



# 2018 Americas Proxy Voting Guidelines Updates

---

Benchmark Policy Changes for U.S., Canada, and Brazil

**Effective for Meetings on or after February 1, 2018**

**Published November 16, 2017**

## TABLE OF CONTENTS

<b>UNITED STATES</b>	<b>4</b>
<b>Board of Directors- Voting on Director Nominees in Uncontested Elections</b>	<b>4</b>
Fundamental Principles	4
Board Accountability	5
Board Responsiveness	14
Board Composition	16
Board Independence	18
ISS U.S. Categorization of Directors	19
<b>Voting Capital/Restructuring</b>	<b>21</b>
Special Purpose Acquisition Corporations (SPACs) - Proposals for Extensions	21
<b>Compensation</b>	<b>23</b>
Advisory Votes on Executive Compensation Pay-for-Performance Evaluation	23
Advisory Votes on Executive Compensation: Compensation Committee Communications and Responsiveness	24
<b>Social and Environmental Issues</b>	<b>26</b>
Shareholder Proposals on Climate Change Risk	26
Shareholder Proposals on Gender Pay Gap	27
<b>CANADA</b>	<b>28</b>
<b>Board of Directors - Voting on Director Nominees in Uncontested Elections</b>	<b>28</b>
ISS Canadian Definition of Independence (TSX and TSX-V)	28
Board Structure and Independence (TSX)	32
Non-Independent Directors on Key Committees (TSX)	33
Non-Independent Directors on Key Committees (TSX-V)	33
Gender Diversity Policy (S&P/TSX Composite Index companies only)	34
Overboarding (TSX only)	37
Policy Considerations for Majority-Owned Companies (TSX only)	38
<b>Shareholder Rights &amp; Defenses</b>	<b>40</b>
Advance Notice Requirements (TSX and TSX-V)	40
<b>Compensation</b>	<b>43</b>
Pay for Performance Evaluation (TSX)	43

<b>BRAZIL .....</b>	<b>45</b>
<b>Compensation .....</b>	<b>45</b>
Equity Compensation Plans – Bonus Matching Plans.....	45

## UNITED STATES

## Board of Directors- Voting on Director Nominees in Uncontested Elections

## Fundamental Principles

Current ISS Principles, incorporating policy changes:	New ISS Principles:
<p>Four fundamental principles apply when determining votes on director nominees:</p> <ol style="list-style-type: none"> <li><b>Accountability:</b> Boards should be sufficiently accountable to shareholders, including through transparency of the company's governance practices and regular board elections, by the provision of sufficient information for shareholders to be able to assess directors and board composition, and through the ability of shareholders to remove directors.</li> <li><b>Responsiveness:</b> Directors should respond to investor input, such as that expressed through significant opposition to management proposals, significant support for shareholder proposals (whether binding or non-binding), and tender offers where a majority of shares are tendered.</li> <li><b>Composition:</b> Companies should ensure that directors add value to the board through their specific skills and expertise and by having sufficient time and commitment to serve effectively. Boards should be of a size appropriate to accommodate diversity, expertise, and independence, while ensuring active and collaborative participation by all members. <b>Boards should be sufficiently diverse to ensure consideration of a wide range of perspectives.</b></li> <li><b>Independence:</b> Boards should be sufficiently independent from management (and significant shareholders) so as to ensure that they are able and motivated to effectively supervise management's performance for the benefit of all shareholders, including in setting and monitoring the execution of corporate strategy, with appropriate use of shareholder capital, and in setting and monitoring executive compensation programs that support that strategy. The chair of the board should ideally be an independent director, and all boards should have an independent leadership position or a similar role in order to help provide appropriate counterbalance to executive management, as well as having sufficiently</li> </ol>	<p>Four fundamental principles apply when determining votes on director nominees:</p> <ol style="list-style-type: none"> <li><b>Accountability:</b> Boards should be sufficiently accountable to shareholders, including through transparency of the company's governance practices and regular board elections, by the provision of sufficient information for shareholders to be able to assess directors and board composition, and through the ability of shareholders to remove directors.</li> <li><b>Responsiveness:</b> Directors should respond to investor input, such as that expressed through significant opposition to management proposals, significant support for shareholder proposals (whether binding or non-binding), and tender offers where a majority of shares are tendered.</li> <li><b>Composition:</b> Companies should ensure that directors add value to the board through their specific skills and expertise and by having sufficient time and commitment to serve effectively. Boards should be of a size appropriate to accommodate diversity, expertise, and independence, while ensuring active and collaborative participation by all members. Boards should be sufficiently diverse to ensure consideration of a wide range of perspectives.</li> <li><b>Independence:</b> Boards should be sufficiently independent from management (and significant shareholders) so as to ensure that they are able and motivated to effectively supervise management's performance for the benefit of all shareholders, including in setting and monitoring the execution of corporate strategy, with appropriate use of shareholder capital, and in setting and monitoring executive compensation programs that support that strategy. The chair of the board should ideally be an independent director, and all boards should have an independent leadership position or a similar role in order to help provide appropriate counterbalance to executive management, as well as having sufficiently</li> </ol>

independent committees that focus on key governance concerns such as audit, compensation, and nomination of directors.

independent committees that focus on key governance concerns such as audit, compensation, and nomination of directors.

### Rationale for Change:

ISS is updating the principles for company boards to include a specific statement regarding the benefits of diversity in boardrooms.

## Board Accountability

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p><b>General Recommendation:</b> Vote against<sup>1</sup> or withhold from the entire board of directors (except new nominees<sup>2</sup>, who should be considered case-by-case) for the following:</p> <p><i>Problematic Takeover Defenses</i></p> <p><b>Classified Board Structure:</b>  <del>1.1.</del> The board is classified, and a continuing director responsible for a problematic governance issue at the board/committee level that would warrant a withhold/against vote recommendation is not up for election. All appropriate nominees (except new) may be held accountable.</p> <p><b>Removal of Shareholder Discretion on Classified Boards:</b> The company has opted into, or failed to opt out of, state laws requiring a classified board structure.</p> <p><b>Director Performance Evaluation:</b>  <del>1.2.</del> The board lacks mechanisms to promote accountability and oversight, coupled with sustained poor performance relative to peers. Sustained poor performance is measured by one- and three-year total</p>	<p><b>General Recommendation:</b> Vote against<sup>1</sup> or withhold from the entire board of directors (except new nominees<sup>2</sup>, who should be considered case-by-case) for the following:</p> <p><i>Problematic Takeover Defenses</i></p> <p><b>Classified Board Structure:</b> The board is classified, and a continuing director responsible for a problematic governance issue at the board/committee level that would warrant a withhold/against vote recommendation is not up for election. All appropriate nominees (except new) may be held accountable.</p> <p><b>Removal of Shareholder Discretion on Classified Boards:</b> The company has opted into, or failed to opt out of, state laws requiring a classified board structure.</p> <p><b>Director Performance Evaluation:</b> The board lacks mechanisms to promote accountability and oversight, coupled with sustained poor performance relative to peers. Sustained poor performance is measured by one- and three-year total shareholder returns in the bottom half of a company's four-digit GICS industry group (Russell 3000 companies only). Take into consideration the company's</p>

<sup>1</sup> In general, companies with a plurality vote standard use "Withhold" as the contrary vote option in director elections; companies with a majority vote standard use "Against". However, it will vary by company and the proxy must be checked to determine the valid contrary vote option for the particular company.

<sup>2</sup> A "new nominee" is any current nominee who has not already been elected by shareholders and who joined the board after the problematic action in question transpired. If ISS cannot determine whether the nominee joined the board before or after the problematic action transpired, the nominee will be considered a "new nominee" if he or she joined the board within the 12 months prior to the upcoming shareholder meeting.

shareholder returns in the bottom half of a company's four-digit GICS industry group (Russell 3000 companies only). Take into consideration the company's five-year total shareholder return and operational metrics.

Problematic provisions include but are not limited to:

- › A classified board structure;
- › A supermajority vote requirement;
- › Either a plurality vote standard in uncontested director elections or a majority vote standard with no plurality carve-out for contested elections;
- › The inability of shareholders to call special meetings;
- › The inability of shareholders to act by written consent;
- › A ~~multi-dual~~ class capital structure; and/or
- › A non-shareholder-approved poison pill.

#### Poison Pills:

~~1.3. The company's poison pill has a "dead hand" or "modified dead hand" feature. Vote against or withhold from nominees every year until this feature is removed;~~

~~1.4. The company has board adopts a poison pill that was not approved by shareholders<sup>3</sup>. with a term of more than 12 months ("long term pill"), or renews any existing pill, including any "short term pill" (12 months or less), without shareholder approval. A commitment or policy that puts a newly adopted pill to a binding shareholder vote may potentially offset an adverse vote recommendation. Review such companies with classified boards every year, and such companies with annually elected boards at least once every three years, and vote against or withhold votes from all nominees if the company still maintains a non-shareholder approved poison pill; or~~ However, vote case-by-case on nominees if the board adopts an initial pill with a term of one year or less, depending on the disclosed rationale for the adoption, and other factors as relevant (such as a commitment to put any renewal to a shareholder vote).

~~1.5.~~ The board makes a material adverse change to an existing poison pill, including, but not limited to, extension, renewal, or lowering the trigger, without shareholder approval.

five-year total shareholder return and operational metrics. Problematic provisions include but are not limited to:

- › A classified board structure;
- › A supermajority vote requirement;
- › Either a plurality vote standard in uncontested director elections or a majority vote standard with no plurality carve-out for contested elections;
- › The inability of shareholders to call special meetings;
- › The inability of shareholders to act by written consent;
- › A multi-class capital structure; and/or
- › A non-shareholder-approved poison pill.

#### Poison Pills: Vote against/withhold from all nominees if:

- › The company has a poison pill that was not approved by shareholders<sup>3</sup>. However, vote case-by-case on nominees if the board adopts an initial pill with a term of one year or less, depending on the disclosed rationale for the adoption, and other factors as relevant (such as a commitment to put any renewal to a shareholder vote).
- › The board makes a material adverse modification to an existing pill, including, but not limited to, extension, renewal, or lowering the trigger, without shareholder approval.

<sup>3</sup> Public shareholders only, approval prior to a company's becoming public is insufficient.

~~Vote case by case on all nominees if:~~

~~1.6. The board adopts a poison pill with a term of 12 months or less ("short term pill") without shareholder approval, taking into account the following factors:~~

- ~~→ The date of the pill's adoption relative to the date of the next meeting of shareholders—i.e. whether the company had time to put the pill on the ballot for shareholder ratification given the circumstances;~~
- ~~→ The issuer's rationale;~~
- ~~→ The issuer's governance structure and practices; and~~
- ~~→ The issuer's track record of accountability to shareholders.~~

### **Restrictions on Shareholders' Rights**

#### **Restricting Binding Shareholder Proposals:**

Generally vote against or withhold from members of the governance committee if:

~~1.7.~~ The company's ~~charter~~ **governing documents** imposes ~~undue~~ restrictions on shareholders' ability to amend the bylaws. Such restrictions include, but are not limited to: outright prohibition on the submission of binding shareholder proposals, or share ownership requirements or time holding requirements in excess of SEC Rule 14a-8. Vote against on an ongoing basis.

#### **Problematic Audit-Related Practices**

Generally vote against or withhold from the members of the Audit Committee if:

- ~~1.8.~~ The non-audit fees paid to the auditor are excessive (see discussion under "[Auditor Ratification](#)");
- ~~1.9.~~ The company receives an adverse opinion on the company's financial statements from its auditor; or
- ~~1.10.~~ There is persuasive evidence that the Audit Committee entered into an inappropriate indemnification agreement with its auditor that limits

### **Restrictions on Shareholders' Rights**

**Restricting Binding Shareholder Proposals:** Generally vote against or withhold from members of the governance committee if:

- The company's governing documents impose undue restrictions on shareholders' ability to amend the bylaws. Such restrictions include, but are not limited to: outright prohibition on the submission of binding shareholder proposals, or share ownership requirements or time holding requirements in excess of SEC Rule 14a-8. Vote against on an ongoing basis.

#### **Problematic Audit-Related Practices**

Generally vote against or withhold from the members of the Audit Committee if:

- The non-audit fees paid to the auditor are excessive (see discussion under "[Auditor Ratification](#)");
- The company receives an adverse opinion on the company's financial statements from its auditor; or
- There is persuasive evidence that the Audit Committee entered into an inappropriate indemnification agreement with its auditor that limits the

<p>the ability of the company, or its shareholders, to pursue legitimate legal recourse against the audit firm.</p> <p>Vote case-by-case on members of the Audit Committee and potentially the full board if:</p> <p><del>1.11:</del> Poor accounting practices are identified that rise to a level of serious concern, such as: fraud; misapplication of GAAP; and material weaknesses identified in Section 404 disclosures. Examine the severity, breadth, chronological sequence, and duration, as well as the company's efforts at remediation or corrective actions, in determining whether withhold/against votes are warranted.</p> <p><b><i>Problematic Compensation Practices/Pay for Performance Misalignment</i></b></p> <p>In the absence of an Advisory Vote on Executive Compensation (Say on Pay) ballot item or in egregious situations, vote against or withhold from the members of the Compensation Committee and potentially the full board if:</p> <p><del>1.12:</del> There is a significant misalignment between CEO pay and company performance (<a href="#">pay for performance</a>);</p> <p><del>1.13:</del> The company maintains significant <a href="#">problematic pay practices</a>;</p> <p><del>1.14:</del> The board exhibits a significant level of <a href="#">poor communication and responsiveness</a> to shareholders;</p> <p><del>1.15:</del> The company fails to submit one time transfers of stock options to a shareholder vote; or</p> <p><del>1.16:</del> The company fails to fulfill the terms of a <a href="#">burn rate commitment</a> made to shareholders.</p> <ul style="list-style-type: none"> <li>› The company fails to include a Say on Pay ballot item when required under SEC provisions, or under the company's declared frequency of say on pay; or</li> <li>› The company fails to include a Frequency of Say on Pay ballot item when required under SEC provisions.</li> </ul> <p>Generally vote against members of the board committee responsible for approving/setting non-employee director compensation if there is a pattern (i.e. two or more years) of awarding excessive non-employee director</p>	<p>ability of the company, or its shareholders, to pursue legitimate legal recourse against the audit firm.</p> <p>Vote case-by-case on members of the Audit Committee and potentially the full board if:</p> <ul style="list-style-type: none"> <li>› Poor accounting practices are identified that rise to a level of serious concern, such as: fraud; misapplication of GAAP; and material weaknesses identified in Section 404 disclosures. Examine the severity, breadth, chronological sequence, and duration, as well as the company's efforts at remediation or corrective actions, in determining whether withhold/against votes are warranted.</li> </ul> <p><b><i>Problematic Compensation Practices</i></b></p> <p>In the absence of an Advisory Vote on Executive Compensation (Say on Pay) ballot item or in egregious situations, vote against or withhold from the members of the Compensation Committee and potentially the full board if:</p> <ul style="list-style-type: none"> <li>› There is a significant misalignment between CEO pay and company performance (<a href="#">pay for performance</a>);</li> <li>› The company maintains significant <a href="#">problematic pay practices</a>;</li> <li>› The board exhibits a significant level of <a href="#">poor communication and responsiveness</a> to shareholders;</li> <li>› The company fails to include a Say on Pay ballot item when required under SEC provisions, or under the company's declared frequency of say on pay; or</li> <li>› The company fails to include a Frequency of Say on Pay ballot item when required under SEC provisions.</li> </ul> <p>Generally vote against members of the board committee responsible for approving/setting non-employee director compensation if there is a pattern (i.e. two or more years) of awarding excessive non-employee director compensation without disclosing a compelling rationale or other mitigating factors.</p>
---	--



compensation without disclosing a compelling rationale or other mitigating factors.

~~Vote case-by-case on Compensation Committee members (or, in exceptional cases, the full board) and the Management Say-on-Pay proposal if:~~

~~1.17. The company's previous say-on-pay received the support of less than 70 percent of votes cast, taking into account:~~

- ~~→ The company's response, including:~~
  - ~~→ Disclosure of engagement efforts with major institutional investors regarding the issues that contributed to the low level of support;~~
  - ~~→ Specific actions taken to address the issues that contributed to the low level of support;~~
  - ~~→ Other recent compensation actions taken by the company;~~
- ~~→ Whether the issues raised are recurring or isolated;~~
- ~~→ The company's ownership structure; and~~
- ~~→ Whether the support level was less than 50 percent, which would warrant the highest degree of responsiveness.~~

**Problematic Pledging of Company Stock:** Vote against the members of the committee that oversees risks related to pledging, or the full board, where a significant level of pledged company stock by executives or directors raises concerns. The following factors will be considered:

- › The presence of an anti-pledging policy, disclosed in the proxy statement, that prohibits future pledging activity;
- › The magnitude of aggregate pledged shares in terms of total common shares outstanding, market value, and trading volume;
- › Disclosure of progress or lack thereof in reducing the magnitude of aggregate pledged shares over time;
- › Disclosure in the proxy statement that shares subject to stock ownership and holding requirements do not include pledged company stock; and
- › Any other relevant factors.

**Unilateral Bylaw/Charter Amendments and Problematic Capital Structures:**

**[This policy has been moved to the “Board Responsiveness” section]**

**Problematic Pledging of Company Stock:** Vote against the members of the committee that oversees risks related to pledging, or the full board, where a significant level of pledged company stock by executives or directors raises concerns. The following factors will be considered:

- › The presence of an anti-pledging policy, disclosed in the proxy statement, that prohibits future pledging activity;
- › The magnitude of aggregate pledged shares in terms of total common shares outstanding, market value, and trading volume;
- › Disclosure of progress or lack thereof in reducing the magnitude of aggregate pledged shares over time;
- › Disclosure in the proxy statement that shares subject to stock ownership and holding requirements do not include pledged company stock; and
- › Any other relevant factors.

**Unilateral Bylaw/Charter Amendments and Problematic Capital Structures:**

Generally vote against or withhold from directors individually, committee members, or the entire board (except new nominees, who should be considered

<p><del>1.18</del> Generally vote against or withhold from directors individually, committee members, or the entire board (except new nominees, who should be considered case-by-case) if the board amends the company's bylaws or charter without shareholder approval in a manner that materially diminishes shareholders' rights or that could adversely impact shareholders, considering the following factors:</p> <ul style="list-style-type: none"> <li>› The board's rationale for adopting the bylaw/charter amendment without shareholder ratification;</li> <li>› Disclosure by the company of any significant engagement with shareholders regarding the amendment;</li> <li>› The level of impairment of shareholders' rights caused by the board's unilateral amendment to the bylaws/charter;</li> <li>› The board's track record with regard to unilateral board action on bylaw/charter amendments or other entrenchment provisions;</li> <li>› The company's ownership structure;</li> <li>› The company's existing governance provisions;</li> <li>› The timing of the board's amendment to the bylaws/charter in connection with a significant business development; and</li> <li>› Other factors, as deemed appropriate, that may be relevant to determine the impact of the amendment on shareholders.</li> </ul> <p>Unless the adverse amendment is reversed or submitted to a binding shareholder vote, in subsequent years vote case-by-case on director nominees.</p> <p>Generally vote against (except new nominees, who should be considered case-by-case) if the directors:</p> <ul style="list-style-type: none"> <li>› Classified the board;</li> <li>› Adopted supermajority vote requirements to amend the bylaws or charter; or</li> <li>› Eliminated shareholders' ability to amend bylaws.</li> </ul> <p><b>1.19 Problematic Governance Structure – Newly public companies:</b> For newly public companies, generally vote against or withhold from directors individually, committee members, or the entire board (except new nominees, who should be considered case-by-case) if, prior to or in connection with the company's public offering, the company or its board adopted bylaw or charter provisions materially adverse to shareholder rights, or implemented a multi-</p>	<p>case-by-case) if the board amends the company's bylaws or charter without shareholder approval in a manner that materially diminishes shareholders' rights or that could adversely impact shareholders, considering the following factors:</p> <ul style="list-style-type: none"> <li>› The board's rationale for adopting the bylaw/charter amendment without shareholder ratification;</li> <li>› Disclosure by the company of any significant engagement with shareholders regarding the amendment;</li> <li>› The level of impairment of shareholders' rights caused by the board's unilateral amendment to the bylaws/charter;</li> <li>› The board's track record with regard to unilateral board action on bylaw/charter amendments or other entrenchment provisions;</li> <li>› The company's ownership structure;</li> <li>› The company's existing governance provisions;</li> <li>› The timing of the board's amendment to the bylaws/charter in connection with a significant business development; and</li> <li>› Other factors, as deemed appropriate, that may be relevant to determine the impact of the amendment on shareholders.</li> </ul> <p>Unless the adverse amendment is reversed or submitted to a binding shareholder vote, in subsequent years vote case-by-case on director nominees.</p> <p>Generally vote against (except new nominees, who should be considered case-by-case) if the directors:</p> <ul style="list-style-type: none"> <li>› Classified the board;</li> <li>› Adopted supermajority vote requirements to amend the bylaws or charter; or</li> <li>› Eliminated shareholders' ability to amend bylaws.</li> </ul> <p><b>Problematic Governance Structure – Newly public companies:</b> For newly public companies, generally vote against or withhold from directors individually, committee members, or the entire board (except new nominees, who should be considered case-by-case) if, prior to or in connection with the company's public offering, the company or its board adopted bylaw or charter provisions materially adverse to shareholder rights, or implemented a multi-class capital structure in which the classes have unequal voting rights considering the following factors:</p> <ul style="list-style-type: none"> <li>› The level of impairment of shareholders' rights;</li> </ul>
--	--

<p>class capital structure in which the classes have unequal voting rights considering the following factors:</p> <ul style="list-style-type: none"> <li>› The level of impairment of shareholders' rights;</li> <li>› The disclosed rationale;</li> <li>› The ability to change the governance structure (e.g., limitations on shareholders' right to amend the bylaws or charter, or supermajority vote requirements to amend the bylaws or charter);</li> <li>› The ability of shareholders to hold directors accountable through annual director elections, or whether the company has a classified board structure;</li> <li>› Any reasonable sunset provision; and</li> <li>› Other relevant factors.</li> </ul> <p>Unless the adverse provision and/or problematic capital structure is reversed or removed, vote case-by-case on director nominees in subsequent years.</p> <p><b>Governance Failures</b></p> <p>Under extraordinary circumstances, vote against or withhold from directors individually, committee members, or the entire board, due to:</p> <p><del>1.20-</del> Material failures of governance, stewardship, risk oversight<sup>4</sup>, or fiduciary responsibilities at the company;</p> <p><del>1.21-</del> Failure to replace management as appropriate; or</p> <p><del>1.22-</del> Egregious actions related to a director's service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.</p>	<ul style="list-style-type: none"> <li>› The disclosed rationale;</li> <li>› The ability to change the governance structure (e.g., limitations on shareholders' right to amend the bylaws or charter, or supermajority vote requirements to amend the bylaws or charter);</li> <li>› The ability of shareholders to hold directors accountable through annual director elections, or whether the company has a classified board structure;</li> <li>› Any reasonable sunset provision; and</li> <li>› Other relevant factors.</li> </ul> <p>Unless the adverse provision and/or problematic capital structure is reversed or removed, vote case-by-case on director nominees in subsequent years.</p> <p><b>Governance Failures</b></p> <p>Under extraordinary circumstances, vote against or withhold from directors individually, committee members, or the entire board, due to:</p> <ul style="list-style-type: none"> <li>› Material failures of governance, stewardship, risk oversight<sup>4</sup>, or fiduciary responsibilities at the company;</li> <li>› Failure to replace management as appropriate; or</li> <li>› Egregious actions related to a director's service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.</li> </ul>
---	---

### Rationale for Changes:

**Removal of Shareholder Discretion on Classified Boards:** Under the Governance Failures policy, ISS has been recommending against the boards of approximately 20 Indiana-incorporated companies since 2010 who have yet to opt out of the state's 2009 law that requires a classified board. ISS has also been recommending against one Iowa company that has a state law-mandated classified board. Shareholders have minimal ability to address these staggered board term structures, as shareholder proposals that contradict state laws can be challenged at the SEC and kept off from the ballot.

<sup>4</sup> Examples of failure of risk oversight include, but are not limited to: bribery; large or serial fines or sanctions from regulatory bodies; significant adverse legal judgments or settlements; or hedging of company stock; ~~or significant pledging of company stock.~~

**Poison pills:** Institutional investors view poison pills as a potent takeover defense that if misused may serve to entrench management and have a detrimental impact on long-term share value. While recognizing that boards have a fiduciary duty to use all available means to protect shareholders' interests, ISS believes that boards should seek shareholder ratification of a poison pill (or an amendment thereof) within a reasonable period. Boards that fail to allow shareholders to approve or ratify the pill should be held accountable. In applying this principle to voting in uncontested director elections, ISS considers the pill's term to be an important factor. Shorter-term pills are generally viewed as being less onerous as a takeover defense when compared to longer term pills. In some cases, a short-term pill provides the board with a valuable tool to maximize shareholder value in the face of an opportunistic offer. However, the adoption or maintenance of any pill for more than one year should be approved by shareholders.

The updated policy will be applied at companies that have existing non-shareholder approved pills. There are approximately 90 previously-grandfathered companies that adopted or renewed 10-year pills. While deadhand and modified deadhand (slowhand) provisions are still considered as extremely onerous, the removal of grandfathering of previously-adopted pills eliminates the need to mention these features in the policy, as all such pills (ISS is tracking just five pills with such features at active companies) are not shareholder-approved, and thus are covered under the revised policy. The removal of the distinction between annually elected and classified boards impacts approximately 50 companies with annually-elected boards.

For short-term pills (with a term of one year or less), ISS will continue to conduct a case-by-case analysis, with special emphasis on the board's disclosed rationale for adopting the plan without a shareholder vote. The other factors currently listed under the policy will be examined if relevant. A commitment by the board that, should it extend or renew the pill, it will put it to a shareholder vote, would provide reassurance to investors that their interests are being considered.

**Restricting Binding Shareholder Proposals:** Restrictions on shareholders' ability to amend the bylaws are sometime found in the bylaws, therefore we are broadening the language to include all "governing documents."

**Problematic Pledging of Company Stock:** Under the Governance Failures policy, ISS has been recommending against the committee responsible for risk oversight since 2013 for a significant level of pledging of company stock. ([See FAQs #29-31.](#)) This update establishes an explicit policy on problematic pledging reflecting ISS' current approach on the issue.

**Problematic Compensation Practices:**

- › **One-time transfers of stock options:** Non-shareholder approved transfer of stock options are rare; so a separate policy is unnecessary. Should such a transfer occur, it would be treated as a problematic pay practice.
- › **Burn rate commitments:** With the introduction of the Equity Plan Scorecard several years ago, ISS stopped considering new 3-year burn commitments in our vote recommendations on equity plans. The last of the remaining 3-year burn rate commitments ended in the fall of 2017, so the policy can be removed.
- › **Lack of Say-on-Pay ballot item:** Not all companies in the US are legally required to have an Advisory Vote on Executive Compensation (say-on -pay) on their ballot. For example, non-SEC registrants, Foreign Private Issuers, Emerging Growth Companies under the JOBS Act, and companies registered under the Investment Company Act, are exempt. When companies do not have the say on pay on their ballot and do not have a legal basis for its exclusion, ISS has been recommending against the election of the Compensation Committee members. This is a codification of existing practice.

- › **Lack of Say-on-Pay Frequency ballot item:** In 2017, the large companies who held their initial say-on-pay frequency votes in 2011 were once again required to include it on their ballot in 2017, as the frequency issue needs to be put to a shareholder vote at least once every six years under the SEC's rules. Many companies inadvertently omitted it, and ISS has been reaching out to companies that lacked the ballot item so that they could add it to the agenda if required. Over 30 companies refiled their proxy statements or filed supplemental materials to add the frequency vote to their ballots. For the companies that did not add it and did not have a legal basis for its absence, if they were on a biennial or triennial frequency, ISS recommended against their Say on Pay resolution or, in its absence, against members of their Compensation Committees, as these boards did not provide shareholders with opportunities to adopt a different frequency. There was not an adverse vote recommendation if the company failed to timely present a frequency proposal but maintained an annual frequency.
- › **Excessive non-employee director compensation:** ISS' 2017 Board Study found median NED pay in the S&P1500 has risen every year since 2012. As director pay has escalated, investors' interest in the magnitude and structure of these boardroom compensation packages has grown. Some investors have gone a step further by challenging director pay magnitude in court or by making boardroom compensation an issue in proxy contests. In response to recent judicial decisions, numerous companies have introduced proposals requesting shareholder approval of the director compensation program and/or the addition of compensation limits to director equity award programs. Although NED pay magnitude varies by company size and industry sector, ISS has identified cases of extreme outliers relative to peers and the broader market. Investor respondents to ISS' 2017-2018 Policy Application Survey indicated a strong preference for adverse vote recommendations where a pattern of excessive NED pay levels at a company has been identified. The least-favored action advocated by investor respondents to the survey was making no adverse vote recommendations. ISS is thus introducing a policy that provides a basis for holding directors who approve excessive NED pay without compelling rationale accountable for their actions. The new policy will not impact vote recommendations in 2018. Going forward, negative recommendations would be triggered only after a pattern of excessive NED pay is identified in consecutive years.

## Board Responsiveness

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p>Vote case-by-case on individual directors, committee members, or the entire board of directors as appropriate if:</p> <p><del>2.1.</del> The board failed to act on a shareholder proposal that received the support of a majority of the shares cast in the previous year. Factors that will be considered are:</p> <ul style="list-style-type: none"> <li>› Disclosed outreach efforts by the board to shareholders in the wake of the vote;</li> <li>› Rationale provided in the proxy statement for the level of implementation;</li> <li>› The subject matter of the proposal;</li> <li>› The level of support for and opposition to the resolution in past meetings;</li> <li>› Actions taken by the board in response to the majority vote and its engagement with shareholders;</li> <li>› The continuation of the underlying issue as a voting item on the ballot (as either shareholder or management proposals); and</li> <li>› Other factors as appropriate.</li> </ul> <p><del>2.2.</del> The board failed to act on takeover offers where the majority of shares are tendered;</p> <p><del>2.3.</del> At the previous board election, any director received more than 50 percent withhold/against votes of the shares cast and the company has failed to address the issue(s) that caused the high withhold/against vote<del>;</del>.</p> <p>Vote case-by-case on Compensation Committee members (or, in exceptional cases, the full board) and the <del>Management</del> Say on Pay proposal if:</p> <ul style="list-style-type: none"> <li>› The company's previous say-on-pay received the support of less than 70 percent of votes cast. Factors that will be considered are: <ul style="list-style-type: none"> <li>› The company's response, including: <ul style="list-style-type: none"> <li>› Disclosure of engagement efforts with major institutional investors regarding the issues that contributed to the low level of support (including the timing and frequency of engagements and whether independent directors participated);</li> </ul> </li> </ul> </li> </ul>	<p>Vote case-by-case on individual directors, committee members, or the entire board of directors as appropriate if:</p> <ul style="list-style-type: none"> <li>› The board failed to act on a shareholder proposal that received the support of a majority of the shares cast in the previous year. Factors that will be considered are: <ul style="list-style-type: none"> <li>› Disclosed outreach efforts by the board to shareholders in the wake of the vote;</li> <li>› Rationale provided in the proxy statement for the level of implementation;</li> <li>› The subject matter of the proposal;</li> <li>› The level of support for and opposition to the resolution in past meetings;</li> <li>› Actions taken by the board in response to the majority vote and its engagement with shareholders;</li> <li>› The continuation of the underlying issue as a voting item on the ballot (as either shareholder or management proposals); and</li> <li>› Other factors as appropriate.</li> </ul> </li> <li>› The board failed to act on takeover offers where the majority of shares are tendered;</li> <li>› At the previous board election, any director received more than 50 percent withhold/against votes of the shares cast and the company has failed to address the issue(s) that caused the high withhold/against vote.</li> </ul> <p>Vote case-by-case on Compensation Committee members (or, in exceptional cases, the full board) and the Say on Pay proposal if:</p> <ul style="list-style-type: none"> <li>› The company's previous say-on-pay received the support of less than 70 percent of votes cast. Factors that will be considered are: <ul style="list-style-type: none"> <li>› The company's response, including: <ul style="list-style-type: none"> <li>› Disclosure of engagement efforts with major institutional investors regarding the issues that contributed to the low level of support (including the timing and frequency of engagements and whether independent directors participated);</li> </ul> </li> </ul> </li> </ul>

<ul style="list-style-type: none"> <li>› Disclosure of the specific concerns voiced by dissenting shareholders that led to the say-on-pay opposition;</li> <li>› Disclosure of specific and meaningful actions taken to address <del>the issues that contributed to the low level of support</del> <span style="color: green;">shareholders' concerns</span>;</li> <li>› Other recent compensation actions taken by the company;</li> <li>› Whether the issues raised are recurring or isolated;</li> <li>› The company's ownership structure; and</li> <li>› Whether the support level was less than 50 percent, which would warrant the highest degree of responsiveness.</li> </ul> <p><del>2.4. The board implements an advisory vote on executive compensation on a less frequent basis than the frequency that received the <span style="color: red;">majority</span> <span style="color: green;">plurality</span> of votes cast. <span style="color: red;">at the most recent shareholder meeting at which shareholders voted on the say-on-pay frequency.</span></del></p> <p><del>2.5. The board implements an advisory vote on executive compensation on a less frequent basis than the frequency that received a plurality, but not a majority, of the votes cast at the most recent shareholder meeting at which shareholders voted on the say-on-pay frequency, taking into account:</del></p> <ul style="list-style-type: none"> <li><del>› The board's rationale for selecting a frequency that is different from the frequency that received a plurality;</del></li> <li><del>› The company's ownership structure and vote results;</del></li> <li><del>› ISS' analysis of whether there are compensation concerns or a history of problematic compensation practices; and</del></li> <li><del>› The previous year's support level on the company's say-on-pay proposal.</del></li> </ul>	<ul style="list-style-type: none"> <li>› Disclosure of the specific concerns voiced by dissenting shareholders that led to the say-on-pay opposition;</li> <li>› Disclosure of specific and meaningful actions taken to address shareholders' concerns;</li> <li>› Other recent compensation actions taken by the company;</li> <li>› Whether the issues raised are recurring or isolated;</li> <li>› The company's ownership structure; and</li> <li>› Whether the support level was less than 50 percent, which would warrant the highest degree of responsiveness.</li> </ul> <p>› The board implements an advisory vote on executive compensation on a less frequent basis than the frequency that received the plurality of votes cast.</p>
---	--

### Rationale for Change:

**Responsiveness to low support for the Say-on-Pay:** This policy is being moved to “Board Responsiveness” from “Board Accountability”, as it is the more appropriate section. The policy updates better reflect the factors that are considered when evaluating the board's responsiveness to say-on-pay opposition (see corresponding policy change under Executive Compensation).

**Responsiveness to Say-on-Pay Frequency shareholder vote:** The frequency vote is required at least once every six years, and most companies that held their first votes in 2011 just held their second votes in 2017 and are disclosing the say-on-pay frequency they are choosing to implement. The updated policy looks for companies to adopt a frequency that is at least as often as the frequency option that received the plurality of votes by their shareholders.



## Board Composition

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p><b>General Recommendation:</b> Generally vote for director nominees, except under the following circumstances:</p> <p><b>Attendance at Board and Committee Meetings:</b></p> <p><del>3.1</del> Generally vote against or withhold from directors (except new nominees, <del>who should be considered case-by-case</del><sup>5</sup>) who attend less than 75 percent of the aggregate of their board and committee meetings for the period for which they served, unless an acceptable reason for absences is disclosed in the proxy or another SEC filing. Acceptable reasons for director absences are generally limited to the following:</p> <ul style="list-style-type: none"> <li>› Medical issues/illness;</li> <li>› Family emergencies; and</li> <li>› Missing only one meeting (when the total of all meetings is three or fewer).</li> </ul> <p><del>3.2</del> If the proxy disclosure is unclear and insufficient to determine whether a director attended at least 75 percent of the aggregate of his/her board and committee meetings during his/her period of service, vote against or withhold from the director(s) in question.</p> <p><b>Overboarded Directors:</b> Generally vote against or withhold from individual directors who:</p> <p><del>3.3</del>. Sit on more than five public company boards; or</p> <p><del>3.4</del>. Are CEOs of public companies who sit on the boards of more than two public companies besides their own—withhold only at their outside boards<sup>5</sup>.</p> <p><b>Diversity:</b> Highlight boards with no gender diversity. However, no adverse vote recommendations will be made due to any lack of gender diversity.</p>	<p><b>General Recommendation:</b> Generally vote for director nominees, except under the following circumstances:</p> <p><b>Attendance at Board and Committee Meetings:</b> Generally vote against or withhold from directors (except new nominees<sup>5</sup>) who attend less than 75 percent of the aggregate of their board and committee meetings for the period for which they served, unless an acceptable reason for absences is disclosed in the proxy or another SEC filing. Acceptable reasons for director absences are generally limited to the following:</p> <ul style="list-style-type: none"> <li>› Medical issues/illness;</li> <li>› Family emergencies; and</li> <li>› Missing only one meeting (when the total of all meetings is three or fewer).</li> </ul> <p>If the proxy disclosure is unclear and insufficient to determine whether a director attended at least 75 percent of the aggregate of his/her board and committee meetings during his/her period of service, vote against or withhold from the director(s) in question.</p> <p><b>Overboarded Directors:</b> Generally vote against or withhold from individual directors who:</p> <ul style="list-style-type: none"> <li>› Sit on more than five public company boards; or</li> <li>› Are CEOs of public companies who sit on the boards of more than two public companies besides their own—withhold only at their outside boards<sup>6</sup>.</li> </ul> <p><b>Diversity:</b> Highlight boards with no gender diversity. However, no adverse vote recommendations will be made due to any lack of gender diversity.</p>

## Rationale for Change:

<sup>5</sup> ~~For a~~ New nominees who served for only part of the fiscal year are generally exempted from the attendance policy. ~~only, schedule conflicts due to commitments made prior to their appointment to the board are considered if disclosed in the proxy or another SEC filing.~~

<sup>6</sup> Although all of a CEO's subsidiary boards will be counted as separate boards, ISS will not recommend a withhold vote for the CEO of a parent company board or any of the controlled (>50 percent ownership) subsidiaries of that parent, but may do so at subsidiaries that are less than 50 percent controlled and boards outside the parent/subsidiary relationships.



**Attendance:** Shareholders expect directors to attend their scheduled board and committee meetings. However, unlike the incumbent directors who were aware of the board schedule long in advance, newly-appointed directors did not receive such advance notice. Likewise, the meeting schedule would not have been set to accommodate the new director's pre-existing obligations. Thus, the current policy is that for newly-appointed directors only, schedule conflicts, if disclosed, are an acceptable reason for poor attendance.

Rather than looking for supplemental disclosure of such schedule conflicts, ISS' updated policy exempts partial-year "new" board appointees from the attendance policy.

**Diversity:** In ISS' 2017-2018 Governance Principles Survey, 69 percent of investor respondents replied that they could consider it problematic if there were no female directors on a public company board. Many of those respondents indicated that they may consider it appropriate to engage with the company if this were the case. While the US ISS Benchmark policy will not use any lack of gender diversity as a factor in its vote recommendations on directors, ISS will identify in its reports where a board has zero female directors.

## Board Independence

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p><b>General Recommendation:</b> Generally vote for director nominees, except under the following circumstances:</p> <p>Vote against or withhold from <del>Inside Directors and Affiliated Outside Directors</del> <b>non-independent directors (Executive Directors and Non-independent, Non-Executive Directors</b> (per the <a href="#">Categorization of Directors</a>) when:</p> <p><del>4.1. The inside or affiliated outside non-independent</del> director serves on <del>any of the three key committees:</del> audit, compensation, or nominating <b>committee</b>;</p> <p><del>4.2. The company lacks an audit, compensation, or nominating committee so that the full board functions as that committee;</del></p> <p><del>4.3. The company lacks a formal nominating committee, even if the board attests that the independent directors fulfill the functions of such a committee; or</del></p> <p><del>4.4. Independent directors comprise 50 percent or less make up less than a majority</del> of the <b>board directors</b>.</p>	<p><b>General Recommendation:</b> Generally vote for director nominees, except under the following circumstances:</p> <p>Vote against or withhold from non-independent directors (Executive Directors and Non-Independent Non-Executive Directors per ISS' <a href="#">Categorization of Directors</a>) when:</p> <ul style="list-style-type: none"> <li>› Independent directors comprise 50 percent or less of the board;</li> <li>› The non-independent director serves on the audit, compensation, or nominating committee;</li> <li>› The company lacks an audit, compensation, or nominating committee so that the full board functions as that committee; or</li> <li>› The company lacks a formal nominating committee, even if the board attests that the independent directors fulfill the functions of such a committee.</li> </ul>

### ISS U.S. Categorization of Directors

1. ~~Inside Executive Director (I)~~
  - 1.1. Current employee or current officer<sup>[1]</sup> of the company or one of its affiliates<sup>[2]</sup>.
  - ~~1.2. Beneficial owner of more than 50 percent of the company's voting power (this may be aggregated if voting power is distributed among more than one member of a group).~~
  - ~~1.3. Director named in the Summary Compensation Table (excluding former interim officers).~~
2. ~~Affiliated Outside Director (AO)~~ **Non-independent Non-Executive Director**

Board Attestation Identification

  - 2.1. Director identified as ~~Board attestation that an outside director is~~ not independent by the board.

Controlling/Significant Shareholder

Beneficial owner of more than 50 percent of the company's voting power (this may be aggregated if voting power is distributed among more than one member of a group).

Former CEO/Interim Officer

  - 2.2. Former CEO of the company.<sup>[3],[4]</sup>
  - 2.3. Former CEO of an acquired company within the past five years<sup>[4]</sup>.
  - 2.4. Former interim officer if the service was longer than 18 months. If the service was between 12 and 18 months an assessment of the interim officer's employment agreement will be made.<sup>[5]</sup>

Non-CEO Executives

  - 2.5. Former officer<sup>[1]</sup> of the company, an affiliate<sup>[2]</sup>, or an acquired firm within the past five years.
  - 2.6. Officer<sup>[1]</sup> of a former parent or predecessor firm at the time the company was sold or split off from the parent/predecessor within the past five years.
  - 2.7. Officer<sup>[1]</sup>, former officer, or general or limited partner of a joint venture or partnership with the company.

Family Members

  - 2.8. Immediate family member<sup>[6]</sup> of a current or former officer<sup>[1]</sup> of the company or its affiliates<sup>[2]</sup> within the last five years.
  - 2.9. Immediate family member<sup>[6]</sup> of a current employee of company or its affiliates<sup>[2]</sup> where additional factors raise concern (which may include, but are not limited to, the following: a director related to numerous

### ISS U.S. Categorization of Directors

1. **Executive Director**
  - 1.1. Current employee or current officer<sup>1</sup> of the company or one of its affiliates<sup>2</sup>.
2. **Non-Independent Non-Executive Director**

Board Identification

  - 2.1 Director identified as not independent by the board.

Controlling/Significant Shareholder

  - 2.2 Beneficial owner of more than 50 percent of the company's voting power (this may be aggregated if voting power is distributed among more than one member of a group).

Former CEO/Interim Officer

  - 2.3. Former CEO of the company.<sup>3, 4</sup>
  - 2.4. Former CEO of an acquired company within the past five years.<sup>4</sup>
  - 2.5. Former interim officer if the service was longer than 18 months. If the service was between 12 and 18 months an assessment of the interim officer's employment agreement will be made.<sup>5</sup>

Non-CEO Executives

  - 2.6. Former officer<sup>1</sup> of the company, an affiliate<sup>2</sup>, or an acquired firm within the past five years.
  - 2.7. Officer<sup>1</sup> of a former parent or predecessor firm at the time the company was sold or split off from the parent/predecessor within the past five years.
  - 2.8. Officer<sup>1</sup>, former officer, or general or limited partner of a joint venture or partnership with the company.

Family Members

  - 2.9. Immediate family member<sup>6</sup> of a current or former officer<sup>1</sup> of the company or its affiliates<sup>2</sup> within the last five years.
  - 2.10. Immediate family member<sup>6</sup> of a current employee of company or its affiliates<sup>2</sup> where additional factors raise concern (which may include, but are not limited to, the following: a director related to numerous employees; the company or its affiliates employ relatives of numerous board members; or a non-Section 16 officer in a key strategic role).

Transactional, Professional, Financial, and Charitable Relationships

  - 2.11. Currently provides (or an immediate family member<sup>6</sup> provides) professional services<sup>7</sup> to the company, to an affiliate<sup>2</sup> of the company or an individual officer of the company or one of its affiliates in excess of \$10,000 per year.

<p>employees; the company or its affiliates employ relatives of numerous board members; or a non-Section 16 officer in a key strategic role).</p> <p><u>Transactional, Professional, Financial, and Charitable Relationships</u></p> <p>2.10. Currently provides (or an immediate family member<sup>[6]</sup> provides) professional services<sup>[7]</sup> to the company, to an affiliate<sup>[2]</sup> of the company or an individual officer of the company or one of its affiliates in excess of \$10,000 per year.</p> <p>2.11. Is (or an immediate family member<sup>[6]</sup> is) a partner in, or a controlling shareholder or an employee of, an organization which provides professional services<sup>[7]</sup> to the company, to an affiliate<sup>[2]</sup> of the company, or an individual officer of the company or one of its affiliates in excess of \$10,000 per year.</p> <p>2.12. Has (or an immediate family member<sup>[6]</sup> has) any material transactional relationship<sup>[8]</sup> with the company or its affiliates<sup>[2]</sup> (excluding investments in the company through a private placement).</p> <p>2.13. Is (or an immediate family member<sup>[6]</sup> is) a partner in, or a controlling shareholder or an executive officer of, an organization which has any material transactional relationship<sup>[8]</sup> with the company or its affiliates<sup>[2]</sup> (excluding investments in the company through a private placement).</p> <p>2.14. Is (or an immediate family member<sup>[6]</sup> is) a trustee, director, or employee of a charitable or non-profit organization that receives material grants or endowments<sup>[8]</sup> from the company or its affiliates<sup>[2]</sup>.</p> <p><u>Other Relationships</u></p> <p>2.15. Party to a voting agreement<sup>[9]</sup> to vote in line with management on proposals being brought to shareholder vote.</p> <p>2.16. Has (or an immediate family member<sup>[6]</sup> has) an interlocking relationship as defined by the SEC involving members of the board of directors or its Compensation Committee<sup>[10]</sup>.</p> <p>2.17. Founder<sup>[11]</sup> of the company but not currently an employee.</p> <p>2.18. Any material<sup>[12]</sup> relationship with the company.</p> <p>3. <b>Independent <del>Outside</del> Director (40)</b></p> <p>3.1. No material<sup>[12]</sup> connection to the company other than a board seat.</p>	<p>2.12. Is (or an immediate family member<sup>6</sup> is) a partner in, or a controlling shareholder or an employee of, an organization which provides professional services<sup>7</sup> to the company, to an affiliate<sup>2</sup> of the company, or an individual officer of the company or one of its affiliates in excess of \$10,000 per year.</p> <p>2.13. Has (or an immediate family member<sup>6</sup> has) any material transactional relationship<sup>8</sup> with the company or its affiliates<sup>2</sup> (excluding investments in the company through a private placement).</p> <p>2.14. Is (or an immediate family member<sup>6</sup> is) a partner in, or a controlling shareholder or an executive officer of, an organization which has any material transactional relationship<sup>8</sup> with the company or its affiliates<sup>2</sup> (excluding investments in the company through a private placement).</p> <p>2.15. Is (or an immediate family member<sup>6</sup> is) a trustee, director, or employee of a charitable or non-profit organization that receives material grants or endowments<sup>8</sup> from the company or its affiliates<sup>2</sup>.</p> <p><u>Other Relationships</u></p> <p>2.16. Party to a voting agreement<sup>9</sup> to vote in line with management on proposals being brought to shareholder vote.</p> <p>2.17. Has (or an immediate family member<sup>6</sup> has) an interlocking relationship as defined by the SEC involving members of the board of directors or its Compensation Committee<sup>10</sup>.</p> <p>2.18. Founder<sup>11</sup> of the company but not currently an employee.</p> <p>2.19. Any material<sup>12</sup> relationship with the company.</p> <p>3. <b>Independent Director</b></p> <p>3.1. No material<sup>12</sup> connection to the company other than a board seat.</p>
---	---

### Rationale for Change:

To harmonize the ISS Categorization of Directors across markets, ISS is changing its nomenclature for the directors under the US policy who are classified as not independent: from **Inside Director** and **Affiliated Outside Director** to **Executive Director** and **Non-Independent, Non-Executive Director**. While most Inside Directors will be categorized as Executive Directors, the directors considered Insiders due to their controlling interest in the company will be moved to the Non-Independent, Non-Executive Director category. This reclassification does not result in any vote recommendation changes, as under the old and new ISS categorizations, the directors are considered non-independent.

## Voting Capital/Restructuring

### Special Purpose Acquisition Corporations (SPACs) - Proposals for Extensions

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p><b>General Recommendation:</b> [No current formal policy]</p> <p>Vote case-by-case on SPAC extension proposals taking into account the length of the requested extension, the status of any pending transaction(s) or progression of the acquisition process, any added incentive for non-redeeming shareholders, and any prior extension requests.</p> <ul style="list-style-type: none"> <li>› <i>Length of request:</i> Typically, extension requests range from two to six months, depending on the progression of the SPAC's acquisition process.</li> <li>› <i>Pending transaction(s) or progression of the acquisition process:</i> Sometimes an initial business combination was already put to a shareholder vote, but, for varying reasons, the transaction could not be consummated by the termination date and the SPAC is requesting an extension. Other times, the SPAC has entered into a definitive transaction agreement, but needs additional time to consummate or hold the shareholder meeting.</li> <li>› <i>Added incentive for non-redeeming shareholders:</i> Sometimes the SPAC sponsor (or other insiders) will contribute, typically as a loan to the company, additional funds that will be added to the redemption value of each public share as long as such shares are not redeemed in connection with the extension request. The purpose of the "equity kicker" is to incentivize shareholders to hold their shares through the end of the requested extension or until the time the transaction is put to a shareholder vote, rather than electing redemption at the extension proposal meeting.</li> <li>› <i>Prior extension requests:</i> Some SPACs request additional time beyond the extension period sought in prior extension requests.</li> </ul>	<p><b>General Recommendation:</b></p> <p>Vote case-by-case on SPAC extension proposals taking into account the length of the requested extension, the status of any pending transaction(s) or progression of the acquisition process, any added incentive for non-redeeming shareholders, and any prior extension requests.</p> <ul style="list-style-type: none"> <li>› <i>Length of request:</i> Typically, extension requests range from two to six months, depending on the progression of the SPAC's acquisition process.</li> <li>› <i>Pending transaction(s) or progression of the acquisition process:</i> Sometimes an initial business combination was already put to a shareholder vote, but, for varying reasons, the transaction could not be consummated by the termination date and the SPAC is requesting an extension. Other times, the SPAC has entered into a definitive transaction agreement, but needs additional time to consummate or hold the shareholder meeting.</li> <li>› <i>Added incentive for non-redeeming shareholders:</i> Sometimes the SPAC sponsor (or other insiders) will contribute, typically as a loan to the company, additional funds that will be added to the redemption value of each public share as long as such shares are not redeemed in connection with the extension request. The purpose of the "equity kicker" is to incentivize shareholders to hold their shares through the end of the requested extension or until the time the transaction is put to a shareholder vote, rather than electing redemption at the extension proposal meeting.</li> <li>› <i>Prior extension requests:</i> Some SPACs request additional time beyond the extension period sought in prior extension requests.</li> </ul>

#### Rationale for Change:

ISS has seen an increase in the number of special purpose acquisition companies (SPAC) transaction proposals and, thus, there has been an increase in the number of SPAC extension requests. The update in policy will provide clients and issuers with guidance on the factors that ISS considers and how ISS will evaluate SPAC extension proposals.

SPACs are blank-check companies that raise pools of capital from investors through a public offering of shares and warrants (known as a Unit IPO) for the purpose of buying one or more companies (commonly referred to as an initial business combination). SPACs have no assets or business plan and their sole intent is to acquire an

operating business. Typically, the SPAC founders have 18 months to sign a definitive engagement letter and two years from the time of the SPAC IPO to consummate an initial business combination (the termination date); otherwise, the SPAC will be dissolved and the trust proceeds disseminated among investors.

SPACs that have neither proposed nor consummated a business combination and are nearing their deadlines often request extensions of their deadlines by way of amendments to their charters and trust agreements. In these instances, IPO shareholders are given the opportunity to elect redemption of their shares for the pro-rata portion of the funds available in the trust account. The standard charter amendment involves a change in the termination date and the trust agreement amendment involves a change in the date that the trust will be liquidated absent consummation of an initial business combination. In addition, the amendment to the trust agreement will seek approval to permit the withdrawal of funds from the trust to pay shareholders who properly exercise their redemption rights at that meeting. Approval of the charter and trust amendments are needed to implement the extension.

## Compensation

### Advisory Votes on Executive Compensation Pay-for-Performance Evaluation

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p><b>Primary Evaluation Factors for Executive Pay</b></p> <p><b>Pay-for-Performance Evaluation</b></p> <p>ISS annually conducts a pay-for-performance analysis to identify strong or satisfactory alignment between pay and performance over a sustained period. With respect to companies in the Russell 3000 or Russell 3000E Indices<sup>7</sup>, this analysis considers the following:</p> <ol style="list-style-type: none"> <li>1. Peer Group<sup>8</sup> Alignment: <ul style="list-style-type: none"> <li>› The degree of alignment between the company's annualized TSR rank and the CEO's annualized total pay rank within a peer group, each measured over a three-year period.</li> <li>› The rankings of CEO total pay and company financial performance within a peer group, each measured over a three-year period.</li> <li>› The multiple of the CEO's total pay relative to the peer group median in the most recent fiscal year.</li> </ul> </li> <li>2. Absolute Alignment<sup>9</sup> – the absolute alignment between the trend in CEO pay and company TSR over the prior five fiscal years – i.e., the difference between the trend in annual pay changes and the trend in annualized TSR during the period.</li> </ol>	<p><b>Primary Evaluation Factors for Executive Pay</b></p> <p><b>Pay-for-Performance Evaluation</b></p> <p>ISS annually conducts a pay-for-performance analysis to identify strong or satisfactory alignment between pay and performance over a sustained period. With respect to companies in the Russell 3000 or Russell 3000E Indices<sup>7</sup>, this analysis considers the following:</p> <ol style="list-style-type: none"> <li>1. Peer Group<sup>8</sup> Alignment: <ul style="list-style-type: none"> <li>› The degree of alignment between the company's annualized TSR rank and the CEO's annualized total pay rank within a peer group, each measured over a three-year period.</li> <li>› The rankings of CEO total pay and company financial performance within a peer group, each measured over a three-year period.</li> <li>› The multiple of the CEO's total pay relative to the peer group median in the most recent fiscal year.</li> </ul> </li> <li>2. Absolute Alignment<sup>9</sup> – the absolute alignment between the trend in CEO pay and company TSR over the prior five fiscal years – i.e., the difference between the trend in annual pay changes and the trend in annualized TSR during the period.</li> </ol>

<sup>7</sup> The Russell 3000E Index includes approximately 4,000 of the largest U.S. equity securities.

<sup>8</sup> The revised peer group is generally comprised of 14-24 companies that are selected using market cap, revenue (or assets for certain financial firms), GICS industry group, and company's selected peers' GICS industry group, with size constraints, via a process designed to select peers that are comparable to the subject company in terms of revenue/assets and industry, and also within a market-cap bucket that is reflective of the company's. For Oil, Gas & Consumable Fuels companies, market cap is the only size determinant.

<sup>9</sup> Only Russell 3000 Index companies are subject to the Absolute Alignment analysis.

**Rationale for Change:**

This update reflects the incorporation of the Relative Financial Performance Assessment into the US quantitative pay-for-performance evaluation methodology. The Relative Financial Performance Assessment compares the company's rankings to a peer group with respect to (i) CEO pay and (ii) financial performance in three or four metrics (which will vary depending on industry), in each case as measured over three years. Specific details around the mechanics of the updated quantitative screening methodology will be provided in an updated white paper.

This update also clarifies the measurement period of one year that is applicable to the CEO pay multiple assessment (this is in line with current policy).

**Advisory Votes on Executive Compensation: Compensation Committee Communications and Responsiveness**

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p>Consider the following factors case-by-case when evaluating ballot items related to executive pay on the board's responsiveness to investor input and engagement on compensation issues:</p> <ul style="list-style-type: none"> <li>› Failure to respond to majority-supported shareholder proposals on executive pay topics; or</li> <li>› Failure to adequately respond to the company's previous say-on-pay proposal that received the support of less than 70 percent of votes cast, taking into account: <ul style="list-style-type: none"> <li>› The company's response, including: <ul style="list-style-type: none"> <li>› Disclosure of engagement efforts with major institutional investors regarding the issues that contributed to the low level of support (including the timing and frequency of engagements and whether independent directors participated);</li> <li>› Disclosure of the specific concerns voiced by dissenting shareholders that led to the say-on-pay opposition;</li> <li>› Disclosure of specific and meaningful actions taken to address <del>the issues that contributed to the low level of support</del> shareholders' concerns;</li> <li>› Other recent compensation actions taken by the company;</li> </ul> </li> <li>› Whether the issues raised are recurring or isolated;</li> <li>› The company's ownership structure; and</li> <li>› Whether the support level was less than 50 percent, which would warrant the highest degree of responsiveness.</li> </ul> </li> </ul>	<p>Consider the following factors case-by-case when evaluating ballot items related to executive pay on the board's responsiveness to investor input and engagement on compensation issues:</p> <ul style="list-style-type: none"> <li>› Failure to respond to majority-supported shareholder proposals on executive pay topics; or</li> <li>› Failure to adequately respond to the company's previous say-on-pay proposal that received the support of less than 70 percent of votes cast, taking into account: <ul style="list-style-type: none"> <li>› The company's response, including: <ul style="list-style-type: none"> <li>› Disclosure of engagement efforts with major institutional investors regarding the issues that contributed to the low level of support (including the timing and frequency of engagements and whether independent directors participated);</li> <li>› Disclosure of the specific concerns voiced by dissenting shareholders that led to the say-on-pay opposition;</li> <li>› Disclosure of specific and meaningful actions taken to address shareholders' concerns;</li> <li>› Other recent compensation actions taken by the company;</li> </ul> </li> <li>› Whether the issues raised are recurring or isolated;</li> <li>› The company's ownership structure; and</li> <li>› Whether the support level was less than 50 percent, which would warrant the highest degree of responsiveness.</li> </ul> </li> </ul>



**Rationale for Change:**

This policy refinement clarifies ISS' approach to assessing say-on-pay responsiveness and more specifically describes the factors that ISS currently analyzes when assessing the robustness of board responsiveness. First, the update clarifies that ISS' evaluation of the breadth of shareholder engagements may consider the timing and frequency of engagements as well as the company's participants in such engagements. Independent director participation is preferred as it is more conducive for candid investor feedback on pay concerns (as compared to discussions with senior management about their own pay packages), and engagement following a low vote result is necessary to ascertain the rationale for the limited support. Second, the update clarifies that ISS looks for summary disclosure of the feedback received from shareholders, particularly those investors voting against, at these meetings to assess whether subsequent changes are in fact responsive to that feedback. Finally, the policy refinement specifies that ISS considers not only *whether* a company made changes to pay and/or disclosure in response to shareholder concerns, but also the *quality* of those changes relative to the feedback received.

## Social and Environmental Issues

### Shareholder Proposals on Climate Change Risk

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p><b>General Recommendation:</b> Generally vote for resolutions requesting that a company disclose information on the <b>financial, physical, or regulatory</b> risks it <b>faces</b> related to climate change on its operations and investments, <b>or on how the company identifies, measures, and manages such risks</b> <del>such as financial, physical, or regulatory risks</del>, considering:</p> <ul style="list-style-type: none"> <li>Whether the company already provides current, publicly-available information on the impact that climate change may have on the company as well as associated company policies and procedures to address related risks and/or opportunities;</li> <li>The company's level of disclosure <del>is at least comparable</del> <b>compared</b> to that of industry peers; and</li> <li><b>Whether</b> there are <del>no</del> significant controversies, fines, penalties, or litigation associated with the company's <del>environmental</del> <b>climate change-related</b> performance.</li> </ul>	<p><b>General Recommendation:</b> Generally vote for resolutions requesting that a company disclose information on the financial, physical, or regulatory risks it faces related to climate change on its operations and investments or on how the company identifies, measures, and manages such risks, considering:</p> <ul style="list-style-type: none"> <li>Whether the company already provides current, publicly-available information on the impact that climate change may have on the company as well as associated company policies and procedures to address related risks and/or opportunities;</li> <li>The company's level of disclosure compared to industry peers; and</li> <li>Whether there are significant controversies, fines, penalties, or litigation association with the company's climate change-related performance.</li> </ul>

#### Rationale for Change:

A growing number of investors believe that effective boardroom oversight requires transparent identification of risks associated both with a changing climate and the business changes associated with an expected transition to a lower-carbon economy. To that end, The Task Force on Climate-Related Financial Disclosures (TCFD), released draft recommendations in late 2016 and a final report and recommendations in the summer of 2017 for consistent and voluntary climate-related financial disclosures.

The updates to ISS' climate change risk policy better aligns it with the TCFD's recommendations, which explicitly seek transparency around the board and management's role in assessing and managing climate-related risks and opportunities.

## Shareholder Proposals on Gender Pay Gap

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p><b>General Recommendation:</b> [No current policy.]</p> <p>Generally vote case-by-case on requests for reports on a company's pay data by gender, or a report on a company's policies and goals to reduce any gender pay gap, taking into account:</p> <ul style="list-style-type: none"> <li>› The company's current policies and disclosure related to both its diversity and inclusion policies and practices and its compensation philosophy and fair and equitable compensation practices;</li> <li>› Whether the company has been the subject of recent controversy, litigation, or regulatory actions related to gender pay gap issues; and</li> <li>› Whether the company's reporting regarding gender pay gap policies or initiatives is lagging its peers.</li> </ul>	<p><b>General Recommendation:</b></p> <p>Generally vote case-by-case on requests for reports on a company's pay data by gender, or a report on a company's policies and goals to reduce any gender pay gap, taking into account:</p> <ul style="list-style-type: none"> <li>› The company's current policies and disclosure related to both its diversity and inclusion policies and practices and its compensation philosophy and fair and equitable compensation practices;</li> <li>› Whether the company has been the subject of recent controversy, litigation, or regulatory actions related to gender pay gap issues; and</li> <li>› Whether the company's reporting regarding gender pay gap policies or initiatives is lagging its peers.</li> </ul>

### Rationale for Change:

Over the past three years shareholders have filed resolutions requesting that companies report whether a gender pay gap exists, and if so, what measures are being taken to eliminate the gap. While primarily filed at technology firms, in 2017, the resolutions were also filed at firms in the financial services, insurance, healthcare, and telecommunication sectors. Proponents are expected to continue this campaign by engaging companies and filing shareholder proposals on this issue.

The results of ISS' 2017-2018 Policy Application Survey support a more flexible case-by-case approach to proposals requesting that companies report on the gender pay gap. Sixty percent of investor respondents agreed that companies should be disclosing their gender pay gap information, while 67 percent of non-investor respondents disagreed.

## CANADA

## Board of Directors - Voting on Director Nominees in Uncontested Elections

## ISS Canadian Definition of Independence (TSX and TSX-V)

Current Definition of Independence:	New Definition of Independence:
<p>1. <del>Inside-Executive Director (I)</del></p> <p>1.1. Employees of the company or its affiliates<sup>i</sup>.</p> <p>1.2. <del>Non-employee officer of the company or its affiliates<sup>i</sup> if he/she is among the five most highly compensated.</del></p> <p>1.3. Current interim CEO or any other current interim executive of the company or its affiliates<sup>i</sup>.</p> <p>1.4. <del>Beneficial owner of company shares with more than 50 percent of the outstanding voting rights (this may be aggregated if voting power is distributed among more than one member of a group)<sup>ii</sup>.</del></p> <p>2. <del>Affiliated Outside Non-Independent Non-Executive Director (AO)</del> Former/Interim CEO<sup>iii</sup></p> <p>2.1. Former CEO of the company or its affiliates<sup>i</sup> within the past five years<sup>iv</sup> or of an acquired company within the past five years.</p> <p>2.2. Former interim CEO of the company or its affiliates<sup>i</sup> within the past five years<sup>iv</sup> if the service was longer than 18 months or if the service was between 12 and 18 months and the compensation was high relative to that of the other directors or in line with a CEO's compensation<sup>v</sup> at that time.</p> <p>2.3. CEO of a former parent or predecessor firm at the time the company was sold or split off from the parent/predecessor within the past five years<sup>iv</sup>.</p> <p><u>Controlling Shareholder/s</u></p> <p>2.4. <del>Beneficial owner of company shares with more than 50 percent of the outstanding voting rights (this may be aggregated if voting power is distributed among more than one member of a group)<sup>ii</sup>.</del></p> <p><u>Non-CEO Executives<sup>iii</sup></u></p> <p>2.5. Former executive of the company, an affiliate, or a firm acquired within the past three years.</p> <p>2.6. Former interim executive of the company or its affiliates<sup>i</sup> within the past three years if the service was longer than 18 months or if the</p>	<p>1. <b>Executive Director</b></p> <p>1.1. Employees of the company or its affiliates<sup>i</sup>.</p> <p>1.2. Current interim CEO or any other current interim executive of the company or its affiliates<sup>i</sup>.</p> <p>2. <b>Non-Independent, Non-Executive Director</b> Former/Interim CEO<sup>iii</sup></p> <p>2.1. Former CEO of the company or its affiliates<sup>i</sup> within the past five years<sup>iv</sup> or of an acquired company within the past five years.</p> <p>2.2. Former interim CEO of the company or its affiliates<sup>i</sup> within the past five years<sup>iv</sup> if the service was longer than 18 months or if the service was between 12 and 18 months and the compensation was high relative to that of the other directors or in line with a CEO's compensation<sup>v</sup> at that time.</p> <p>2.3. CEO of a former parent or predecessor firm at the time the company was sold or split off from the parent/predecessor within the past five years<sup>iv</sup>.</p> <p><u>Controlling Shareholder/s</u></p> <p>2.4. Beneficial owner of company shares with more than 50 percent of the outstanding voting rights (this may be aggregated if voting power is distributed among more than one member of a group)<sup>ii</sup>.</p> <p><u>Non-CEO Executives<sup>iii</sup></u></p> <p>2.5. Former executive of the company, an affiliate, or a firm acquired within the past three years.</p> <p>2.6. Former interim executive of the company or its affiliates<sup>i</sup> within the past three years if the service was longer than 18 months or if the service was between 12 and 18 months, an assessment of the interim executive's terms of employment including compensation relative to other directors or in line with the top five NEOs at that time.</p> <p>2.7. Executive of a former parent or predecessor firm at the time the company was sold or split off from parent/predecessor within the past three years.</p>

<p>service was between 12 and 18 months, an assessment of the interim executive's terms of employment including compensation relative to other directors or in line with the top five NEOs at that time.</p> <p>2.7. Executive of a former parent or predecessor firm at the time the company was sold or split off from parent/predecessor within the past three years.</p> <p>2.8. Executive, former executive of the company or its affiliates<sup>i</sup> within the last three years, general or limited partner of a joint venture or partnership with the company.</p> <p><u>Relatives</u></p> <p>2.9. Relative<sup>vi</sup> of current executive officer<sup>vii</sup> of the company or its affiliates<sup>i</sup>.</p> <p>2.10. Relative<sup>vi</sup> of a person who has served as a CEO of the company or its affiliates<sup>i</sup> within the last five years; or an executive officer of the company or its affiliates<sup>i</sup> within the last three years.</p> <p><u>Transactional, Professional, Financial, and Charitable Relationships<sup>viii</sup></u></p> <p>2.11. Currently provides (or a relative<sup>vi</sup> provides) professional services<sup>ix</sup> to the company, its affiliates<sup>i</sup> or to its officers.</p> <p>2.12. Is (or a relative<sup>vi</sup> is) a partner, controlling shareholder or an employee of, an organization that provides professional services<sup>ix</sup> to the company, to an affiliate of the company, or to an individual officer of the company or one of its affiliates<sup>i</sup>.</p> <p>2.13. Currently employed by (or a relative<sup>vi</sup> is employed by) a significant customer or supplier<sup>ix</sup> of the company or its affiliates<sup>i</sup>.</p> <p>2.14. Is (or a relative<sup>vi</sup> is) a trustee, director or employee of a charitable or non-profit organization that receives material<sup>xi</sup> grants or endowments from the company or its affiliates<sup>i</sup>.</p> <p>2.15. Has, or is (or a relative<sup>vi</sup> is) a partner, controlling shareholder or an employee of, an organization that has a transactional relationship with the company or its affiliates<sup>i</sup>, excluding investments in the company through a private placement.</p> <p><u>Other Relationships</u></p> <p>2.16. Has a contractual/guaranteed board seat and is party to a voting agreement to vote in line with management on proposals being brought to shareholders.</p> <p>2.17. Founder<sup>xii</sup> of the company but not currently an employee.</p> <p>2.18. Has any material<sup>xi</sup> relationship with the company or with any one or more members of management of the company.</p> <p>2.19. <b>Non-employee officer of the company or its affiliates<sup>i</sup> if he/she is among the five most highly compensated.</b></p>	<p>2.8. Executive, former executive of the company or its affiliates<sup>i</sup> within the last three years, general or limited partner of a joint venture or partnership with the company.</p> <p><u>Relatives</u></p> <p>2.9. Relative<sup>vi</sup> of current executive officer<sup>vii</sup> of the company or its affiliates<sup>i</sup>.</p> <p>2.10. Relative<sup>vi</sup> of a person who has served as a CEO of the company or its affiliates<sup>i</sup> within the last five years; or an executive officer of the company or its affiliates<sup>i</sup> within the last three years.</p> <p><u>Transactional, Professional, Financial, and Charitable Relationships<sup>viii</sup></u></p> <p>2.11. Currently provides (or a relative<sup>vi</sup> provides) professional services<sup>ix</sup> to the company, its affiliates<sup>i</sup> or to its officers.</p> <p>2.12. Is (or a relative<sup>vi</sup> is) a partner, controlling shareholder or an employee of, an organization that provides professional services<sup>ix</sup> to the company, to an affiliate of the company, or to an individual officer of the company or one of its affiliates<sup>i</sup>.</p> <p>2.13. Currently employed by (or a relative<sup>vi</sup> is employed by) a significant customer or supplier<sup>ix</sup> of the company or its affiliates<sup>i</sup>.</p> <p>2.14. Is (or a relative<sup>vi</sup> is) a trustee, director or employee of a charitable or non-profit organization that receives material<sup>xi</sup> grants or endowments from the company or its affiliates<sup>i</sup>.</p> <p>2.15. Has, or is (or a relative<sup>vi</sup> is) a partner, controlling shareholder or an employee of, an organization that has a transactional relationship with the company or its affiliates<sup>i</sup>, excluding investments in the company through a private placement.</p> <p><u>Other Relationships</u></p> <p>2.16. Has a contractual/guaranteed board seat and is party to a voting agreement to vote in line with management on proposals being brought to shareholders.</p> <p>2.17. Founder<sup>xii</sup> of the company but not currently an employee.</p> <p>2.18. Has any material<sup>xi</sup> relationship with the company or with any one or more members of management of the company.</p> <p>2.19. Non-employee officer of the company or its affiliates<sup>i</sup> if he/she is among the five most highly compensated.</p> <p><u>Board Attestation</u></p> <p>2.20. Board attestation that an outside director is not independent.</p> <p><b>3. Independent Director</b></p> <p>3.1. No material ties to the company other than board seat.</p>
--	---

<p><u>Board Attestation</u></p> <p>2.20. Board attestation that an outside director is not independent.</p> <p>3. <b>Independent <del>Outside</del> Director (IO)</b></p> <p>3.1. No material ties to the company other than board seat.</p> <p><b>Footnotes:</b></p> <p>i "Affiliate" includes a subsidiary, sibling company, or parent company. ISS uses 50 percent control ownership by the parent company as the standard for applying its affiliate designation.</p> <p>ii Under this definition, officers of an entity and/or its affiliates holding more than 50 percent of the outstanding voting rights will be considered insiders.</p> <p>iii When there is a former CEO or other officer of a capital pool company (CPC) or special purpose acquisition company (SPAC) serving on the board of an acquired company, ISS will generally classify such directors as independent unless determined otherwise taking into account the following factors: the applicable listing standards determination of such director's independence; any operating ties to the firm; and the existence of any other conflicting relationships or related party transactions.</p> <p>iv The determination of a former CEO's classification following the five year cooling-off period will be considered on a case-by-case basis. Factors taken into consideration may include but are not limited to: management/board turnover, current or recent involvement in the company, whether the former CEO is or has been Executive Chairman of the board or a company founder, length of service with the company, any related party transactions, consulting arrangements, and any other factors that may reasonably be deemed to affect the independence of the former CEO.</p> <p>v ISS will look at the terms of the interim CEO's compensation or employment contract to determine if it contains severance pay, long-term health and pension benefits or other such standard provisions typically contained in contracts of permanent, non-temporary CEOs. ISS will also consider if a formal search process was underway for a full-time CEO.</p> <p>vi Relative refers to immediate family members including spouse, parents, children, siblings, in-laws and anyone sharing the director's home.</p> <p>vii Executive Officer will include: the CEO or CFO of the entity; the president of the entity; a vice-president of the entity in charge of a principal business unit, division or function; an officer of the entity or any of its subsidiary entities who</p>	<p><b>Footnotes:</b></p> <p>i "Affiliate" includes a subsidiary, sibling company, or parent company. ISS uses 50 percent control ownership by the parent company as the standard for applying its affiliate designation.</p> <p>ii Under this definition, officers of an entity and/or its affiliates holding more than 50 percent of the outstanding voting rights will be considered insiders.</p> <p>iii When there is a former CEO or other officer of a capital pool company (CPC) or special purpose acquisition company (SPAC) serving on the board of an acquired company, ISS will generally classify such directors as independent unless determined otherwise taking into account the following factors: the applicable listing standards determination of such director's independence; any operating ties to the firm; and the existence of any other conflicting relationships or related party transactions.</p> <p>iv The determination of a former CEO's classification following the five year cooling-off period will be considered on a case-by-case basis. Factors taken into consideration may include but are not limited to: management/board turnover, current or recent involvement in the company, whether the former CEO is or has been Executive Chairman of the board or a company founder, length of service with the company, any related party transactions, consulting arrangements, and any other factors that may reasonably be deemed to affect the independence of the former CEO.</p> <p>v ISS will look at the terms of the interim CEO's compensation or employment contract to determine if it contains severance pay, long-term health and pension benefits or other such standard provisions typically contained in contracts of permanent, non-temporary CEOs. ISS will also consider if a formal search process was underway for a full-time CEO.</p> <p>vi Relative refers to immediate family members including spouse, parents, children, siblings, in-laws and anyone sharing the director's home.</p> <p>vii Executive Officer will include: the CEO or CFO of the entity; the president of the entity; a vice-president of the entity in charge of a principal business unit, division or function; an officer of the entity or any of its subsidiary entities who performs a policy making function in respect of the entity; any other individual who performs a policy-making function in respect of the entity; or any executive named in the Summary Compensation Table.</p> <p>viii The terms "Currently", "Is" or "Has" in the context of Transactional, Professional, Financial, and Charitable Relationships will be defined as having been provided at any time within the most recently completed fiscal year and/or</p>
---	---

<p>performs a policy making function in respect of the entity; any other individual who performs a policy-making function in respect of the entity; or any executive named in the Summary Compensation Table.</p> <p><b>viii</b> The terms "Currently", "Is" or "Has" in the context of Transactional, Professional, Financial, and Charitable Relationships will be defined as having been provided at any time within the most recently completed fiscal year and/or having been identified at any time up to and including the annual shareholders' meeting.</p> <p><b>ix</b> Professional services can be characterized as advisory in nature, generally involve access to sensitive company information or to strategic decision-making, and typically have commission or fee-based payment structure. Professional services generally include, but are not limited to the following: investment banking/financial advisory services, commercial banking (beyond deposit services), investment services, insurance services, accounting/audit services, consulting services, marketing services, legal services, property management services, realtor services, lobbying services, executive search services and IT consulting services. "Of counsel" relationships are only considered immaterial if the individual does not receive any form of compensation from, or is a retired partner of, the firm providing the professional services. The following would generally be considered transactional relationships and not professional services: deposit services, IT tech support services, educational services, and construction services. The case of participation in a banking syndicate by a non-lead bank should be considered a transactional rather than a professional services relationship. The case of a company providing a professional service to one of its directors or to an entity with which one of its directors is affiliated, will be considered a transactional rather than a professional relationship. Insurance services and marketing services are assumed to be professional services unless the company explains why such services are not advisory.</p> <p><b>ix</b> If the company makes or receives annual payments exceeding the greater of \$200,000 or 5 percent of recipient's gross revenues (the recipient is the party receiving proceeds from the transaction).</p> <p><b>xi</b> "Material" is defined as a standard of relationship (financial, personal or otherwise) that a reasonable person might conclude could potentially influence one's objectivity in the boardroom in a manner that would have a meaningful impact on an individual's ability to satisfy requisite fiduciary standards on behalf of shareholders.</p> <p><b>xii</b> The company's public disclosure regarding the operating involvement of the Founder with the company will be considered. If the Founder was never</p>	<p>having been identified at any time up to and including the annual shareholders' meeting.</p> <p><b>ix</b> Professional services can be characterized as advisory in nature, generally involve access to sensitive company information or to strategic decision-making, and typically have commission or fee-based payment structure. Professional services generally include, but are not limited to the following: investment banking/financial advisory services, commercial banking (beyond deposit services), investment services, insurance services, accounting/audit services, consulting services, marketing services, legal services, property management services, realtor services, lobbying services, executive search services and IT consulting services. "Of counsel" relationships are only considered immaterial if the individual does not receive any form of compensation from, or is a retired partner of, the firm providing the professional services. The following would generally be considered transactional relationships and not professional services: deposit services, IT tech support services, educational services, and construction services. The case of participation in a banking syndicate by a non-lead bank should be considered a transactional rather than a professional services relationship. The case of a company providing a professional service to one of its directors or to an entity with which one of its directors is affiliated, will be considered a transactional rather than a professional relationship. Insurance services and marketing services are assumed to be professional services unless the company explains why such services are not advisory.</p> <p><b>x</b> If the company makes or receives annual payments exceeding the greater of \$200,000 or 5 percent of recipient's gross revenues (the recipient is the party receiving proceeds from the transaction).</p> <p><b>xi</b> "Material" is defined as a standard of relationship (financial, personal or otherwise) that a reasonable person might conclude could potentially influence one's objectivity in the boardroom in a manner that would have a meaningful impact on an individual's ability to satisfy requisite fiduciary standards on behalf of shareholders.</p> <p><b>xii</b> The company's public disclosure regarding the operating involvement of the Founder with the company will be considered. If the Founder was never employed by the company, ISS may deem the Founder as an independent outsider absent any other relationships that may call into question the founding director's ability to provide independent oversight of management.</p>
--	---



employed by the company, ISS may deem the Founder as an independent outsider absent any other relationships that may call into question the founding director's ability to provide independent oversight of management.	
---	--

### Rationale for Change:

To harmonize the ISS Categorization of Directors across markets, ISS is changing its nomenclature in Canada for the directors whom ISS does not classify as independent: from "Inside Director" and "Affiliated Outside Director" to "Executive Director" and "Non-Independent, Non-Executive Director". While the majority of current "Inside Directors" will be categorized as Executive Directors, the directors deemed "Inside Directors" due to their controlling interest and/or compensation levels in the company will be moved to the Non-Independent, Non-Executive Director category. This reclassification does not result in any vote recommendation changes, as the policies regarding Inside Directors serving on the key committees have been adjusted accordingly. ISS is also providing clarifications regarding Professional and Transactional services. The policies on Board Structure and Independence and Non-Independent Directors on Key Committees are updated for the nomenclature changes below:

### **Board Structure and Independence (TSX)**

<b>Current ISS Recommendation, incorporating policy changes:</b>	<b>New ISS Recommendation:</b>
<p><b>General Recommendation:</b> Vote withhold for any <del>insider or affiliated outside director</del> <b>Executive Director or Non-Independent, Non-Executive Director</b> where:</p> <ul style="list-style-type: none"> <li>› The board is less than majority independent; or</li> <li>› The board lacks a separate compensation or nominating committee.</li> </ul> <p><b>Rationale:</b> The balance of board influence should reside with independent directors free of any pressures or conflicts which might prevent them from objectively overseeing strategic direction, evaluating management effectiveness, setting appropriate executive compensation, maintaining internal control processes, and ultimately driving long-term shareholder value creation. Best practice corporate governance standards do not advocate that no inside directors sit on boards. Company <del>insiders</del> <b>executives</b> have extensive company knowledge and experience that provides a significant contribution to business decisions at the board level. In order to maintain, however, the independent balance of power necessary for independent directors to fulfill their oversight mandate and make difficult decisions that may run counter to management's self-interests, <del>insiders</del> <b>executives</b>, former <del>insiders</del> <b>executives</b> and other related directors should not dominate the board or continue to be involved on key board committees charged with the audit, compensation, and nomination responsibilities.</p>	<p><b>General Recommendation:</b> Vote withhold for any Executive Director or Non-Independent, Non-Executive Director where:</p> <ul style="list-style-type: none"> <li>› The board is less than majority independent; or</li> <li>› The board lacks a separate compensation or nominating committee.</li> </ul> <p><b>Rationale:</b> The balance of board influence should reside with independent directors free of any pressures or conflicts which might prevent them from objectively overseeing strategic direction, evaluating management effectiveness, setting appropriate executive compensation, maintaining internal control processes, and ultimately driving long-term shareholder value creation. Best practice corporate governance standards do not advocate that no inside directors sit on boards. Company executives have extensive company knowledge and experience that provides a significant contribution to business decisions at the board level. In order to maintain, however, the independent balance of power necessary for independent directors to fulfill their oversight mandate and make difficult decisions that may run counter to management's self-interests, executives, former executives and other related directors should not dominate the board or continue to be involved on key board committees charged with the audit, compensation, and nomination responsibilities.</p>



## Non-Independent Directors on Key Committees (TSX)

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p><b>General Recommendation:</b> Vote withhold for members of the audit, compensation, or nominating committee <del>individual directors</del> who:</p> <ul style="list-style-type: none"> <li>Are Executive Directors;</li> <li>Are Controlling Shareholders; or</li> <li>Is a Non-employee officer of the company or its affiliates if he/she is among the five most highly compensated.</li> <li><del>Are insiders on of the audit, compensation, or nominating committee.</del></li> </ul> <p><del>Include cautionary language for all affiliated outside directors who sit on the audit, compensation, or nominating committee, to the effect that corporate governance best practices dictate that such committees should be comprised entirely of independent directors.</del></p>	<p><b>General Recommendation:</b> Vote withhold for members of the audit, compensation, or nominating committee who:</p> <ul style="list-style-type: none"> <li>Are Executive Directors;</li> <li>Are Controlling Shareholders; or</li> <li>Is Non-employee officer of the company or its affiliates if he/she is among the five most highly compensated.</li> </ul>

## Non-Independent Directors on Key Committees (TSX-V)

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p><b>General Recommendation:</b> Vote withhold for <del>individual directors</del> Executive Directors, Controlling Shareholders or a Non-employee officer of the company or its affiliates if he/she is among the five most highly compensated who:</p> <ul style="list-style-type: none"> <li>Are <del>insiders</del> members of <del>on</del> the audit committee;</li> <li>Are <del>insiders on</del> members of the compensation committee or the nominating committee and the committee is not majority independent; or</li> <li>Are <del>insiders</del> board members and the entire board fulfills the role of a compensation committee or a nominating committee and the board is not majority independent.</li> </ul>	<p><b>General Recommendation:</b> Vote withhold for Executive Directors, Controlling Shareholders or a Non-employee officer of the company or its affiliates if he/she is among the five most highly compensated who:</p> <ul style="list-style-type: none"> <li>Are members of the audit committee;</li> <li>Are members of the compensation committee or the nominating committee and the committee is not majority independent; or</li> <li>Are board members and the entire board fulfills the role of a compensation committee or a nominating committee and the board is not majority independent.</li> </ul>

## Gender Diversity Policy (S&P/TSX Composite Index companies only)

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p><b>General Recommendation:</b> [No current policy]</p> <p>For S&amp;P/TSX Composite Index companies, generally vote withhold for the Chair of the Nominating Committee or Chair of the committee designated with the responsibility of a nominating committee, or Chair of the board of directors if no nominating committee has been identified or no chair of such committee has been identified, where:</p> <ul style="list-style-type: none"> <li>› The company has not disclosed a formal written gender diversity policy*; and</li> <li>› There are zero female directors on the board of directors.</li> </ul> <p>This policy will be applied to all TSX Companies starting in Feb 2019.</p> <p><i>* Per NI 58-101 and Form 58-101F1, the issuer should disclose whether it has adopted a written policy relating to the identification and nomination of women directors. The policy, if adopted, should provide a short summary of its objectives and key provisions; describe the measures taken to ensure that the policy has been effectively implemented; disclose annual and cumulative progress by the issuer in achieving the objectives of the policy, and whether and, if so, how the board or its nominating committee measures the effectiveness of the policy.</i></p> <p>The gender diversity policy should include a clear commitment to increase board gender diversity. Boilerplate or contradictory language may result in withhold recommendations for directors.</p> <p>The gender diversity policy should include measurable goals and/or targets denoting a firm commitment to increasing board gender diversity within a reasonable period of time.</p> <p>When determining a company's commitment to board gender diversity, consideration will also be given to the board's disclosed approach to considering gender diversity in executive officer positions and stated goals or targets or programs and processes for advancing women in executive officer roles, and how the success of such programs and processes is monitored.</p>	<p><b>General Recommendation:</b></p> <p>For S&amp;P/TSX Composite Index companies, generally vote withhold for the Chair of the Nominating Committee or Chair of the committee designated with the responsibility of a nominating committee, or Chair of the board of directors if no nominating committee has been identified or no chair of such committee has been identified, where:</p> <ul style="list-style-type: none"> <li>› The company has not disclosed a formal written gender diversity policy*; and</li> <li>› There are zero female directors on the board of directors.</li> </ul> <p>This policy will be applied to all TSX Companies starting in Feb 2019.</p> <p><i>*Per NI 58-101 and Form 58-101F1, the issuer should disclose whether it has adopted a written policy relating to the identification and nomination of women directors. The policy, if adopted, should provide a short summary of its objectives and key provisions; describe the measures taken to ensure that the policy has been effectively implemented; disclose annual and cumulative progress by the issuer in achieving the objectives of the policy, and whether and, if so, how the board or its nominating committee measures the effectiveness of the policy.</i></p> <p>The gender diversity policy should include a clear commitment to increase board gender diversity. Boilerplate or contradictory language may result in withhold recommendations for directors.</p> <p>The gender diversity policy should include measurable goals and/or targets denoting a firm commitment to increasing board gender diversity within a reasonable period of time.</p> <p>When determining a company's commitment to board gender diversity, consideration will also be given to the board's disclosed approach to considering gender diversity in executive officer positions and stated goals or targets or programs and processes for advancing women in executive officer roles, and how the success of such programs and processes is monitored.</p>

<p><b>Exemptions:</b></p> <p>This policy will not apply to:</p> <ul style="list-style-type: none"> <li>› Newly publicly listed companies within the current or prior fiscal year;</li> <li>› Companies that have transitioned from the TSXV within the current or prior fiscal year; or</li> <li>› Companies with four or fewer directors.</li> </ul>	<p><b>Exemptions:</b></p> <p>This policy will not apply to:</p> <ul style="list-style-type: none"> <li>› Newly publicly listed companies within the current or prior fiscal year;</li> <li>› Companies that have transitioned from the TSXV within the current or prior fiscal year; or</li> <li>› Companies with four or fewer directors.</li> </ul>
---	---

### Rationale for Change:

Gender diversity has become a high profile corporate governance issue in the Canadian market since the Canadian Securities Regulators implemented revised [National Instrument 58-101 Disclosure of Corporate Governance Practices](#) that became effective prior to 2015 proxy season. NI 58-101 includes a requirement that companies disclose whether, and if so how, the board or nominating committee considers the level of representation of women on the board in identifying and nominating candidates for election or re-election to the board. Also required is disclosure of targets regarding the representation of women on the board. The disclosure requirement has been a catalyst for the addition of women on the boards of many larger TSX-listed reporting issuers, including Composite Index companies. However, among non-Composite Index TSX-listed issuers, many have disclosed that they have not adopted a gender diversity policy, or goals or targets in this regard. Further, approximately 50 percent do not have any women on the board of directors.

In addition, the Canadian Coalition for Good Governance (CCGG), whose members comprise institutional investors who together manage approximately \$3 trillion in assets, has espoused the need to enhance gender diversity on boards in its October [2015 Board Gender Diversity Policy](#). CCGG states that it views the underrepresentation of women on boards to be a governance issue and therefore an appropriate policy focus for CCGG.

Canadian institutional investors have already begun to indicate their frustration with the slow movement of lagging boards of directors in this regard, by increasingly developing voting policies and withholding votes from nominating committee members or board members responsible for board recruitment. During a summer roundtable discussion on the topic, ISS' Canadian institutional clients overwhelmingly supported the adoption of a board gender diversity policy. They also indicated that the policy should apply to all TSX companies, with a few indicating that size may be a consideration for policy application so as not to onerously burden the smallest TSX companies where it may be impractical to add women to the board of directors. Further, some indicated that over time the policy expectation should be increased to only support a critical mass of 20 to 30 percent of each board comprising female directors. General consensus was expressed that the rigor of the disclosed policies, if any, should also be taken into account and that, in addition to the absence of any targets or goals, boilerplate language, or contradictory language that appears to dismiss the importance of diversity in the boardroom, should be found unacceptable under the policy. Client participants also supported that withhold votes should be recommended for either the chair of the nominating committee or the entire nominating committee or other directors charged with the responsibility of the nominating committee.

Based on institutional investor feedback obtained during roundtable discussions, one-on-one client meetings, and the comment period, many of the clients canvassed supported a one-year transition before implementing the new policy for non-Composite Index companies. Therefore, ISS will not implement the new policy for these smaller non-Composite Index companies until February 2019.

According to ISS' 2017-2018 Governance Principles Survey, 69 percent of investor respondents replied that they could consider it problematic if there were no female directors on a public company board: 43 percent said that the absence of women directors could indicate problems in the board recruitment process, while 26 percent

indicated concerns could be mitigated if there is a disclosed policy/approach that describes the considerations taken into account/or statements to increase gender diversity. A majority (54 percent) of non-investor respondents answered "yes" (could be problematic), although more than half of these respondents said their concerns might be mitigated by a company's disclosed policy or approach.

The new policy aligns with ISS client expectations and recommended best market practices in board gender diversity.

## Overboarding (TSX only)

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p><b>General Recommendation: (in effect until January 31, 2019):</b> Generally vote withhold for individual director nominees if:</p> <ul style="list-style-type: none"> <li>› Irrespective of whether the company has adopted a majority voting director resignation policy, the director is overboarded<sup>10</sup> AND the individual director has attended less than 75 percent of his/her respective board and committee meetings held within the past year without a valid reason for these absences.</li> </ul> <p>Cautionary language will be included in ISS reports where directors are overboarded regardless of attendance.</p> <p><b>For meetings on or after February 1, 2019, generally vote withhold for individual director nominees who:</b></p> <ul style="list-style-type: none"> <li>› Are non-CEO directors and serve on more than five public company boards; or</li> <li>› Are CEOs of public companies who serve on the board of more than two public company besides their own – withhold only at their outside boards<sup>11</sup>.</li> </ul>	<p><b>General Recommendation:</b> (in effect until January 31, 2019): Generally vote withhold for individual director nominees if:</p> <ul style="list-style-type: none"> <li>› Irrespective of whether the company has adopted a majority voting director resignation policy, the director is overboarded<sup>10</sup> AND the individual director has attended less than 75 percent of his/her respective board and committee meetings held within the past year without a valid reason for these absences.</li> </ul> <p>Cautionary language will be included in ISS reports where directors are overboarded regardless of attendance.</p> <p><b>For meetings on or after February 1, 2019, generally vote withhold for individual director nominees who:</b></p> <ul style="list-style-type: none"> <li>› Are non-CEO directors and serve on more than five public company boards; or</li> <li>› Are CEOs of public companies who serve on the board of more than two public company besides their own – withhold only at their outside boards<sup>11</sup>.</li> </ul>

### Rationale for Change:

The removal of the attendance factor from the overboarding policy combined with revised overboarding thresholds will further align Canadian ISS policy with feedback received from Canadian institutional investors during roundtable discussions and one-on-one policy outreach meetings. Additionally, the approach is intended to align with the policy approach of global institutional investors. Given the large number of Canadian issuers that are dual-listed in both Canada and the US, institutional investors have also indicated in ISS' 2017 comment period that it would be appropriate to harmonize ISS' Canadian and US overboarding thresholds. The updated thresholds are also aligned with those [recommended](#) by the Canadian Coalition for Good Governance (CCGG). Commenters also requested that subsidiary boards (>50 percent owned) upon which the parent company CEO serves, be exempted when determining the vote recommendation for the CEO under this policy, which further aligns the Canadian overboarding policy with the approach under the current U.S. policy.

A one-year transition period on the implementation of the updated policy has been provided to allow directors adequate time to address overboarding instances, if they so choose. As such, the updated policy will be in effect commencing February 2019.

<sup>10</sup> "Overboarded" is defined by ISS as: a CEO of a public company who sits on more than 1 outside public company board in addition to the company of which he/she is CEO, OR the director is not a CEO of a public company and sits on more than 4 public company boards in total.

<sup>11</sup> Although a CEO's subsidiary boards will be counted as separate boards, ISS will not recommend a withhold vote for the CEO of a parent company board or any of the controlled (>50 percent ownership) subsidiaries of that parent, but may do so at subsidiaries that are less than 50 percent controlled and boards outside the parent/subsidiary relationship.

## Policy Considerations for Majority-Owned Companies (TSX only)

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p><b>Policy Considerations for Majority Owned Companies<sup>12</sup></b></p> <p>ISS policies support a one-share, one-vote principle. In recognition of the substantial equity stake held by certain shareholders, on a case-by-case basis, director nominees who are or who represent a controlling shareholder of a majority owned company <del>and who will be designated as controlling insiders</del> may be supported under ISS' board and committee independence policies if the company meets all of the following independence and governance criteria:</p> <ul style="list-style-type: none"> <li>➤ <del>Individually elected directors;</del></li> <li>➤ The number of directors related to the controlling shareholder should not exceed the proportion of common shares controlled by the controlling shareholder. In no event, however, should the number of directors related to the controlling shareholder exceed two-thirds of the board;</li> <li>➤ In addition to the above, if the CEO is related to the controlling shareholder, no more than one-third of the board should be related to management (as distinct from the controlling shareholder);</li> <li>➤ If the CEO and chair roles are combined or the CEO is or is related to the controlling shareholder, then there should be an independent lead director and the board should have an effective and transparent process to deal with any conflicts of interest between the company, minority shareholders, and the controlling shareholder;</li> <li>➤ A majority of the audit and nominating committees should be either independent directors or related directors who are independent of management. All members of the compensation committee should be independent of management. If the CEO is related to the controlling shareholder, no more than one member of the compensation committee should be a related director; <del>and</del></li> <li>➤ Prompt disclosure of detailed vote results following each shareholder meeting; <del>and</del></li> </ul>	<p><b>Policy Considerations for Majority Owned Companies<sup>13</sup></b></p> <p>ISS policies support a one-share, one-vote principle. In recognition of the substantial equity stake held by certain shareholders, on a case-by-case basis, director nominees who are or who represent a controlling shareholder of a majority owned company may be supported under ISS' board and committee independence policies if the company meets all of the following independence and governance criteria:</p> <ul style="list-style-type: none"> <li>➤ The number of directors related to the controlling shareholder should not exceed the proportion of common shares controlled by the controlling shareholder. In no event, however, should the number of directors related to the controlling shareholder exceed two-thirds of the board;</li> <li>➤ In addition to the above, if the CEO is related to the controlling shareholder, no more than one-third of the board should be related to management (as distinct from the controlling shareholder);</li> <li>➤ If the CEO and chair roles are combined or the CEO is or is related to the controlling shareholder, then there should be an independent lead director and the board should have an effective and transparent process to deal with any conflicts of interest between the company, minority shareholders, and the controlling shareholder;</li> <li>➤ A majority of the audit and nominating committees should be either independent directors or related directors who are independent of management. All members of the compensation committee should be independent of management. If the CEO is related to the controlling shareholder, no more than one member of the compensation committee should be a related director; and</li> <li>➤ Prompt disclosure of detailed vote results following each shareholder meeting.</li> </ul>

<sup>12</sup> A majority owned company is defined for the purpose of this policy as a company controlled by a shareholder or group of shareholders who together have an economic ownership interest under a single class common share capital structure that is commensurate with their voting entitlement of 50 percent or more of the outstanding common shares.

<p><del>Adoption of a majority voting director resignation policy for uncontested elections OR public commitment to adopt a majority voting director resignation policy for uncontested elections if the controlling shareholder ceases to control 50 percent or more of the common shares.<sup>43</sup></del></p> <p>ISS will also consider the following:</p> <ul style="list-style-type: none"> <li><del>The nominating committee's process to receive and discuss suggestions from shareholders for potential director nominees; and</del></li> <li><del>If the CEO is related to the Controlling Shareholder, the board's process to evaluate the performance, leadership, compensation, and succession of management should be led by independent directors;</del></li> </ul> <p>ISS will also take into consideration any other concerns related to the conduct of the subject director(s) and any controversy or questionable actions on the part of the subject director(s) that are deemed not to be in the best interests of all shareholders.</p>	<p>ISS will also take into consideration any other concerns related to the conduct of the subject director(s) and any controversy or questionable actions on the part of the subject director(s) that are deemed not to be in the best interests of all shareholders.</p>
---	---

### Rationale for Change:

These policy changes update the majority-owned exemption policy to remove provisions that are now required under exchange rules or are deemed extraneous in the policy's application.

TSX-listed issuers are required to provide shareholders with the ability to vote on each individual director on the ballot. Additionally, all non-controlled companies listed on the TSX are required to adopt a majority voting and director resignation policy. Although controlled entities listed on the TSX may opt to voluntarily adopt a majority voting director resignation policy or otherwise disclose the rationale for not doing so, the inclusion of such a provision for a controlled entity is of limited benefit to minority shareholders. If a situation develops whereby the company is no longer controlled, the company will be required to adopt a majority voting policy consistent with other non-controlled companies listed on the TSX exchange. As such, penalizing controlled companies which have otherwise established governance practices to ensure accountability to minority shareholders and appropriate oversight of management functions may be contrary to the original premise and rationale for this policy exemption.

<sup>43</sup> ~~Effective June 30, 2014, TSX-listed issuers which are not majority controlled were required to adopt majority voting director resignation policies. Majority controlled companies which do not elect to voluntarily adopt a majority voting director resignation policy are required to disclose their rationale for not doing so.~~

## Shareholder Rights & Defenses

### Advance Notice Requirements (TSX and TSX-V)

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p><b>General Recommendation:</b> Vote case-by-case on proposals to adopt or amend an advance notice board policy or to adopt or amend articles or by-laws containing or adding an advance notice requirement. These provisions will be evaluated to ensure that all of the provisions included within the requirement solely support the stated purpose of the requirement. The purpose of advance notice requirements, as generally stated in the market, is:</p> <ul style="list-style-type: none"> <li>› To prevent stealth proxy contests;</li> <li>› To provide a reasonable framework for shareholders to nominate directors by allowing shareholders to submit director nominations within a reasonable timeframe; and</li> <li>› To provide all shareholders with sufficient information about potential nominees in order for them to make informed voting decisions on such nominees.</li> </ul> <p>Features that may be considered problematic under ISS' evaluation include but are not limited to:</p> <ul style="list-style-type: none"> <li>› For annual notice of meeting given not less than 50 days prior to the meeting date, the notification timeframe within the advance notice requirement should allow shareholders the ability to provide notice of director nominations at any time not less than 30 days prior to the shareholders' meeting. The notification timeframe should not be subject to any maximum notice period. If notice of annual meeting is given less than 50 days prior to the meeting date, a provision to require shareholder notice by close of business on the 10th day following first public announcement of the annual meeting is supportable. In the case of a special meeting, a requirement that a nominating shareholder must provide notice by close of business on the 15th day following first public announcement of the special shareholders' meeting is also acceptable;</li> <li>› The board's inability to waive all sections of the advance notice provision under the policy or bylaw, in its sole discretion;</li> </ul>	<p><b>General Recommendation:</b> Vote case-by-case on proposals to adopt or amend an advance notice board policy or to adopt or amend articles or by-laws containing or adding an advance notice requirement. These provisions will be evaluated to ensure that all of the provisions included within the requirement solely support the stated purpose of the requirement. The purpose of advance notice requirements, as generally stated in the market, is:</p> <ul style="list-style-type: none"> <li>› To prevent stealth proxy contests;</li> <li>› To provide a reasonable framework for shareholders to nominate directors by allowing shareholders to submit director nominations within a reasonable timeframe; and</li> <li>› To provide all shareholders with sufficient information about potential nominees in order for them to make informed voting decisions on such nominees.</li> </ul> <p>Features that may be considered problematic under ISS' evaluation include but are not limited to:</p> <ul style="list-style-type: none"> <li>› For annual notice of meeting given not less than 50 days prior to the meeting date, the notification timeframe within the advance notice requirement should allow shareholders the ability to provide notice of director nominations at any time not less than 30 days prior to the shareholders' meeting. The notification timeframe should not be subject to any maximum notice period. If notice of annual meeting is given less than 50 days prior to the meeting date, a provision to require shareholder notice by close of business on the 10th day following first public announcement of the annual meeting is supportable. In the case of a special meeting, a requirement that a nominating shareholder must provide notice by close of business on the 15th day following first public announcement of the special shareholders' meeting is also acceptable;</li> <li>› The board's inability to waive all sections of the advance notice provision under the policy or bylaw, in its sole discretion;</li> </ul>



<ul style="list-style-type: none"> <li>› A requirement that any nominating shareholder provide representation that the nominating shareholder be present at the meeting in person or by proxy at which his or her nominee is standing for election for the nomination to be accepted, notwithstanding the number of votes obtained by such nominee;</li> <li>› A requirement that any proposed nominee deliver a written agreement wherein the proposed nominee acknowledges and agrees, in advance, to comply with all policies and guidelines of the company that are applicable to directors;</li> <li>› Any provision that restricts the notification period to that established for the originally scheduled meeting in the event that the meeting has been adjourned or postponed;</li> <li><del>› Any additional disclosure requests within the advance notice requirement or the company's ability to require additional disclosure that exceeds that required within a dissident proxy circular or that goes beyond that necessary to determine director nominee qualifications, relevant experience, shareholding or voting interest in the company, or independence in the same manner as would be required and disclosed for management nominees; and in any event where there is no indication from the company that such additional disclosure, if requested and received, will be made publicly available to shareholders;</del></li> <li>› Any disclosure request within the advance notice requirement, or the company's ability to request additional disclosure of the nominating shareholder(s) or the shareholder nominee(s) that: exceeds what is required in a dissident proxy circular; goes beyond what is necessary to determine director nominee qualifications, relevant experience, shareholding or voting interest in the company, or independence in the same manner as would be required for management nominees; or, goes beyond what is required under law or regulation;</li> <li>› Stipulations within the provision that the corporation will not be obligated to include any information provided by dissident director nominees or nominating shareholders in any shareholder communications, including the proxy statement; and</li> <li>› Any other feature or provision determined to have a negative impact on shareholders' interests and deemed outside the purview of the stated purpose of the advance notice requirement.</li> </ul>	<ul style="list-style-type: none"> <li>› A requirement that any nominating shareholder provide representation that the nominating shareholder be present at the meeting in person or by proxy at which his or her nominee is standing for election for the nomination to be accepted, notwithstanding the number of votes obtained by such nominee;</li> <li>› A requirement that any proposed nominee deliver a written agreement wherein the proposed nominee acknowledges and agrees, in advance, to comply with all policies and guidelines of the company that are applicable to directors;</li> <li>› Any provision that restricts the notification period to that established for the originally scheduled meeting in the event that the meeting has been adjourned or postponed;</li> <li>› Any disclosure request within the advance notice requirement, or the company's ability to request additional disclosure of the nominating shareholder(s) or the shareholder nominee(s) that: exceeds what is required in a dissident proxy circular; goes beyond what is necessary to determine director nominee qualifications, relevant experience, shareholding or voting interest in the company, or independence in the same manner as would be required for management nominees; or, goes beyond what is required under law or regulation;</li> <li>› Stipulations within the provision that the corporation will not be obligated to include any information provided by dissident director nominees or nominating shareholders in any shareholder communications, including the proxy statement; and</li> <li>› Any other feature or provision determined to have a negative impact on shareholders' interests and deemed outside the purview of the stated purpose of the advance notice requirement.</li> </ul>
--	---

**Rationale for Change:**

This policy update aligns ISS policy with TSX guidance, which was published on March 9, 2017 (Staff Notice 2017-001), that clarified that a provision contained within an advance notice provision (ANP) "requiring the nominating security holder to be present at the meeting at which his or her nominee is standing for election for the nomination to be accepted, notwithstanding the number of votes obtained by such nominee" would not be "consistent with the policy objectives of the Director Election Requirement."

Such provision would be in contravention of the stated purpose of an ANP, which is to: a) provide an orderly and efficient shareholder meeting process; b) ensure that all shareholders receive adequate notice of any director nominations and sufficient information with respect to all nominees; and c) allow shareholders to register an informed vote having been afforded reasonable time for appropriate deliberation.

The policy clarification is designed to eliminate any possibility of including broad discretion to require additional information as long as the request for additional information has been publicly disclosed.

## Compensation

### Pay for Performance Evaluation (TSX)

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p>Vote against MSOP proposals and/or vote withhold for compensation committee members (or, in rare cases where the full board is deemed responsible, all directors including the CEO) and/or against an equity-based incentive plan proposal if:</p> <ul style="list-style-type: none"> <li>There is significant long-term misalignment between CEO pay and company performance.</li> </ul> <p>The determination of long-term pay for performance alignment is a two-step process: step one is a quantitative screen, which includes a relative and absolute analysis on pay for performance, and step two is a qualitative assessment of the CEO's pay and company performance. A pay for performance disconnect will be determined as follows:</p> <p><b>Step I: Quantitative Screen</b></p> <p><b>Relative:</b></p> <ul style="list-style-type: none"> <li>The Relative Degree of Alignment (RDA) is the difference between the company's annualized TSR rank and the CEO's annualized total pay rank within a peer group, each measured over a three-year period or less if pay or performance data is unavailable for the full three years;</li> <li>The rankings of CEO total pay and company financial performance within a peer group, each measured over a three-year period;</li> <li>Multiple of Median (MOM) is the total compensation in the last reported fiscal year relative to the median compensation of the peer group; and</li> </ul> <p><b>Absolute:</b></p> <ul style="list-style-type: none"> <li>The CEO Pay-to-TSR Alignment (PTA) over the prior five fiscal years, i.e., the difference between absolute pay changes and absolute TSR changes during the prior five-year period (or less as company disclosure permits).</li> </ul>	<p>Vote against MSOP proposals and/or vote withhold for compensation committee members (or, in rare cases where the full board is deemed responsible, all directors including the CEO) and/or against an equity-based incentive plan proposal if:</p> <ul style="list-style-type: none"> <li>There is significant long-term misalignment between CEO pay and company performance.</li> </ul> <p>The determination of long-term pay for performance alignment is a two-step process: step one is a quantitative screen, which includes a relative and absolute analysis on pay for performance, and step two is a qualitative assessment of the CEO's pay and company performance. A pay for performance disconnect will be determined as follows:</p> <p><b>Step I: Quantitative Screen</b></p> <p><b>Relative:</b></p> <ul style="list-style-type: none"> <li>The Relative Degree of Alignment (RDA) is the difference between the company's annualized TSR rank and the CEO's annualized total pay rank within a peer group, each measured over a three-year period or less if pay or performance data is unavailable for the full three years;</li> <li>The rankings of CEO total pay and company financial performance within a peer group, each measured over a three-year period;</li> <li>Multiple of Median (MOM) is the total compensation in the last reported fiscal year relative to the median compensation of the peer group; and</li> </ul> <p><b>Absolute:</b></p> <p>The CEO Pay-to-TSR Alignment (PTA) over the prior five fiscal years, i.e., the difference between absolute pay changes and absolute TSR changes during the prior five-year period (or less as company disclosure permits).</p>

**Rationale for Change:**

This update reflects the incorporation of the Relative Financial Performance Assessment into the Canadian quantitative pay-for-performance evaluation methodology. The Relative Financial Performance Assessment compares the company's rankings to a peer group with respect to (i) CEO pay and (ii) financial performance in three or four metrics (which will vary depending on industry), in each case as measured over three years. Specific details around the mechanics of the updated quantitative screening methodology will be provided in an updated white paper.

## BRAZIL

## Compensation

## Equity Compensation Plans – Bonus Matching Plans

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p><b>General Recommendation:</b> ISS will generally support reasonable equity pay plans that encourage long-term commitment and ownership by its recipients without posing significant risks to shareholder value.</p> <p>Practically all of the plans presented since the implementation of the 2009 CVM guidelines have included reasonable dilution limits and adequate vesting conditions. Performance criteria, meanwhile, are rarely disclosed. ISS' assessments of these plans have generally hinged on the presence of discounted exercise prices (which are common in Brazil), particularly in the absence of specific performance criteria.</p> <p>Vote against a stock option plan and/or restricted share plan, or an amendment to the plan, if:</p> <ul style="list-style-type: none"> <li>› The plan lacks a minimum vesting cycle of three years; <del>and/or</del></li> <li>› The plan permits options to be issued with an exercise price at a discount to the current market price, or permits restricted shares to be awarded (essentially shares with a 100 percent discount to market price), in the absence of explicitly stated, challenging performance hurdles related to the company's historical financial performance or the industry benchmarks; <del>and/or</del></li> <li>› The maximum dilution exceeds ISS guidelines of 5 percent of issued capital for a mature company and 10 percent for a growth company. However, ISS will support plans at mature companies with dilution levels up to 10 percent if the plan includes other positive features such as challenging performance criteria and meaningful vesting periods, as these features partially offset dilution concerns by reducing the likelihood that options will become exercisable unless there is a clear improvement in shareholder value; <del>and/or</del></li> <li>› Directors eligible to receive options under the scheme are involved in the administration of the plan.</li> </ul>	<p><b>General Recommendation:</b> ISS will generally support reasonable equity pay plans that encourage long-term commitment and ownership by its recipients without posing significant risks to shareholder value.</p> <p>Practically all of the plans presented since the implementation of the 2009 CVM guidelines have included reasonable dilution limits and adequate vesting conditions. Performance criteria, meanwhile, are rarely disclosed. ISS' assessments of these plans have generally hinged on the presence of discounted exercise prices (which are common in Brazil), particularly in the absence of specific performance criteria.</p> <p>Vote against a stock option plan and/or restricted share plan, or an amendment to the plan, if:</p> <ul style="list-style-type: none"> <li>› The plan lacks a minimum vesting cycle of three years;</li> <li>› The plan permits options to be issued with an exercise price at a discount to the current market price, or permits restricted shares to be awarded (essentially shares with a 100 percent discount to market price), in the absence of explicitly stated, challenging performance hurdles related to the company's historical financial performance or the industry benchmarks;</li> <li>› The maximum dilution exceeds ISS guidelines of 5 percent of issued capital for a mature company and 10 percent for a growth company. However, ISS will support plans at mature companies with dilution levels up to 10 percent if the plan includes other positive features such as challenging performance criteria and meaningful vesting periods, as these features partially offset dilution concerns by reducing the likelihood that options will become exercisable unless there is a clear improvement in shareholder value; or</li> <li>› Directors eligible to receive options under the scheme are involved in the administration of the plan.</li> </ul>

<p>Specifically for share matching plans, in addition to the abovementioned factors, vote against the plan, or an amendment to the plan, if:</p> <ul style="list-style-type: none"> <li>› The shares to be acquired by the participant to become eligible to the share matching plan lack a minimum three-year lock-up period.</li> </ul> <p>Furthermore, for share matching plans with no disclosed performance criteria, ISS will recommend against the plan if:</p> <ul style="list-style-type: none"> <li>› The shares of the initial investment may be purchased by the participant at a discount to the market price;</li> <li>› The initial investment is made using resources other than the annual variable remuneration received by the participant; or</li> <li>› The plan lacks a reasonable ratio between the number of shares awarded by the company (matching) and each share acquired by the participant.</li> </ul>	<p>Specifically for share matching plans, in addition to the abovementioned factors, vote against the plan, or an amendment to the plan, if:</p> <ul style="list-style-type: none"> <li>› The shares to be acquired by the participant to become eligible to the share matching plan lack a minimum three-year lock-up period.</li> </ul> <p>Furthermore, for share matching plans with no disclosed performance criteria, ISS will recommend against the plan if:</p> <ul style="list-style-type: none"> <li>› The shares of the initial investment may be purchased by the participant at a discount to the market price;</li> <li>› The initial investment is made using resources other than the annual variable remuneration received by the participant; or</li> <li>› The plan lacks a reasonable ratio between the number of shares awarded by the company (matching) and each share acquired by the participant.</li> </ul>
--	--

### Rationale for Change:

Since the publication of Instruction 481 by the Brazilian Securities Regulator (CVM) in December 2009, effective as of January 2010, companies are required to publish all features relevant to equity plans at least 15 days prior to the meeting date. According to the regulation, Brazilian companies should, at a minimum, disclose detailed information regarding potential dilution, exercise prices, vesting features, and performance criteria. The first equity plans to be presented for shareholder approval were almost exclusively stock option plans, but in recent years the Brazilian market saw a diversification of equity compensation plans. The first wave of diversification came with the introduction of restricted share plans, which are now among the most frequently seen equity compensation proposals in the market. In 2017, a new equity compensation format was adopted by the market, bonus matching plans, along with a material increase in the overall number of equity compensation proposals presented by Brazilian companies for shareholder approval.

The 2017 proxy season registered a 63.6 percent increase in the number of equity compensation plans analyzed by ISS for Brazil. Although absolute numbers of such proposals remain low, during the most recent proxy season a total of 18 equity compensation proposals were presented for shareholder approval, from 11 plans presented in 2016. Out of the 18 equity plans analyzed during proxy season, eight were bonus matching plans. Since then, at least two other bonus matching plans have been presented for shareholder approval in the Brazilian market, indicating a potential trend in the country's remuneration practices. No Bonus Matching Plans had been presented for shareholder approval in 2016, while in 2015 there were only two such proposals (one during proxy season and one outside of season).

Contrarily to other plans adopted in the Brazilian market, bonus matching plans require an initial investment by the participant through the use of his/her annual variable remuneration for the purchase of company's shares. The existence of a ratio between the plan's participant and the matching shares granted by the company is a feature that is currently not covered by the Brazilian policy guidelines. In addition, the current policy does not recommend a minimum lock-up period for the shares initially acquired by the plan's participant and the price to be paid for the acquired shares under the plan. As such, an update of the Brazilian policy for equity compensation plans is required in light of recent changes in market practice.

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.



---

## The Global Leader In Corporate Governance

[www.issgovernance.com](http://www.issgovernance.com)