



Canadian Director Compensation Analysis 2009 - 2012

**An earlier version of the report showed the change in BMO's director pay between 2000 and 2012. This has been adjusted to show the period between 2009 and 2012 to provide a direct comparison to our other findings.*

Canadian Director Compensation Analysis 2009 – 2012

Since the Global Financial Crisis, boards of directors have faced increased scrutiny, particularly with respect to executive compensation. The topic of board director compensation has received far less attention. In 2011, the Clarkson Centre for Board Effectiveness (CCBE) reported that director fees on the S&P/TSX Composite Index (TSX Index) had increased by 87% between 2005 and 2011, with committee chair fees increasing even more dramatically.¹ In the US, Mercer reports that director compensation has increased partially due to increased market regulations like the Sarbanes-Oxley and Dodd-Frank Acts, as well as increased time commitments by boards.² In this report I explore the changes in director compensation on the TSX Index between 2009 and 2012 in the wake of the Financial Crisis.

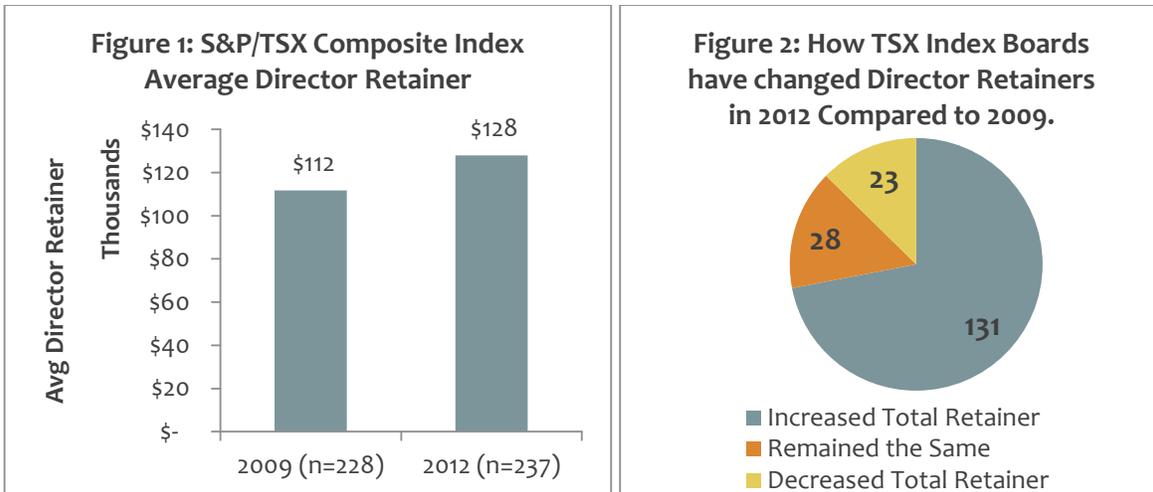
Growth in Director Retainers has slowed since 2009

I expected to find a continued and dramatic increase in director compensation on the TSX Index from 2009 to 2012, continuing the trend that the CCBE identified in 2011. This expectation was further bolstered by specific examples such as Bank of Montreal (BMO), where the base annual retainer fee has increased from \$100,000 in the year 2009 to \$175,000 in 2012. However significant this increase seems, more has changed than simply the amount paid to directors. BMO's annual retainer is now a flat fee which includes all fees for board and committee meetings (up to 2 committees). The median total board and committee meeting fee payout in 2009 for BMO directors was \$57,500 so the average increase in the fees for a director was only \$17,500 or just over 10 percent. The changes to BMO director fees are an illustration of broader trends in the structure of director compensation which I discuss below on pages 2 and 3.

Even when taking these details into consideration, I expected BMO's 75% increase in base director retainer from 2009 to 2012 be reflective of a broader TSX Index trend over the same period. . What I found, however, was that the average base director retainer for all TSX Index issuers has increased by a relatively modest 14% since 2009 (Figure 1). In fact, director pay stayed the same or even decreased at 51 out of the 182 issuers I studied (Figure 2).

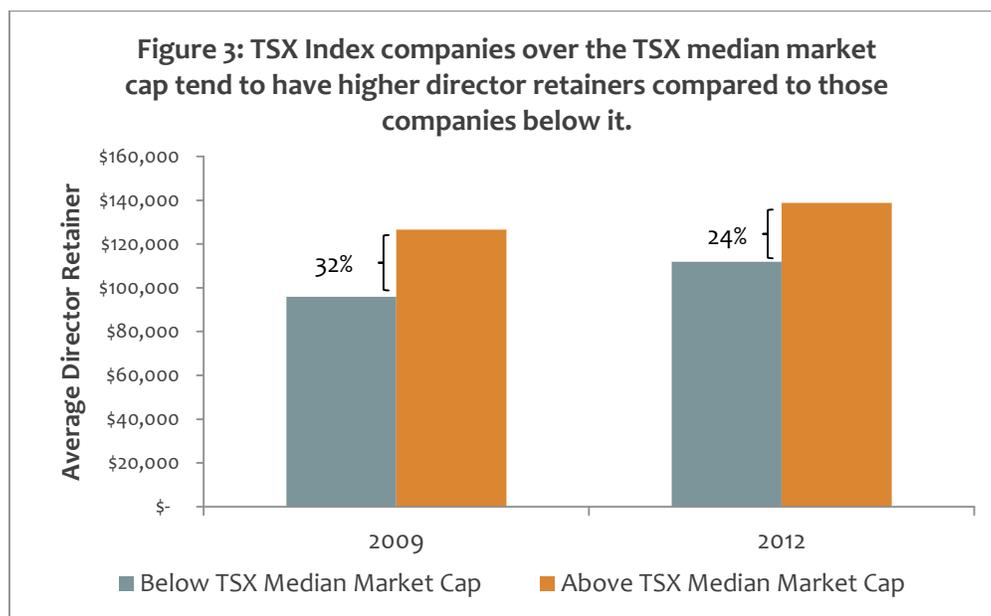
¹ Fullbrook, Matt, and Tony Spizzirri, *Audit Committee Analysis 2001-10*, Toronto, CCBE, May 2011

² <http://www.mercer.com/press-releases/1561035>



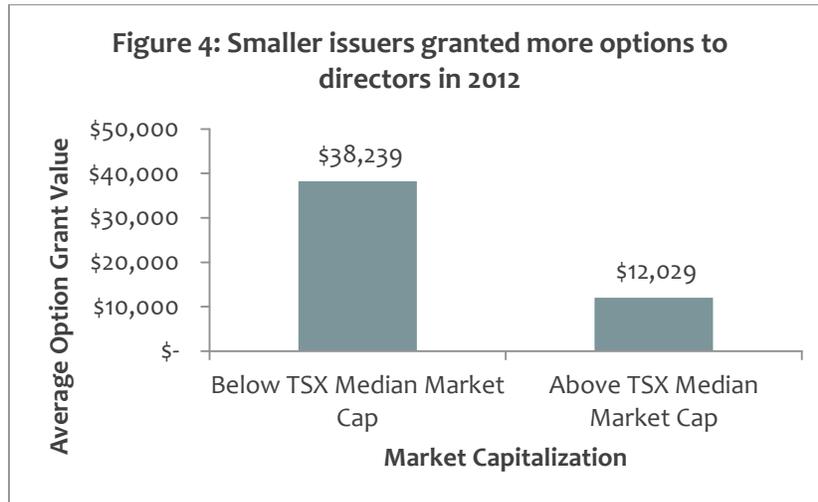
Size Matters

I expected to find that director compensation would increase with the size of the issuer. This turned out to be true in many cases. For example, Wi-Lan Inc. and Extencicare Inc., both among the smallest issuers on the TSX Index, paid their directors \$40,000 and \$53,000 in 2012 respectively while larger companies like Cenovus Energy Inc. and Imperial Oil Limited paid their directors \$283,725 and \$194,620, respectively. Directors of companies that are over the TSX median market cap of \$2 billion are, on average, paid more than those below it (Figure 3). The highest paying companies, however, are not always the largest ones.



In 2012, 11 of the top 25 director retainers are paid by issuers below the median TSX Index market cap. Director compensation in these firms is composed primarily of

options rather than cash or deferred shares. Typically, smaller issuers grant more options to their directors than their larger counterparts (Fig. 4).



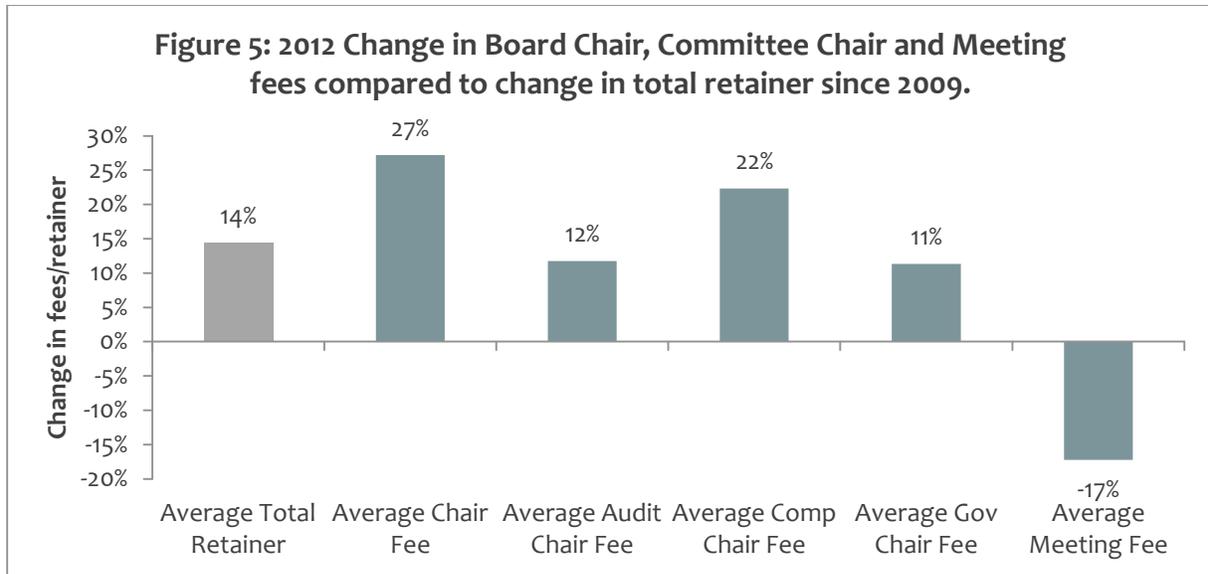
Overall, however, there is a relationship between market capitalization and total director compensation. Directors of TSX Index companies where the market capitalization is over the median of \$2 billion are paid about 24% more than those on companies below it. However, director pay at smaller issuers is increasing more rapidly than at larger ones, driven primarily by a 63% increase in the granting of DSUs between 2009 and 2012.

Chair, Committee Chair & Meeting Fees 2009 vs. 2012

In 2011, the CCBE found that fees paid to the audit and compensation committee chairs increased faster than director retainers from 2004-2010.³ The average board Chair and compensation committee chair fees increased at a rate of almost two times faster than director retainers since 2009 (Fig. 5). Over the same period, the use of meeting fees has decreased.

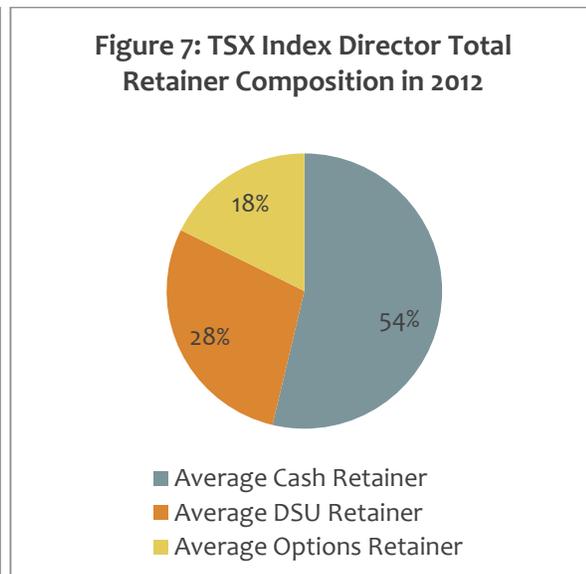
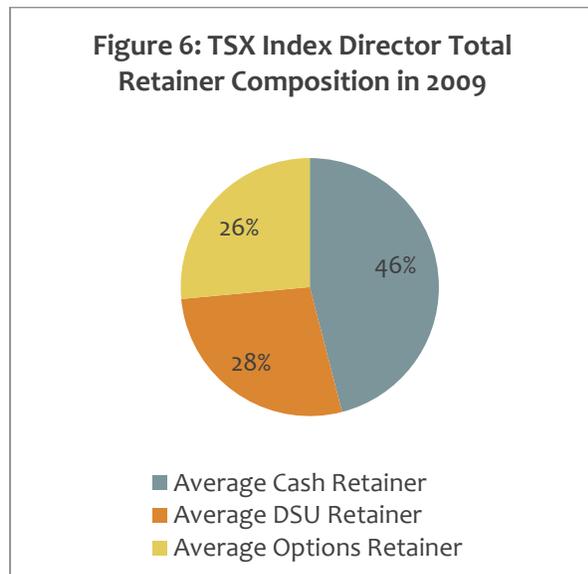
³ Audit Committee Report - <http://www.otpp.com/documents/10179/54229/-/876c0a4d-4d85-49b1-b743-0d86be2c6d0d/Clarkson%20Centre%20-%20Audit%20Committee%20Report.pdf>

Compensation Committee Report - <http://www.otpp.com/documents/10179/54229/-/a1325e88-fade-45b5-bdc8-c221bbb02316/Clarkson%20Centre-%20Compensation%20Committee%20Report.pdf>



Director Pay Structure 2009 vs. 2012

Due to the evolution of board governance, I expected an increase in the use of Deferred Share Units (DSU) in director compensation, and a continuing decrease in the granting of options to directors. Boards can closely align the interests of directors and shareholders by granting DSUs to directors, which must be held until the end of their service and are less dilutive than option grants of similar values. More companies in 2012 (117 compared to 105 in 2009) are using DSUs to pay their directors, and the average DSU grant value to directors increased by 19%. Surprisingly, more TSX Index companies are granting options to directors in 2012 compared to 2009. However, the average option grant value has decreased by 23%. These changes in director pay composition are reflected in Figures 6 & 7 below.



Conclusion

When I began this study, I expected to find that director retainers and fees had increased sharply since the Financial Crisis. However, aside from some extreme examples, the average director's pay has only increased slightly since 2009. Increased scrutiny on executive compensation may have helped push compensation committee chair fees to increase faster than director retainers and all other fees, but the increase was still quite modest. The composition of director pay has shifted since 2009, however, with greater emphasis being placed on long-term alignment between the interests of directors and shareholders. This represents a continuation in the evolution of good governance in Canada.