CCGG

DIRECTOR COMPENSATION POLICY

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Canadian Coalition for GOOD GOVERNANCE

THE VOICE OF THE SHAREHOLDER

Director Compensation Policy

The role of the board of directors under Canadian corporate statutes is to manage, or supervise the management of, the business and affairs of the corporation. This role is a very broad and crucial one in the context of how corporations are governed and appropriate compensation for this role is an important aspect of corporate governance. In establishing their own compensation, directors have a conflict of interest and it is essential that their compensation be structured to align with the long-term interests of the corporation, its shareholders and other stakeholders of the company.

CCGG is providing the following set of principles for boards to consider when structuring their own compensation. These principles update CCGG's earlier principles on director compensation released in February 2011.

Principle One – Independence and Alignment with Shareholders

Director compensation should be designed to promote a high degree of objectivity and independent thinking. While director compensation should be sufficient to adequately remunerate directors for their expertise and experience, nature of responsibilities and the time devoted to the company, it should not be so high, or structured in such a manner, as to potentially compromise the independence of directors, their ability to take a controversial stand on an important issue or their preparedness to resign on a matter of principle. In instances where there is an equity - based component of compensation, the amount should not be determined based on corporate performance, because doing so may compromise the objectivity of directors as stewards of the company on behalf of shareholders by, for example, encouraging inappropriate risk-taking aligning directors' interests with those of management rather than shareholders or promoting a short-term perspective over the long-term interests of the corporation.

Director compensation should be designed to promote a direct alignment with the long-term interests of the corporation, its shareholders and other stakeholders of the company and should not incentivize behaviours that compromise these interests. Full value equity awards (as described in Principle Four) are appropriate for this purpose. Stock options – which provide upside leverage with no downside exposure – are not appropriate for directors of public companies as they can create incentives for directors which are not aligned with the interests of shareholders.

Principle Two – Reflect Expertise and Time Commitment

Director compensation should reflect the overall expertise and experience required by the particular corporation as well as the time expected of the director. The quantum of director compensation and the structure of director compensation plans will vary, depending upon company-specific factors such as company size and complexity and the need to have directors from various geographic regions. Director compensation must be sufficient and designed in a manner to attract excellent candidates.

CCGG has no position at present on whether director compensation should be structured as a flat fee or as a retainer plus meeting fees.

Annual grants of compensation to a director may vary from year to year based on the director's actual time commitment to the board, often reflected in per meeting fees. Companies with a flat fee structure may supplement those fees with meeting fees where extraordinary circumstances warrant a greater than expected number of directors' meeting, provided that guidance is set out in advance as to the nature of extraordinary circumstances that will give rise to supplemental fees and the circumstances and additional number of meeting are disclosed to shareholders.

Director compensation should include appropriate director indemnity and insurance coverage and the reimbursement of reasonable out-of-pocket expenses (such as travel and educational costs), but should not include change of control or severance provisions, health care coverage, charitable donations, vehicles, clubs, pensions, non-pension post retirement benefits or other such perquisites.

In designing director compensation, the board should have the ability to hire a compensation consultant paid for by the corporation. If the board chooses to use a compensation consultant when establishing or contemplating material changes to a director compensation policy or plan or for benchmarking purposes, the compensation consultant should be independent of management.

Principle Three – Compensation may Vary for Different Director Roles

There should be no distinction in pay for directors performing similar roles. Differentiation of compensation levels among directors based on relative time commitment and responsibilities, however, may be appropriate. For example, being an independent chair, lead director or committee chair typically entail a greater time commitment with more responsibilities and accordingly may warrant additional compensation for such roles. In addition, particularly time-consuming committees may justify higher compensation as well as additional retainers for the chairs of these committees. Participation in ad hoc committees could also warrant additional compensation for a director.

Where directors are nominated by shareholders (whether by activist shareholders during proxy contests or by institutional shareholders using a form of proxy access) and receive compensation from those shareholders in the period leading up to the shareholder vote on the director nominees, the compensation should be reasonable and care should be taken that the compensation does not incentivize a short-term perspective on the part of the recipients and does not create divergent incentives that may lead to a lack of cohesion on the board. As stated above, once directors are on the board, there should be no differential in pay for similar roles, including no third party payments to only certain directors.

The form and level of director compensation should be appropriate for the particular circumstances of the company.

Principle Four – Shareholding by Directors

Minimum formal shareholder requirements for directors (achievable over a predetermined time frame) establish and maintain an alignment of interests between directors and shareholders by requiring directors to have a meaningful investment in the company.

Directors should ideally acquire an equity stake in the company upon joining the board and add to that stake over time. It is appropriate for directors to acquire their initial equity investments in the company by deferring their fees into full value equity awards as discussed below. Boards should establish a minimum shareholding for directors, perhaps based on a multiple of their annual compensation. The minimum threshold of shares should be held by directors for a minimum of one year after retirement or resignation from the board. Director compensation plans can facilitate the achievement of minimum director shareholder requirements and encourage directors to continue to invest in the company beyond the minimum level. Full value equity awards with the same economic interest as shares (for example, “Restricted Stock Units” or “Deferred Stock Units”) are appropriate forms of equity -based compensation for directors in lieu of cash as they directly align the interests of directors with those of shareholders.

Equity awards should not be granted in addition to annual or meeting fee compensation but should be granted in substitution, in part or in full, for those fees.

Equity-based remuneration for directors should not be subject to vesting periods or performance conditions, for the reasons specified in Principle One.

Companies should prohibit directors from directly or indirectly hedging or monetizing any securities held in the company, as such actions may result in empty voting or reduce the alignment with shareholder interests that these programs are intended to create.

Principle Five – Minimize Complexity and Ensure Transparency

Boards should minimize the complexity of director compensation structures to ensure that the incentives being created are well understood by directors and shareholders. The process used by a board in setting its compensation should be transparent to shareholders and communicated as a part of the annual reporting process. For example, if the board uses a peer group to determine its compensation, the peer group, its selection criteria and whether it differs from any peer groups used to set executive compensation should be disclosed in the annual proxy circular. If director compensation plans are changed, the reason for the changes should be explained, including why the changes will enhance the alignment with the company's long-term interests.