these skills. That said, disclosure of the skills of the board as a whole are more valuable than the disclosure of individual skills, as this information provides Shareholders with the most concise understanding of the Board's strengths and weaknesses.

If the required skills of the board are disclosed, but the skills of individual directors are not, a small deduction is made. If the inverse is true, a larger deduction is made. If no skills matrices are present, a full deduction is made.

### SCORING

| Skills Matrix | Deduction |
|---|---|
| **Disclosure of board skills but no director skills** | **-1** |
| **Disclosure of director skills but no board skills** | **-2** |
| **No disclosure of board or director skills** | **-3** |
| **Full Disclosure of director and board skills** | **No Deduction** |

## CONTINUING EDUCATION & ORIENTATION

By providing formal continuing education opportunities to directors, boards can ensure that their directors have effective skills and knowledge in areas relevant to the board's role. Such opportunities may include training manuals, site visits, courses and retreats, or other creative and unique approaches, as long as the program is formal and regular. When disclosing their continuing education programs, however, boards can foster further shareholder confidence by disclosing the specific educational activities conducted in the past year, thereby enabling shareholders to gain a better understanding of which competencies the board is attempting to emphasize and improve. For full disclosure credit, the board can also disclose which directors attended these activities.

Director orientation is another important educational component, ensuring that new directors effectively overcome any learning curves and acquaint themselves with the core knowledge required of their role. As with ongoing continuing education programs, the exact form of the orientation is for the board to decide, but in order to inspire shareholder confidence the program must be formal and repeatable.

In order to receive full marks, companies must disclose a formal continuing education process, the specific educational activities conducted in the most recent year, the attendees for each activity, and a formal orientation process.

### SCORING

| Director Education & Orientation | Deduction |
|---|---|
| **Does not disclose this year's continuing education** | **-1** |
| **Does not disclose formal process for Director Orientation** | **-1** |
| **Does not disclose Continuing Education Process** | **-1** |
| **Full disclosure of continuing education including this year's activities and director orientation process** | **No Deduction** |

# BOARD DECISION OUTPUT

Directors are required to make numerous decisions which directly affect shareholder confidence in the Company and in the Board. The BSCI covers decisions that can influence option dilution; pay-for-performance policies; pay risk management policies; change of control provisions; CEO share ownership; decisions which affect director elections and finally, executive succession planning.

## OPTION PLAN

### DILUTION

The granting of options dilutes returns that would otherwise go to shareholders. A small amount of dilution is often unavoidable, but a deduction is made if options issued and outstanding represent more than 5% of a company's outstanding shares, and a larger deduction is made if dilution exceeds 10% of outstanding shares.

**SCORING**

| Dilution % | Deduction |
|---|---|
| ≥ 8% | -5 |
| ≥ 5% and < 8% | -2 |
| <5% | No Deduction |

### OPTION RE-PRICING

When a company's share performance has suffered, the cost of exercising stock options can be greater than the cost of purchasing stock at market value. In such a case, a company may decide to lower the exercise price in order to align it with the market value of the stock. Option re-pricing is perceived, however, as relieving Directors and executives of their responsibility for the company's performance.

A deduction is made if a company has re-priced their options within the last three years.

**SCORING**

| Dilution | Deduction |
|---|---|
| Options Re-priced Within 3 Years | -5 |
| Otherwise | No deduction |

## OPTION GAINS DISCLOSED

While boards are now required to disclose a grant date fair-value for options awarded to executives during the most recent fiscal year, the requirement to disclose the value of option gains for the year has been removed. Disclosure of option gains provides shareholders with a clearer impression of CEO compensation outcomes over time. A deduction is made if option gains are not disclosed.

### SCORING

| Option Gains Disclosed | Deduction |
|---|---|
| No disclosure of option gains | -5 |
| Option gains disclosed | No deduction |

## OPTIONS TO DIRECTORS

The granting of options to directors is becoming less common. However, many companies continue this dilutive practice. A deduction will be made if directors are eligible to receive options and/or have received them within the past 3 years.

### SCORING

| Options to Directors | Deduction |
|---|---|
| Directors are not eligible for options or have not received options in the past 3 years | No deduction |
| Otherwise | -3 |

## EVERGREEN OPTION PLAN

Generally, shareholders must approve the replenishment of a company's option plan once a specific number of options have been issued. That said, some companies use Evergreen Option Plans, through which the maximum number of options approved for issue stands as a percentage of outstanding shares rather than a specific number. These plans allow companies to continue granting options in any amount up to a certain percentage dilution. Evergreen plans limit shareholder input into option plans, while increasing the possibility of higher dilution.

A deduction will be made if the Company has an Evergreen Option Plan in place.

### SCORING

| Evergreen Option Plan | Deduction |
|---|---|
| Company has Evergreen Option Plan | -3 |
| Otherwise | No deduction |

# CHANGE OF CONTROL PROVISIONS

## DOUBLE TRIGGER CHANGE OF CONTROL PROVISION ON OPTION VESTING

Change of control provisions will often promise immediate vesting of all equity awards in order to protect the CEO from losing their unvested equity after a transaction takes place. Change of control can be defined as either: a) a defined reorganization; b) >50% change on the board of directors or; c) a merger or acquisition. Therefore, it is possible that the CEOs employment can continue after a change of control, but the equity immediately vests anyway. A double trigger change of control provision relies on two events to occur: 1) A change of control and; 2) the termination of the CEO's employment (without cause or voluntary termination for 'good reason'). In this case the CEO is not protected by the change of control provision unless there is a termination of employment.

There is a deduction if the change of control provisions are single trigger. There is no deduction if the company does not have change of control provisions. There is no deduction if the company has double trigger change of control provisions. However, there will be deductions if one of the two triggers is a voluntary termination by the CEO for 'good reason' without defining 'good reason' in the management information circular. Deductions are made if the double trigger provision is in place for less than a year.

### SCORING

| Change of Control Provision on Option Vesting | Deduction |
|---|---|
| **CEO must be terminated from Company upon a Change of Control** | **No Deduction** |
| **Otherwise** | **-3** |

## DOUBLE TRIGGER CHANGE OF CONTROL PROVISION ON CASH BENEFITS

Change of control provisions often promise a financial settlement in terms of salary and benefits in order to protect the CEO from unemployment hardships upon a change of control. However, the CEO can receive a financial settlement outlined in a single trigger change of control provision without losing their job. A double trigger change of control provision ensures that the CEO only receives a settlement if his/her employment is terminated.

There is a deduction if the change of control provisions are single trigger. There is no deduction if the company does not have change of control provisions. There is no deduction if the company has double trigger change of control provisions. However, there will be deductions if one of the two triggers is a voluntary termination by the CEO for 'good reason' without defining 'good reason' in the management information circular. Deductions are made if the double trigger provision is in place for less than a year.

### SCORING

| Change of Control Provision on Cash Benefits | Deduction |
|---|---|
| **CEO must be terminated from Company upon a Change of Control** | **No Deduction** |
| **Otherwise** | **-3** |

# PERFORMANCE PEER GROUP

Relative corporate performance metrics for CEO incentive compensation help to ensure that the CEO is accountable for corporate performance in both absolute and relative terms. Relative metrics provide the CEO with the motivation to increase performance relative to the corporation's peers. Therefore, it is important that the constituents of the performance peer group are chosen meaningfully and that the information is disclosed to shareholders.

A deduction is given for not providing a list of the peer group constituents and if the selection rationale is not disclosed. If the company uses an indexed listing of stocks and discloses the name of the index, then that is sufficient to receive no deductions for both criteria.

## PERFORMANCE PEER GROUP CONSTITUENTS

### SCORING

| Constituents | Deduction |
|---|---|
| **Company discloses the constituents of the Peer Group used for Relative Performance Metrics** | **No deduction** |
| **Otherwise** | **-3** |

## PERFORMANCE PEER GROUP SELECTION RATIONALE

### SCORING

| Selection Rationale | Deduction |
|---|---|
| **Company discloses the rationale used to create the Peer Group used for Relative Performance Metrics** | **No Deduction** |
| **Otherwise** | **-3** |

# CEO COMPENSATION

## CEO PAY IS RELATED TO PERFORMANCE

It is the responsibility of the Board of Directors to determine CEO compensation. In order to best represent the interests of a company's shareholders, such compensation should be associated with the company's performance. A deduction is made here if there is no explicit link between the company's financial performance and the determination of the CEO's bonus.

### SCORING

| Bonus Disclosure | Deduction |
|---|---|
| **CEO Bonus metrics are linked to corporate financial performance** | **No Deduction** |
| **Otherwise** | **-7** |

## EXPLICITLY POSSIBLE FOR CEO BONUS TO BE $0?

It is the responsibility of the Board of Directors to determine CEO compensation. In order to best represent the interests of a company's shareholders, CEO compensation should be tied to the company's performance. Therefore, if the company's performance is poor, the size of the CEO's bonus, if any, should be reflective of the poor performance. We are looking for disclosure that explicitly states that the CEO is not guaranteed a bonus payout under poor performance conditions. A deduction is made here if this disclosure is not made.

### SCORING

| $0 CEO Bonus Explicitly Possible | Deduction |
|---|---|
| **Explicitly possible for CEOs Annual Cash Bonus to be $0.** | **No deduction** |
| **Otherwise** | **-3** |

### FORMAL CLAWBACK (RECOUPMENT) POLICY

Boards must be proactive at managing and mitigating excessive short-term risk-taking by executive officers. A clawback policy enables the board to recoup executive bonuses in the event of a restatement of the company's financial results due to fraud. A deduction is given if the company does not have a clawback policy.

**SCORING**

| Clawback Policy | Deduction |
|---|---|
| **Company has implemented a formal clawback policy.** | **No deduction** |
| **Otherwise** | **-3** |

## CEO SHARE OWNERSHIP REQUIREMENTS

### CEO SHARE OWNERSHIP GUIDELINE

A CEO requires motivation to act in the best interest of shareholders. Although motivation is difficult to quantify, stock ownership is generally accepted as an effective and demonstrable means of aligning management and shareholder interests. A share ownership guideline requires the CEO to own and maintain a significant minimum level of stock ownership throughout their term of employment. Three times salary is a generally accepted level of required stock ownership for the CEO.

A deduction is given if the CEO share ownership guideline is less than three times disclosed salary.

**SCORING**

| Meeting Attendance | Deduction |
|---|---|
| **No CEO Share Ownership Guideline OR CEO Share Ownership Guideline is < 3 times Salary** | **No Deduction** |
| **CEO Share Ownership Guideline is ≥ 3 times Salary** | **-2** |

### CEO RETIREMENT SHARE HOLDING PERIOD

It is the board's responsibility to ensure that CEO succession is handled smoothly and effectively. One way to ensure that the outgoing CEO continues to make good long-term decisions is to require the CEO to continue to hold a significant level of accumulated equity into retirement. A deduction is given if there is no requirement for the CEO to hold equity for at least 1 year into retirement.

**SCORING**

| CEO Required to Hold Equity Post-Retirement | Deduction |
|---|---|
| **Policy in place where CEO is required to hold equity for at least 1 year post-retirement** | **No deduction** |
| **Otherwise** | **-3** |

## CEO SUCCESSION PLANNING

One of the Board's most important responsibilities is ensuring that a proper succession plan is in place in the event of the voluntary or involuntary departure of the CEO. Without a formal and reliable succession plan for the CEO, the company is exposed to significant risk, possibly accompanied by the often-significant cost of hiring externally. Disclosure of a formal succession plan for the CEO in the Information Circular reassures shareholders that these risks are being considered.

A deduction is made if there is no disclosure of a formal succession planning process.

**SCORING**

| Succession Plan Disclosure | Deduction |
|---|---|
| **Formal Succession Plan process disclosed** | **No deduction** |
| **Otherwise** | **-3** |

## OUTSTANDING LOANS TO DIRECTORS & EXECUTIVES

Although most companies have discontinued granting loans to their Directors and executives, many still have outstanding loans on their books, and some others do still grant loans. We regard loans to employees or directors as an inappropriate use of company money in most cases.

Companies with outstanding loans to directors or executives will receive a deduction. If the loans are interest-free, the deduction will be larger. Companies which are financial institutions, however, and which grant loans to executives and Directors at consumer rates receive no deduction for this, as these companies are in the business of granting loans and it is not in the company's best interest for these individuals to obtain loans from competitors.

### SCORING

| Loans to Executives or Directors | Deduction |
|---|---|
| **Company has outstanding interest-free loans** | **-5** |
| **Company has outstanding interest-bearing loans** | **-3** |
| **Company has loans outstanding, but has discontinued granting loans.** | **-1** |
| **No outstanding loans** | **No deduction** |

## DIRECTOR ELECTIONS

### MAJORITY VOTING

Until recently, director elections in Canada were solely based on a plurality vote whereby shareholders are given only the option to vote 'for' or 'withhold' from voting. In these cases, a single vote 'for' a director results in his/her election. Majority voting systems are now being adopted by many Canadian firms, whereby a director is only elected if a majority of votes cast are 'for' his/her election. If a majority of votes cast are 'against' the director, he/she will immediately submit their resignation to be considered by the board.

A deduction is made if a firm does not have a majority voting policy.

### SCORING

| Majority Voting | Deduction |
|---|---|
| **Majority Voting policy in place** | **No deduction** |
| **No Majority Voting** | **-10** |

## DETAILED VOTING RESULTS

Many boards provide shareholders with a detailed report of voting results for all resolutions listed in the Form of Proxy. This ensures transparency and communication with shareholders. A deduction will be made if there is not sufficient disclosure on voting resolutions other than the Director election and Auditor resolutions, indicating the percentage/number of votes for/against/withheld.

### SCORING

| Detailed Voting Results | Deduction |
|---|---|
| **Detailed voting results for all other voting matters on form of proxy** | **No deduction** |
| **Not enough disclosure for all voting results** | **-2** |

## DIRECTOR ELECTION RESULTS FROM PREVIOUS YEAR

In recent years companies have begun to disclose previous year's election results for each director in the Management Information Circular. This practice increases transparency and communication with shareholders as they can more easily review voting information alongside director biographies for current voting decisions. A deduction is made if previous year director election results are not disclosed in the management information circular.

### SCORING

| Previous Director Election Results Disclosed | Deduction |
|---|---|
| **Previous Year Election Results are Disclosed in Management Circular.** | **No deduction** |
| **Otherwise** | **-2** |