GLASS LEWIS 2024 POLICY CHANGES

Shorecrest

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Glass Lewis has updated their Canadian voting guidelines for the 2024 proxy voting season. They have highlighted eight key changes to the 2024 guidelines which are summarized below:

Cyber Risk Oversight

Last year, Glass Lewis introduced a new section to their policy for the 2023 proxy season as a result of increasing institutional investor concern on cyber security risk to issuers. Glass Lewis highlighted in their review of this year's proxy season that given increased regulatory focus as well as potential for adverse consequences that cyber risk is a material concern for all issuers. When a company has been materially impacted by a cyber-attack, the expectation is that the company's shareholders will receive periodic updates communicating the company's ongoing process towards resolving and remediating the impact of the attack.
These updates should include (when the company returns to normal) what resources the company is providing for the affected stakeholders but should not include specific or technical details, that could impede the company's remediation of the incident or assist threat actors or cyber criminals in further acts.

Glass Lewis may make a recommendation against a director when a cyber-attack has materially impacted a company and they determine that the boards' oversight, response, or disclosure was lacking and was not clearly communicated to shareholders. However, Glass Lewis will generally not make a negative director recommendation based on the company's oversight and disclosure concerning cyber related issues if no material adverse event has occurred but will be reviewing prior oversight once an event has occurred.

Interlocking Directorships

Glass Lewis has added language clarifying that they will be looking at interlocking relations beyond direct interlocks (e.g. interlock with close family members of executives or interlocks with group companies) and will decide on a case-by-case basis.

In line with their U.S. policy, the Canadian policy has been updated to include language that the interlocking policy applies to both private and public companies. In addition, Glass Lewis will be scrutinizing instances where there are multiple board interlocks among non-insiders for patterns of poor oversight and will be flagging it in their analysis.

Audit Financial Expert Designation

The policy has been revised to change the criteria for the designation of audit financial expert. Glass Lewis expects at least one member of the audit committee to have this designation. The new criteria are stricter than the CSA financial issuers requirement and more in line with the SEC requirement for audit committee financial experts.

Audit financial expert criteria is defined as:
(i) a chartered accountant;
(ii) a certified public accountant;
(iii) a former or current CFO of a public company or corporate controller of similar experience;
(iv) a current or former partner of an audit company; or
(v) having similar demonstrably meaningful audit experience.

The audit financial expert designation will be distinct from the financial skill in Glass Lewis skills matrix, which encompasses more generalized financial professional experience beyond accounting or audit experience.

Generally, Glass Lewis does not recommend against board members when there is no director on the committee with this designation but may do so if they also have other concerns such as a financial restatement.

Director Accountability

Last year, Glass Lewis included a new section on director accountability for climate-related issues. Climate risk is a material risk for all companies. Companies should provide clear and comprehensive disclosure on their risk, including how climate risks are being migrated and overseen, particularly those whose greenhouse gas (GHC) emissions represent a financially material risk.

Glass Lewis may recommend a vote against the responsible member of the board for companies with increased climate risk exposure that have not provided thorough Task Force on Climate related Financial Disclosure (TCFD) aligned climate related disclosure and/or have not explicitly and clearly defined oversight responsibilities for climate related issues.

This policy was applied only to the largest most significant emitters in 2023 but will now apply to TSX 60 companies operating in industries where the sustainability accounts standards Board (SASB has determined the companies' GHG emission represent a financial material risk.

Human Capital Management

As a result of engagement with institutional investor clients, a new section has been added this year regarding board accountability for human capital management.

This includes labour practices, employee health and safety and employee engagement to diversity and inclusion. In egregious cases where the board has failed to respond to legitimate concerns with a company's human capital management practices, Glass Lewis may recommend voting against the chair of the committee tasked with oversight of the issuers ES&G issues, the chair of the governance committee or the chair of the board.

Clawback Provisions

Glass Lewis will consider recoupment policies that always require a financial restatement before clawback actions are possible as insufficient risk-mitigating policies and will be classified as a weak policy. Recoupment provisions and will be evaluated on a case-by-case basis situation.

Where the board does not follow through with recovery, Glass Lewis will evaluate the appropriateness of this action.

Executive Ownership Guidelines

Intended to foster a culture of ownership among executives and further align the long-term interests of executives with shareholders, company executive ownership policies set a threshold level or value of shares that executives must own.

The practice of including unexercised stock option and unearned performance awards in the ownership level for executives, Glass Lewis believes, will result in inflated perceived ownership level and inflate the perceived level of alignment with shareholders.

Companies that disclose that they have included these unearned awards in the executive ownership totals will be flagged by Glass Lewis as a liberal share counting methodology in the negative features in the executive pay program.Policies that don't describe the accounting methodology will be flagged for insufficient disclosure of the ownership guideline. Issuers will still get credited for having the policy but will also include this additional disclosure.

Proposals for Equity Awards for Shareholders

Glass Lewis has expanded their section on front-ended loaded awards to include a provision requiring either a non-vote or abstention from a shareholder vote if they are also a recipient of the proposed grant. Lewis will view the inclusion of this provision positively during their analysis. This provision helps to address potential conflict of interest and provide disinterested shareholders with a more equal say over the proposal.

Glass Lewis also included in the 2024 guidelines some clarifying statements of existing policies.

- The section on the nominating committee performance and performance and governance committee are now separate in the policy to accommodate when these two committees are not combined to clarify the expectation for each committee.

- Following an IPO, spin off or direct listing, Glass Lewis may recommend against voting on governance committee members or board chair in the absence of a committee if overly restrictive governing documents are approved. Multi class share structure if the board did not commit to submitting the multi class structure to shareholders to vote or did not provide a reasonable sunset of the multi class structure.

- Expanded the section on the approach to use non-IFRS/GAAP measures in incentive programs to emphasis the need for thorough and transparent disclosure in the proxy statement to allow shareholders to reconcile the difference between non-IFRS/GAAP results used for the incentive payout and reported IFRS/GAAP results.