

ISS AND GLASS LEWIS UPDATE GUIDELINES FOR 2022 (CANADA)

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[Institutional Shareholders Services \(“ISS”\)](#) and [Glass Lewis](#) have updated their **2022 voting guidelines for Canadian and US issuers**. The updated guidelines from ISS will apply to shareholder meetings for publicly traded companies on or after February 1, 2022, while those from Glass Lewis will apply to meetings held on or after January 1, 2022. This briefing provides a summary of updates on compensation-related and select governance-related topics for the Canadian market.

Key Highlights

No Changes to COVID-19 Related Compensation Policies

- As the global COVID-19 pandemic continues into 2022, neither ISS or Glass Lewis have adjusted previously disclosed pandemic related policies and guidance relating to executive compensation

Higher Threshold for Definition of “Low” Say-on-Pay Score

- ISS is raising the threshold on what they deem “low” Say-on-Pay scores; consistent with Glass Lewis, companies with a Say-on-Pay approving rating below 80% (increased from 70%) are expected to provide clear disclosure on the Board’s response to the low Say-on-Pay score

Board Oversight of ESG Risk an Area of Focus

- Beginning in 2022, Glass Lewis will generally recommend withhold for the Chair of the Governance Committee of S&P/TSX 60 Index issuers if the company does not provide explicit disclosure on the Board’s role in overseeing ESG issues. This follows similar policies implemented by ISS in 2021, whereby ISS will generally recommend withhold for directors in the event of material failures on ESG-related issues
- Glass Lewis will also note concerns for S&P/TSX Completion Index companies when they do not provide clear disclosure concerning the Board-level oversight afforded to environment and/or social issues to companies

Canada 2022 Compensation and Governance-Related Policy Updates

ISS Policy Updates

- Expanding policy of generally recommending withhold for the Chair of the Nominating Committee if there are no women on the Board and no formal written gender diversity policy, from S&P/TSX Composite Index companies to all TSX-listed companies
- For S&P/TSX Composite Index companies, generally withhold for the Chair of the Nominating Committee if:
 - Women comprise less than 30% of the Board and the Company has not provided a formal, publicly disclosed written commitment to achieve this goal at or prior to the next AGM (i.e., in 2023)
 - Evaluate on a case-by-case basis whether withhold recommendations are warranted for additional directors that fail to meet the policy over two years or more
 - *Note: This policy was announced as part of the 2021 policy updates and was scheduled for*

implementation in 2022

- ISS expects clear Board responsiveness when Say-on-Pay support level is less than 80% (increase from 70%)
- Overboarding policy (applicable in 2023) for venture listed companies will align with TSX listed companies: non-CEO directors no more than 5 public company Boards, CEOs no more than 2 public companies besides their own
- ISS will recommend withhold for the continuing Compensation Committee (or, where no compensation committee has been identified, the Board chair of full board) if the company maintains an evergreen plan and had not sought shareholder approval in the past two years and does not seek approval of the plan at the meeting; this policy applies to those plans adopted prior to an IPO

Glass Lewis Policy Updates

- Expanding Board gender diversity policy to generally recommend withhold for the Chair of the Nominating Committee with few than two gender diverse directors, or the entire Nominating Committee of a Board with no gender diverse directors (applicable to TSX listed companies)
 - For TSXV companies, as well as for Boards with six or fewer total directors, will apply a policy requiring a minimum of one gender diverse director
- For 2023, Glass Lewis is transitioning from a fixed number to percentage-based approach for gender diversity – i.e., will generally recommend withhold for the Chair of the Nominating Committee if the Board has less than 30% gender diverse directors (applicable to TSX listed companies)
- Expanding policy of “note of concern” when Boards of companies do not provide clear disclosure concerning the Board-level oversight afforded to environment and/or social issues to companies in the S&P/TSX Completion index
- Will recommend withhold for the chair of governance committee at companies with a multi-class share structure and unequal voting rights when the company does not provide for a reasonable sunset of the multi-class share structure (generally seven years or less)
- Will recommend withhold for the Compensation, Nominating, and/or Governance Committee chair if the committee consists of fewer than two members for the majority of the fiscal year (applicable to all Canadian stock exchanges)
- Clarifying approach to ESG, namely evaluating all environmental and social issues through the lens of long-term shareholder value and that companies should consider material environmental and social factors in all aspects of operations, as well as providing shareholders with disclosures on how these factors are being considered and risks mitigated
 - For companies on the S&P/TSX 60 index who fail to provide explicit disclosure concerning the Board’s role in overseeing ESG issues, Glass Lewis will generally recommend withhold for the Chair of the Governance Committee
 - Glass Lewis will examine a company’s proxy circular and governance documents (such as committee charters to determine Board oversight and accountability of ESG topics
 - In situations where Glass Lewis believes an ESG issue was not properly managed or mitigated, Glass Lewis may recommend withhold for members of the Board who are responsible for the oversight of such risks (in the absence of explicit Board oversight, Glass Lewis may recommend withhold for members of the audit committee)
- Clarifying approach of the use of ESG metrics in executive compensation programs – namely that Glass Lewis does not maintain a policy for the inclusion of such metrics, however where they are used, consistent with other metrics, Glass Lewis expects robust disclosure on the metrics selected, rigor of performance targets, and determination of payout opportunities

- For qualitative metrics, clear disclosure on how the metrics were or will be assessed should be provided

Proxy advisor recommendations can have a material impact on voting results at shareholder meetings. Issuers should be aware of the policy updates from ISS and Glass Lewis and the potential implications of these policies. Having said that, based on Hugessen’s experience, there is an increasing willingness, particularly among institutional shareholders, to assess company compensation programs on a nuanced case-by-case basis, which underscores the importance of providing clear, transparent disclosure and maintaining open communication with shareholders.

For further information, or for support with addressing the unique circumstances of your organization, we invite you to reach out to a Hugessen consultant.

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