

The Governance of Executive & Director Pay

Current & Future Trends in Canada

Following the corporate debacles of Enron, WorldCom and others and the enactment of the Sarbanes-Oxley Act in the United States, there is increasing emphasis being placed upon the governance of executive and director pay.

- This paper has been prepared to assist companies in the development of justifiable and effective pay programs for executives and directors. It outlines current and future trends that companies need to

Board Members

Increasing emphasis upon the competencies and independence of Board directors e.g. knowledge of accounting and compensation for the audit and compensation committees respectively.

Increasing liability of board members and a reluctance on the part of professional directors to be on more than 5 or 6 boards, because of the enhanced risk, heavier time commitment and relatively low pay.

Much more will be expected of Boards and Committees in the future in terms of representing the needs of shareholders.

- Board members will be expected to have “*skin in the game*” and purchase real common shares of the company. Targets will be established for directors e.g. to own shares worth at least one times annual

Compensation Committee Members

- Members of the Compensation Committee will be unrelated and independent of management.
- They will be expected to pay much more attention to the development of an executive compensation philosophy and strategy.
- There will be improved open honest communication with shareholders—avoiding “*boilerplate*” proxy information.
- There will be increasing emphasis on paying for performance and the development of performance metrics that enhance long-term shareholder value.
- More emphasis will be placed upon succession planning and retention of talent.
- Pressure from major shareholders and the need to account for share options will limit the number available in the future. However, they will not disappear as they still represent good mechanisms for executive retention and alignment with shareholder interests.

(con't)



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Roger Gurr & Associates (RGA) was established with the intention of providing a range of specialized financial services to our clients. The Executive Compensation Practice provides executives and directors with carefully researched, objective advice on corporate performance as well as executive and director pay policies and plan design. The practice is geared to the needs of both executives and senior management, as well as independent directors, in their common pursuit of practical and defensible pay policies, plans and practices. Another factor is to enhance shareholder value.

Our assistance to clients is typically in the following areas:

§Policy Development and Review, beginning with advice on the respective role of management and directors in a review of executive and director's compensation, including the design of the review process itself, through the development of specific compensation strategy and policy.

§Program Design, including salary plans, annual incentives, long term incentives, stock plans, benefits, perquisites and rewards for tenure.

§Data Collection, Analysis, and Interpretation, including proxy and pay survey analysis and benchmarking of comparator group financial performance.

§Corporation Governance, including the role of the directors in executive compensation, directors' pay, and the role of the Compensation Committee of the Board.

§Education, educating where necessary both management and Boards of Directors as to the rationale of certain compensation approaches

§Special Issues, including change of control, corporate reorganization (divestiture and acquisition) issues, management succession plans, etc.

Compensation Committee Members (con't)

Special arrangements e.g. executive/director loans, change of control provisions, termination allowances will have additional scrutiny.

Directors will insist on having independent compensation advisors, that report to the Compensation Committee when reviewing compensation strategy, CEO compensation and director compensation. (Some large companies already employ two different compensation consulting firms—one engaged by the Compensation Committee and one engaged by management).

- Directors will hold more “*in camera*” sessions to discuss company and CEO performance and pay issues.

Pay to Directors

Increasing levels of pay provided in the form of a mix of cash, shares (in lieu of cash) and stock options. Standards of total pay could be developed for competent directors e.g. 20 –30% of CFO salary.

Directors with specific knowledge (e.g. Audit Committee and Compensation Committee) will receive additional pay. More differentiation in pay will occur between directors with differing responsibilities e.g. Chair of Committees.

Stock ownership guidelines will be developed for directors.

- Performance criteria will be developed and assessed for Boards and Committees. Some companies will establish objectives for individual directors and assess performance.