



## CANADIAN PROXY ADVISORS ISSUE 2023 POLICY GUIDELINES

December 2022

Institutional Shareholder Services (ISS) and Glass Lewis have released their 2023 proxy voting guidelines for Canadian issuers – these are annual updates of the policies and perspectives used to make vote recommendations to investors.

Voting guidelines are summarized for a wide range of topics. Below we share updates specific to board of director compensation, executive compensation, and environmental, social and governance (ESG) topics, applicable for TSX-listed issuers.

Overall, the updates for 2023 are not substantive. In our view the primary takeaway is that policies remain similar, with no methodology changes to the quantitative or qualitative pay for performance analyses that influence vote recommendations for Say on Pay.

### ISS CANADA

#### Board of Director Compensation – Deferred Share Unit Plans

For TSX companies, ISS has slightly revised its policy text on Deferred Share Unit (DSU) plans for directors. Where a treasury-share settled DSU plan is presented for shareholder approval, ISS will continue to support the program if it meets certain conditions, consistent with legacy voting practices (no change). The change for 2023 provides ISS with enhanced flexibility to evaluate the equity plan proposal – “to assess whether a DSU plan is deemed to be overall beneficial to shareholders’ interest when determining vote recommendations.”

#### Board Gender Diversity

For TSX Composite Index companies in the past, ISS would generally recommend voting “Withhold” for the Chair of the Nominating Committee (or other relevant Committee), or the Chair of the Board where (i) female representation on the board was less than 30%, and (ii) the issuer did not have a formal policy to achieve at least 30% before the next Annual General Meeting (AGM). For 2023, ISS has modified its policy, requiring representation of 30%, unless the issuer is new to the Composite Index, or has fallen below 30% due to extraordinary circumstances.

For other TSX issuers (not listed on the Composite Index), ISS will continue to recommend voting “Withhold” where there are zero women on the board, unless the company is newly listed on the TSX, or has four or less directors.

#### Board Racial and/or Ethnic Diversity

New for AGMs on or after February 1, 2024, ISS will generally recommend voting “Against” or “Withhold” for the Chair of the Nominating Committee (or other relevant Committee), or the Chair of the Board if there are zero racially or ethnically diverse members. Exception will be made if there was diversity in the past, and the board makes a public commitment to improve board diversity before the next AGM.

Note: for ISS, racial and/or ethnic diversity is defined as aboriginal peoples, and members of visible minorities (non-Caucasian in race).

### Climate Accountability

New for 2023, applicable to issuers that are viewed to be significant greenhouse gas (GHG) emitters through their operations or value chain (currently 166 global companies listed on the “Climate Action 100+” list), ISS will generally recommend voting “Against” or “Withhold” for the relevant Committee Chair where ISS views the company not providing sufficient disclosure of climate-related risks and does not have appropriate GHG emissions targets. Reduction targets could be medium-term, or Net Zero-by-2050 for the majority of the company’s direct emissions (Scope 1 and electricity use as part of Scope 2). At this time, details on “appropriate targets” are not defined / disclosed.

## GLASS LEWIS CANADA

### Long-term Incentive Awards

Historically Glass Lewis has encouraged organizations to include “performance-based equity” (limited to performance shares / units and performance stock options) in their long-term incentive portfolio, with at least 33% weight.

Starting in 2023, Glass Lewis will flag concern where performance-based equity is less than 50% weight and may issue an against vote recommendation on Say on Pay (or the election of the human resources committee chair) where there are other significant concerns with pay practices. At least 50% weight on performance-based equity aligns with the perspectives of ISS and many institutional investors in Canada.

### Disclosure of Incentive Award Decisions

For 2023, Glass Lewis has clarified its perspective on a few different executive incentive plan topics – these are not new voting guidelines, but minor amendments have been made to encourage enhanced disclosure of certain pay decisions:

- One-time awards – Glass Lewis discourages the use of one-time incentive awards / grants. Where provided, disclosure should include a description of the awards, explanation of their necessity, why existing awards are insufficient, and how the quantum and structure of the awards were determined.
- Outsized awards, or “mega-grants” – Glass Lewis will review these programs closely, encouraging clear disclosure of plan terms, with an expectation that supplemental grants will not be awarded during the vesting period of front-loaded grants.
- Committee discretion – Glass Lewis acknowledges the importance of the human resources committee using judgement to evaluate performance in response to unplanned events. Where adjustments are made (or not made) to performance measures and award decisions, disclosure should include a thorough discussion of the rationale.

### Board Gender Diversity

Last year, for TSX companies, Glass Lewis would generally recommend voting against the chair of the nominating committee where there was fewer than two women on the board, or the entire committee if there were no female directors. For 2023 (as signaled last year), Glass Lewis will shift to a percentage-based approach, voting against the committee chair where there is less than 30% women and the full committee where there is 0%.

Before issuing a vote recommendation, Glass Lewis will consider a company’s disclosure of any rationale or plans to improve board diversity.

### Board Oversight of Defined Risks

Glass Lewis has updated its policies or added new policies for 2023 to encourage disclosure of the board’s oversight on certain risks, including environmental and social risk, cyber risk, and climate risk:

## Southlea Group

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- Generally recommend voting against the governance committee chair where there is no explicit disclosure of the board's oversight role of environmental and social risk
- May recommend against appropriate directors where the disclosure of cyber risk oversight is viewed to be insufficient and where instances of cyber-attacks cause significant harm to the organization and shareholders
- May recommend voting against certain directors where companies with increased climate risk exposure have not provided climate-related disclosure in compliance with the Task Force on Climate-related Financial Disclosure (TCFD) and / or have not clearly defined the board's oversight of climate-related issues

### Director Commitments

Executive officers of a public company who serve on more than one additional external public company board will be considered overcommitted ("overboarded") and may receive an "against" vote recommendation. This is a change from past years where Glass Lewis viewed excessive commitments to be more than two public company boards for an active executive officer.

## ABOUT US

Southlea Group ([www.southlea.com](http://www.southlea.com)) is a national independent compensation advisory firm that provides global perspectives as a GECN Group company ([www.gecn.com](http://www.gecn.com)). We are headquartered in Toronto, with clients across Canada, representing all industries and organization structures. Our team of advisors is multi-disciplined with diverse backgrounds and experiences. We are proud to be a certified Women's Business Enterprise by WBE Canada and to be Rainbow Registered as an LGBT+ friendly organization.

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