

ISSUE 2013-4
MAY 28, 2013



Meridian Client Update

Reminder: If you haven't already registered ...

Our next executive compensation breakfast briefing will be held in Calgary on Wednesday, June 5, 2013. Join us at the Calgary Petroleum Club to hear about recent pay and governance trends and other helpful information while networking with your peers. See the attached invitation for more information.

It's Time to Refresh Your Proxy Disclosure

Developments in executive compensation continue at a strong pace. Whether driven by regulation, the competitive talent market or the evolution of strong governance process, these developments find their way into the proxy circular in some form. Public companies have been working hard to keep up with the pace of change. In the process some proxies have become unruly as companies struggle to deliver a clear and concise message about their programs, policies and practices that govern executive and director compensation.

While proxy season has just ended, now while all the details are still fresh in your mind, it may be a good time to review your circular to ensure it continues to meet demanding governance standards and your company's needs. This is the first line of communication with shareholders, regulators and other important stakeholders. In addition, it is the first place shareholders and proxy advisors look for information to evaluate against their assessment criteria.

We suggest a three step review to ensure you are producing the circular you want, focusing on:

1. **Infrastructure**—How is your circular organized?
2. **Content**—Are you disclosing everything you want/need to, in an informative manner?
3. **Language**—Is your circular easy to read (be honest)?

Using your circular to proactively engage shareholders and their advisors is becoming increasingly important.

Infrastructure—The Roadmap

The last few years have left many companies scrambling to "edit" their circulars to include important additions such as disclosure on compensation risk, enhancements to disclosure of performance measures and performance results, among others. Sometimes edits are added late in the process and without a thorough evaluation of where they fit and how best to incorporate them into the flow of the document.

Executive compensation and the related regulatory and governance matters that come with it are often a challenge to describe. This makes it important to clearly distill the volume of required information into something that makes sense. Some of the effective tools now in use include:

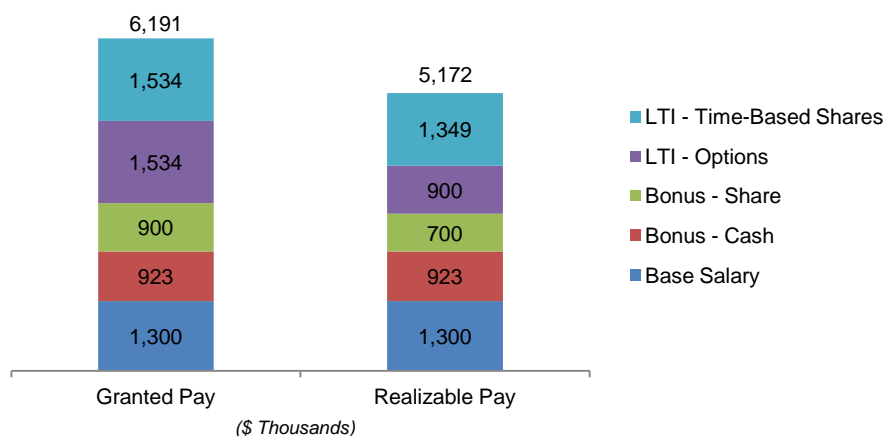
- A letter from the Committee highlighting key points of company performance, philosophy, process, change and results—This can be an extremely helpful tool in focusing the reader’s attention on the things a company considers important, particularly substantive changes to pay programs, good pay practices, performance measures, extraordinary business results and matters requiring shareholder approval.
- A separate table of contents for the Compensation Discussion and Analysis (CD&A) section of the circular—This may seem repetitive if you already have a table of contents for the total circular, however, it can help remind readers that this self contained section has a structure which helps makes sense of the content. Helping readers to organize their expectations will prevent them from getting distracted by questions that may arise as they read through the material.
- Organizing the CD&A with the key information at the front and the remaining required information at the back.

Content—Beyond Compliance

Much of the content is regulated so basic compliance is, if course, mandatory. While several of the required tables must adhere to the prescribed form of presentation, there are others that do not. Furthermore, you can create your own tables and graphs that can assist in communicating basic information in a simple format.

Summary charts, graphs, tables and “bullet lists” all support a level of simplicity that is helpful. Over the past few years we have noted the introduction of several interesting tables and graphs that illustrate various key points in the compensation space. For example, one current topical issue is the difference between reported pay and realizable pay. Explaining this concept can be challenging, however, the sample graphic below illustrates the idea clearly.

Three-Year Granted vs. Realizable CEO Pay



Of course, there are many variations of graphic representations for various pay related discussions. There is a great deal of flexibility in tailoring an illustration to support your message about how best to measure performance, peer comparisons, etc.

Language—Not Always as Simple as You Think

A “plain language” requirement has been part of the rules since the outset. Of course, this is quite subjective and, much like some of the writing, not always consistent in application. Certainly, the plain language focus will be aided by strengthening the infrastructure and simplifying content through the use of graphs and other summary illustrations ... “a picture is worth a thousand words.” There are, however, some parts of the CD&A that cannot be simplified without losing critical content. After all, it is a somewhat complex technical area requiring certain distinctive language be used to describe and differentiate plan design, policy and practice.

Making improvements in this area can be challenging. At one end of the spectrum, you can utilize your best writing talent/resources to take a fresh read of the document with a view to simplification. Make sure to avoid some common traps:

- Avoid repetition except where it is purposeful with a view to emphasize a key point;
- Avoid highly technical terms, subject matter jargon, excessive use of defined terms; and
- Avoid long narrative when a short summary will do or a table/chart/graph can replace the information.

Finally, reviewing the document with the goal of simply reducing the number of words can be helpful and challenge the rationale for including them in the first place. Again, this is best done by a “fresh set of eyes.”

At the other end of the spectrum, you may wish to engage external professional help that specialized in this type of communication exercise and can (at least) take an approach focused more specifically on the language.

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