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February 3, 2017

Memorandum to: Board chairs of employers designated under the Broader Public Sector Executive Compensation Act, 2014

Subject: Broader Public Sector Executive Compensation Framework Regulation Requirements

Executive compensation in the broader public sector has been frozen under the Broader Public Sector Accountability Act, 2010 since March 2012. The Executive Compensation Framework regulation (the Framework) came into force on September 6, 2016. The government introduced the Framework to ensure the responsible and transparent administration of executive compensation across the broader public sector. Until such a time that an executive compensation program which complies with the Framework is adopted by an employer, compensation remains frozen.

As you are aware, the Framework sets out requirements that designated employers must meet when setting their executive compensation programs. This approach is intended to ensure employers are accountable for compensation decisions and are able to attract and retain the necessary talent to deliver high quality public services. It was, and continues to be, the government's expectation that such decisions would be made in a reasonable and measured way.

As the Framework has been in place for several months, some designated employers have begun to seek public comment on their executive compensation programs. Certain designated employers have posted consultation drafts that in the government's view would not comply with the Framework or its spirit if implemented. In light of these developments, I am writing to provide further clarity on the government's expectations for designated employer compliance with the Framework.

Comparator Selection

Key among the Framework requirements is that salary and performance-related pay for designated executives is capped at no more than the 50th percentile of appropriate comparators.

The Framework defines appropriate comparators as those that meet the majority of the following criteria:

- Scope of responsibilities of the organization's executives,
- Industries within which the organization competes for executives,
- Size of the organization,
- Type of operations the organization engages in,
- Location of the organization.

This approach grants employers necessary flexibility to benchmark their executive compensation. That said, the government expects that employers will use these criteria to select comparator organizations that are appropriate, reasonable and in keeping with the principle of responsible administration of executive compensation under which the Framework was established. Above all, each board is responsible for ensuring that the comparators are understandable to the public.

Consultation and Program Contents

I ask that each employer carefully consider how their consultation draft meets the test of responsible and transparent administration of executive compensation. This means that consideration should be given to the type of information included in the consultation draft and how it can be presented to help enhance the public's understanding of the employer's plans for implementing changes to current compensation levels over time.

Posting only salary maximums has led some to assume that large increases would be imminent. More information about planned changes to compensation would provide the public with necessary context. Additional information should include current salary levels and proposed salary levels over time, in addition to maximums.

The Framework also requires that employers ensure that the public is given a reasonable opportunity to provide feedback on their compensation programs before they are finalized. The government expects that each draft compensation program will be posted on the employer's public-facing website in a clear and easily accessible location (e.g. Homepage or Newsroom) for a minimum of 30 days. Clear, open, easily accessible posting is integral to the principle of transparency that underlies the Framework. Since the purpose of posting is to consult with the public and receive feedback, the government expects that employers will take proactive measures to make the public aware of the posting of their draft framework.

Adjustments to Compensation

The government expects that any annual increases in compensation given under a new compensation program will be modest. Employers should consider whether changes to their compensation structure can most appropriately be made by phasing in adjustments gradually over a number of years.

I expect you to work together with your overseeing ministry to ensure that executive compensation is managed in a way that is fair and understood by the public. If the government determines that the Framework requirements are not being met, the government will direct that employer to re-visit their compensation program and begin the public consultation process again.

The government is closely monitoring the rollout of this initiative and will take necessary action should an employer fail to develop a compliant compensation program or make unreasonable adjustments to compensation.

To be clear, no executive compensation increases can be implemented until after a final compliant compensation program is in place. The government requests that overseeing ministries are made aware of timing and contents of consultation drafts, and that no program is finalized without confirmation from your overseeing ministry.

Thank you for your ongoing leadership and support.

Sincerely,

[Original signed by]

Liz Sandals
President of the Treasury Board

c: All Ministers whose ministries oversee employers designated under the Broader Public Sector Executive Compensation Act, 2014

All Deputy Ministers whose ministries oversee employers designated under the Broader Public Sector Executive Compensation Act, 2014