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# Proxy Alert

## Recommendation: FOR shareholder proposal at Imperial Oil Limited

March 25, 2019

**Imperial Oil Limited**
**Symbol:** IMO
**Annual Meeting Date:** April 26, 2019

**Filers:** British Columbia Investment Management Corporation, Caisse de dépôt et placement du Québec, and SEAMARK Asset Management Ltd. (supported by SHARE) on behalf of SEAMARK Pooled Total Equity Fund, SEAMARK Pooled Canadian Equity Fund, Canadian Office & Professional Employees Union Local 378 General Fund, Canadian Office & Professional Employees Union Local 378 Defense & Other MBF, and COPE-SEPB

## Shareholder proposal: Adopt a "say on pay" vote

A group of pension plans and other institutional investors have filed a formal shareholder proposal with Imperial Oil asking that the company offer an annual shareholder advisory vote on executive compensation ("Say on Pay"). The proponents sought assurances that directors are making serious efforts to link executive compensation to corporate performance. They argue that "Say on Pay" votes provide shareholders with an opportunity to register their approval or disapproval on executive compensation and that "Say on Pay" has been found to improve communication between shareholders and issuers on executive compensation.

The resolution reads:

> *Shareholders request that the Board of Directors adopt a policy that Imperial Oil Ltd. shareholders be permitted to vote, on an annual and advisory basis, on a management resolution to ratify the compensation of Named Executive Officers set forth in the proxy statement.*

The company's response, issued in its proxy circular, suggests four main points of argument:

- *A simple up or down say-on-pay vote would not convey useful information to the executive resources committee regarding specific elements of the program for which a shareholder may have a concern.*
- *Imperial has a number of other effective ways for shareholders to express their views on these matters should they wish to do so.*
- *The board has access to all relevant information, including any views expressed by shareholders, and is thus best positioned to make executive compensation decisions. Substituting the judgment of shareholders for the judgment of the board on these matters would result in a less-informed decision making process, and would circumvent the role of the board in representing shareholders*
- *Widespread adoption of advisory votes on compensation would have the overall negative effect of encouraging companies across industries to take a 'one-size-fits-all' approach to compensation design, under which programs would be designed with reference to a standardized model rather than customized to support the particular facts and circumstances of the business or the long term business model*

### Background on "Say on Pay" in Canada

"Say on Pay" is not a regulatory requirement for Canadian issuers. However, as a result of years of continual shareholder engagement more than 71% of companies in the TSX Composite Index have now adopted "Say on Pay" votes and 52 of the TSX60 Index companies have adopted the practice. Another 52 Canadian publicly-traded companies that are not on the TSX Composite Index have adopted the practice, making a total of 220 companies in Canada offering an annual "Say on Pay" vote.

Arguably, this high uptake makes "Say on Pay" the norm in Canadian markets, and is already the practice at many of Imperial Oil's competitors.

It is also a regulatory requirement in other jurisdictions including the USA and the UK. Ironically, Imperial Oil's majority owner Exxon-Mobil is required to hold a "Say on Pay" vote at its annual meeting, but it will oppose the practice at Imperial Oil.

### Vote Recommendation and rationale

It is true that "Say on Pay" votes are a binary proposition, and cannot deliver detailed criticism or praise of a given company's approach to compensation. Further, the presence of a majority shareholder virtually assures that in any given "Say on Pay" vote Imperial Oil's board's recommendation will receive majority approval.

However, a high "no" vote amongst independent shareholders still provides an important signal to the board about its approach. It surfaces a level of concern that may not otherwise have been brought to the board's attention by other means.

These concerns are best raised in the context of a "Say on Pay" vote rather than through other vote results, as the proponents argue:

> *In the absence of a Say on Pay vote at Imperial Oil Ltd., shareholders who do not support some or all aspects of the company's executive compensation practices can only register this view indirectly, by withholding their votes to re-elect directors on the compensation committee. Say on Pay will allow shareholders to clearly and unambiguously express their views of executive compensation by voting on the matter directly.*

Low votes for otherwise competent directors would be a confusing signal for the board and a much less effective means of delivering a message regarding executive compensation.

It is also true that large institutions may be able to avail themselves of other means of communication with the board of directors (as suggested by the company, above). Smaller institutions and retail investors, however, rarely have this capacity on their own and would benefit from the ability to register a simple vote with minimal transaction costs. Nor is it easy for the board to accurately determine the extent of shareholder agreement with opinions expressed by any one large shareholder without a democratic means of testing for agreement, as may be done with a "Say on Pay" vote. The vote is a valuable supplement, not a replacement, for shareholder/board engagement.

The proponents express that neither the intent nor the effect of their proposal is to supplant the board's decision-making power over executive compensation. The proposed vote is a non-binding, advisory vote. As the proponents write, *"the philosophy underpinning Say on Pay acknowledges that directors are charged with making decisions regarding executive compensation while allowing shareholders to provide their views of those decisions."*

Lastly, the argument that "Say on Pay" votes lead to "*one-size-fits-all* approach[es] to compensation design" suggests that shareholders cannot be trusted to evaluate a company's plan in context and make unique decisions based on the merit of the proposed plan at the specific company. Preconceptions assuming the incapacity of individuals and institutions to make their own decisions should not be used to withhold the right to vote.

SHARE's long-standing view is that "Say on Pay" votes create a critical accountability mechanism for shareholders, providing them with an opportunity to voice concerns with executive compensation practices in a focused, effective and appropriate manner. Adopting Say on Pay has been a way for boards to demonstrate their willingness to communicate and discuss their approach to compensation in open dialogue with shareholders, both before and after the annual vote. It provides the right balance between accountability to a company's owners and the board's discretion to oversee the company's overall health and success.

## SHARE's Recommendation:
## FOR proposal at Imperial Oil

## Link to full proposal:

https://share.ca/share-proposals/2019-executive-compensation-imperial/

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