

ISSUE 2012-1
FEBRUARY 3, 2012



Meridian Client Update

Study Shows CEOs' Interests and Risk Exposure are Aligned with Shareholders

A majority of public companies in Canada and the U.S. have share ownership guidelines for their senior executives. Share ownership guidelines are believed to align executives' financial interests with shareholders and to reduce excessive risk taking. Share ownership guidelines are a good governance practice supported by many shareholder groups.

Meridian Compensation Partners' study examined executive share ownership practices at the S&P/TSX 60 index companies and determined that most of the S&P/TSX 60 companies have formal share ownership requirements for the CEO, and that *actual* ownership by CEOs substantially exceeds those requirements. Study findings were based on data from current proxy statements filed in 2011, using shareholding information and values as stated in those 2011 proxy statements.

Study Highlights

- Ninety percent (90%) of the companies have formal share ownership guidelines for their CEO.
- The median multiple of salary requirement is 4x for CEOs (for reference, in the U.S. the median requirement for CEOs is 5x). The median CEO salary is \$1.1 million and the median value of CEO ownership required is \$4.3 million.
- Twenty-eight percent (28%) of companies with ownership guidelines count only pure share ownership (direct or indirect). Seventy-two percent (72%) of the companies permit CEOs to include equity compensation plan holdings along with pure shares; 33 companies count restricted share units (RSUs) and/or deferred share units (DSUs), 11 companies count performance share units (PSUs) and only 6 companies count vested (but unexercised) stock options.
- At the median, *actual* ownership of the share- and equity-based awards permitted by the guidelines is more than 3.3x the CEOs' ownership requirement. The median *value* of CEOs' actual ownership is about \$14.4 million.
- When we considered only *actual* shares owned outright (excluding all equity-based awards) CEO ownership levels still exceed guidelines by a substantial margin. CEOs actually own, at the median, about \$6.5 million in shares alone.
- Most companies use dollar value-based ownership guidelines (i.e., salary multiple requirements), so the number of shares required to be owned fluctuates with share price. However, many companies use the higher of cost of shares and current market price to measure ownership. Only two companies use fixed "number of shares" type guidelines.
- The median time permitted to achieve such ownership is five years, with 68% of companies that disclose the period using a five-year period.

- There is a growing trend toward supplementing ownership guidelines with post-retirement holding requirements, particularly for the most senior executives. Twenty percent (20%) of companies with formal ownership guidelines also require that shares be held past retirement. The most prevalent holding periods are one and two years post employment.
- Many companies do not have penalties for non-compliance. When they do, penalties range from mandatory payout of a percentage of cash incentives in stock to broad Committee/Board discretion to determine consequences. However, enforcement policies are getting more prevalent, with increased formality around non-compliance consequences.

Meridian Comment

We believe significant share ownership aligns executives' financial interests with shareholders and encourages an appropriate level of risk taking. The leading practice is to count RSUs and/or DSUs along with pure shares towards executive ownership requirements. Permitting some equity-based awards, such as vested options and unvested PSUs, to be counted towards ownership requirements may dilute this alignment, particularly if there are long-term incentive awards which allow executives to easily satisfy the requirements.

Compensation committees should examine their share ownership guideline design and long-term incentive award practices to determine if their share ownership requirements are truly creating the desired alignment with the company's shareholders.

* * * * *

The **Client Update** is prepared by Meridian Compensation Partners. Questions regarding this Client Update or executive compensation technical issues may be directed to:

- Phil Yores at 905-482-8089 or pyores@meridiancp.com
- Chris Medland at 905-482-2595 or cmeland@meridiancp.com
- Andrew Stancel at 905-482-8091 or astancel@meridiancp.com
- John Anderson at 847-235-3601 or janderson@meridiancp.com

This report is a publication of Meridian Compensation Partners Inc. It provides general information for reference purposes only and should not be construed as legal or accounting advice or a legal or accounting opinion on any specific fact or circumstances. The information provided herein should be reviewed with appropriate advisors concerning your own situation and issues.

www.meridiancp.com