

Corporate governance

A guide to good disclosure



Use this guide to help you give investors meaningful information about your corporate governance practices.

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Introduction

About this guide

During the past two years, Toronto Stock Exchange (TSX) has reviewed the corporate governance disclosure of over 700 of its issuers. Almost all describe, in some form, their system of corporate governance. While these issuers clearly try to give investors insight into their corporate governance practices, disclosure can be improved.

Good disclosure about your corporate governance practices gives investors a solid understanding of how decisions are made that may affect their investment. TSX believes that your shareholders are entitled to this information. In addition, investors who are confident about your corporate governance practices are more likely to remain or become shareholders.

This guide helps issuers prepare meaningful disclosure that complies with TSX requirements. It also suggests other information you can include to improve the quality of your communication with investors.

Your responsibilities

TSX requires all listed companies to disclose their corporate governance practices each year in their annual report or their management information and proxy circular. To comply with this TSX requirement, you must fully and completely describe your system of corporate governance and compare your practices against each of the 14 guidelines set out in Section 474 of the *TSX Company Manual*. When comparing your practice to a guideline, you need to explain:

- how your practice complies with the guideline, or
- how your practice differs from the guideline and why, or
- why the guideline doesn't apply to you.

TSX only requires you to explain your practices, not to adopt the practices in the guidelines.

Some of the guidelines may not apply to your company or your practices may differ from those set out in the guidelines. If you haven't complied with a guideline, you can still provide a thorough description of your actual practice. In fact, disclosure may be more important in these situations. For investors to be confident about your practices, you need to explain what you are doing and why you believe that your practices are appropriate.

How this guide can help you

To help you prepare your corporate governance disclosure, we:

- explain what you must discuss for each TSX guideline in order to comply with the disclosure requirement
- suggest ideas to enhance your disclosure about each guideline to give investors the most complete description of your practices
- provide examples of good disclosure. In these examples, we've used fictitious names of companies and individuals
- provide tips on how to communicate effectively.

What is good disclosure?

Good disclosure effectively communicates detailed information about your system of governance. By addressing each of the 14 guidelines, you will describe:

- the duties, expectations and objectives of your board of directors and committees
- the composition of your board of directors
- how you ensure that you take the interests of minority shareholders into account
- the structures and processes in place to make sure the board functions independently of management
- how the board tries to enhance its performance; for example, by assessing the performance of the board, its committees and individual directors
- how you deal with shareholders' concerns and feedback.

We encourage you to go beyond the guidelines and include other useful information about your corporate governance practices.

To demonstrate what TSX considers good and bad disclosure, consider the following two examples. Both examples technically meet the TSX disclosure requirement for Guideline 8, however only one is an example of good disclosure.

Guideline 8 states:

The board of directors should review the adequacy and form of the compensation of directors and ensure the compensation realistically reflects the responsibilities and risk involved in being an effective director.

Example 1 – Poor disclosure

The board of directors reviews the adequacy and form of the compensation of directors and ensures that the compensation realistically reflects the responsibilities and risk involved in being an effective director.

While Example 1 addresses the guideline, the disclosure just repeats the guideline wording. Readers receive no insight into how the board arrived at the decision about the level and suitability of the directors' compensation.

Example 2 – Good disclosure

The Corporate Governance Committee reviews the amount and the form of director compensation. Recommendations to the board for changes take into consideration the time commitment, risks and responsibilities of directors. The Committee also reviews the board compensation at peer companies. As disclosed in the section *Directors' Compensation* on page 7 of this circular, the board decided, based on the Committee's recommendation, to:

- require each director to own \$50,000 of common shares within 5 years of appointment to the board
- allow directors to take their annual board retainer of

\$15,000 in common shares, cash or a combination of both common shares and cash, and

- stop granting options to directors under the Company's Stock Option Plan.

The Committee believes these changes will further align the directors' interests with the interests of shareholders.

Example 2 meets TSX expectations by discussing the adequacy and form of compensation and what the committee considered in making its recommendations. The information provided goes beyond the guideline requirements. It gives specific details about requirements for director share ownership, the form of compensation and recent changes to director compensation. To ensure investors have all available information about director compensation without repeating it, the company refers readers to another section in its circular.

If your approach differs from the practice set out in a guideline, you still need to describe it fully, and explain how your system differs from the practice. If the practice set out in a guideline doesn't apply to your company, you must explain why.

In the example below, the practice set out in guideline 4 doesn't apply to the company.

Guideline 4 states:

The board of directors of every corporation should appoint a committee of directors composed exclusively of outside, i.e., non-management, directors, a majority of whom are unrelated directors, with the responsibility for proposing to the full board new nominees to the board and for assessing directors on an ongoing basis.

Example 3 – Good disclosure

Given the current size of the company and number of employees (12), the board of directors believes its current size and composition (four directors, three outside and unrelated) is appropriate. The company has not created a nominating committee. All members of the board can suggest individuals for nomination to the board. Each director interviews each nominee separately and a final decision is made at the board meeting. Again, given the small board size, no formal assessment of the board or individual directors takes place.

Example 3 complies with the disclosure requirements for Guideline 4, even though the company hasn't adopted the practice set out in the guideline. The disclosure clearly explains to investors how the company's nomination process is carried out.

How to respond to the 14 guidelines

GUIDELINE 1

Stewardship of the company

The board of directors of every corporation should explicitly assume responsibility for the stewardship of the corporation and, as part of the overall stewardship responsibility, should assume responsibility for the following matters:

Required disclosure:

- discuss whether the board assumes responsibility for:
 - overseeing the operation of the business and
 - supervising management.

For enhanced disclosure, you can:

- explain what the board expects of management
- state whether you have adopted a code of business ethics or business conduct
- include a copy of the code of business ethics or business conduct or tell investors how they can obtain a copy
- discuss the board’s mandate or charter, or provide a copy of the mandate or charter.

EXAMPLE OF GOOD DISCLOSURE

The mandate of the board is to supervise the management of the company and to act in the best interests of the company. The board acts in accordance with:

- the Canadian Business Corporations Act
- the company’s articles of incorporation and by-laws
- the company’s code of business conduct
- the charters of the board and the board committees
- other applicable laws and company policies.

The board approves all significant decisions that affect the company and its subsidiaries before they are implemented. The board supervises their implementation and reviews the results.

Copies of the company’s code of business conduct and charters of the board and its committees can be found on the company’s web site at www.company.com.

GUIDELINE 1A

Strategic planning process

(a) adoption of a strategic planning process;

Required disclosure:

- discuss whether the board is responsible for adopting a process that sets out the long-term goals of the company and the plans to achieve those goals.

For enhanced disclosure, you can:

- state whether this responsibility has been assigned to a committee
- describe how this process is carried out
- describe the scope of the plan including how it takes into account the specific opportunities and risks of the business
- disclose if the board approves the strategic plan
- discuss whether the board or a committee reviews the plan on an ongoing basis, and how they carry out this review.

EXAMPLE OF GOOD DISCLOSURE

The board is actively involved in the company’s strategic planning process. The board discusses and reviews all materials relating to the strategic plan with management. The board is responsible for reviewing and approving the strategic plan. At least one board meeting each year is devoted to discussing and considering the strategic plan, which takes into account the risks and opportunities of the business. The board also reviews the strategic plan at least quarterly. Management must seek the board’s approval for any transaction that would have a significant impact on the strategic plan.

How to respond to the 14 guidelines *continued*

GUIDELINE 1B

Principal risks

(b) the identification of the principal risks of the corporation's business and ensuring the implementation of appropriate systems to manage these risks;

Required disclosure:

- discuss whether the board:
 - assumes responsibility for identifying the main risks that affect the business
 - ensures that the right systems are in place to manage these risks.

For enhanced disclosure, you can:

- describe the principal risks that the board identified
- identify the committee, if one is responsible
- describe the process that the board or committee follows to evaluate risk
- discuss the structures and procedures in place to manage risk.

EXAMPLE OF GOOD DISCLOSURE

The board, through the Audit Committee, is responsible for identifying the principal risks of the company and ensuring that risk management systems are implemented. The principal risks of the company are those related to the environment, the company's industry, derivatives relating to raw materials, foreign currencies and interest rates. The Audit Committee meets regularly to review reports and discuss significant risk areas with the internal and external auditors. The board, through the Audit Committee, ensures that the company adopts risk management policies.

GUIDELINE 1C

Succession planning

(c) succession planning, including appointing, training and monitoring senior management;

Required disclosure:

- discuss whether the board assumes the responsibilities for:
 - appointing, training and monitoring senior management
 - planning who can replace the current senior management team.

For enhanced disclosure, you can:

- disclose if the board has assigned the responsibility for succession planning to a committee
- discuss how frequently the succession plan is reviewed
- describe the succession planning process.

EXAMPLE OF GOOD DISCLOSURE

The board is responsible for choosing the president and CEO, appointing senior management and for monitoring their performance. The board approves the president and CEO's corporate objectives and compensation. The board also ensures that processes are in place to recruit senior managers with the highest standards of integrity and competence, and to train, develop and retain them. For example, the board encourages senior management to participate in professional and personal development activities, courses and programs. The board supports management's commitment to training and developing all employees.

Communications policy

(d) a communications policy for the corporation; and

Required disclosure:

- discuss whether the board assumes responsibility for a policy that allows the company to communicate effectively with its shareholders, other stakeholders and the public in general.

For enhanced disclosure, you can:

- discuss the company's external and internal communications policies or disclose where investors can obtain copies of these documents
- identify the committee with this responsibility, if it has been assigned to a committee
- describe how the company interacts with stakeholders, such as analysts and shareholders
- talk about how the company complies with timely and continuous disclosure requirements
- discuss how frequently the communications policy is reviewed
- disclose who reviews and approves major company announcements.

EXAMPLE OF GOOD DISCLOSURE

The board approves all the company's major communications, including annual and quarterly reports, financing documents and press releases. The company communicates with its stakeholders through a number of channels including its web site. The board approved the company's communication policy that covers the accurate and timely communication of all important information. It is reviewed annually. This policy includes procedures for communicating with analysts by conference calls. Shareholders can provide feedback to the company in a number of ways, including e-mail or calling a toll-free telephone number.

Integrity of internal control

(e) the integrity of the corporation's internal control and management information systems.

Required disclosure:

- discuss whether the board assumes responsibility for putting in place appropriate internal control and management information systems to ensure that it can carry out its responsibilities.

For enhanced disclosure, you can:

- disclose if the board has assigned this responsibility to a committee
- describe how the board or committee reviews internal control and management information systems
- discuss how frequently the board or committee reviews these systems.

EXAMPLE OF GOOD DISCLOSURE

The board, through its Audit Committee, examines the effectiveness of the company's internal control processes and management information systems. The board consults with the internal auditor and management of the company to ensure the integrity of these systems. The internal auditor submits a report to the Audit Committee each year on the quality of the company's internal control processes and management information systems.

GUIDELINE

2

Board independence

The board of directors of every corporation should be constituted with a majority of individuals who qualify as unrelated directors. An unrelated director is a director who is independent of management and is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the corporation, other than interests and relationships arising from shareholding. A related director is a director who is not an unrelated director. If the corporation has a significant shareholder, in addition to a majority of unrelated directors, the board should include a number of directors who do not have interests in or relationships with either the corporation or the significant shareholder and which fairly reflects the investment in the corporation by shareholders other than the significant shareholder. A significant shareholder is a shareholder with the ability to exercise a majority of the votes for the election of the board of directors.

Required disclosure:

- disclose whether a majority of directors are unrelated
- if the company has a significant shareholder, disclose whether the board includes enough directors who:
 - don't have a relationship with the company or the majority shareholder
 - can fairly represent the interests of minority shareholders.

For enhanced disclosure, you can:

- describe every relationship between directors and the company
- describe any relationship between directors and the significant shareholder
- disclose the status of each director (related or unrelated and inside or outside)
- discuss the procedures in place to take into account the views of minority shareholders.

EXAMPLE OF GOOD DISCLOSURE

Of the 15 board members, only John Smith, the president and CEO of the company is an inside director. Two of the fourteen outside directors are related directors. The board considers that Janet Drake is a related director because she is a senior executive of a major customer of the company. The board considers that Frances Jones is a related director because she is a senior executive of a substantial provider of financial services to the company. The company does not have a significant shareholder.

Individual unrelated directors

The application of the definition of “unrelated director” to the circumstances of each individual director should be the responsibility of the board which will be required to disclose on an annual basis whether the board has a majority of unrelated directors or, in the case of a corporation with a significant shareholder, whether the board is constituted with the appropriate number of directors which are not related to either the corporation or the significant shareholder. Management directors are related directors. The board will also be required to disclose on an annual basis the analysis of the application of the principles supporting this conclusion.

Required disclosure:

- whether the board has reviewed the status of each director with respect to the company, i.e. related or unrelated, inside or outside
- if there is a significant shareholder, whether the board has reviewed the status of each director in relation to the significant shareholder
- disclose the definition of ‘unrelated’ used by the board
- describe how the board applied that definition to each director.

For enhanced disclosure, you can:

- describe the status of each director in relation to the company (related or unrelated, inside or outside)
- describe the business, family and other relationships of each director to the company and to a significant shareholder
- provide short biographies about each director that includes his/her experience, skills and expertise
- disclose which other boards the directors serve on
- disclose the attendance record of directors.

EXAMPLE OF GOOD DISCLOSURE

The board is responsible for determining whether or not each director is an *unrelated director*. To do this, the board analyzes all the relationships of the directors with the company and its subsidiaries. The majority of directors are unrelated to the company. John Brown is a related director because of his position as CEO of the company. Mary Smith is a related director because of her position as Executive Vice President, Operations of the company. The other six directors are unrelated directors. None of the other directors work in the day-to-day operations of the company, are party to any material contracts with the company, or receive any fees from the company other than as directors. All directors attended at least 80% of the 9 board meetings held during the year. More information about each director, including other directorships, can be found on page 3 of this circular.

GUIDELINE 4

Nominating committee

The board of directors of every corporation should appoint a committee of directors composed exclusively of outside, i.e., non-management, directors, a majority of whom are unrelated directors, with the responsibility for proposing to the full board new nominees to the board and for assessing directors on an ongoing basis.

Required disclosure:

- whether the board has a nominating committee, or an equivalent committee
- whether the nominating committee includes members of management
- whether the nominating committee has a majority of unrelated directors
- whether the committee proposes new nominees to the board
- whether the committee carries out an ongoing assessment of directors.

For enhanced disclosure, you can:

- describe the board's expectations of new nominees, with respect to time commitment, attendance and number of other directorships
- discuss the competencies, skills and other attributes that new nominees should have
- describe the procedure for nominating new directors
- state whether the board maintains a list of director candidates.

EXAMPLE OF GOOD DISCLOSURE

The company does not have a nominating committee. The Human Resources and Corporate Governance Committee is responsible for proposing new nominees to the board. All its members are outside and unrelated directors. This committee is also responsible for the ongoing assessment of directors. New nominees must have a track record in general business management, special expertise in an area of strategic interest to the company, the ability to devote the time required, shown support for the company's mission and strategic objectives, and a willingness to serve.

Assessing the board's effectiveness

Every board of directors should implement a process to be carried out by the nominating committee or other appropriate committee for assessing the effectiveness of the board as a whole, the committees of the board and the contribution of individual directors.

Required disclosure:

- whether the board has implemented a process to assess the effectiveness of the board, its committees and individual directors
- the name of the committee responsible for the assessments.

For enhanced disclosure, you can:

- discuss if the chair is also assessed
- describe the assessment process
- disclose how frequently the assessments take place
- describe the actions taken as a result of the assessments.

EXAMPLE OF GOOD DISCLOSURE

The Nominating and Corporate Governance Committee evaluates the effectiveness of the board, committees and individual directors. The committee surveys directors to provide feedback on the effectiveness of the board. An outside consultant compiles the results to ensure confidentiality. The committee assesses the operation of the board and the committees, the adequacy of information given to directors, communication between the board and management and the strategic direction and processes of the board and committees. The committee recommends changes to enhance the performance of the board based on the survey feedback.

GUIDELINE 6

Orientation and education of directors

Every corporation, as an integral element of the process for appointing new directors, should provide an orientation and education program for new recruits to the board.

Required disclosure:

- whether the company has orientation and education program for its new recruits.

For enhanced disclosure, you can:

- describe the orientation and education program
- disclose who is responsible for developing it
- disclose whether the company has a director's manual.

EXAMPLE OF GOOD DISCLOSURE

The company has a variety of orientation and education programs in place for current and new directors. All new directors receive a Board Manual containing a record of historical public information about the company, as well as the charters of the board and its committees, and other relevant corporate and business information. Senior management makes regular presentations to the board on the main areas of the company's business. Directors are invited to tour the company's various facilities. Directors are also encouraged to take professional development courses at the company's expense.

Every board of directors should examine its size and, with a view to determining the impact of the number upon effectiveness, undertake where appropriate, a program to reduce the number of directors to a number which facilitates more effective decision-making.

Required disclosure:

- whether the board has reviewed its size
- whether a reduction program was implemented if the size was too large.

For enhanced disclosure, you can:

- describe the evaluation process of the board size
- disclose the person or committee responsible for this evaluation
- disclose how often the size of the board is reviewed
- review the composition of the board, to show the directors, diverse skills and experience.

EXAMPLE OF GOOD DISCLOSURE

The Governance Committee reviews the composition and size of the board once a year. In 2002, the committee determined that the board should be reduced from 14 to 10 members. The board feels that this size is more appropriate for a company of our size and complexity. This number of directors permits the board to operate in a prudent and efficient manner.

GUIDELINE 8

Compensation of directors

The board of directors should review the adequacy and form of the compensation of directors and ensure the compensation realistically reflects the responsibilities and risk involved in being an effective director.

Required disclosure:

- whether the board or a committee reviewed the adequacy of directors' compensation and the form of compensation
- whether the compensation is appropriate for the responsibilities and risks assumed by the directors.

For enhanced disclosure, you can:

- include the name of the committee responsible, if the responsibility has been assigned to a committee
- provide information on the composition of the committee; for example, the number of unrelated directors
- disclose how frequently directors' compensation is reviewed
- describe the process in place to set compensation
- disclose the results of the review
- disclose minimum share ownership requirements
- disclose the amount and form of compensation paid to each director
- disclose where investors can find information about directors' compensation.

EXAMPLE OF GOOD DISCLOSURE

The Corporate Governance Committee reviews directors' compensation once a year. To make its recommendation on directors' compensation, the committee takes into account the types of compensation and the amounts paid to directors of comparable publicly traded Canadian companies. Directors may receive their compensation in the form of common shares, deferred stock units, cash or a combination of these. Directors must hold a minimum of 2,000 shares. See page 8 of this circular for information about the compensation received by the directors in 2002.

Committees and outside directors

Committees of the board of directors should generally be composed of outside directors, a majority of whom are unrelated directors, although some board committees, such as the executive committee, may include one or more inside directors.

Required disclosure:

- a list of your board committees
- whether the committees are made up of outside directors
- whether a majority of committee members are unrelated directors.

For enhanced disclosure, you can:

- include the following information about each committee:
 - the number of members
 - the number of outside members
 - the number of unrelated members
 - the chair of the committee
 - the names of members
 - the attendance record of members at committee meetings
 - the scope of each committee's responsibility or a copy of its charter.

EXAMPLE OF GOOD DISCLOSURE

The board has appointed three committees:

- the Audit and Finance Committee
- the Executive Committee
- the Human Resources and Corporate Governance Committee.

The Executive Committee has two directors who are members of management. All members of other committees are outside and unrelated directors.

The following is a description of each committee:

Audit and Finance Committee

This committee has five members:

Chair: Bill Brown

Members: Bob Cole, John Jones, George Thomas and Doris White

All members of this committee are outside and unrelated directors. This committee met six times in 2002 and all members attended the meetings.

This committee reviews the company's annual consolidated financial statements and quarterly financial statements before the board approves them. It works with management to develop the annual audit plan and reviews the auditor's recommendations on internal controls. The committee

meets with the auditors independently of management at least once a year. It also reviews the company's annual and long-term financial plans, proposals for major borrowings and the issuing of securities, and makes recommendations to the board with respect to financial strategies and policies. The committee is also responsible for financial risk management. The charter of the Audit and Finance Committee can be found on the company's web site at www.abcd.ca.

Executive Committee

This committee has four members:

Chair: George Thomas

Members: Deborah Black, Charles Hall and Katherine Lang

Katherine Lang and Deborah Black are members of management. This committee did not meet in 2002.

The board has given this committee the authority to manage the company on the board's behalf when the board is not in full session.

Human Resources and Corporate Governance Committee

This committee has five members:

Chair: Charles Hall

Members: Bob Cole, John Jones, Bill Brown and Doris White

All members of this committee are unrelated directors. This committee met twice in 2002 and all members attended both meetings.

This committee is responsible for developing and maintaining the company's corporate governance and compensation practices, including:

- defining the structure and composition of the board and board committees
- defining the relationship, roles and authority of the board and management
- identifying and recommending suitable director candidates
- setting directors' compensation
- developing and recommending management compensation policies, programs and levels to the board to make sure they are aligned with shareholders' interests and corporate performance
- disclosing the company's approach to corporate governance and executive compensation
- developing performance objectives for the CEO and assessing the CEO's performance against them
- reviewing succession plans for senior officers of the company.

GUIDELINE 10

Approach to corporate governance

Every board of directors should expressly assume responsibility for, or assign to a committee of directors the general responsibility for, developing the corporation's approach to governance issues. This committee would, amongst other things, be responsible for the corporation's response to these governance guidelines.

Required disclosure:

- whether the board has assumed or assigned it to a committee responsibility for developing the company's approach to governance issues.

For enhanced disclosure, you can:

- disclose the name of the committee responsible
- describe the responsibilities in developing the company's approach to corporate governance
- state who is responsible for disclosing the company's approach to corporate governance under these guidelines.

EXAMPLE OF GOOD DISCLOSURE

The Governance and Human Resources Committee is responsible for reviewing the overall governance principles of the company, recommending any changes to these principles, and monitoring their disclosure. This committee is responsible for the statement of corporate governance practices included in the company's management proxy circular. This committee monitors best practices among major Canadian companies to ensure the company continues to carry out high standards of corporate governance.

Position descriptions

The board of directors, together with the CEO, should develop position descriptions for the board and for the CEO, involving the definition of the limits to management's responsibilities. In addition, the board should approve or develop the corporate objectives which the CEO is responsible for meeting.

Required disclosure:

- whether the board and CEO develop position descriptions for their respective responsibilities
- whether the board approves or develops the corporate objectives that the CEO must meet.

For enhanced disclosure, you can:

- include a summary of the limits to management's responsibility
- disclose who approves position descriptions
- discuss whether the board or a committee assesses the CEO against the CEO's objectives
- state whether the committee reports these results to the board.

EXAMPLE OF GOOD DISCLOSURE

The Governance and Human Resources Committee is responsible for the overall governance of the company. This includes developing position descriptions for the board and the CEO. The committee reviews and approves the corporate objectives that the CEO is responsible for meeting. The committee assesses the CEO's performance against these objectives and reports the results of this assessment to the board. The board has clearly defined the limits to management's authority. The board expects management to:

- review the company's strategies and their implementation in all key areas of the company's activities
- carry out a comprehensive budgeting process and monitor the company's financial performance against the budget
- identify opportunities and risks affecting the company's business and find ways of dealing with them.

GUIDELINE 12

Board independence

Every board of directors should have in place appropriate structures and procedures to ensure that the board can function independently of management. An appropriate structure would be to (i) appoint a chair of the board who is not a member of management with responsibility to ensure the board discharges its responsibilities or (ii) adopt alternate means such as assigning this responsibility to a committee of the board or to a director, sometimes referred to as the “lead director”. Appropriate procedures may involve the board meeting on a regular basis without management present or may involve expressly assigning the responsibility for administering the board’s relationship to management to a committee of the board.

Required disclosure:

- a description of the structures and procedures in place to allow the board to function independently of management
- whether or not the chair is a member of management
- if the chair is a member of management, if there is a “lead director.”

For enhanced disclosure, you can:

- describe any structures and procedures in place beyond those set out in the guidelines
- state whether the board meets without management and how frequently
- outline the topics that the board discusses without management
- provide the name of the committee that manages the board’s relationship with management
- disclose whether discussions held in private are communicated to management
- describe how the company deals with conflicts between the board and management
- discuss responsibilities of the chair and or lead director.

EXAMPLE OF GOOD DISCLOSURE

The Corporate Governance Committee is responsible for administering the board’s relationship with management and the CEO. The committee may convene meetings of the board without management present, whenever at least two members of the committee feel it is necessary. At least one meeting of outside directors is held in private each year to allow a more open discussion. The Chairman of the Board, Frank Smith, is also the president and CEO of the company. Joe Black was appointed the Lead Director to ensure greater independence of the board from management. He acts as chair of these private meetings. He also acts as a liaison between management and the board.

Audit committee

The audit committee of every board of directors should be composed only of outside directors. The roles and responsibilities of the audit committee should be specifically defined so as to provide appropriate guidance to audit committee members as to their duties. The audit committee should have direct communication channels with the internal and external auditors to discuss and review specific issues as appropriate. The audit committee duties should include oversight responsibility for management reporting on internal control. While it is management's responsibility to design and implement an effective system of internal control, it is the responsibility of the audit committee to ensure that management has done so.

Required disclosure:

- whether the company has an audit committee
- whether its members are outside directors or not
- whether the roles and responsibilities of the audit committee have been defined
- whether the audit committee communicates directly with internal and external auditors
- whether the audit committee is responsible for overseeing management reporting and internal control systems.

For enhanced disclosure, you can:

- state whether the members of the audit committee are unrelated directors
- provide the size of the committee
- list the members of the committee
- state whether the committee has a charter setting out its roles and responsibilities
- disclose whether the charter of the committee is published or outlined in the information circular or where investors can obtain a copy
- discuss how frequently the board reassesses the charter
- provide the audit committee's report
- describe the financial literacy or expertise of members of the committee
- discuss whether the committee discusses accounting principles with the external auditor
- disclose whether the committee meets with the external auditor without management present on a regular basis
- state whether the committee is responsible for hiring and evaluating the external auditor
- state whether the committee is responsible for setting the external auditor's compensation
- describe the function of the internal auditor
- discuss the internal auditor's reporting relationship with the committee
- disclose whether the committee approves non-audit work by the external auditor.

EXAMPLE OF GOOD DISCLOSURE

There are three members of the Audit Committee: Donna Labelle, Jean Leblanc and John Willis. They are all unrelated directors. Mr. Leblanc and Ms. Labelle are financially literate (are able to read and understand a balance sheet, an income statement, a cash flow statement and the notes attached thereto) and Mr. Willis is a chartered accountant. The committee's responsibilities are set out in its charter, which is attached. The company's internal and external auditors have a direct line of communication with the committee at all times. The internal and external auditors must meet with the committee without management present at least twice a year. Management gives the committee a report assessing the adequacy and effectiveness of the company's disclosure controls and systems of internal control. The committee approves all non-audit work performed by the external auditors.

GUIDELINE 14

Outside advisers

The board of directors should implement a system which enables an individual director to engage an outside adviser at the expense of the corporation in appropriate circumstances. The engagement of the outside advisor should be subject to the approval of an appropriate committee of the board.

Required disclosure:

- whether directors can hire outside advisers
- the system directors use to hire outside advisers
- whether the board or a committee approves the hiring of outside advisers.

For enhanced disclosure, you can:

- state which committee is responsible for giving this approval
- disclose how frequently directors hired outside advisers
- include examples of when directors hired outside advisers.

EXAMPLE OF GOOD DISCLOSURE

Directors may hire outside advisers at the company's expense, subject to the approval of the Corporate Governance Committee. Two individual directors each hired an outside adviser during 2002. One outside advisor was retained to assess the effectiveness of the company's system of internal controls, and the second advisor was a compensation specialist, hired to help assess the competitiveness of the senior management's compensation.

An explanation of some terms used in the guidelines

Inside director

An inside director is a director who is a member of management.

Management director

A management director is a member of management and is considered to be a related director.

Outside director

An outside director is a director who is not a member of management.

Related director

A related director:

- is a member of management or
- has an interest or relationship with the company that interferes or could be seen to interfere with the director's ability to act in the best interests of the company, other than interests or relationships that result from holding shares in the company.

Unrelated director

An unrelated director:

- is not a member of management
- doesn't have an interest or relationship with the company that could be seen to interfere with the director's ability to act in the best interests of the company, other than interests or relationships that result from holding shares in the company.

Significant shareholder

A significant shareholder is able to exercise a majority of the votes for the election of the board of directors.

How to communicate effectively

Effective disclosure will communicate your approach to corporate governance in a way that readers can easily understand. Successful business communication has five characteristics: **simplicity, brevity, clarity, relevance and a human touch.**

Simplicity

Too often, the quality of simplicity is sacrificed when issuers prepare corporate disclosure information. While their goal may be *full, true and plain* disclosure, they pay more attention to *full* and *true* rather than to making the disclosure *plain*, or simple.

The key is using everyday language – words that people without specialized training can understand. We suggest that you avoid using legalistic terms, such as “plenary responsibility” or “whereas,” and technical terms that won’t be familiar to many of your readers.

Don’t use more words than you need. Don’t use “in the event that” when “if” will do.

People can confuse simple with simplistic. A good writer can communicate complicated information in simple terms without losing nuance or detail. Simplistic communication, on the other hand, oversimplifies information, talks down to the reader and, in fact, can mislead.

Brevity

Most readers of your disclosure suffer from information overload and have too many things competing for their time. Try to keep your disclosure brief without leaving out anything essential.

Clarity

The meaning of your disclosure should be clear at first reading.

Simplicity and brevity help.

You can also:

- use consistent terms. For example, don’t refer to “shareholders” in one paragraph and “equity holders” in the next
- use examples to help make your meaning clear
- use the active, not the passive voice. For example, say “Directors can hire outside advisers,” not “Outside advisers can be hired by directors”
- use short sentences. Break up any sentence that has more than 30 words.

To present information clearly, consider:

- font style
- font size
- the white space between the lines of type
- line length
- whether the layout sends clear signals about the differences between major headings and sub-headings

- style of presentation (table vs. narrative format). The narrative format allows you to be more flexible with your disclosure and perhaps tell a more cohesive story to your investors. Using a table allows you and your investors to easily track your disclosure for each guideline, but make sure that using a table doesn’t limit the amount of information you disclose.

Relevance

Your readers are your shareholders or potential shareholders. You want to reach them with your particular message. Providing detailed information will benefit them but irrelevant information will confuse them.

Remember your purpose in disclosing this information – to give investors a complete description of your company’s approach to corporate governance, rather than just meeting a listing standard. We encourage you to go beyond the guideline requirements and give investors enhanced disclosure about your practices.

A human touch

While perhaps the most difficult quality to incorporate in disclosure, and the most difficult to define, human touch provides your readers with the clear sense that your disclosure is not impersonal but rather a sincere attempt by you to communicate with them.

You can add a human touch by:

- using personal pronouns
- writing in a conversational tone.

Personal pronouns, combined with the active voice, not only provide a human touch but also assign responsibility. “You do this and we’ll do that.”

A conversational tone, too, can improve the clarity and simplicity of a document. Many people speak more clearly than they write. A useful technique is to ask yourself “What would I say if I were talking about this issue?” Then write it down. Keep some of the characteristics of speech. You can use contractions: “they are” becomes “they’re,” “you will” becomes “you’ll.” You can overdo this approach. But used sparingly, it will help give your disclosure documents a human touch.

Finally

Because someone familiar with your corporate governance practices usually writes your corporate governance disclosure, we suggest that you ask someone unfamiliar with your practices to read your disclosure. Then ask questions and get their comments. You have a message to send. Is it getting through?

