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Year over Year Evolution of Canadian Executive Compensation Disclosure Practices: 2011 to 2012

McDowall Associates conducts a comprehensive annual review of executive compensation disclosure practices for Canadian S&P/TSX 60 companies. We believe that it is useful to observe changes and differences in disclosure practices from year to year. These shifts not only reveal developments in reporting practices but also give us some insights into how executive compensation practices are progressing in the Canadian market. We have examined the differences between 2012 management disclosure circulars (reporting on 2011 practices) and 2011 management disclosure circulars (reporting on 2010 practices) and have observed four differences worth noting:

1- Compensation Disclosure and Analysis (CD&A) Sections are Longer

Figures 1 and 2 below show the differences in word count in the last two years.

Figure 1- Compensation & Disclosure Statements Reported in 2011

Word Count	1000 to 4799	4800 to 8599	8600 to 12399	12400 to 16199	16200 to 19999
Count	14	22	18	2	2
Percentage	24%	38%	31%	3%	3%

Figure 2 - Compensation & Disclosure Statements Reported in 2012

Word Count	1000 to 4799	4800 to 8599	8600 to 12399	12400 to 16199	16200 to 19999
Count	9	23	20	4	4
Percentage	15%	38%	33%	7%	7%

The number of companies using at least 8600 words has increased and this increase appears to come from the 1000 to 4799 word category where we have witnessed a decline. It is not surprising that companies have more to say. With the OSC announcing additional reporting requirements around topics such as risk and more fulsome explanations of performance pay, companies have added new sections or lengthened existing ones.

2- New Executive Compensation Strategy Topics

Typically presented as a list of strategy statements, the Compensation Committee outlines in its disclosure document executive compensation plan goals and express the values and principles supporting executive pay. We have grouped these statements into thematic categories. While the companies reporting specific themes vary slightly from year to year, they usually choose to report from a common set of topics. This year saw the addition of two themes, which are very current in today's executive compensation governance circles:

- *Ensuring effective risk management (mentioned by 22% of companies)*
- *Adoption of good governance principles (mentioned by 5% of companies)*

Ensuring effective risk management is no surprise given that new CSA disclosure guidelines effectively require boards to attest they have ensured compensation plans will not encourage egregious risk taking. The fact that some boards are beginning to state their intention to govern compensation effectively is a testament of the continued pressures being exerted on boards to take control of this activity.

3- More Emphasis on Long Term Incentives

The tables below show the breakdown of total direct compensation received in 2010 and 2011 by each named executive officer in declining reporting order to the CEO. The table outlines the breakdown by the three usual groupings of monetary executive compensation. Of note is the increase in long term incentive grants year-over-year for the 1st to 4th highest paid executives below the CEO.

The financial crisis of 2008 saw a move away from equity based long-term incentives, due to significantly deflated share prices. It appears that long-term incentive grants are on the rise again as companies gain greater confidence in the value of their rebounding shares.

Figure 3 – Compensation Mix 2010

2010	CEO	1st Highest Paid	2nd Highest Paid	3rd Highest Paid	4th Highest Paid
Base Salary	18%	24%	26%	28%	29%
Short Term Plans	23%	24%	24%	23%	24%
Long Term Plans	59%	52%	50%	49%	47%

Figure 4 – Compensation Mix 2011

2009	CEO	1st	2nd	3rd	4th
Base Salary	18%	25%	29%	32%	32%
Short Term Plans	23%	25%	23%	23%	24%
Long Term Plans	59%	50%	48%	45%	44%

4- Reporting Claw-Back Policies

More claw-back policies were reported in 2010 (40%) than in 2009 (31%.) This increase is consistent with the interest and subsequent introduction of claw-back policies in the past few years.

In Conclusion

Our research shows that major Canadian companies are providing more information about their executive compensation policies and practices. While they are being asked to keep their disclosure simple, increased mandatory requirements and additional information being provided voluntarily is increasing document length. Companies are beginning to discuss executive compensation governance, compensation risk and claw back policies. We are also noting the practice of executives reporting to the CEO receiving more compensation in the form of long term incentives.

Should you wish to discuss these or any other executive compensation issues, please contact us McDowallassociates.com