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# Meridian Client Update

## Modest Increase in Pay for Directors at Canada's Largest Companies

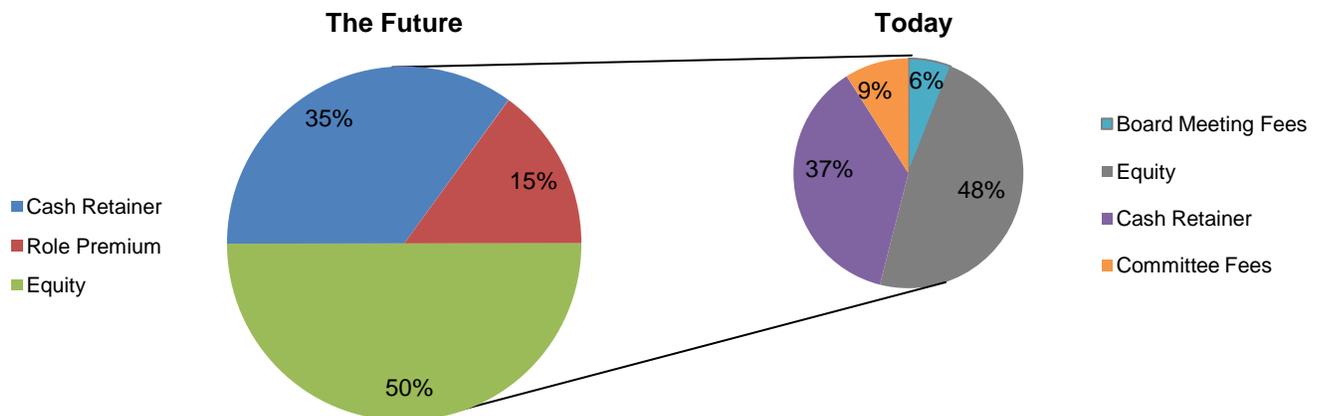
Meridian Compensation Partners' annual analysis of outside director compensation practices at the S&P/TSX 60 index companies found that average total compensation for directors in 2012 rose 5% from 2011:

- Total average compensation (cash retainer, board meeting fees, committee fees and equity) increased 5% to \$191,065 from \$181,820.
- Average equity award values rose 19% to \$84,340 in 2012, from \$70,870.
- The average value of the cash portion of annual retainers remained flat.

Our analysis found that companies are not overhauling or redesigning director pay programs, but are making refinements to specific components of director pay packages:

- The equity portion of the pay mix is increasing—44% of director pay was in equity in 2012, compared to 39% last year.
- There has been a slight rise in the share ownership value directors are required to hold. The median ownership value increased from \$400,000 last year to \$420,000 this year. Although the median multiple of annual retainer has remained at 3x, the range of multiples of annual retainer had increased to 2x–8x compared to 1x–6x last year.
- More boards are no longer paying for attendance—there has been a slight decline in the prevalence of meeting fees from 73% to 68%. Note, in the U.S. there are philosophical discussions going on at many boards around paying for stewardship vs. attendance, and many boards are no longer paying for attendance; among the Top 200 companies, only about 31% pay meeting fees, down from 36% last year.
- Committee chair premiums continue to rise, and committee chair differentials for audit and compensation committees continue; however, the audit chair retainer seems to be stabilizing somewhat so the gap between the audit chair retainer and compensation chair retainers is narrowing.
  - Average audit chair retainers increased in 2012 to \$25,808, up only 2% from last year.
  - Average compensation chair retainers saw a more significant increase, rising 10% to \$17,480 in 2012.
  - Average governance committee chair retainers rose 7% to \$13,586 in 2012.

**Meridian comment.** Looking forward, we predict that outside director pay packages will become universally simpler and more transparent. Cash retainers will consist of a base amount, with premiums for certain leadership roles. Equity awards will be full value shares only. Each of these elements may be taken as current income, or deferred.



### Canadian Directors’ Pay Still Well Below the Pay of U.S. Counterparts

For the second year in a row, Meridian’s study also compared the outside director compensation practices at the S&P/TSX 60 index companies and at about 300 U.S. public companies with comparable revenue and market capitalization. The study found that U.S. companies continue to pay directors significantly more than Canadian companies:

- U.S. companies pay their directors an average total compensation of USD 238,000, 24% more than Canadian companies.
- U.S. companies pay a greater portion of total compensation (57%) in equity, compared with 39% at Canadian companies.

**Meridian comment.** The significant disparity in total director pay at U.S. and Canadian companies will continue to make it more difficult for Canadian companies to attract highly qualified U.S. directors. The ongoing gap may encourage some Canadian companies to consider increasing total director pay to remain competitive on a North American scale.

### Study Parameters

Meridian’s findings were based on data from current proxy statements filed in 2012. The study also compares the compensation programs at the S&P/TSX 60 index companies to the compensation programs at a custom cut of about 300 U.S.-based general industry companies from Meridian’s U.S. Outside Directors Compensation Study. The revenue ranges, median and average revenue of the U.S. companies are very similar to the S&P/TSX 60. The U.S. companies analyzed in the study had median revenue of USD 11,490M, compared to median revenue of the S&P/TSX 60 of CAD 10,325M. The U.S. companies had median market cap of USD 10,774M, compared to median market cap of the S&P/TSX 60 of CAD 11,232M. For the study, total outside director compensation included annual retainer (cash and/or equity), board meeting fees, committee fees (including additional retainers and meeting fees), and non-retainer equity. For simplicity, no foreign exchange adjustments have been made.

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