Happy Holidays!

from Meridian Compensation Partners

We at Meridian wish you a happy holiday and a healthy and prosperous new year.

2013 was a busy year for executive compensation in Canada. Here are 10 highlights from this year:

1. Pay for Performance Continues to be a Primary Focus of Compensation Committees

Committees are becoming more engaged in aligning pay for performance and increasingly concerned to ensure that incentive plans measure the right targets and have sufficient stretch to motivate high performance without encouraging excessive risk taking. Click here for Meridian's bulletin on setting annual incentive targets and click here for our bulletin on stress testing compensation.

2. Long Term Incentive Design Trends

Companies continue to shift long term incentive grant value towards performance-contingent awards, reducing, but not eliminating options. About 90% of large Canadian companies use this "portfolio" approach of 2 or 3 vehicles for long term incentives. At the S&P/TSX 60 companies about 40% of total long term incentive value is delivered through performance awards, an increase of 5% from 2012 and, while relative total shareholder return remains the most prevalent performance metric, its prevalence as the sole performance metric decreased by 10% since 2012.

3. Say on Pay Results

Say on pay voting results continued to be relatively strong, although 3 say on pay failures pulled average approval ratings down to 89% at those S&P/TSX 60 companies with say on pay. Median results in Canada remained high with 94% support from shareholders. Click here to read our full discussion of this topic.

4. Industry Canada to Review Say on Pay

As part of a review of the Canada Business Corporations Act (CBCA), Industry Canada is having public consultations on say on pay with the comment period closing March, 2014. The Ontario Securities Commission (OSC) has been considering this for more than two years and has not mandated say on pay. It will be interesting to see whether Industry Canada will move into the governance arena by requiring that companies incorporated under the CBCA (about 50% of S&P/TSX 60 companies) have say on pay. In the meantime, the number of Canadian companies who have voluntarily adopted say on pay is steadily increasing.

5. Dodd-Frank Act: CEO Pay Ratio Rule Approved

The Dodd-Frank pay ratio rule, which requires disclosure of the ratio of CEO to employee pay, was approved by the SEC September 18, 2013. The rule is unlikely to apply in the U.S. until the 2016 proxy season and generally will not apply to Canadian companies, even those that are "MJDS" filers. While this has received significant media attention, it is unlikely to migrate north, even as governance or voluntary disclosure practices, for at least several years. Click here to read Meridian's bulletin on this topic.

6. Canadian Coalition for Good Governance Activities

CCGG released its Executive Compensation Principles for 2013, with a new emphasis on pay for performance and shareholder engagement. Click here to read Meridian's review of these principles. CCGG also released its updated Building High Performance Boards, which set out 15 principle-based guidelines for directors, and its annual examples of Best Practices in Proxy Disclosure.

7. Share Ownership Requirements

Share ownership requirements for directors and executive officers continue to increase. In addition, post-retirement hold periods for the CEO are becoming increasingly common, as are "hold until met" requirements, that require officers to retain the after tax proceeds from option exercises and not to sell shares at least until share ownership requirements are met.

8. Modest Increase in Directors Pay for S&P/TSX 60 Companies

While directors pay did not materially increase (only a 4% increase year over year), the prevalence of paying all-inclusive fees (rather than a retainer plus meeting fees) continues to climb slowly. The gap between Canadian and U.S. director compensation continues with directors of the S&P/TSX 60 earning roughly 20% less than their peers at comparably sized U.S. companies.

9. Proxy Advisors Continue to Come Under Fire

The Canadian Securities Administrators have announced that in the first quarter of 2014 they will release policy-based guidance on recommended practices and disclosure for proxy advisory firms to improve transparency and understanding among market participants. In the U.S., the SEC continues to consider how to deal with the apparent conflict in proxy advisors providing both voting recommendations and consultative services. Click here to read Meridian's take on this issue.

10. Improving Proxy Circular Disclosure

Circular disclosure is becoming increasingly sophisticated and companies are using their proxy to "tell and sell" their pay for performance story with clear drafting, good organizational structure, graphs and charts and additional voluntary disclosure, such as realizable pay. Click here to read Meridian's review of recent trends in circular disclosure.

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

Christina Medland at 416-646-0195 or cmedland@meridiancp.com

Phil Yores at 647-478-3051 or pyores@meridiancp.com

Andrew Stancel at 647-478-3052 or astancel@meridiancp.com

John Anderson at 847-235-3601 or janderson@meridiancp.com

www.meridiancp.com