



CCGG

Canadian Coalition
for Good Governance

THE VOICE OF THE SHAREHOLDER

Building High Performance Boards

CONTENTS

About the Canadian Coalition for Good Governance	2
Building High Performance Boards	3
The Importance of High Performance Boards.....	3
A HIGH PERFORMANCE BOARD IS ACCOUNTABLE AND INDEPENDENT	6
Guideline 1. Facilitate shareholder democracy.....	6
Guideline 2. Ensure at least two thirds of directors are independent of management.....	7
Guideline 3. Separate the roles of Board Chair and Chief Executive Officer	7
A HIGH PERFORMANCE BOARD HAS EXPERIENCED, KNOWLEDGEABLE AND EFFECTIVE DIRECTORS WITH THE HIGHEST LEVEL OF INTEGRITY	8
Guideline 4. Ensure that directors are highly competent and bring the requisite knowledge and experience to the board	8
Guideline 5. Ensure that the goal of every director is to make integrity the hallmark of the corporation.....	11
Guideline 6. Establish reasonable compensation and share ownership guidelines for directors ..	12
Guideline 7. Evaluate board, committee and individual director performance	12
A HIGH PERFORMANCE BOARD HAS CLEAR ROLES AND RESPONSIBILITIES.....	14
Guideline 8. Establish mandates for board committees and ensure committee independence ...	14
Guideline 9. Adopt well defined board processes and procedures that support board independence	15
Guideline 10. Oversee Strategy.....	16
Guideline 11. Oversee risk management	16
Guideline 12. Assess the Chief Executive Officer and plan for succession	18
Guideline 13. Develop and oversee executive compensation plans.....	19
A HIGH PERFORMANCE BOARD ENGAGES WITH SHAREHOLDERS	19
Guideline 14. Report governance policies and initiatives to shareholders	19
Guideline 15. Engage with shareholders	20

ABOUT THE CANADIAN COALITION FOR GOOD GOVERNANCE

The Canadian Coalition for Good Governance (CCGG) was formed in 2002 and incorporated as a not-for-profit corporation in 2003. CCGG promotes good governance practices in Canadian public companies and the improvement of the regulatory environment to best align the interests of boards and management with those of their shareholders and to promote the efficiency and effectiveness of the Canadian capital markets.

CCGG's members are Canadian institutional investors that together manage approximately \$2 trillion in assets on behalf of pension fund contributors, mutual fund unit holders and other institutional and individual investors. A substantial portion of these assets are invested in shares of Canadian public companies and returns from these investments are critical to the financial security of millions of Canadians. A list of our members is available on our website at www.ccg.ca.

BUILDING HIGH PERFORMANCE BOARDS

At CCGG, we believe that the good governance of a corporation is essential to creating long-term sustainable value and reducing investment risk.¹

This document is the third iteration of CCGG's Building High Performance Boards and it updates our previous version published in March of 2010. Best practices in corporate governance evolve as expectations, markets and the regulatory background change and as our understanding of these factors increases through experience. We have updated this document to reflect this evolution. The principal changes that we have made from the last version are:

- Separating the guideline dealing with board oversight of strategic planning and risk management into two guidelines and expanding the commentary on these two important issues
- Adding a new guideline on board procedures to recognize the importance of appropriate procedures for substantive good governance and effective board independence
- Adding a statement on the importance of directors being 'independent minded' and willing to challenge management as well as noting the importance of industry expertise on the board
- Noting the need to 'refresh' boards periodically
- Adding a statement on gender diversity

Throughout this document, "we", "us", "our" and "CCGG" refer to the Canadian Coalition for Good Governance. The terms "corporation" and "company" refer to a Canadian reporting issuer and the term "shareholder" refers to an equity investor of a public company regardless of the company's legal structure. All CCGG policies referred to throughout this document are available on our website.

The Importance of High Performance Boards

"Strengthening board independence and fixing board oversight, particularly of risk management, is the essential starting point for corporate governance reform ... There is no way detailed regulation can mandate how to make every critical discretionary decision in a private enterprise. The minds of men and women generally never stop being ingenious and entrepreneurial in finding open spaces in regulations. This is why we need to rely on the independent mindedness of directors – as the agents of shareholders, under a fiduciary responsibility to direct strategy, monitor performance, control risk, and generally 'do the right thing' for the company and society."

Ira M. Millstein at the 2008 ICGN Conference December 9-10, 2008

¹ A 2013 review by Prof. Anita Anand of research on the topic concluded that 'At the very least, it appears that good corporate governance is more than "window dressing"; it can lead to a stronger bottom line and also mitigate exposure to outside risks... Overall, there is a strong consensus in the literature that corporate governance is linked positively to firm value, even when "governance" and "value" are defined and measured in various ways.'

Corporate governance regulation in Canada

Some corporate governance practices in Canada are regulated by broad structural and procedural requirements found in federal and provincial corporate statutes. In addition, in response to investors' concerns about the corporate governance practices of Canadian public companies, securities regulators introduced requirements and guidelines relating to governance, namely NI 52-110 Audit Committees, NI 58-101 Disclosure of Corporate Governance Practices and NP 58-201 Corporate Governance Guidelines. The TSX has additional governance requirements for its listed companies, including with respect to director elections. These remain the main instruments specifically relating to the governance of public companies in Canada. As a result, the detailed guidance contained in this document provides important information for boards regarding shareholders' expectations for a well-governed, high performance board. CCGG generally uses the principles outlined in this document when it assesses the governance practices of Canadian public companies.

The role of directors

Shareholders of public companies elect directors to oversee the business and affairs of the companies in which the shareholders are invested. Directors have a fiduciary duty to act in the best interests of the corporation. Directors also should consider, where appropriate, the interests of all stakeholders (of which the shareholders, as providers of the corporation's equity capital, are, in CCGG's view, the primary stakeholders). Directors must be (and be seen to be) independent of the management they hire and oversee in order to give shareholders confidence that the board can carry out these responsibilities effectively.

The role of shareholders

Pension funds, mutual funds and other institutional money managers have acquired significant equity stakes in publicly traded corporations. Today, as much as 40% to 45% of the equity of major Canadian public companies is owned by institutional shareholders. At the same time, clearer expectations of how public companies should be governed have emerged, and shareholders and their representatives are actively engaging with boards of directors to discuss these expectations. There is also increasing focus on the responsibilities of shareholders in exercising their stewardship role.

The role of CCGG

As long-term providers of corporate capital and committed, patient and supportive shareholders, our members believe that engaging with boards and sharing with them the responsibility to promote the adoption of good governance practices is in the long-term best interests of corporate boards, management, shareholders and the millions of Canadians whose money our members invest. It also provides a number of key benefits, including:

- Enhancing shareholder confidence and long-term investment returns
- Reducing business risk
- Reducing the cost of capital for Canadian corporations

The publication of CCGG's various governance policies contribute to the ongoing evolution of corporate governance in Canada and provide useful guidance to market participants on shareholder expectations.

Since 2004, we have been measuring governance risk in the companies in which our members are invested using a variety of means, including a governance rating system developed by the Clarkson Centre for Business Ethics and Board Effectiveness at the Rotman School of Management, University of Toronto. We are pleased that since that time, governance risk in the companies on the S&P/TSX Composite Index has declined significantly and many Canadian public companies have adopted CCGG's recommended best practices as expressed in this document and in other CCGG policies.

Many corporations have excellent governance practices and exemplary executive leadership committed to the long term, sustainable value of the corporation. For some companies, however, governance practices need to be improved as investor expectations continue to evolve, while other companies need to significantly enhance their current governance practices to align with the guidelines set out in this document.

We encourage corporate boards and executives to continually assess whether their companies' governance practices are enhancing long term sustainable shareholder value and to take corrective steps if they are not. To ensure their companies' governance practices are effective, shareholders, boards, and management should work together to create a culture of respect, candour and trust.

Controlled corporations

CCGG recognizes that there are some legitimate differences in the governance principles applicable to equity controlled corporations. In October, 2011 we released our Governance Differences of Equity Controlled Corporations publication. Boards of equity controlled corporations should consult that guidance to understand how our members may assess the governance practices of equity controlled corporations. The general principles in this document will continue to apply to equity controlled corporations, except as modified by Governance Differences of Equity Controlled Corporations.

We anticipate that we will be releasing additional guidance applicable to the governance differences of companies that are controlled through dual class share structures. The general principles in this document will continue to apply to dual class share companies, but such companies also should consult that publication for guidance when it is released.

CCGG guidelines

Our best practices focus on developing high performance boards that:

- are accountable and independent
- have experienced, knowledgeable and effective directors with the highest level of integrity
- have clear roles and responsibilities
- engage with shareholders.

We developed these guidelines after extensive consultation and significant input from many of Canada's leading directors and companies, governance experts, lawyers and compensation consultants. We

expect Canadian public companies to exceed the minimum standards required by Canadian Securities Administrators' regulations and corporate law by adopting our governance policies and procedures in their organizations. We believe that most of these guidelines apply to companies of all sizes, although we recognize that not all guidelines are appropriate for all companies and all situations. We also encourage companies to exceed these guidelines if appropriate in their particular circumstances.

A HIGH PERFORMANCE BOARD IS ACCOUNTABLE AND INDEPENDENT

Guideline 1. Facilitate shareholder democracy

The right to vote is critically important for shareholders and fundamental to shareholder democracy. Every public corporation must have a voting system that supports shareholder democracy. Following a shareholder vote, the corporation should disclose the detailed voting results immediately, irrespective of the manner in which the vote is held.

A Note on Majority Voting

Current Canadian corporate and securities regulations limit shareholder democracy by enshrining a plurality voting system. Under that system, shareholders can only vote "for" or "withhold" their vote for directors. The effect of the plurality system is that a director can be elected with only a single vote "for", even if an overwhelming number of shareholders withhold their vote.

Basic shareholder democracy requires that shareholders be given the option to vote "for" or "against" directors. CCGG encourages adoption of a majority voting policy that provides a workaround within the current law whereby companies that adopt the policy agree to treat a "withhold" vote as a negative vote. Directors who do not receive a majority of votes in their favour in uncontested director elections are expected to submit their resignation to the board which, absent extraordinary circumstances, is expected to accept that resignation.

CCGG believes that the law should be changed so that in uncontested director elections, directors who do not receive a majority of votes in their favour are not elected as a matter of law. We continue to work to change the law in order to achieve that result.

Expected best practices

- Adopt a majority voting policy for uncontested director elections, using language that is substantially similar to the CCGG model policy (available at www.ccg.ca).
- Obtain shareholder approval before issuing 25% or more of the shares of the corporation as part of a transformational transaction.
- Report detailed voting results on SEDAR immediately, indicating the actual number and percentage of votes cast for, against and/or withheld for each resolution.
- Issue promptly a news release describing the results of director elections
- The Board should give serious consideration to the voting results for shareholder proposals even if the resolutions are only advisory in nature.

Guideline 2. Ensure at least two thirds of directors are independent of management

In order to ensure directors' interests are aligned with shareholders, at least two thirds of every board should be independent of management.

“Independence” means a director is independent of management, does not have a material relationship with the corporation and, except for director fees and share ownership, does not financially benefit from his or her relationship with the corporation. A material relationship is any relationship that could interfere with a director’s ability to exercise independent judgment or inhibit his or her ability to make difficult decisions about management and the business. Examples of people with material relationships with the corporation include: employees of a corporation; paid advisors or consultants to the corporation such as lawyers, accountants and bankers; employees of a significant customer or supplier; anyone with a personal services contract with the corporation; anyone affiliated with a foundation, university or other non-profit organization that receives significant grants or endowments from the corporation; relatives of the CEO or of other executives of the corporation; and those who are part of an interlocking directorate (where the CEO or other executive serves on the board of the corporation that employs the director).

As much as possible, directors also should be independent of each other. For example, boards should have policies to limit interlocking board relationships (i.e., when two directors of Company A sit on the board of Company B) and, in particular, committee interlocks.

Too many interlocks suggests a degree of inter-related interests that might be detrimental to director independence.

Boards also should assess the “independent mindedness” of prospective and current directors. Every member of a well-governed board should be willing to challenge management and, if necessary, other members of the board.

CCGG recognizes that non-independent directors who bring valuable firm-specific business expertise may add significant value to a board. In addition to ensuring that two thirds of the directors are independent, boards also should ensure that there are a sufficient number of directors (independent or non-independent) with relevant and applicable business expertise, bearing in mind the principles set out under [Guideline 4](#) below.

Expected best practices

- Ensure at least two-thirds of directors are “independent”.
- Have a formal board policy which is publicly disclosed that limits the number of board and committee director interlocks on the board.
- Report clearly all board and committee interlocks to shareholders.

Guideline 3. Separate the roles of Board Chair and Chief Executive Officer

The board chair and CEO have different responsibilities and a different focus.

The chair is responsible for leading the board and ensuring that it is acting in the long-term best interests of the corporation. The CEO is responsible for leading management, developing and implementing the corporation's business strategy over the short and longer term, and reporting to the board.

The chair is accountable to shareholders and the CEO is accountable to the board. Combining the two positions creates inherent conflicts of interest and obscures accountability. A chair cannot effectively oversee senior management when he or she is the CEO and a member of the management team.

Accordingly, the two positions should be separated. As a transition, companies may consider appointing an independent lead director for a short period of time.

Expected best practices

- The independent members of the board should appoint an independent board chair to function in a non-executive capacity with a defined mandate and role. The board chair should be prepared to invest considerable time and effort in the role and should have sufficient availability to do so.
- The independent chair (or independent lead director) should set board agendas with the CEO and other directors, be responsible for the quality of the information sent to directors and lead in camera meetings of independent directors.
- The CEO should be required to leave the board when he or she retires.

A HIGH PERFORMANCE BOARD HAS EXPERIENCED, KNOWLEDGEABLE AND EFFECTIVE DIRECTORS WITH THE HIGHEST LEVEL OF INTEGRITY

Guideline 4. Ensure that directors are highly competent and bring the requisite knowledge and experience to the board

The character and effectiveness of a board is driven by its directors.

We believe the single most important corporate governance requirement is to have directors of quality. To facilitate this, all boards should put in place a director succession plan and ensure that they utilize a formal recruitment process to identify and recruit potential new directors. Boards may develop and manage that process internally or may choose to engage an independent third party; whatever method is used, boards should ensure that the involvement of the CEO in the director recruitment process is limited and appropriate.

The term "quality" as used above is subjective and cannot be defined by legislators or regulators. On an individual level, we define a director of quality as someone with integrity, expert knowledge, business, industry or other relevant experience and with the time and motivation to understand and carry out his or her fiduciary duties in the long-term best interests of the corporation and all of its stakeholders (of which the shareholders – which provide the corporation's equity capital – are, in CCGG's view, the primary stakeholders).

Quality directors must also be curious. They must be willing to ask the questions of management that will provide them with a complete understanding of the risks and rewards of any proposed plan of action and how it will affect the long term viability of the corporation.

While the quality of individual directors is paramount, we also expect boards as a whole to be diverse. A high performance board is comprised of directors with a wide variety of experiences, views and backgrounds which, to the extent practicable, reflects the gender, ethnic, cultural and other personal characteristics of the communities in which the corporations operate and sells its goods or services. For example, boards should be mindful of the growing body of empirical research which suggests that a more gender diverse board is correlated with superior financial performance. Boards should set reasonable, measurable targets for themselves to build a more diverse board. The “Catalyst Accord” promulgated by Catalyst Canada, which calls on companies to increase the number of women on their board by at least one within the next three years, is one example of a reasonable, measurable target.

A number of directors should have direct experience in the industry or industries in which the corporation operates to make sure the board requests the right information from management, asks knowledgeable and insightful questions and has the background it needs to take appropriate positions in response to management and its recommendations. While some directors will know the industry more deeply than others, all directors should, at a minimum, have a reasonable level of familiarity with the corporation and its business or commit to doing so within a short time of joining the board.

We believe that director education creates boards with ever-increasing professionalism and enhances the effectiveness of directors, boards and board committees. At a minimum, a director education program should include an initial orientation along with ongoing educational programs and guidelines, such as formal education courses, in-house sessions and conferences.

We expect boards to ensure that they are renewed at an appropriate rate. Boards should balance the need for experienced directors who have a deep knowledge of the corporation with the need to ensure that directors maintain a fresh perspective and a healthy skepticism when assessing management and its recommendations. A board seeking to add new directors may wish to increase the size of the board temporarily in order to allow for some overlap between directors who are new to the board and the experienced directors who are leaving it. A board may want to consider whether it is appropriate, in the context of its particular corporation, to impose an upper limit on the amount of time an individual can serve as a director or a retirement age, but a better method to ensure appropriate board renewal is a robust assessment process for every director where the board acts on the results of the assessment.

Expected best practices

For individual directors:

- A significant number of directors on a board should have career experience and expertise relevant to the corporation’s industry, financial responsibilities and risk profile. Other directors will bring specific expertise, like human resources, accounting, law or other relevant professional knowledge. Each director’s career experience and qualifications should be described in the proxy circular.

- In addition to members of the Audit Committee, some directors should have financial accreditation (particularly for boards of financial institutions) and all directors should be financially literate as that term is defined in National Instrument 52-110, that is, able to understand a breadth and level of complexity of accounting issues that is reasonably expected to be raised by the corporation's financial statements.
- All directors should demonstrate excellent listening, communicating and persuasion skills so they can actively and constructively participate in board discussions and debate.
- All directors should make a commitment to devote the time, effort and energy necessary to serve effectively as a director of the company. We believe that directors who hold a full-time executive position should hold at most two outside public company directorships (recognizing that there can be value in a senior executive gaining board experience in another or related industry) and that directors who are not employed full time should generally hold no more than four additional outside public company directorships. Time commitments related to not-for-profit organizations, private companies and government agencies also should be taken into account when directors' availability is considered.

For the board as a whole:

- Utilize a formal process for identifying and recruiting new directors and describe that process in detail in the proxy circular. Ensure that the role of the CEO in that process is limited and appropriate.
- Maintain and disclose in the proxy circular a 'matrix' of director talents and board requirements that shows the corporation's needs and also identifies skill strengths of directors and any gaps on the board. Disclose each director's relevant skills in the proxy circular.
- Ensure that the board is diverse, or set reasonable and measurable targets to build a more diverse board.
- Build and maintain an "ever-green" list of suitable candidates to fill planned or unplanned vacancies.
- Have a plan in place for the orderly succession of directors to maintain an appropriate balance between directors with experience and those who bring a fresh perspective.
- Create a board of an appropriate size – large enough to include the requisite expertise and to allocate the various board and committee duties among the directors, but small enough to allow open, cohesive and responsible discussion and debate and to ensure individual accountability and responsibility for board decisions.
- Create an orientation and continuing education program for directors to establish and update their skills and knowledge of the corporation, its businesses and key executives, and to address ongoing and emerging issues in the functional areas of the board (like corporate governance,

audit, compensation practices and risk management) and disclose the program details in the proxy circular.

- Disclose in the proxy circular the education programs and events in which directors have participated in the past year.

Guideline 5. Ensure that the goal of every director is to make integrity the hallmark of the corporation

To have integrity is to be principled, moral, honest and responsible. A public company's reputation for integrity is fundamental in creating and maintaining value for shareholders and other stakeholders.

Every director on the board should be a person with demonstrated integrity. The importance of integrity should be at the forefront in the boardroom and in every board committee discussion. The board also must make every effort to ensure that the CEO and other senior officers are individuals of integrity who are creating or building on a culture of integrity throughout the organization.

Expected best practices

For individual directors:

- Each director should carefully examine the ethical implications of the corporation's strategies, policies, initiatives and activities. In order to empower directors to identify ethical issues and to deepen their understanding of them, directors should participate in educational activities relating to ethical issues for directors generally, as well as those that are specific to the industry or sector in which the corporation operates.
- When meeting with corporate employees (including the CEO and other senior officers), directors should take the opportunity, whenever possible, to emphasize the importance of integrity.
- Directors should demonstrate a proven understanding of fiduciary duty and the implications of their role as fiduciaries.

For the board as a whole:

- Emphasize the importance of integrity during in camera sessions. Consider whether the CEO and other senior officers demonstrate the right "tone at the top" to ensure a culture of integrity throughout the organization.
- Include questions about integrity in board, committee and director performance reviews.
- Include integrity issues in continuing education programs for directors.
- Make sure the CEO and other senior officers have programs in place that build a culture of integrity. These should be led by the CEO and normally will include:
 - a statement of the corporation's values or equivalent, emphasizing integrity as a fundamental value

- sessions with employees that include discussions of integrity and reputation
 - codes of conduct, surveys of compliance and whistle blowing procedures, all in plain language so that they can be easily understood by all employees
 - the appointment of an officer who has responsibility for integrity at the corporation. The officer should work with the board and the CEO to make sure integrity issues are taken seriously and dealt with effectively
 - zero tolerance for breaches of integrity, taking into account employees who voluntarily report their transgression(s) and show remorse
 - a process for reporting all significant breaches of the code of conduct or other significant integrity issues to the board.
- Ensure that the integrity of candidates is a key consideration in the process of board and management recruitment.

Guideline 6. Establish reasonable compensation and share ownership guidelines for directors

Directors should be paid fees for their services at a level that is reasonable and will attract qualified and experienced candidates. Director compensation should not, however, be so high or structured in such a way that it interferes with a director's ability to be independent, forthright in his or her views or willing to challenge management or the status quo. Moreover, directors should recognize that when they determine their own compensation, they are in an inherent conflict of interest.

Expected best practices

When setting their compensation, directors should follow the detailed guidelines set out in CCGG's Principles for Director Compensation.

Guideline 7. Evaluate board, committee and individual director performance

A board needs processes in place to evaluate and improve the performance of individual directors, board committees and the performance of the board as a whole.

Annual performance reviews help directors assess their personal strengths and weaknesses, make decisions about the need for further education, and decide when it might be appropriate to step down. Directors should be assessed on the basis of their ability to continue to make an effective contribution. A robust assessment process whereby results of the assessment are acted upon is superior to establishing term limits or a retirement age as a method for removing under-performing directors.

In order to assess the quality of current directors and board committees and processes, many boards confidentially survey directors once a year and have the board chair, lead director or nominating/governance committee or its chair review the results. Other boards prefer to hire an independent third party to perform board evaluations.

Expected best practices

For individual directors:

- Prepare a detailed list of expectations for individual directors and publish it in the proxy circular.
- Ensure the performance review process assesses a director's skill set and other expertise against the company's strategic plan and current skills required and other needs of the board.
- Publish the record of individual director attendance at board and committee meetings every year in the proxy circular and include directors who attended committee meetings on an ex-officio or non-voting basis. Directors are expected to attend every board and applicable committee meeting, absent exceptional circumstances.
- Determine and document the kinds of events that will prompt an expectation that a director would resign from the board (for example, not meeting attendance requirements, reaching a certain age, having served on the board for a specified number of years or continuing poor annual performance reviews).
- Evaluate the performance of individual directors every year using a confidential peer-review survey. The board chair or independent lead director, chair of the nominating/governance committee or independent third party should conduct the survey and provide feedback to each director. The survey should include open-ended questions to allow directors to suggest improvements.
- Establish an annual review process for the chair and disclose the details of that process to shareholders.
- Disclose the performance review process in the proxy circular in enough detail to demonstrate to shareholders that there is a robust system in place that is capable of identifying individual performance issues and effectively responding to them. Where appropriate, disclose in the proxy circular conclusions drawn and improvement opportunities identified from the process.

For the board and its committees:

- Evaluate the overall effectiveness of the board and its committees every year using a confidential survey or one-on-one meetings between the independent chair or lead director (for committees it should be the committee chair) and each director.
- Review the board and respective committee mandates every year and evaluate the performance of the board and committee chairs and members against their respective mandates annually.
- Disclose the board performance review process in the proxy circular in enough detail to demonstrate to shareholders that there is a robust system in place capable of identifying board or committee level performance issues and effectively responding to them. Where appropriate,

disclose in the proxy circular conclusions drawn and improvement opportunities identified from the process.

- Ensure that the nominating/governance committee closely monitors emerging best practices in board and committee structure and processes as well as in how to evaluate board and committee performance.

A HIGH PERFORMANCE BOARD HAS CLEAR ROLES AND RESPONSIBILITIES

Guideline 8. Establish mandates for board committees and ensure committee independence

Committee charters should be adopted by the board and reviewed annually. Such charters should include requirements concerning the composition of the committees, responsibilities of the committees and procedures for committee meetings.

Board committees often do a large part of the work of a board and then present their recommendations to the entire board for approval. As a result, conflicts of interest between management and shareholders are most likely to arise at the committee level first. Moreover, the work done by committees typically involves the detailed oversight and assessment of management. For example, the audit committee reviews and approves the financial statements, risk management programs and internal controls developed by management, while the compensation committee reviews and approves the performance and compensation of the chief executive officer and other senior executives. As a result, the independence of these committees is critical. Depending on the committee, either all or the majority of the members should be independent. In addition, appropriate procedures should be in place for the establishment of ad hoc independent special committees when appropriate.

The boards of some issuers have appointed Executive Committees to which substantial authority may be delegated. CCGG generally recommends against the use of Executive Committees in instances where they have the power to decide matters which normally are reserved for all directors. It may also create two classes of directors. In cases where an Executive Committee does exist, clear disclosure should be made of its scope of authority and any meetings it has held in the past year. It should act on behalf of the board in exceptional circumstances only. Executive Committees also should be required to report to the board promptly after any action is taken on the board's behalf.

Expected best practices

For all committees:

- Review committee charters every year and amend or confirm the mandate and procedures based on information received from the board and committee evaluation processes.
- Ensure that all committee meetings include in camera sessions with independent directors only.
- Ensure every committee includes directors of diverse backgrounds and at least one director with significant expertise relevant to the committee's role.

For the audit committee:

- Committee members must all be independent (as required under NI 52-110 Audit Committees).

For the nominating/governance committee:

- Committee members should all be independent, and the CEO should not participate in their selection.

For the compensation committee:

- Committee members should all be independent with an objective and knowledgeable view of compensation, formed independently of management, and the CEO should not participate in their selection.
- Ensure that no more than one in three members of the committee is currently the CEO of another corporation.
- Do not include management in committee meetings when their compensation is being deliberated.

Guideline 9. Adopt well defined board processes and procedures that support board independence

Board independence must be supported by the establishment of robust and well-defined board processes and procedures that will assist directors in meeting their oversight responsibilities. Board processes and procedures should ensure that directors are provided with sufficient information, time and independent advice to be able to make meaningful decisions in an independent manner.

Expected best practices

Meetings materials provided to boards by management must be sufficiently detailed, comprehensive and succinct to support meaningful decisions by directors.

Meeting materials must be provided to the board far enough in advance of board meetings to allow directors to make considered decisions.

Board meeting schedules must allocate sufficient time for major decisions to be considered/discussed/reviewed, with decisions reached over the course of more than one meeting if appropriate.

The independent chair (or independent lead director) should have approval over meeting agendas and the flow of information to the board.

All board meetings should include in camera sessions with independent directors only.

Procedures should be in place to ensure proper access to, and funding of, independent advisors to the board or its committees when the board or its committees deems it appropriate.

Guideline 10. Oversee Strategy

Directors are responsible for oversight of the corporation's strategy and ultimately approving the overall vision, objectives and long-term strategy of the corporation. Management, on the other hand, is responsible for developing and implementing an appropriate detailed strategy that is designed to realize the corporation's vision and achieve its objectives while managing the associated risks (see [Guideline 11](#) for a discussion of risk).

The board reviews, discusses, challenges and ultimately approves a strategic plan for the business and oversees management's implementation of the plan, ensuring it is consistent with the approved vision, long-term objectives and strategy. The board also monitors the corporation's performance against the strategic plan. The board should have a heightened interest in its oversight role of strategy because of its importance and impact on shareholder value.

Expected best practices

- At a formative stage of strategic plan development, review with management the format and planned content of the comprehensive strategic plan. The content of the strategic plan would include competitive analysis as well as resource requirements – both financial and human resources.
- Allocate sufficient time to review the strategic plan. Such review would involve discussion with and without management presence, challenging underlying assumptions and insisting upon modifications to the strategic plan as required.
- Approve the final strategic plan.
- Oversee the implementation of the strategic plan, including the linkage to the annual business plan.
- Monitor the corporation's performance against the strategic plan using appropriate metrics and milestones.
- Conduct periodic reviews of strategy during the strategic plan period.
- At least annually, require management to provide an update or a revised strategic plan.

Guideline 11. Oversee risk management

Directors are responsible for risk oversight, including overseeing management's systems and processes for identifying, evaluating, prioritizing, mitigating and monitoring risks. Directors are also responsible for approving the corporation's risk parameters including risk tolerance and appetite. Such parameters are designed to prevent the destruction of asset and shareholder value and to reduce the likelihood of underperformance over the long term. Directors should consider taking a heightened interest in assessing risks associated with strategy and leadership since management should not be expected to objectively assess its own performance, capabilities and strategy from a risk perspective.

Risk management is a core function of the board

The global financial crisis has revealed that many directors, including directors of large, sophisticated corporations, did not have a full understanding of all of the risks facing their corporations and failed in effective risk oversight.

Every organization is exposed to multiple risks. While strategic risk in terms of both strategy formulation and implementation effectiveness can pose a major threat, there are numerous other types of risks such as external, operational, financial, organizational, regulatory, environmental, reputational, etc., which can significantly impact a corporation's value in the short and long term. The board should understand how these various risks are interrelated and the resultant compounding effect. The effective oversight of all relevant types of risk is a core function of the board and a process in which every director should be actively involved. As part of its oversight role, the board should establish appropriate financial and non-financial incentives for management to operate within the board approved risk parameters.

For directors, risk oversight should go beyond quantitative risk assessments in order to focus on challenging the facts and assumptions management has used in identifying and evaluating risk. For example, many quantitative risk systems assume that markets for securities are liquid, credit is available at reasonable market rates, governments and counterparties will fulfill their credit obligations and investors will act rationally. Experience has shown that assumptions such as these are not always valid, so boards should keep in mind and plan for unusual and unexpected occurrences and for systemic risks.

Methods of overseeing risk

In carrying out their role of risk oversight, some boards choose to assign responsibility to selected committees to assess the risks relative to their mandate. Some boards have established a separate risk committee. Many boards prefer to have risk oversight assessed by the entire board. Care must be taken to ensure that adequate processes and procedures are in place to sufficiently consider all relevant types of risk. Every board should decide which approach would work best in the circumstances for the corporation. Each director should clearly understand the processes and procedures in place to identify and evaluate risk. Each director also should be mindful that whatever approach or process is used, the oversight of risk ultimately remains the responsibility of the entire board.

The board's approach to risk oversight, including the process it uses to challenge management's assumptions regarding risk, should be disclosed in detail to shareholders in the proxy circular.

Expected best practices

- Clearly assign board responsibility for risk oversight as set out in board and committee mandates.
- Ensure breadth of capability on the board to understand and oversee all critical risks and, if appropriate, utilize independent advisors to advise the board with respect to critical risks..
- Ensure directors are engaged in discussions of risk and bring constructive criticism.

- Ensure independent verification of facts and assumptions relied on by management in its identification, evaluation, mitigation and monitoring of risks.
- Adopt an appropriate framework for the board's oversight of risk.
- Allocate sufficient time and resources in the board's agenda to consider risk.
- Clearly set out risk parameters including tolerance and appetite for risk.
- Understand interrelationship of risks and any pre-existing conditions or vulnerabilities that could have a compounding impact on the corporation.
- Adopt robust risk management systems and processes including active involvement by the chief executive officer with clear assignment of accountability to specific members of management.
- Adopt appropriate and effective management compensation arrangements aligned with risk parameters.
- Ensure full and complete disclosure of how the board oversees risk.

Guideline 12. Assess the Chief Executive Officer and plan for succession

The board is responsible for hiring, retaining and if necessary terminating the CEO, reviewing his or her performance every year and establishing an executive succession plan to ensure a pipeline of leadership talent is being developed. Succession planning should anticipate both orderly succession and unexpected scenarios.

To emphasize that the CEO is accountable to the board, the board must have a position description for the CEO that establishes annual and longer term expectations and related compensation incentives. At the start of every fiscal year the board and CEO should establish performance targets for the CEO to be used in assessing the CEO's performance relative to those targets. The board should establish a formal annual review process where directors and the CEO can candidly exchange views on the CEO's performance.

A clear understanding between the board and the CEO of the board's expectations for performance and leadership is generally a hallmark of a high performing organization. Often the work on these matters is done through the Chair or one of the board committees, typically the human resources/compensation committee or the governance committee, and brought to the full board for detailed discussion and approval.

Expected best practices

- Develop position descriptions for the CEO and other senior management that are updated as appropriate.
- Develop an annual review process for the CEO, including establishing CEO performance targets and objectives at the start of each fiscal year.

- Ensure the CEO has a talent development plan in place for senior executives.
- Review succession plans for the CEO and other senior executives at least annually.
- Review progress being made against succession plans to identify ‘talent gaps’ and take steps to fill those gaps through executive development or recruitment.
- Ensure the board develops an independent perspective on succession and the pipeline of talent.
- Review with the CEO the performance of his or her direct reports.
- Ensure the board has the opportunity to interact, both formally and informally, with high-potential senior executives (for example, through their participation in board meetings, attendance at board dinners or off-site meetings).

Guideline 13. Develop and oversee executive compensation plans

Senior executives should be compensated fairly and reasonably, with a large component of compensation being performance-based. Executives also should have meaningful shareholdings in the company to more closely align their interests with shareholders and the long term sustainable value of the company.

Expected best practices

When developing and overseeing executive compensation plans, boards should follow the detailed guidance contained in CCG’s most recent *Executive Compensation Principles*.

A HIGH PERFORMANCE BOARD ENGAGES WITH SHAREHOLDERS

Guideline 14. Report governance policies and initiatives to shareholders

Boards need to make every effort to help shareholders understand the board’s governance policies and how the board fulfills its responsibilities to effectively oversee management. Since the proxy circular is the primary tool through which a board communicates with the majority of its shareholders, boards should ensure that the proxy circular is clear, well-organized and written in plain language and properly reflects the views of the board. A proxy circular should not merely be rubberstamped by the board after being drafted by management and reviewed by counsel – rather, the board should be deeply involved with its preparation..

In addition to the proxy circular, boards should regularly communicate with shareholders through the corporation’s website. The board should encourage shareholders to attend and ask questions at the annual general meeting and other formal meetings of shareholders and should allocate a reasonable amount of time at shareholder meetings for such discussions.

Expected best practices

- Ensure that the proxy circular describes the corporation’s governance practices in sufficient detail for shareholders to ascertain whether the corporation complies with the guidelines in this

document. The annual CCGG publication Best Practices for Proxy Circular Disclosure includes many examples of effective disclosure.

- Include a discussion of the corporation's governance philosophy, policies, practices and monitoring processes in the proxy circular and indicate whether its standards meet or exceed regulatory requirements.
- Disclose in the chair's section of the annual report any substantive issues, changes and developments in governance practices at the corporation that could affect shareholder interests.
- Ensure the chair of each committee is available to answer questions at the annual general meeting and any other significant shareholder meetings.
- Ensure that the name and contact information of a director that shareholders and other stakeholders can contact is made available in the proxy circular and on the corporation's website.

Guideline 15. Engage with shareholders

CCGG believes that shareholders and boards should have regular, constructive engagement meetings. Engagement between shareholders and boards allows each group to explain its perspectives on governance (including compensation) and disclosure practices. It also allows boards to obtain feedback on their governance practices directly from the shareholders to whom they are accountable and allows boards to explain the reasoning behind their chosen governance practices to shareholders.

In order to facilitate a frank and open discussion between shareholders and directors about the board's governance practices (including its assessment, compensation and oversight of management) these meetings should be held without management or advisors present. Most boards welcome this interaction and we encourage all boards to contact their shareholders to initiate a dialogue.

For more detailed guidance on the value and process of engagement, boards should consult CCGG's policies on board engagement available on our website. (*Engagement between Boards and Shareholders* and *Principles for Governance Monitoring, Voting and Shareholder Engagement*).

'Say on Pay' advisory votes

CCGG regards 'Say on Pay' shareholder advisory votes as an important part of this engagement process because they give shareholders a formal opportunity to express their views on the board's approach to executive compensation. CCGG recommends that boards voluntarily add a shareholder advisory vote on the board's approach to executive compensation to each annual general meeting agenda. A model board policy on engagement and 'Say on Pay' which includes our recommended form of shareholder resolution is available on our website.

Expected best practices

- Provide opportunities for shareholders to have access to directors outside of the annual meeting in order to discuss issues that concern either party.

- Adopt the CCGG model board policy on Say on Pay and add an advisory shareholder 'Say on Pay' resolution in CCGG's recommended form to each annual general meeting agenda.
- Provide the name and contact information of a director for shareholders and other stakeholders to contact in the proxy circular and on the corporation's website.
- Adopt the CCGG model board policy on Engagement with Shareholders and disclose how or whether the company regularly engages with its major shareholders.