Canadian Coalition for
GOOD GOVERNANCE

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CCGG Position on “Say on Pay”

Having considered the current state of executive compensation and its disclosure in Canada, the CCGG has decided that, at this time, it will not propose or support recommendations for regulatory change that will mandate advisory shareholder votes[1] on compensation reports for Canadian issuers, nor will it recommend universal support for all “Say on Pay” resolutions that may be brought forward in the 2008 proxy season.

The CCGG is prepared to devote its resources to constructive engagement with Boards and Compensation Committees of Canadian issuers to explain the shareholder perspective on compensation practices and disclosure.

Background

The CCGG has been monitoring developments with respect to advisory shareholder votes (“say on pay”) on compensation reports in other countries over the past few years. In the U.K. and Australia, recently adopted regulations require a non-binding vote on the company’s remuneration report. In other markets, Netherlands, Sweden, Norway, Spain in 2008 and France in 2009, the vote is binding.

In North America, support is greatest for an advisory vote on executive compensation. Shareholder resolutions calling for the adoption of an advisory vote were initiated for over 60 companies in the United States in 2007. Results to date show support for these proposals averages over 40 percent of votes cast and in eight cases the proposals received majority support of votes cast.

Say on pay shareholder proposals are expected to be included on the ballots of a number of Canadian companies in the upcoming 2008 proxy season.

Considerations

In assessing its current policy decision, the CCGG is monitoring the following:

- The trend among Canadian issuers to voluntarily adopt a majority vote requirement for director elections. Majority voting policies enhance the ability of shareholders to express their concerns over executive compensation matters through the proxy by withholding votes.

[1] An ‘advisory shareholder vote’ is non-binding resolution at the Annual General Meeting in this case to “comment upon” executive compensation.

- The new CSA requirements for compensation disclosure will likely become effective in time for the 2009 proxy season, and will have a significant impact on disclosure and the linkage of pay to performance

- The Rotman scoring of Canadian compensation disclosure practices has shown a clear improvement in the last proxy season

- The handling of conflicts by and increasing independence of executive compensation advisors in Canada

The CCGG recognizes that the vital role of the compensation committee of a board of directors is to establish fair and appropriate executive compensation that clearly aligns the interests of shareholders and management. In its "Guidelines for Principled Executive Compensation" the CCGG has provided a framework to help compensation committees achieve the difficult balance between market forces and shareholder alignment.

Expectations

Going forward the CCGG:

- Will continue to encourage issuers to abandon the practice of slate voting and to adopt a majority requirement for their director elections

- Will be seeking a clear explanation of the overall compensation framework and the linkage between the pay regime and the performance outcomes.

- Will be seeking less complexity in compensation packages so that shareholders are able to readily understand the alignment with them

- We will also seek to understand the appropriateness of all elements of post-retirement benefits and change of control provisions for executives.

In its "Statement of Principles Regarding Shareholder Activism", the CCGG maintains that members should monitor performance of their portfolio companies and be prepared to intervene when necessary.

The CCGG may, in future, support the universal implementation of a mandatory say on pay advisory vote if progress on any of the above focus areas slows or stops.