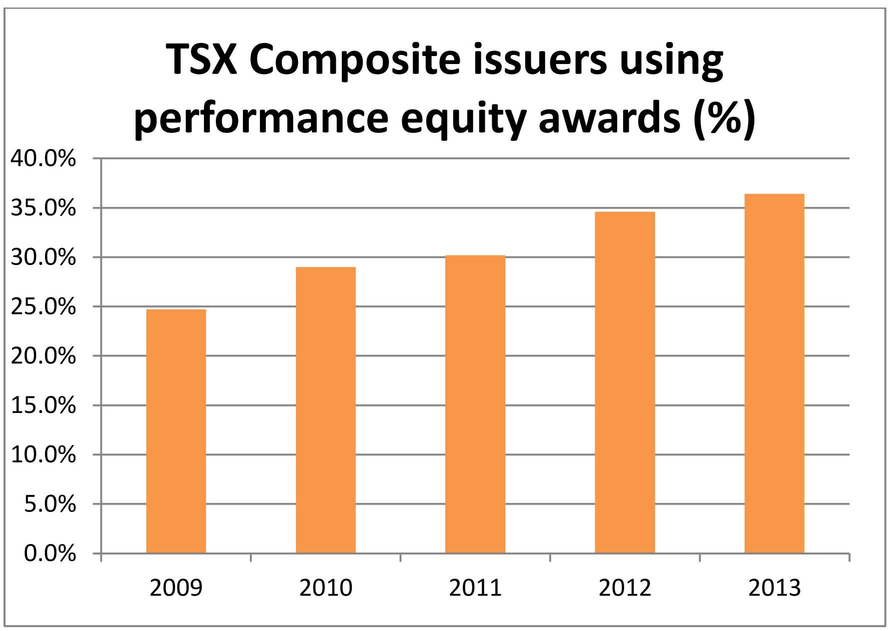
Canadian Coalition for GOOD GOVERNANCE
THE VOICE OF THE SHAREHOLDER

Executive Compensation: Use of Performance Share Units

In the interest of improving the alignment between pay and performance, many public company boards across all industry sectors in Canada have introduced Performance Share Unit (PSU) plans into their executive compensation programs over the past several years. A PSU, in short, is a "phantom" award that tracks the value and total return on a common share over a defined period of time. The awards granted under a PSU plan typically vest over a 3-year period and the number of units which actually vest is tied to some element of corporate performance (often Total Shareholder Return relative to a peer group of companies). In some cases, PSU and Restricted Share Unit (RSU) plans are being used in place of stock option plans which have not achieved the originally intended outcome of linking pay with performance. CCGG is supportive of improving this link and believes that an appropriately-structured PSU plan may be helpful in that regard.



Source: Equilar TSX Equity Trends Report (2014)

Recognizing the increasing prevalence of PSU awards in compensation programs and the fact that they often represent a significant proportion of total direct compensation paid (upwards of 50% or more of the long-term incentive plan award), CCGG recently undertook a review of the structure of the plans adopted by a number of leading Canadian public companies. Given the PSU name and specific link to a performance metric or group of metrics, most investors would assume that the range of possible vesting outcomes for PSUs would potentially include 0% pay out. While many PSU plans do contemplate 0% vesting scenarios (a common range is between 0% and 150% of target), our analysis indicates that the plans used by a number of issuers incorporate a "floor" or minimum guaranteed level of vesting, regardless of performance. While boards in these instances often state that they retain the right to exercise discretion to reduce the award value to zero, such discretion exists for virtually all forms of compensation and is rarely used. CCGG believes that the use of the term Performance Share Unit in these instances is potentially misleading to investors, given that a portion of the award will be granted under any circumstances irrespective of performance. That portion is tantamount to granting the executive additional RSUs (which typically vest over time and have no link to performance). CCGG believes it is appropriate for boards to revisit how they characterize the guaranteed portion of PSU awards in proxy circular disclosure and potentially designate this guaranteed portion as being a RSU, so that investors do not erroneously assume that these awards are contingent upon performance conditions being met.

In other cases, boards have identified specific minimum performance conditions which, if not met, would lead to a zero vesting outcome. Failing that, a minimum guaranteed vesting level would apply. In these cases, CCGG believes it is important for boards to ensure that the threshold performance conditions that would lead to a zero vesting outcome are critically assessed and have an appropriate level of probability attached to them. Boards electing to take this approach should comment on the credibility of the threshold performance conditions described in the company's proxy circular.