

RELATED PARTY TRANSACTIONS

Related parties are those parties who do not deal with one another at arm's length. A related party transaction is any situation in which an SMG employee is involved in their SMG capacity on the one side and there is a "related party" on the other side. SMG employees should avoid such transactions.

Related parties include:

- An organization of which an SMG employee is an officer, director, or partner;
- An organization of which an SMG employee is the beneficial owner of ten percent (10%) or more of any class of securities;
- Any trust in which an SMG employee has a substantial interest, or serves as trustee or in a similar fiduciary capacity; or
- Any relative of an SMG employee who may significantly influence or be influenced by a business transaction with an organization of which they are an officer, director or partner.

Generally, SMG should not be involved in a related party transaction because it creates similar conflicting pressures as those found in general conflict of interest situations. If any employee believes such a transaction exists or might occur, full disclosure must be made to SMG's Counsel. SMG's Counsel, acting with advice from Senior Management, will decide whether an exception to the policy may be made.

Please refer to the following examples to determine whether or not there is a conflict of interest or related party situation. If there is any doubt, ask for advice.

Examples: Conflict of Interest & Related Party Transactions

The following are examples of conflict of interest and related party situations. If you are involved in or aware of a potential conflict of interest or a related party transaction, you must disclose all of the relevant facts to your Supervisor, SMG's Counsel's Office, or to Internal Audit so that a determination can be made.

Example 1:

An SMG employee's spouse purchases an office supply business which can supply paper, stationery and office equipment to an SMG facility in which the SMG employee works. The SMG employee does not make the purchasing decisions directly, but does have influence on the purchasing decisions.

Analysis: Although there is nothing improper in the spouse's ownership of an office supply store, SMG should not make purchases from it because this would create a conflict of interest. Conflicting pressures may be placed on the employee. On the one hand, potential sales to SMG may be in the best interest of the office supply store. On the other hand, SMG's interest may or may not be best served by purchasing from this particular office supply store.

If purchases were actually made from the office supply store, numerous questions would arise. At what price should the items be purchased? How should return of substandard items be handled? How much of each item should be ordered? What should the payment terms be? The conflict of interest cannot be avoided simply by selling to SMG at a fair or favorable price. The conflict is inherent in the situation because of the spouse's interest in the office supply store.

How could the store establish that all the prices charged are fair? How often would the price have to be monitored? Who would pay the costs of such monitoring? There is no practical way to be sure that the situation will remain trouble free if SMG were to make such purchases.

Example 2:

An Operations Manager employed by an SMG managed facility purchases an equipment rental business together with an SMG client liaison. The business does not rent to SMG and is not competitive with SMG.

Analysis: Here again, the problem is one of conflicting pressures. For example, if the front line Manager must negotiate price relief or an extension of the SMG operating contract term, the Manager will be under conflicting pressures when dealing with the client liaison/partner. On the one hand, the Manager must represent SMG and get the maximum relief possible and perhaps even terminate the contract; on the other hand, tough negotiations may adversely affect the Manager's relationship with the liaison/partner, thereby, perhaps, adversely affecting the joint personal investment.

CONFLICTS OF INTEREST

It is essential that all SMG employees avoid any situation or interest which might interfere with their judgment concerning their responsibilities to SMG and the related municipality.

A conflict of interest exists if an SMG employee or an immediate family member is in a position where they may derive a personal benefit from a company transaction, or when their judgment may be influenced because of a financial or other relationship with a client or supplier.

Conflicts of interest can arise, for example, where employees:

- Have a financial interest, which could affect their personal judgment;
- Gain personal enrichment through access to confidential information; or
- Misuse their position at SMG in a way, which results in personal gain.

A conflict of interest can also arise when an employee has a personal interest, direct or indirect, in any supplier or customer of SMG. An indirect interest would arise if an employee's immediate family member has an interest in a supplier or customer of SMG.

A conflict of interest does not necessarily imply anything improper. It is, simply, a situation in which an SMG employee is or may be under conflicting pressures: the pressure to do what is best for SMG on the one hand and the pressure to do what is best for themselves, or an immediate family member or partner on the other hand.

SMG has determined that once an employee becomes involved in such a situation, they often do a disservice to themselves in benefit to SMG, and, occasionally, an employee does a disservice to SMG in order to benefit themselves. In order to evaluate whether an employee is or may be subject to such conflicting pressures, the Business Conduct Policy requires that the employee disclose both actual and potential situations that may give rise to such a problem.

If an employee thinks they may have a conflict of interest, or is aware of potential conflicts of interest others may have, the potential conflict must be disclosed to SMG's Counsel. A determination will then be made as to whether the interest should be divested or if any other action is appropriate.

An employee or their immediate family member may, however, acquire and hold up to two percent (2%) of the outstanding stock of a corporation which is an SMG supplier or client or which engages in any business in which SMG is engaged, if the stock is available to the general public on a registered securities exchange market.