2024 BOARD GAMES COMPENSATION-RELATED UPDATES

January 2024

Each year, the Globe and Mail publishes their review of the governance practices of the companies in the S&P/TSX Composite Index as part of their Board Games report. In January 2024, they released the marking criteria for the 2024 Board Games review which is a new practice as they had typically only shared the criteria as part of the report (published at the end of the year). This new practice allows companies to proactively address governance practices and disclosure preferences.

From a compensation perspective, the major changes include the following (refer to table below for further details of key compensation-related changes):

- **CEO share ownership** is now based on a multiple of total direct compensation and tenure reflecting the direction outlined by the Canadian Coalition for Good Governance's (CCGG) policy entitled "Management-Shareholder Alignment: Effective Equity Ownership Policies". This will likely put increased pressures on Canadian companies to review their share ownership guidelines relative to the direction outlined by the CCGG. These guidelines are more rigorous and may encourage changes to long-term incentive plans to facilitate ownership of real shares (e.g., equity-settled plans, use of deferred share units, etc.)
- **Excessive dilution** (number of shares outstanding and approved to grant within equity-settled plans) thresholds have been reduced from 8% of common shares to 5% of common shares. While we understand that this reflects the trend to lower dilution levels observed within the Canadian market, it is somewhat counter to the changes to CEO share ownership that should encourage companies to use equity-settled plans to facilitate ownership rather than continued reliance on cash-settled plans that are non-dilutive.
- Requirement to include **quantifiable ESG (and climate) metrics within the incentive plan**. While our latest research (2024 Global Trends in ESG Incentives) indicates that 75% of large Canadian companies use ESG metrics within their incentive plans, only 50% of these companies use environmental metrics and less than 1 in 5 have purely quantitative measures. This will put increased pressures on companies to develop their ESG strategy to identify specific ESG measures with quantifiable targets, including climate transition goals.
- **Graduated scoring based on say on pay vote support** with full marks reserved for results greater than 95% (v. 80% threshold last year). Over the past three years, over 90% of Canadian companies have received say on pay vote results greater than 80% suggesting the need for greater refinement (refer to this report for details). Only about 50% of Canadian companies have met the 95% threshold. This change may put increased pressure on Canadian companies to consider their shareholder base to proactively address potential challenges related to their executive compensation programs with more specific investor engagement, improved disclosure and clearer pay-for-performance messaging.

Topic	2024 Approach	2023 Approach
CEO share ownership requirements	Based on a multiple of total direct compensation (TDC) and tenure Maximum marks (three) based on: • 2x TDC if CEO tenure >=10 years • 1x TDC if CEO tenure is >=5 years • If CEO tenure <5 years, then need to have a share purchase requirement (e.g., portion of vesting share-based awards or annual investment in common shares) TDC is based on the disclosed Summary Compensation Table values Only includes shares held directly and fully vested share units	Three marks if there is a requirement to hold at least five times salary One mark if there is a requirement to hold at least two to five times salary (or if they can meet it using a measure other than current market value or if unvested share units count)
CEO bonus plans	Reduced weighting from four to two marks and simplified One mark for providing weightings of the factors in determining CEO's bonus and for disclosing a specific target for all financial goals One mark if there is an explanation of the outcomes of the performance goals and how it affected the CEO's bonus	One mark for providing weightings of the factors in determining CEO's bonus [revised] One mark for providing specific targets for all financial goals [revised] One mark for explaining the outcomes of the performance goals and how it affected the CEO's bonus [no change] One mark if the CEO can receive no bonus if performance does not meet a minimum threshold [removed]
Use of a peer group in setting incentive compensation	Factor revised with two marks (from three marks) available if you use relative financial performance metrics in the incentive plans and disclose rationale for selected peer group	One mark for using relative financial performance metrics in incentive plans One mark for disclosing composition of peer group One mark for explaining the rationale
Compensation clawbacks	Reduced from two marks to one mark with no change to factor	
Excessive dilution	Reduced from three marks to two marks Two marks if <2.5% dilution One mark if between 2.5 and 5% Zero marks if more than 5%	Three marks if < 3% of outstanding shares Two marks if between 3 and 5% One mark if between 5 and 8% Zero marks if more than 8%

Topic	2024 Approach	2023 Approach
Vesting period for CEO options	Reduced from two marks to one mark One mark if no options vest prior to first anniversary and some vest on the fourth anniversary	Two marks if no options vest prior to first anniversary and some vest on the fifth anniversary One mark if all options vest no earlier than first anniversary
Performance-based director pay	Removed	One mark if company does not pay directors using stock options or performance-based compensation
ESG and climate in compensation	Three marks if company discloses quantifiable ESG metrics in either STIP or LTIP and one metric is climate related Two marks if above but none of the metrics make reference to climate One mark if ESG or Climate is mentioned as a determinant but not quantifiable	Not applicable
Say on pay (SOP)	Four marks if the SOP vote is at least 95% Three marks if the SOP vote is between 90% and 95% Two marks if the SOP vote is between 80% and 90% One mark if the SOP vote is less than 80% but clearly explains changes made to compensation	Four marks for having a SOP vote. If less than 80%, need to clearly explain changes made to compensation One mark if there is a vote without explanation of its response to a low vote

Overall, the compensation section is now weighted 22 marks out of 100 (down from 26 out of 100)

ABOUT US

Southlea are trusted independent compensation consultants who help solve your complex business challenges. We provide global perspectives as a GECN Group company working with over 150 compensation consulting professionals in 15 countries. We are headquartered in Toronto, with clients across Canada, representing all industries and organization structures. Our team of experienced compensation consultants are multi-disciplined with diverse backgrounds and experiences. We are proud to be a certified Women's Business Enterprise by WBE Canada and to be Rainbow Registered as an LGBT+ friendly organization.

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