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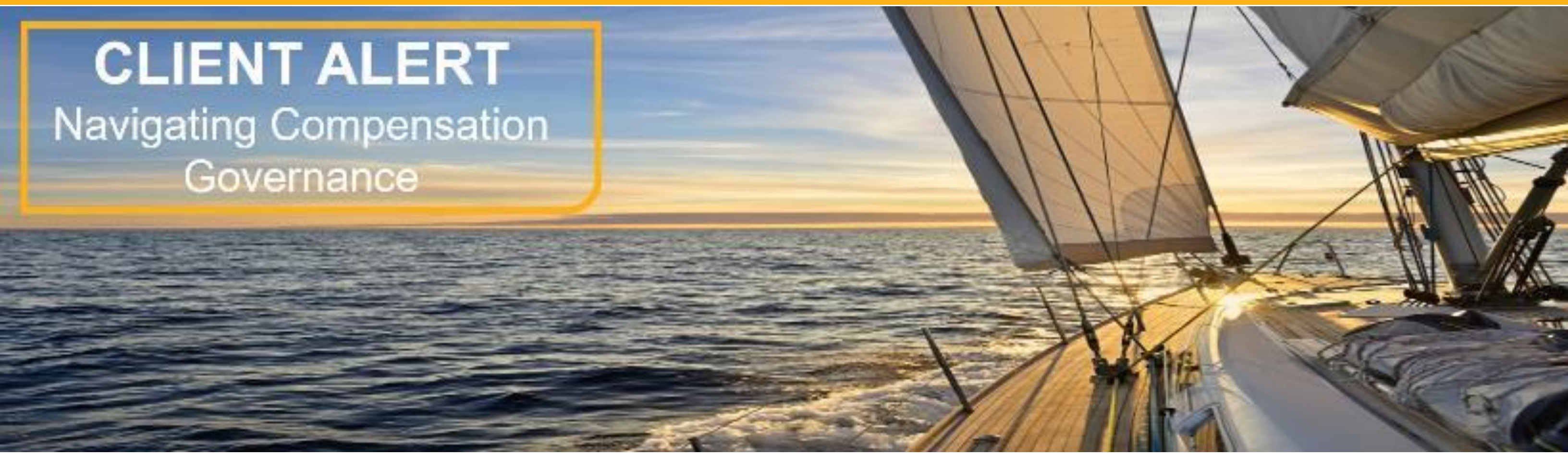

Four Things Committees Should be Thinking About for 2025

Introduction

In this Client Update, we look at some governance trends and best practices that should be on Canadian compensation committee workplans in 2025.

1. Adopt Formal Adjustment Principles for Added Resilience in Incentive Plans

Many companies use adjustments and discretion judiciously, to provide flexibility to ensure that management is rewarded for “doing the right thing” and to mitigate the compensation impact of external challenges, strategic shifts, and discretionary actions.

Adjustments and discretion should be guided by clear criteria and principles. Given heightened macro-economic uncertainties related to the incoming Trump administration, it will be important for Canadian companies to set themselves up to make principled adjustments. Stay tuned for a Meridian update with more on how companies can prepare for the potential need for broader adjustment scope in 2025.

For more information on building resilience into incentive design, see Meridian’s Client Update, Building Resilience Through Thoughtful Incentive Design - Meridian Compensation Partners.

2. Update Clawback Policies

In the U.S., SEC clawback regulations are applicable to NYSE- and Nasdaq-listed companies, including many Canadian foreign private issuers. These companies were required to adopt and implement a Dodd-Frank Act compliant mandatory clawback policy by December 1, 2023.

Both Canadian and U.S. companies have been updating their clawback policies to include:

- A Dodd-Frank compliant clawback for a restatement of financials and overpayment of incentives
- A discretionary clawback for a restatement of financials and overpayment of incentives
- A discretionary standalone “misconduct” clawback which does not require a financial restatement. The pressure to include misconduct triggers has increased due to recent Glass Lewis policy guidance and corporate scandals in the U.S., with market prevalence of standalone misconduct clawbacks trending up.

For more details on developments concerning Canadian company clawback policies, please see Meridian’s Client Update, Discretionary Clawback Policies - Meridian Compensation Partners.

3. Modernize Share Ownership Policies

The Canadian Coalition for Good Governance (CCGG) made sweeping recommendations for changes to executive share ownership policies. For more information, see Meridian's Client Update, [CCGG Review of Executive Share Ownership Policies - Meridian Compensation Partners](#).

However, TSX60 companies have been cautious about significantly deviating from current market practice. Our review of share ownership policies, as disclosed in the 2024 proxy season indicates no movement yet towards CCGG's recommendations:

- The "multiple of salary" structure remained, by far, the most common approach in 2023, with compliance to be achieved within 5 years.
- The average CEO multiple was 6x salary, while the most prevalent was 5x salary.
- 53% of companies counted unvested RSUs and 40% counted unearned PSUs towards achievement of guidelines. Only 7% of companies required executives to meet a specified portion of ownership in common shares. As an aside, Glass Lewis views counting of unvested PSUs and vested or unvested stock options as problematic.

Companies can make more substantive changes by adopting a requirement that executives apply a portion of the net after tax value received on the exercise of stock options and redemption of share units to the purchase of common shares until share ownership requirements are met. This should, over time, ensure that executives meet their share ownership requirements and increase executive ownership of actual shares.

4. Consider ISS and Glass Lewis Policy Updates

ISS has issued policy changes for Canada for 2025. Key compensation and related governance policy changes are:

- CEO Pay for Performance Evaluation: ISS may elect to use the compensation of a non-CEO named executive officer (e.g., executive chair or former CEO) for its pay-for-performance evaluation under exceptional circumstances and when the compensation paid to such executive is regularly significantly higher than that of the CEO.
- Independence of Former CEO: ISS will treat a former CEO as non-independent indefinitely, a change from their prior 5-year colling off period, unless there are exceptional circumstances that make the cooling off period sufficient for independence. ISS's view is that a former CEO can rarely (if ever) wind down (through the passage of time) the prior executive relationship compromising independence. ISS will continue to recommend against non-independent former CEOs as members of the audit and/or compensation committees.

Glass Lewis released its 2025 policy updates for Canadian companies. Glass Lewis did not publish any new compensation policies for 2025 but did add some clarifications with respect to how it approaches the link between compensation and performance in executive pay programs to emphasize that it takes a holistic approach to its evaluation of compensation programs.

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