2010 BUILDING HIGH PERFORMANCE BOARDS

March 2010

Canadian Coalition for GOOD GOVERNANCE

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BUILDING HIGH PERFORMANCE BOARDS

A high performance board is accountable and independent

Guideline One	Facilitate shareholder democracy
Guideline Two	Ensure at least two thirds of directors are independent of management
Guideline Three	Separate the roles of Chair and Chief Executive Officer

A high performance board has experienced, knowledgeable and effective directors and committees, and the highest level of integrity

Guideline Four	Ensure that directors are competent and knowledgeable
Guideline Five	Ensure that the goal of every director is to make integrity the hallmark of the company
Guideline Six	Establish mandates for board committees and ensure committee independence
Guideline Seven	Establish reasonable compensation and share ownership guidelines for directors
Guideline Eight	Evaluate board, committee and individual director performance

A high performance board has clear roles and responsibilities

Guideline Nine	Oversee strategic planning, risk management and the hiring and evaluation of management
Guideline Ten	Assess the Chief Executive Officer and plan for succession
Guideline Eleven	Develop and oversee executive compensation plans

A high performance board engages with shareholders

Guideline Twelve	Report governance policies and initiatives to shareholders
Guideline Thirteen	Engage with shareholders within and outside the annual meeting

CANADIAN COALITION FOR GOOD GOVERNANCE

Founded in 2003, the Canadian Coalition for Good Governance (CCGG) is a not-for-profit corporation that represents the interests of institutional shareholders.

Our mission is:

> ***Representing the interests of institutional investors, the Canadian Coalition for Good Governance 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 members manage approximately $1.3 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 issuers and returns from these investments are critical to the retirement security of millions of Canadians.

At CCGG, we believe that the good governance of a corporation is an important contributor to its long-term financial performance and the reduction of investment risk. We are dedicated to the continuing improvement of corporate governance practices in Canada, both to increase the likelihood of real value creation and to minimize business risk.

Throughout this document, we, us, our and CCGG refer to the Canadian Coalition for Good Governance. Shareholder refers to all equity investors of a public issuer regardless of the issuer's legal structure.

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 Mid-Year Event December 9-10, 2008

The evolution of corporate governance regulation in Canada

Corporate governance practices in Canada were regulated by broad structural and procedural requirements in federal and provincial corporate statutes until the 1990s, when investors began to raise concerns about the quality of governance.

Securities regulators, charged with maintaining fair and efficient capital markets that investors can rely on, responded by introducing governance guidelines for audit committees.

In the mid-1990s, the Toronto Stock Exchange (as it then was) led the charge to improve the governance and governance disclosure of public issuers by commissioning the Dey Report. In 2003 and 2004, in response to the growing number of global governance failures and actions by regulators in a number of jurisdictions, the Canadian Securities Administrators (CSA) developed its initial set of regulations for the governance of public issuers. CCGG provided input on these first regulations.

In December 2008, the CSA proposed a new regime for the governance of public issuers, stating that "governance is in a constant state of evolution" and that "there is no single model of good corporate governance." It proposed to move away from a "comply or explain" regime to one based on a number of governance principles, but in November 2009 announced that it would not be proceeding with these initiatives because it was "not an appropriate time to introduce significant changes to Canada's corporate governance regime."

The role of directors

Shareholders of public companies delegate oversight of the companies they own to directors, who act as fiduciaries, overseeing the company's business and affairs on their behalf in the best interests of the corporation. Directors must be (and be seen to be) independent of the management they hire and oversee, to give the shareholders who elected them confidence that the board can carry out these responsibilities effectively.

The role of shareholders

In the last 25 years, 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 issuers is owned by institutional shareholders. At the same time, clearer expectations of how public issuers should be governed have emerged, and shareholders, including many CCGG members, are actively discussing these expectations with company directors.

The role of the CCGG

As long-term providers of corporate capital and committed, patient and supportive shareholders, our members believe that sharing the responsibility with company boards to promote and adopt progressive governance practices:

- enhances trust and long-term investment returns
- will reduce governance failures and business risk
- is in the long-term best interests of corporate boards, management, shareholders and the millions of Canadians whose money our members invest, and
- will reduce the cost of capital for Canadian corporations.

Since 2004, we have been measuring governance risk in the companies our members invest in using a governance rating system developed by the Rotman School of Management at the University of Toronto. We are pleased that between 2005-2009, governance risk in the companies on the S&P/TSX Composite Index has declined significantly and ranks well against international standards.

Many companies now have excellent governance practices and first-rate executive leadership committed to the healthy growth of the company in the best interests of shareholders. The governance practices of some companies, however, need fine-tuning as investor expectations evolve, while others need to significantly alter 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 governance practices are enhancing shareholder value, and to take corrective steps if they are not. To ensure their governance practices are effective, CEOs, chairs and boards should work together to create a culture of respect, candour and trust.

CCGG guidelines

Our best practices focus on developing high performance boards that:

1. are accountable and independent
2. have experienced, knowledgeable and effective directors and committees
3. have clear roles and responsibilities, and
4. engage with shareholders.

We developed these guidelines after extensive consultation, and with significant input from many of Canada's leading directors and issuers, governance experts, lawyers and compensation consultants, carefully weighing the balance between financial performance and corporate governance policies.

We expect Canadian reporting issuers to adopt these governance policies and procedures in their organizations, over and above the minimum standards required by CSA regulations and corporate law.

While we developed these governance guidelines with large Canadian issuers in mind, many of the guidelines apply to companies of all sizes. We recognize, however, that not every company will necessarily be able to apply each guideline. Companies may change or reject some practices and not all governance solutions apply to all companies and all situations.

Controlled corporations

We also believe that governance in corporations with controlling shareholders may be different from companies that are widely held. A controlling shareholder has legitimate interests that may be in conflict with our stated guidelines, particularly for director independence, separation of chair and CEO and representation of a controlling shareholder on board committees.

Over the next year, we will be researching controlled companies to understand:

- differences in their governance and distinctions between corporations controlled through an equity stake and those controlled through a multiple voting structure with a minor equity stake
- the role of controlling shareholders in the selection of directors and the appointment of officers, and their involvement in board committees (such as the audit or compensation committees)
- how conflicts of interest between the corporation and the controlling shareholder are managed
- other relevant issues that are unique to the governance of controlled corporations.

Keeping this document current

We believe that good governance is a condition – not a guarantee – of long-term financial performance, but it cannot be just a theoretical exercise.

Governance will evolve as communication between shareholders and directors develops, and as global governance practices evolve. We expect Canadian companies to develop and adopt many new best practices over time, and will periodically revise this document to ensure it stays modern and relevant.

A HIGH PERFORMANCE BOARD IS ACCOUNTABLE AND INDEPENDENT

Guideline One:

Facilitate shareholder democracy

Shareholders have the fundamental right to vote their shares, and every shareholder has a duty to responsibly exercise that right.

Every public company must have a voting system that supports shareholder democracy and should communicate the results of votes promptly and completely.

Expected best practices

- Allow shareholders to vote for individual directors; no slates.
- All directors should be up for election each year – board terms should not be staggered.
- Adopt a majority voting policy for director elections, using language that is substantially similar to the CCGG model policy (available at www.ccgg.ca).
- Get shareholder approval before issuing 25% or more of the shares of the company as part of a transformational transaction.
- Report voting results on SEDAR within 5 business days, indicating the actual number of votes cast for, against and/or withheld for each resolution.

Current Canadian corporate and securities regulations limit shareholder democracy, in that shareholders can only vote "for" or "withhold" their vote for directors. The effect is that a director can be elected with only a single vote "for", even if an overwhelming number of votes are withheld. We believe that shareholders must have the option to vote "for" or "against" directors and will support any change in the legislation designed to bring about that result.

Guideline Two:

Ensure at least two thirds of directors are independent of management

At least two-thirds of every board should be independent of management, to ensure directors are aligned with shareholders and not with management.

"Independence" means a director is independent of management, does not have a material relationship with the company and, except for director fees and share ownership, does not financially benefit from it. 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. For example, employees of a company, its service providers and relatives or close friends of a senior executive all have a material relationship with the company.

As much as possible, directors should also be independent of each other. For example, boards should have policies to limit interlocking board relationships of all kinds, including:

1. board interlocks – when two directors of Company A sit on the board of Company B
2. committee interlocks – when two directors sit together on another board, and are also members of the same board committee.

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

Expected best practices

- Make sure at least two-thirds of directors are "independent".
- Have a formal board policy that limits the number of board and committee director interlocks on the board.
- Report all board and committee interlocks to shareholders.

Guideline Three:

Separate the roles of 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 making sure it acts in the long term best interests of the corporation as it oversees management and the company's growth. The chief executive officer is responsible for leading management, developing and implementing the company's business strategy and reporting to the board.

Separating the roles resolves inherent conflicts of interest and clarifies accountability – the chair to the shareholders and the CEO to the board. 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 a considerable amount of time and effort, and should ideally be independent of the controlling shareholder, where there is one. In cases where the controlling shareholder is also the chair, an independent lead director should be appointed.
- The independent chair (or independent lead director) should set board agendas with the CEO and other directors and be responsible for the quality of the information sent to directors.
- The CEO should be required to leave the board when he or she retires. In cases where an incoming CEO has been recruited from outside the company, the board can consider keeping the former CEO as a board member during a transition period.
- The board should establish an annual review process for the chair and report on it to shareholders.

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

Guideline Four:

Ensure that directors are competent and knowledgeable

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, both individually and as a whole. "Quality" is subjective and has no legislative or regulatory definition, but we define a director of quality as someone with integrity, competence, knowledge, business and industry experience and the motivation to carry out his or her fiduciary duties in the long-term best interests of the company and all of its shareholders.

We expect boards to be **diverse**. A high quality board will have directors with a wide variety of experiences, views and backgrounds. A number of directors should have direct experience in the industry or industries the company operates in, to make sure the board asks for 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 their 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 company and its business.

Directors must be **curious.** They must be willing to ask the questions of management that will give them a fuller understanding of the risks and rewards of any proposed plan of action and how it will affect the long term viability of the corporation.

Every director must also clearly understand the legal requirements of the role.

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 and ongoing educational programs and guidelines, like formal education courses, in-house sessions and conferences.

Expected best practices

For individual directors:

- Many directors on a board will have career experience and expertise relevant to the company'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.
- Some directors should have financial accreditation and/or be financially literate.
- All directors should demonstrate well developed listening, communicating and influencing skills so they can actively 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 for the company. We believe that directors who hold a full-time executive position should have only one or 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 outside corporate directorships that take up a significant amount of time.

For the board as a whole:

- Maintain and disclose to shareholders a 'matrix' of director talents and board requirements to identify skill gaps on the board and to create a board built on a diversity of background, skills and experience. Disclose each director's relevant skills.
- 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 of skills and experience on the board and a reasonable level of turnover of directors.
- Create a board of an appropriate size – large enough to divide the various board and committee duties among the directors, but small enough to allow open, informal and responsible discussion and debate.
- Establish a continuing education program for directors to update their skills and knowledge of the company, 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).
- Disclose to shareholders the education programs directors participate in every year.

Guideline Five:

Ensure that the goal of every director is to make integrity the hallmark of the company

To have integrity is to be principled, moral, honest and responsible; it is to be above reproach in all things. A public company's reputation for integrity is fundamental in creating value for shareholders and other stakeholders.

Every director on the board should be a person with demonstrated integrity, and 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 people of integrity and are creating, or continuing to build on, a culture of integrity throughout the organization.

Expected best practices

For individual directors:

- People often do not carefully examine the ethical implications of a specific activity. To deepen their understanding of developing ethical issues, directors should read appropriate literature or attend seminars and then act accordingly.
- When meeting with company 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 their role as fiduciaries.

For the board as a whole:

- Emphasize the importance of integrity during in-camera sessions, and 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, taking into account the company's resources. These should be led by the CEO and will normally include:
  - a statement of the company'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
  - an officer who has responsibility for integrity at the company. 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 other than in the most exceptional circumstances, 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 an important consideration in the process of succession planning.

Guideline Six:

Establish mandates for board committees and ensure committee independence

Board committees do a large part of the work of the board and then present their recommendations to the entire board for final approval, so conflicts of interest between management and shareholders are most likely to arise at the committee level first. It is therefore important that most, if not all, board committees be composed only of independent directors.

It is poor governance to allow directors who are not independent to approve policies, procedures and appointments recommended by management. The audit committee, for example, reviews and approves the financial statements, risk management programs and internal controls developed by management. The compensation committee reviews and approves the performance and compensation of the chief executive officer and other senior executives. The nominating/governance committee selects and recommends board candidates to oversee management. The independence of these committees is critical.

In some cases, it may be appropriate for a controlling shareholder (who controls the company through equity ownership) to appoint representatives to a particular committee. The board should form a conflict of interest committee in this situation, made up entirely of independent directors, to provide an independent point of view on all related party transactions.

Expected best practices

For all committees:

- Hold in camera sessions with independent directors only, as a regular part of all committee meetings.
- Review committee charters every year and amend or confirm the mandate and procedures based on information received from the board and committee evaluation processes.
- Make sure 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 (required under the regulations – Multilateral Instrument 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 independent view of compensation, and the CEO should not participate in their selection.
- Make sure no more than one in three members of the committee is currently the CEO of another company.
- Have a rolling agenda that looks 12 to 18 months into the future to allow sufficient time to test and understand the compensation packages being proposed.
- When changes to compensation policies are proposed, hold separate meetings to consider the changes and then to translate the policies into action.
- Do not include management in meetings when their compensation is being deliberated.
- Follow the most recent version of CCGG's ***Executive Compensation Principles*** available at www.ccgg.ca.

Guideline Seven:

Establish reasonable compensation and share ownership guidelines for directors

Directors should be paid fees for their services, set 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 the status quo.

Directors will usually represent the company more effectively if they are also shareholders in the company. Boards should decide on the level of share ownership directors should maintain during their tenure (often expressed as a multiple of annual director fees) and include a reasonable phase-in period for new directors.

Director compensation should not be incentive-based. Stock options are not an appropriate form of compensation for the directors of large, established public issuers. Directors with stock options have no capital at risk, so their financial interests are not aligned with the interests of shareholders. Stock options can be granted when share prices decline and exercised when share prices rise, so they focus attention on short-term share performance instead of on the company's long-term sustainability. Most large Canadian companies have abolished stock options for directors.

Directors can receive forms of compensation other than cash. For example, shares can be issued at market value (generally taxable at the time of grant) or compensation can be paid in deferred share units (DSUs), which are equivalent in value to a common share, often with the dividend rights of a common share. DSUs have valuable tax deferral benefits to the director because they are generally taxable at the time of exercise as ordinary income. Directors should be required to hold their DSUs until they retire from the board.

Expected best practices

- Review the compensation paid to directors every year to make sure it is reasonable and does not interfere with director independence. Directors should be compensated as fiduciaries acting on behalf of the corporation, shareholders and other relevant stakeholders.
- Consider higher levels of compensation for directors on the audit, compensation or special committees (and particularly the chairs of these committees), because they often do the most committee work for the board, make a higher time commitment and have higher levels of professional experience.
- Require directors to own the equivalent of five years' annual retainer in the form of shares or deferred share units within five years of becoming a director. Boards may wish to establish interim targets (e.g. 3 times annual fees after 3 years on the board) to allow the director to work toward the total requirement.
- If stock prices change dramatically and directors no longer meet the minimum target, allow them one to two years to bring their holdings back up to target.
- Do not grant options to directors, and disclose the terms of any outstanding options they may have previously been granted fully and plainly in the proxy circular. (It is acceptable to grant shares or DSUs.)
- Disclose director share ownership requirements and conditions.
- Disclose each director's actual compensation and other benefits, the percentage of total compensation taken in shares or DSUs and any change in director share ownership.

Guideline Eight:

Evaluate board, committee and individual director performance

A board needs processes in place to evaluate and improve its performance, the performance of its committees and the performance of individual directors. These are often managed by the nominating/governance committee.

To assess the need for change to structures or processes, many boards confidentially survey directors once a year and have the nominating/governance committee review the results.

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. These should be based on each candidate's ability to make an effective contribution – and not on the time he or she may already have served on the board.

Expected best practices

For individual directors:

- Prepare a charter of expectations for directors and publish it in the proxy circular.
- Make sure the performance review process assesses a director's skill set against the company's strategic plan, environment and needs.
- Have minimum attendance expectations for directors at both the board and committee levels.
- Publish 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.
- Determine and document the kinds of events that would normally lead a director to resign from the board (not meeting attendance expectations, age or change in principal occupation or place of residence, for example).
- Evaluate the performance of individual directors every year using a confidential peer-review survey. The independent board chair, chair of the 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.

- Disclose the performance review processes in the proxy circular in enough detail to demonstrate that there is a strong and viable system in place. Where appropriate, disclose conclusions drawn and/or 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 would be the committee chair) and each director.
- Evaluate the performance of the board and committee chairs against their respective mandates every year.
- Disclose the board performance review process in the proxy circular in enough detail to demonstrate that there is a strong and viable system in place. Where appropriate, disclose conclusions drawn and/or improvement opportunities identified from the process.
- Have the nominating/governance committee closely monitor emerging best practices at leading corporations.

A HIGH PERFORMANCE BOARD HAS CLEAR ROLES AND RESPONSIBILITIES

Guideline Nine:

Oversee strategic planning, risk management and the hiring and evaluation of management

Directors are responsible for setting the overall vision and long-term direction of the corporation (including expectations for risk and return and non-financial goals).

The board hires senior management and delegates the management of the business of the corporation to them, evaluates their progress and oversees the process of evaluating and managing business risks.

Management's primary job is to develop and implement an appropriate business strategy that will help the company achieve its vision, while managing the risks of the business, following the board's direction. The board reviews, questions, discusses and ultimately approves management's recommended strategy. The board then oversees management's decisions to make sure they are consistent with the approved vision, objectives, goals and parameters, and that they follow the approved approach to risk management.

Risk management is a core function of the board

Risk management has sometimes been seen to be primarily the management of financial risk and has often been delegated to the audit committee to review on a limited basis. In some cases, directors have not had a full understanding of the risks of the business.

CCGG believes that every organization is exposed to multiple risks and that, for most businesses, risk management should be a core function of the board and a process every director is actively involved in.

For directors, risk management needs to go beyond quantitative risk assessments, to focus on the assumptions used in planning and to challenge management's assumptions. For example, many quantitative risk systems assume that markets for securities are always liquid, credit is always available at reasonable market rates, governments and counterparties will fulfil their credit obligations and that investors always act rationally. Experience has shown that assumptions like these are not always valid, so boards need to keep in mind and plan for the unusual and unexpected — the things that happen only "once in a 100 years".

At the same time, boards need to make sure the company has an adequate risk management system in place to identify and monitor all potential sources of risk, and that the right financial and non-financial incentives and penalties for employees are in place to mitigate these risks.

Risk committee

There has been debate about whether it's necessary for every board to establish a separate, stand-alone committee to address risk issues within the organization. A number of practices and recommendations have emerged around this issue, including the following examples:

1. The UK Walker Report recommends that financial institutions establish a separate risk committee, made up of independent directors, that focuses on the governance of risk.
2. A number of Canada's financial institutions have set up a risk management committee, made up of the independent chair (or independent lead director), the various committee chairs and management, that meets once or twice a year to review how the risk system is working.
3. Another model has every committee addressing the risks relative to their mandate within each committee then bringing its perspective to the entire board.

We believe that every board should decide which approach would work best for the circumstances of the company.

Expected best practices

- Monitor how the corporation's strategy is being implemented, and measure its performance against objectives and developments (if any) that could have an impact on the corporation.
- Regularly evaluate management's analysis of the strategies of competitors or 'quasi' competitors.
- Conduct a regular review of the human, technological and capital resources required to implement the company's business strategy, as well as the regulatory, environmental, social, cultural or governmental constraints on the business.
- Be aware of the risks of the business and ensure that management has adequate processes in place to monitor and to manage risks as they arise, and that the right financial and non-financial incentives and penalties for employees are in place to mitigate these risks.
- Disclose to shareholders the board's analysis of the primary risks of the business and describe how the corporation is monitoring and mitigating the risks.

Guideline Ten:

Assess the Chief Executive Officer and plan for succession

The board is responsible for hiring, and the decision to continue to employ the chief executive officer, reviewing his or her performance every year and establishing a succession plan.

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 performance targets, expectations and related compensation incentives, and
- a formal 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 compensation 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.
- Develop an annual review process for the CEO.
- Review succession plans for the CEO and other senior executives once a year (or more frequently) and review with the CEO the performance of his or her direct reports.
- Encourage directors to meet and familiarize themselves with the senior executives and high potential employees.
- Create opportunities for high-potential employees to make presentations to the board and to meet with directors socially.

Guideline Eleven:

Develop and oversee executive compensation plans

Senior executives should be compensated fairly and competitively, with a large component of compensation being performance-based. Executives should also be significant shareholders in the company to more closely align their interests with those of shareholders.

CCGG Principles

Expected best practices

Review the most recent version of CCGG's Executive Compensation Principles, available at www.ccgg.ca, for our detailed views on executive compensation.

Develop an independent point of view

Where appropriate, the hiring of an independent compensation consultant by the board (which is ideally a different consultant than the one hired by management) should mirror the rules with respect to hiring the auditor:

- The chair of the compensation committee is the client and should lead the selection process and determination of fees.
- The consultant should align its interests solely with the interests of the corporation and not have any other conflicting interests.
- The independent consultant should earn most (if not all) of its fees from the company for work performed for the compensation committee. Work the compensation consultant performs on behalf of management should be pre-approved by the chair of the compensation committee and disclosed in the annual proxy circular. All fees paid to the independent compensation consultant, including fees for pre-approved work for management, should be disclosed in the annual proxy circular.
- The compensation committee should not rely solely on compensation surveys. It should also give significant weight to company-specific factors and "common sense" and be fully aware of the value of grants outstanding, pensions, perquisites and the environment of the company when determining executive compensation.

Communicate all facets of the compensation regime

Include in the compensation disclosure:

- a clear explanation of the business objectives of the company, how each facet of compensation is linked to achieving the objectives and how, as a result, compensation is linked to the long-term interests of shareholders
- a "look back – total take" table that accrues total compensation paid to the CEO since his or her appointment

- a "pay for performance" table that relates the total consideration from the "look back – total take" table to absolute and relative performance
- the contents of any employment contract between the named executive officers (NEOs) and the corporation as well as a general disclosure of other contractual arrangements with non-NEOs
- a confirmation from the compensation committee that it understands the long-term implications of the company's executive compensation plan, including any employment contracts and their limitations.

Link compensation and risk management

Ensure that the compensation committee is aware of the work of the board committee(s) responsible for risk management.

- Consider appointing the chair of the compensation committee as a member of the audit or risk committee and vice versa.
- Ensure that senior executives responsible for compensation policies and risk management communicate regularly to ensure that the compensation system does not inadvertently encourage unintended risk taking.

CCGG 2009 EXECUTIVE COMPENSATION PRINCIPLES

PRINCIPLE 1 *"Pay for performance" should be a large component of executive compensation*

PRINCIPLE 2 *"Performance" should be based on measurable risk adjusted criteria, matched to the time horizon needed to ensure the criteria have been met*

PRINCIPLE 3 *Compensation should be simplified to focus on key measures of corporate performance*

PRINCIPLE 4 *Executives should build equity in their company to align their interests with shareholders*

PRINCIPLE 5 *Companies should limit pensions, benefits, and severance and change of control entitlements*

PRINCIPLE 6 *Effective succession planning reduces paying for retention*

See www.ccgg.ca for the complete principles.

A HIGH PERFORMANCE BOARD ENGAGES WITH SHAREHOLDERS

Guideline Twelve:

Report governance policies and initiatives to shareholders

Boards need to make every effort to help shareholders understand the board's governance policies and how it will fulfil its management oversight and control responsibilities. The board should communicate with shareholders through multiple channels, including print, the company web site, webcasts, the Annual General Meeting (where questions should be encouraged) and one-on-one or group meetings. All written communications with shareholders should be in plain language.

Expected best practices

- Report in the proxy circular how and to what extent the company complies with each of the guidelines in this document. Our disclosure best practices documents (which are available at www.ccgg.ca) include many examples of effective disclosure.
- Include the company's governance philosophy, policies, practices and monitoring processes in the annual report, indicating whether its standards meet or exceed regulatory requirements.
- Report in the chair's section of the annual report any substantive issues, changes and developments in corporate governance practices at the company that could affect shareholder interests.
- Have the chair of each committee available to answer questions at the Annual General Meeting.

Guideline Thirteen:

Engage with shareholders within and outside the annual meeting

CCGG believes that shareholders should be allowed to have regular, constructive engagement with the boards of companies they invest in order to create open relationships, have the opportunity to explain their perspectives on governance, compensation and disclosure practices, and provide detailed comments on the company's practices. When these meetings are about compensation or other matters related to management, they should normally be held without management or advisers. Most boards welcome this interaction and we encourage all boards to contact their shareholders to initiate a dialogue.

Say on pay advisory votes

CCGG regards "Say on Pay" shareholder advisory resolutions as an important part of this engagement process, because they give shareholders the opportunity to express their views on the board's approach to executive compensation in the year and over time. CCGG recommends that boards voluntarily add a shareholder advisory vote on the board's report on executive compensation at each annual meeting. We have posted a model board policy on Engagement and Say on Pay and our recommended form of shareholder resolution on our website www.ccgg.ca.

Expected best practices

- Provide opportunities for shareholders to have access to board members outside of the annual meeting to discuss issues that concern either party.
- Adopt the CCGG model board policy on Engagement and Say on Pay and add an advisory shareholder "Say on Pay" resolution to each annual meeting agenda.

2010 **BUILDING HIGH PERFORMANCE BOARDS**

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