

# **Public Sector Executive Compensation Reporting Guidelines**

*June 1, 2008*

*Statement of Executive Compensation*

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# Statement of Executive Compensation

## ITEM 1 – GENERAL PROVISIONS

### 1.1 PURPOSE

Public sector organizations must disclose all compensation provided to the Chief Executive Officer and the next four highest ranking/paid executives (see 1.3 “Definitions”) for the services they have provided to the organization. This form contains specific requirements for how to disclose various common types of compensation.

To meet your disclosure obligation, you must assess fully whether you have disclosed everything that a reasonable person would view as compensation. This form may not specify every form of compensation arrangement. Nonetheless, organizations must disclose all compensation provided to executive officers, regardless of how it is structured or whether it fits within a column of a particular table. The requirements in this form should be interpreted with regard to this purpose.

In the first year, 2007/08, this statement will be made as part of a broad public sector disclosure. Employers must be prepared to publicly disclose by June 30, 2008, with the exception of Boards of Education which will have until August 30, 2008 to prepare for public disclosure. Thereafter this statement is to be included in the Statement of Financial Information that organizations must make in accordance with the *Financial Information Act*. The information will also be publicly available electronically through the Ministry of Finance website (Public Sector Employers’ Council Secretariat link).

### 1.2 FORMAT

Disclose the required information in accordance with this form. In preparing the form, organizations may:

- omit a table or column of a table if it does not apply; and
- add tables and columns if they are necessary to fully present certain aspects of compensation.

### 1.3 DEFINITIONS

This section defines terms used in this form.

“**Chief Executive Officer**” or “**CEO**” means the individual who served as chief executive officer of your organization or acted in a similar capacity (whether or not directly employed by your organization) during the most recently completed fiscal year. A **chief executive officer (CEO)** is the highest-ranking corporate officer, administrator, corporate administrator, executive, or executive officer in charge of management of a corporation, company, organization or agency. If there was a change in CEO during the year, both CEOs’ compensation amounts should be included. However, it should be specified which CEO’s compensation is commented on. In most cases, it would be the new CEO’s pay structure since it would reflect the latest market rates. Sufficient information should be provided to enable readers to understand the new CEOs’ annualized compensation arrangement (see 1.4 “Preparing the Form”).

“**Named Executive Officers**” or “**NEOs**” are the **CEO and four** highest ranking corporate officers, administrators, corporate administrators, executives or executive officers in

charge of the management of a corporation, company, organization or agency. For the purposes of these reporting requirements the CEO and NEOs only includes those whose base compensation was \$125,000 or greater. All school district Superintendents must be reported regardless of base salary. If there was a change in NEO during the year, both NEOs' compensation amounts should be included. However, it should be specified which NEO's compensation is being commented on. In most cases, it would be the new NEO's pay structure since it would reflect the latest market rates. Sufficient information should be provided to enable readers to understand the new NEOs' annualized compensation arrangement (see 1.4 "Preparing the Form").

**"organization"** includes other types of business organizations such as partnerships, trusts and other unincorporated business entities which are covered by the *Public Sector Employers Act*.

**"external management company"** includes a subsidiary, affiliate or associate of the external management company.

**"incentive plan"** means any plan providing compensation that depends on achieving certain performance goals within a specified period, whether performance is measured by reference to the financial performance of the organization or an affiliate, or any other performance measure. Payments made under an incentive plan may be re-earnable in nature, that is, they are not rolled into the base salary in future years.

**"bonus plan"** means any plan providing compensation that is not part of base salary, benefits and perquisites and does not depend upon achieving specified performance goals. Bonus plans and their payments must be treated separately from incentive plans and their payments or awards. For example, the 2010 Dividend payment would be considered a bonus plan.

**"plan"** includes any plan, contract, or arrangement, where cash, or any other compensation may be received. A plan may be for one person or a category of employees. For the purposes of this statement of executive compensation, a plan includes statutory benefits such as the Canada Pension Plan, and includes benefits which are generally available to other employees in the organization.

**"pensions"** includes defined benefit and defined contribution pension plans.

**"supplementary retirement plans (SRP)"** are pension plan arrangements that are designed to supplement the pension benefit levels that are proscribed for registered pension plans by the Federal *Income Tax Act*.

**'life insurance policy'**. Employers are to report any premiums paid as a result of life insurance policies which have the intention of being used to provide a compensatory benefit in the future.

**'Leaves'** includes annual vacation days provided to an employee, sabbaticals, administrative leaves, and any other special leaves or 'days-off' over and above those which are statutorily required.

## **1.4 PREPARING THE FORM**

### **1. All Compensation Covered**

This form requires disclosure of compensation for the CEO and NEOs of an organization. Any NEO who left prior to the end of the fiscal year must also be included.

## **2. Information for full fiscal year**

If the CEO, or any NEO, worked in another capacity for the organization during part of a fiscal year that is being disclosed include details of the compensation that was earned in the other position with the organization during the fiscal year. For greater clarity provide a footnote to explain which amounts relate to the respective roles.

## **3. Exclusion due to foreign assignment**

When calculating total compensation to determine who is an NEO (other than the CEO), you may exclude cash compensation that relates to overseas assignments if these amounts:

- are specifically intended to offset the impact of a higher cost of living in the overseas location; and
- are not otherwise related to the duties the NEO performs for the organization.

## **4. External management companies**

If the organization's CEO or an NEO are employed by an external management company and their services are provided to the organization under a contractual arrangement then the organization must disclose any compensation or payment for services that has been made during the fiscal year for these services.

## **5. Sources of compensation**

Disclose all compensation paid directly or indirectly to the CEO and each NEO including compensation from the organization's subsidiaries.

# **ITEM 2 - COMPENSATION DISCUSSION AND ANALYSIS**

## **2.1 COMPENSATION DISCUSSION AND ANALYSIS**

1. Provide an explanation of the organizations' compensation philosophy. Include a discussion of the material principles underlying policies and decisions for compensation provided to the CEO and NEOs for the most recently completed fiscal year. Discussion should also disclose where responsibility lies for determining executive compensation - i.e. HR Committee of the Board or the whole Board as it relates to the CEO and/or senior executives. It should also include discussion as to whether compensation oversight exists outside the organization - i.e. Minister Responsible or PSEC.

The explanation of the compensation philosophy and the discussion of principles would include the following items:

- (a) the objectives of the compensation program, what the compensation program is designed to compensate and reward -i.e. the base salary is set at level relative to the market (median, first quartile etc) and the incentive compensation is set at level relative to the market.
- (b) each form of compensation (base pay, benefits, incentives, etc), and how the organization determines the amount (and, where applicable, the formula) for each; and
- (c) how each form of compensation and the organizations' decisions regarding that form fit into the organization's overall compensation objectives and affect decisions regarding other elements.

2. Where applicable, you must also discuss any new policies, actions or decisions that were made after the end of the most recently completed fiscal year that could affect a fair understanding of the NEOs' compensation for the last fiscal year.

3. Identify all incentive plan performance targets and the objective identifiable measures related to the pursuit of the performance targets. Disclose how any incentive payments made to the CEO and NEOs would relate to the performance measures and the performance targets. If targets are subjective, or are based on internal processes, the organization may describe the target without providing specific measures. Where possible, targets should be explained in terms that are identifiable as being related to publicly reported goals and achievements which would be found in annual reports or similar accountability documents.

4. Identify all leaves (sabbaticals, vacation, administrative or otherwise leaves) and discuss how they relate to the organizations compensation philosophy.

**Commentary**

(i) *The information disclosed under Item 2.1 will depend on the facts and the organization’s circumstances. Provide enough information and explanation to allow a reader to understand the disclosure in this form. The information contained in this section should give readers a sense of how compensation levels for the period might have been different if the organization’s performance was different (better or worse).*

(ii) *If the organization’s process for determining executive compensation is very simple, for example, relying solely on board discussion without any formal objectives, criteria and analysis, then make this clear in your discussion.*

(iii) *The following are examples of items that will usually be material:*

- *If the organization used any benchmarking in determining compensation or any element of compensation. If so, greater clarity would be achieved by clearly identifying the benchmark and explaining how the peer group sample was formed and why certain organizations were included or excluded from the group; if comparative benchmarking information was derived from a third party and/or a consultant then an appropriate description of the research should be included;*
- *any waiver or change to any specified performance target, goal or condition to payout for any amount, including whether the waiver or change applied to one or more specified NEOs or to all compensation subject to the target, goal or condition;*
- *the role of executive officers in determining executive compensation.*

**ITEM 3 – SUMMARY COMPENSATION TABLE**

<b>Name and Principal Position (a)</b>	<b>Salary (\$) (b)</b>	<b>Bonus (\$) (c)</b>	<b>Incentive Plan Compensation Paid (\$) (d)</b>	<b>Pension (\$) (e)</b>	<b>All Other Compensation (\$) (f)</b>	<b>Total (\$) (g)</b>	<b>Previous 2 Years Totals (h)*</b>
<b>CEO</b>							2007/08=\$ 2008/09=\$
<b>A</b>							2007/08=\$ 2008/09=\$
<b>B</b>							2007/08=\$ 2008/09=\$
<b>C</b>							2007/08=\$ 2008/09=\$
<b>D</b>							2007/08=\$ 2008/09=\$

*\* The years 2007/08 and 2008/09 are included above for illustrative purposes, reflecting the appearance of the “Summary Compensation Table” in reporting year 2009/2010 (see 3.1 “Summary Compensation Table”).*

### **3.1 SUMMARY COMPENSATION TABLE**

Complete this table for the CEO and each NEO for the organization’s three most recently completed fiscal years. This reporting obligation is prospective, that is, organizations will report previous years total compensation amounts starting in 2008/09 with the full three year reporting requirement being met in the 2009/10 “Statement of Executive Compensation”.

1. **In column (b)** dollar value of the base salary of the NEO earned during the year. [For greater clarity, vacation payouts or severance payouts should be reported under column (f).]
2. **In column (c)** include any discretionary cash awards that were not based on pre-determined performance criteria that were communicated to a NEO.
3. **In column (d)** include the dollar value of all amounts paid for services performed during the covered fiscal year that are related to awards under an incentive plan.
  - (i) If necessary, include a footnote indicating any payments on incentive plan compensation that may have been deferred to a later date. Once reported the organization is not required to report a second time when deferred earnings are paid to the CEO or NEOs.
  - (ii) Organization may choose to provide greater clarity with a footnote on incentive plan payments i.e. how much is attributable to short term vs. long-term incentives.
4. **In column (e)** include ‘employers’ pension contributions made for each NEO. If the organization paid an ‘employees’ share of pension contributions then those should also be included in column (e). RRSP contributions on behalf of the NEO should be reported under column (e).

Organizations whose CEO and NEOs are members of a public sector pension plan such as the Municipal Pension Plan, College Pension Plan, Teachers’ Pension Plan or Public Service Pension Plan are required to report the employers’ contributions made on behalf of the CEO or NEO in column (e). Organizations that have unfunded Supplementary Retirement Plan (SRP) arrangements should include the current service costs for these SRP arrangements for the fiscal year being reported that are associated with the CEO or NEO in column (e). Footnote any material factors necessary to understand the SRP arrangement.

5. **In column (f)** include all other compensation not reported in any other column of this table. Include each compensation item that you cannot properly report in columns (b) through (e). This column must include, but is not limited to:
  - i. perquisites, property or other personal benefits provided to the NEO that are not available to all employees. Value these items on the basis of the aggregate incremental cost to the organization.

- ii. the dollar value of any insurance premiums paid by, or on behalf of, the organization during the fiscal year for personal insurance for an NEO
  - iii. the dollar value of any statutory employer contributions including, but not limited to, Canada Pension Plan, Employment Insurance and Workers Compensation.
  - iv. Any vacation, leave or severance payouts should be reported in column (f). Organizations may provide a footnoted explanation for greater clarity.
  - v. The dollar value of employer contributions to non-statutory benefits for each NEO such as:
    - Extended Health and Dental
    - Group Life and Accidental Death and Dismemberment benefits available to all employees
    - Long-term disability benefits available to all employees
    - Medical Service Plan premiums
    - Other life insurance policy (i.e. universal life insurance).
- 6. In column (g)** include the dollar value of total compensation for the fiscal year. For each NEO, this is the sum of the amounts reported in columns (b) through (f).
- 7. In column (h)** include the total value of all compensation for the previous 2 fiscal years. This would be the value reported in column (g) in the previous 2 years. Please note, that it is not expected that this reporting obligation will be met until organizations have used this report for three years. Therefore, organizations will be expected to insert the 2007/2008 year total compensation amounts in 2008/09 with the full reporting requirement being met in the 2009/10 “Statement of Executive Compensation”.
- 8.** Any deferred amounts must be included in the appropriate column for the fiscal year in which they are earned.

**Commentary**

*(i) The determination of whether an award should be considered a bonus or an incentive plan award depends upon the nature of the award. An incentive plan award is intended to serve as an incentive for certain specified performance objectives. Thus the outcome of such an award will generally be uncertain at the time the performance target is established. The target will also be communicated to the executive officer. In contrast, include in the bonus column any award that was based on the satisfaction of a performance target that was not pre-established and communicated to the executive officer, or the outcome of which was not substantially uncertain at the time it was set. For example, the 2010 Dividend would be considered a bonus.*

*(ii) In general, an item is not a perquisite if it is integrally and directly related to the performance of an executive officer’s duties. This concept is narrowly defined. If something is necessary for a person to do his or her job, then it is integrally and directly related to the job and is not a perquisite, even if it also provides some amount of personal benefit. For example, the cost of travel and registration to a conference related to the duties of the executive officer is not a perquisite.*

*Organizations must conduct their own analysis of whether a particular item is a perquisite. The following are examples of things that are often considered perquisites or personal benefits. This list is not exhaustive:*

- Cars, car lease and car allowance

- *Personal travel financed by the organization*
- *Clothing*
- *Housekeeping services*
- *Club membership*
- *Theatre tickets*
- *Financial assistance to provide education to children of executive officers*
- *Parking*
- *Personal financial or tax advice*
- *Reimbursements of taxes owed with respect to perquisites or other personal benefits*

### **3.2 NARRATIVE DISCUSSION OF SUMMARY COMPENSATION TABLE**

While the items discussed in this narrative will vary depending on the terms of each plan, organizations should provide a description of any material factors necessary to understand the information disclosed in the summary compensation table. This should include a general description of the formula or criteria to be applied in determining incentive plan awards provided during the year and awards made in relation to the incentive plan performance measures and targets. The organization may aggregate information for different awards, if separate disclosure of each award is not necessary to communicate their material terms.

### **3.3 OFFICERS WHO ALSO ACT AS DIRECTORS**

If an NEO is also a director who receives compensation for services as a director, reflect that compensation in the Summary Compensation Table and provide a footnote to explain which amounts relate to the director role.