Shareholder “Say on Pay”
An Active Canadian Dialogue
Two Views of the Role of Shareholders in Canada
The Ask

The Advisory Vote on Executive Compensation is:

- An annual vote on a management proposal
- A ‘for’ or ‘against’ vote on the information about executive compensation in the proxy materials

The Advisory Vote on Executive Compensation is **not:**

- Shareholders usurping a core board function
- Denying a really good executive a really good pay day
The Answer

No*

*following a ‘lively exchange of views’
The Votes

In 2008, proposals submitted by Meritas, a Canadian mutual fund company, appeared on the ballots of Canada’s ‘big five’ banks. It is fair to say that the vote results surprised many, including the proposal’s filer.

- CIBC: 44.96%
- Royal Bank: 42.13%
- Bank of Montreal: 34.70%
- Bank of Nova Scotia: 39.24%
- TD Bank: 41.50%

Average vote: 40.51%
‘Say on Pay’ in Canada

The Context

Majority Voting for Directors

Improved Disclosure of Executive Compensation

Shareholder Views

Vote Results

- Improved Disclosure of Executive Compensation
- Shareholder Views
- Majority Voting for Directors
Average Support for Shareholder Proposals in Canada

2006: 8.8%
2007: 8.0%
2008: 7.1%
In the U.K.

- Advisory vote on proxies since 2003
- Fewer than 10 ‘against’ votes in 6 years
- “Directors are more diligent about crafting policies that allow them to defend decisions taken”*
- ‘Best practice’ guidelines from ABI and NAPF
- One example what the vote does: a 1x salary plus bonus parachute tolerance at U.K. companies

In the U.S.

“Say-on-Pay Doesn’t Play on Wall Street”

<table>
<thead>
<tr>
<th>Company</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Citigroup</td>
<td>46.2%</td>
<td>38.0%</td>
</tr>
<tr>
<td>Morgan Stanley</td>
<td>39.2%</td>
<td>36.8%</td>
</tr>
<tr>
<td>J.P. Morgan</td>
<td>40.6%</td>
<td>36.5%</td>
</tr>
<tr>
<td>Merrill Lynch</td>
<td>45.6%</td>
<td>36.0%</td>
</tr>
</tbody>
</table>
“Apparently investors were nervous about disrupting governance at a time of stress and concerned about retention of highly compensated employees in an industry with great job mobility”

‘Say on Pay’ in Canada

Executives Retained!
Bailout Underway

Citigroup: $45 billion direct and federal government guarantees $300 billion in risky assets on the company's balance sheet

Morgan Stanley: $10 billion

J.P. Morgan: $25 billion

Merrill Lynch: slated to receive $25 billion but acquired by Bank of America in September, and will share in the $25 billion invested in its new parent company
Aflac 2008 Proxy

To approve the following **advisory (non-binding)** proposal:

> “Resolved, that the **shareholders approve** the overall **executive pay-for-performance compensation policies and procedures** employed by the Company, as described in the Compensation Discussion and Analysis and the tabular disclosure regarding named executive officer compensation (together with the accompanying narrative disclosure) in this Proxy Statement.”

**Vote Result: 93%**
‘Say on Pay’ in Canada

So, what am I voting on anyway?

- Develop/review guidelines that capture key areas of concern on pay:
  - Quantum
  - Structure
  - Clarity
  - “All of the above”

- Document your reasoning
- Review your voting record post proxy season