

# CLARITY, CANDOR AND CUTTING THE CLUTTER: THE PHILOSOPHY OF PROXY DISCLOSURE

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When crafting compensation disclosure, we all start from Form 51-102F6 Statement of Executive Compensation, with a stated objective of “providing insight into executive compensation as a key aspect of the overall stewardship and governance of the company...”. While required disclosures aim to establish uniform and comparable disclosures across companies, this one key statement – “overall stewardship and governance” – gives companies a unique opportunity to provide a glimpse into the boardroom and how it makes decisions. Enter disclosure philosophy; companies must choose what level of detail, insight and narrative on pay, performance, and process to provide. Based on our experience supporting the crafting of such disclosures, we have outlined several key considerations for exploring and establishing a pay disclosure philosophy.

## Regulatory Compliance

### The bare minimum, what is legally required.

- Some companies may stop here, with a view that time is better served elsewhere – it is still advisable to go through the philosophy motions we outline below, to ensure all risks are considered
- Companies both big and small choose to use minimal disclosure, and may not draw scrutiny when pay is reasonable and performance is strong, but these conditions may not always persist

## Quantitative Transparency

### Are incentive outcomes a black box, an open book, or somewhere in between?

- Companies are not required to disclose performance goals for specific performance-related factors if a reasonable person would consider the disclosure to seriously prejudice company competitive interests
- That said, assumptions or logical leaps required by readers can lead to misunderstanding and potentially inaccurate conclusions

## Performance Narrative

### Narratives can be a factual re-telling, insightful, or a feel-good fluff piece.

- Good performance is typically easy to disclose, but how does the Committee and Board reflect on down years?
- Pay-for-performance exists on the upside and the downside, and supplemental analysis can provide strong support to show that incentive plans are working as intended
- This is also an opportunity to craft a consistent message across all the company’s disclosures (MD&A, AIF, Corporate Presentation, etc.)

## Qualitative Insight

### The “show your work” part of the test.

- While the intention is not a full-access backstage pass, Committees and Boards can craft disclosure as a lens which brings into focus the pay and governance decision-making process, who has input, and what factors are considered to arrive at the conclusion

## Audience

### Who reads this thing anyway?

- While Form 51-102F6 is focused on “helping investors understand how decisions about executive compensation are made”, we know institutional investors aren’t the only ones diving into the details
- Pay disclosure should consider the company’s entire stakeholder community (proxy advisors, employees, media, regulators, etc.)

## Compensation Disclosure Philosophy

### A disclosure philosophy should reflect the unique priorities of the company, stand the test of an economic cycle, and build trust with stakeholders.

- Similar to an organization’s pay philosophy, a disclosure philosophy should evolve with the business – it is important to not only establish what disclosure looks like this year, but how it may need to change over time while staying on brand