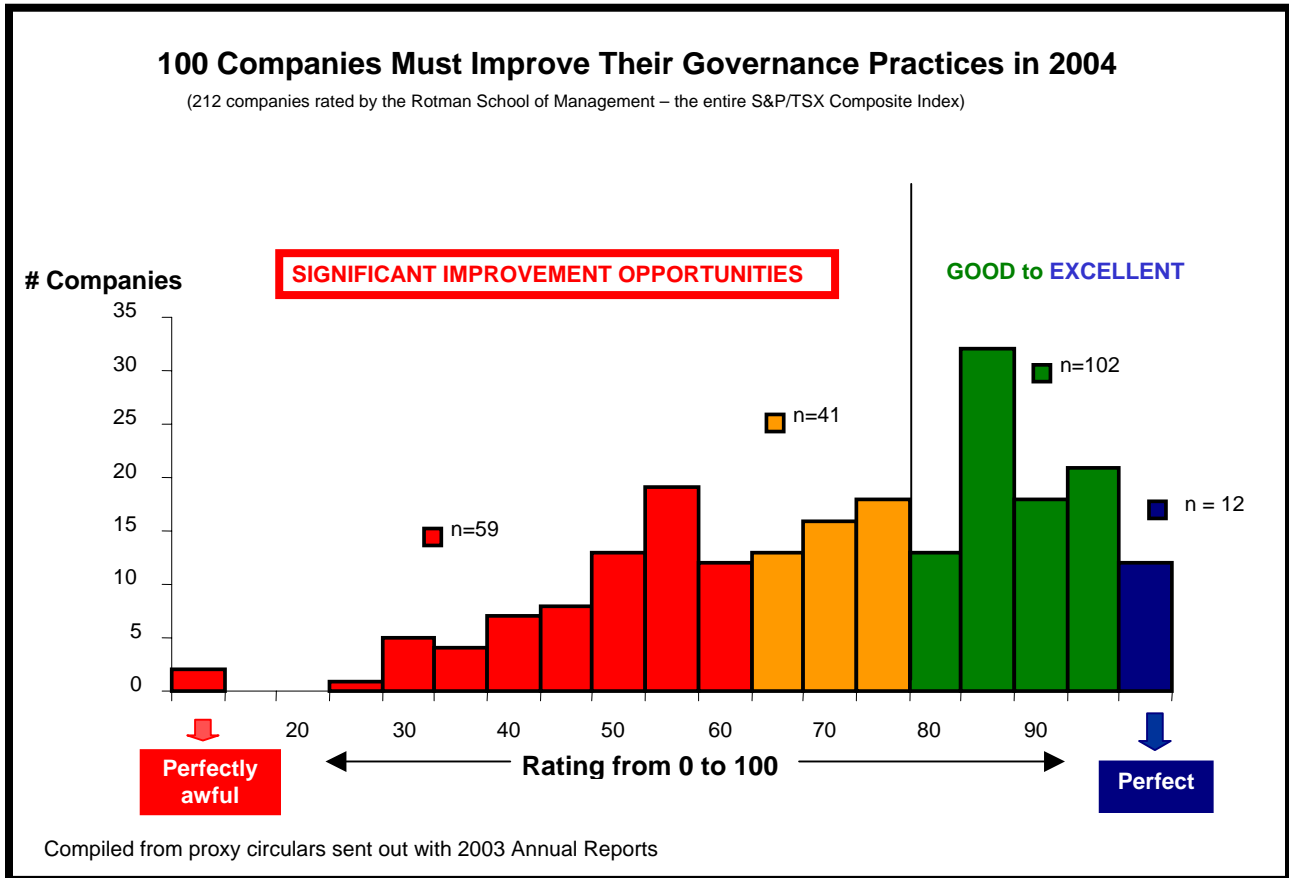


# Canadian Coalition for GOOD GOVERNANCE

## INAUGURAL ANNUAL REPORT

May 1, 2003  
to  
April 30, 2004

Working to Improve Corporate Governance in Canada



## Message from the Chairman



Michael Wilson

The mission of the Canadian Coalition for Good Governance is to represent Canadian institutional shareholders through the promotion of best corporate governance practices and to align the interests of boards and management with those of the shareholder.

We fulfill our mission with three principal strategies:

1. Broadcasting our guidelines to the people and public companies of Canada through our website, the media, and many professional organizations
2. Engaging directly with company chairs, CEOs and corporate secretaries to promote good corporate governance policies and practices
3. Participating in the evolution of public policy to influence the future shape of the investment industry

We have had a wonderful first year. We have seen interest in corporate governance spread across and beyond the boardrooms of corporate Canada.

As you will see in the report of the Managing Director, we believe that governance is being seriously evaluated in hundreds of boardrooms. I am confident that when the *Globe & Mail* "Board Games" and the Rotman School of Management Board-Shareholder Confidence Index are published this fall, we will see a significant improvement in Canadian corporate governance.

Our membership has grown. In May 2003, when the Coalition established offices, there were sixteen Full Members and twenty-five Associate Members. At that time, our Full Members managed over \$350 billion in assets. Today, we have thirty-three Full Members who manage over half a trillion dollars of assets. Our Associate Member ranks have declined from twenty-five to fifteen because ten Associate Members switched to Full Membership status during the year.

In 2003 we saw the emergence of two Directors' Schools. The DeGroot School of Business (McMaster University) is partnering with The Conference Board of Canada and the Rotman School of Management (University of Toronto) is partnering with the

Institute of Corporate Directors. These programs are important additions to corporate governance in Canada. No longer is being a director a life-long achievement award but a disciplined and arduous profession. The Coalition is pleased to see that the two programs are being well attended by both current and aspiring directors and are being well rated by the participants.

We have received and have accepted many requests for speeches across the country. We have met with a large number of directors and chairs of companies where we have a significant stake. We are clearly on the map and having a positive influence on the improvement of corporate governance across Canada.

With all of our success over the past year, we must keep in mind that there is still a great deal of work to be done. We will continue to “walk softly and carry a big stick”. We walk softly, preferring to do our work outside of the media glare. The “stick” we carry really belongs to our members who, should they be unhappy about the governance progress at any particular company, may choose to speak publicly or vote their shares.

For governance to improve, boards and management must want to do a first class job and must continuously demonstrate the integrity expected by shareholders who have invested their savings in those companies. Coalition members do not want to discourage companies from doing the job of delivering good financial performance – certainly financial performance is the reason why we invest. Good financial performance will be the predominant driver in our investment decisions.

But surely, it is important that we take note of, and address, the weaknesses in governance and control systems that have had such a damaging impact on certain companies and, more generally, on investor confidence. Boards must strike a fine balance between providing the freedom and motivation to management to realize those performance objectives while overseeing the financial and non-financial control systems to ensure that ethical and legal standards are met. That is what we as shareholders seek and expect.

I would like to take this opportunity to thank our Board of Directors for all their hard work in getting the Coalition off to such a good start over this past year. In particular, I want to pay tribute to Claude Lamoureux who has taken on the task of chairing the Public Policy subcommittee of the Board and to Richard Rooney who has taken on the task of chairing the Accounting Policy subcommittee and to their colleagues on these committees.

Michael Wilson

A handwritten signature in black ink that reads "Michael Wilson". The signature is written in a cursive, flowing style.

Chairman

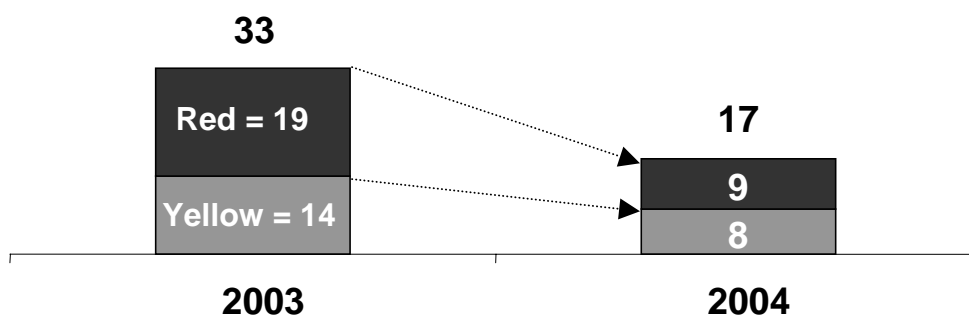
## Report of the Managing Director

In our inaugural year we have played a significant role in the improvement of Canadian corporate governance.

Many companies have had their Annual General Meetings in the last three months. Our analysis of the proxy circulars of 33 of those companies, all with significant improvement opportunities, shows that 16 improved substantively. That is encouraging.

However, work remains to be done, as the remaining 17 did not improve.

### Companies with Significant Governance Improvement Opportunities Declined from 33 to 17 this year



\* Based on proxy analyses at the CCGG

These early returns are encouraging and, together with the one-on-one interviews held with over 40 chairs in the last eight months, indicate that Canadian boards are seriously reviewing their governance practices.

This is a welcome result. This report highlights the work we have done this year and our program for next year:

1. We broadcast our Good Governance Guidelines v1.0 in September of 2003
2. We engaged directly with over 125 companies on their governance practices and governance improvement opportunities
3. We began work in policy arenas as “the voice of the shareholder”
4. We have a powerful program for 2004

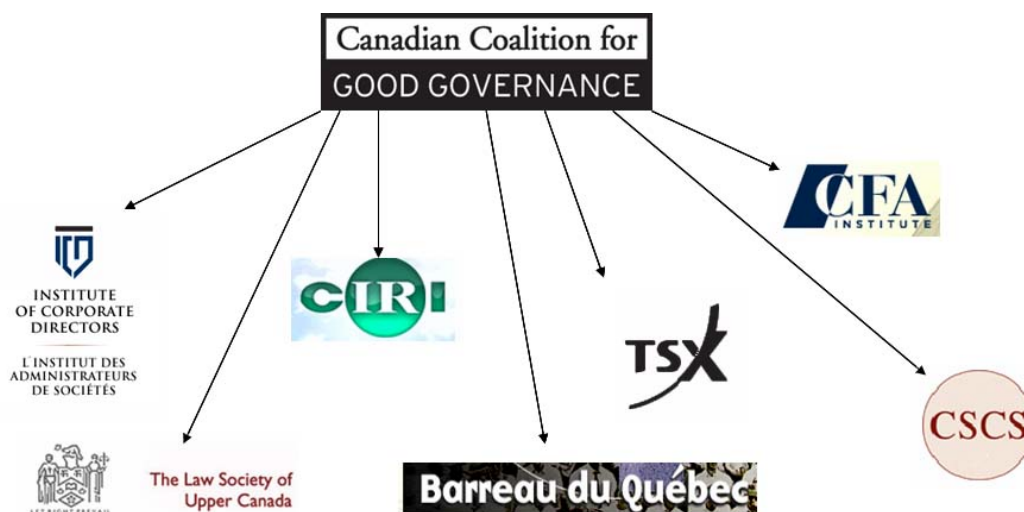
It has been a busy but effective 12 months. With our members’ support and encouragement as well as their own direct contact with the companies they own, we will continue to improve governance and shareholder returns in Canada.

## 1. We broadcast the Coalition Good Governance Guidelines September, 2003

On September 4, 2003 four months of work culminated in the members of the Coalition adopting the “Corporate Governance Guidelines for Building High Performance Boards” now found on our website [www.ccg.ca](http://www.ccg.ca).

The guidelines received widespread publicity and generated great interest at the board level across Canada.

The Coalition was assisted by many organizations involved in corporate governance.



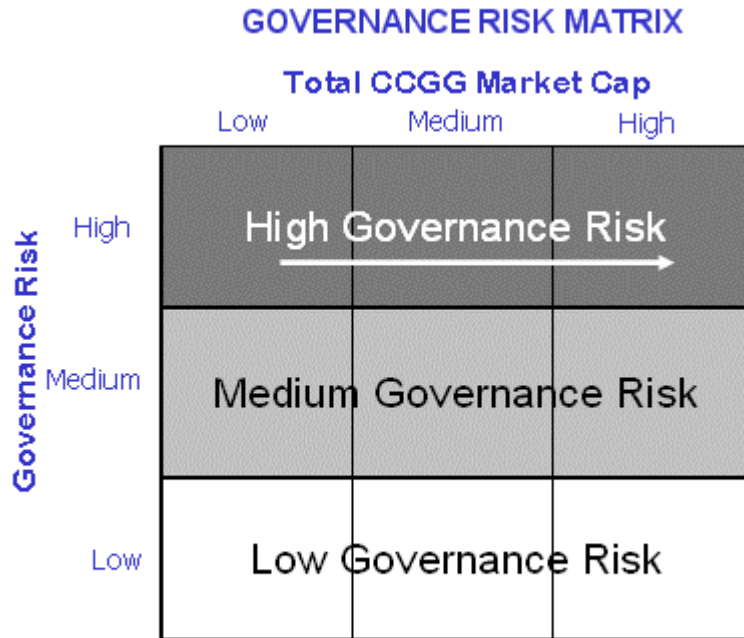
For example, the Toronto Stock Exchange sent a copy of these guidelines to all the issuers on the exchange and to every issuer on the venture exchange with the following text: “The TSX Group considers the Coalition’s guidelines ... are a strong indication of the future direction of corporate governance.”

Since the September launch of the Guidelines, the Chairman and the Managing Director were frequently seen in the press, on the business news channels and in person at dozens of conferences promoting the guidelines. In total, the Coalition gave close to 75 interviews and speeches over the year including two trips West and three trips to Montréal.

Over the year, the Coalition enhanced its website with “best practices” ideas from leading Canadian companies and with the Chairman’s speeches. We developed linkages with members’ sites and the sites of concerned organizations such as the ICD, CSCS and CIRA. Immediately the CCGG site became a point of reference for companies wishing to appraise themselves using the “self-appraisal” tool, or for those who wanted to see “best practices.”

**2. We engaged directly with over 100 companies on their governance practices and governance improvement opportunities**

To get the message directly to Canadian corporations we began by developing a governance risk matrix. The matrix arrays the amount of stock owned by the Coalition against the governance risk assigned to the company by the Rotman School of Management Board-Shareholder Confidence Index.



Those companies with HIGH GOVERNANCE RISK are in the top row. They had secured low ratings in the governance scores assigned them by the Rotman rating staff. These scores were based on the proxies issued in 2003 and resulted from both ‘desk’ analyses of the proxies plus considerable dialogue with corporate secretaries. Current Rotman ratings in ‘alpha’ form are available at [www.mgmt.utoronto.ca/ccbe](http://www.mgmt.utoronto.ca/ccbe).

Paul Schneider, Director of Research, polled every Coalition member for their shareholdings of each company and derived a total for each company. He then placed each company in the governance risk matrix by total market capitalization.

With over 130 companies now arrayed we developed priorities for action. We followed the advice of Peter Drucker on the subject of making wagon trains go faster across the prairies. Peter teaches you to:

1. Go to the front of the wagon train and learn from the front place drivers how it is they go so fast. Congratulate them, tell them to keep pushing on and ask them to remember any new tricks, tips or hints

2. Go to the middle of the wagon train and share with them the lessons from the front. Encourage them to adopt these new ideas and to share with each other as they go forward
3. Leave the wagons at the back alone. They are not likely to innovate on their own but, as they see the rest of the wagon train moving away from them, they might wake up. If they don't they will simply be left behind

Following this plan, we wrote letters to all 75 companies we owned in the “Low Governance Risk” category congratulating them on their performance, asking for clarification on a few points and encouraging them to review our guidelines. We made a special plea for them to comment on the linkages they are attempting to make between performance and compensation for senior executives.

On the Coalition website you will find a section called “Best Practices.” The examples provided come from the Annual Reports of “Low Governance Risk” companies.

We also analyzed in detail the proxy circulars for “High and Medium Governance Risk” companies we owned. We then sent a “Governance Improvement Opportunities” memo to the corporate secretary of these companies with a covering letter to the Chairman. In all, we sent out 40 detailed letters, had discussions with 40 corporate secretaries and met with 27 chairs to discuss improvement opportunities.

These efforts and the overall sense in the business community of the need to examine corporate governance practices has given rise to the success we have seen at the beginning of my report.

### 3. We began to be the “voice of the shareholder” in the evolution of the public policy, legal and regulatory frameworks that shape the investment industry

We established a **Public Policy subcommittee** under the chairmanship of Claude Lamoureux of the Ontario Teachers’ Pension Plan. This group has responded to a number of regulatory proposals including:

- The Ontario Securities Commission (OSC) Governance proposals
- The Ontario Government proposals to remove the contingent liability of investors inherent in owning units of an income trust
- The Federal Government request for comment on amendments to the Canada Business Corporations Act
- The American Securities and Exchange Commission (SEC) proposals for director nominations

Other matters before the subcommittee include the consideration of governance guidelines for income trusts; the concern over fairness opinions and break fees; and the taxation of the various components of compensation.

We also tackled the **subordinated shares** issue. On the S&P/TSX composite index there are some 51 capital structures with two classes of shares that give unequal voting rights. There are 223 companies on the index for an astounding ratio of 23 percent with subordinated voting shares.

The Coalition completely opposes such structures.

During the year a small team from the Policy subcommittee prepared a memo on behalf of the Coalition that went to the Toronto Stock Exchange. The memo asked that each “subordinated” share be given a single identifying letter in its stock symbol. Investors would then know that these shares had subordinated voting status of one sort or another. On April 27, 2004 the CEO of the Toronto Stock Exchange, Barbara Stymiest, issued a press release indicating that such a change would be installed in October.

In addition, we established an **Accounting Policy subcommittee** under the leadership of Richard Rooney, President of Burgundy Asset Management. Accounting, the core of securities analysis, is a complex and expert subject. The increasingly frequent changes to accounting principles are of vital importance to those who purchase securities – the “buy side.”

This subcommittee has met with leading officials in the Canadian Institute of Chartered Accountants (CICA), the Accounting Standards Board (AcSB) and the newly established Accounting Standards Oversight Council (AcSOC).



New Canadian body to certify audit firms to work on public company accounts



The core Canadian institutions



The key American institution



The emerging global force

Canadian accounting standards are not established in isolation, but are shaped with regard to the activities in the United States with the Financial Accounting Standards Board (FASB) and in Europe with the International Accounting Standards Board (IASB). There is a strong belief in these vital bodies that the Coalition should play a part in determining the future evolution of accounting standards. To provide a voice from the “buy side” this subcommittee is seeking to acquire expert assistance.

#### 4. We have a powerful program for 2004

The year has been busy and we believe that the Coalition has contributed effectively to the development of improved governance standards across the range of Canadian Public companies.

1. Broadcasting our guidelines to the people and public companies of Canada through our website, the media, and many professional organizations
2. Engaging directly with company chairs, CEOs and secretaries to promote good governance policies and practices
3. Participating in the evolution of public policy frameworks that shape the investment industry

We have three additional areas of interest to develop as we proceed into our second year. We intend to:

1. Deepen our understanding of the linkage between top management compensation and longer term company performance
2. Encourage the expansion of individual director peer evaluation in Canadian boards
3. Expand our international contacts as many American and British institutions are active in shareholder activism and are significant owners of Canadian companies

We look forward to working with our members and the many company boards and directors we have come to know over the last 12 months. There is much to be done, but we have made a solid start.



David Beatty, Mary Stillich & Paul Schneider

**Financial Statement (cash basis – unaudited)**  
**May 1, 2003 to April 30, 2004**

	<b>2003/2004 Budget</b>	<b>2003/2004 Actual</b>	<b>Variance Over / (Under)</b>
<b><u>STAFF</u></b>			
Director	\$100,000	\$107,000	
Executive Assistant	33,750	41,463	
Research Assistant	75,000	81,498	
Benefits - Research Assistant	-	5,046	
<b>Subtotal</b>	<b>\$208,750</b>	<b>\$235,007</b>	\$26,257
<b><u>OFFICE</u></b>			
Rent and General Office Costs	37,500	40,831	
Office Supplies and Equipment	50,000	22,250	
Insurance: - Directors & Officers Liability	-	N/A	
- Third Party Liability	-	N/A	
- Errors & Omissions	-	N/A	
Annual General Meeting	-	N/A	
Other	-	9,410	
<b>Subtotal</b>	<b>\$87,500</b>	<b>\$72,491</b>	(\$15,009)
<b><u>TRAVEL</u></b>			
Director	25,000	18,302	(\$6,698)
<b><u>PROFESSIONAL SERVICES</u></b>			
Related to Guidelines & Rotman Board Ratings	100,000	16,690	
Rotman Board Shareholder Confidence Index		35,000	
Accountant		2,140	
Legal		0	
Promotions (Press Releases)		3,345	
Other		0	
<b>Subtotal</b>	<b>\$100,000</b>	<b>\$57,175</b>	(\$42,825)
<b>Total Expenditure</b>	<b>\$421,250</b>	<b>\$382,975</b>	(\$38,275)
<b><u>INCOME</u></b>			
Current Full Members - Committed & Paid	500,000	379,000	
Current Observers - Paid	125,000	50,000	
New Members - Paid (14 Full Members & 4 Observers)	0	201,034	
<b>Total Income</b>	<b>\$625,000</b>	<b>\$630,034</b>	\$5,034
<b>Year 1 - Surplus</b>	<b>\$203,750</b>	<b>\$247,059</b>	\$43,309

# Canadian Coalition for Good Governance (CCGG)

## Mission Statement

The mission of the Canadian Coalition for Good Governance is to represent Canadian institutional shareholders through the promotion of best corporate governance practices and to align the interests of boards and management with those of the shareholder.

## Objectives

1. Ensuring that all public corporations have highly qualified boards of directors who understand that they are accountable only to the shareholders in the carrying out of their fiduciary duties.
2. Ensuring that boards of directors insist on excellent and ethical management.
3. Ensuring that the boards of directors supervise management proactively.
4. Ensuring that all committees of the boards of directors are independent from management and highly qualified.
5. Ensuring that external auditors follow policies of transparent accounting, reporting directly to the audit committee thereby ensuring independence from the management of the company.
6. Supporting compensation schemes that reward employees for superior performance.
7. Developing a common position on acceptable accounting standards and financial disclosure through input with the various regulators and standard setting organizations.

Visit our website [www.ccgq.ca](http://www.ccgq.ca). There you will find our Corporate Governance Guidelines for Building High Performance Boards, a Self-Appraisal tool, best practices and an expanding number of speeches as well as our latest policy submissions.

## Board of Directors

### Chairman

**Michael Wilson**

Chairman  
UBS Canada

### Directors

**H. Anthony Arrell**

Chairman and Chief Executive Officer  
Burgundy Asset Management

**Sian Brown**

Senior Vice President, General Counsel and Corporate Secretary  
Mackenzie Financial Corporation

**Morgan Eastman**

Chief Investment Officer  
OPSEU Pension Trust

**Emilian Groch**

Executive Director  
Alberta Teachers' Retirement Fund Board

**Stephen A. Jarislowsky**

Chief Executive Officer  
Jarislowsky Fraser Ltd.

**Claude Lamoureux**

President and Chief Executive Officer  
Ontario Teachers' Pension Plan

**Donald F. Reed**

President and Chief Executive Officer  
Franklin Templeton Investments

**David R. Beatty O.B.E.**

Managing Director of the Coalition  
Conway Director of the Clarkson Centre for Business Ethics and Board Effectiveness  
and Professor of Strategic Management  
Joseph L. Rotman School of Management, University of Toronto

## CCGG Full Members

Acuity Investment Management Inc.  
Alberta Teachers' Retirement Fund Board  
AMI Partners Inc.  
Aurion Capital Management Inc.  
British Columbia Investment Management Corporation (bcIMC)  
Burgundy Asset Management  
CPP Investment Board  
Colleges of Applied Arts and Technology Pension Plan (CAAT)  
Connor, Clark & Lunn Investment Management  
Ethical Funds Company (The)  
Fonds commun de placement des Régimes de retraite de l'Université Laval  
Franklin Templeton Investments  
Greystone Managed Investments Inc.  
Hospitals of Ontario Pension Plan (HOOPP)  
International Finance Participation Trust (IFPT)  
Jarislowsky Fraser Ltd.  
J.P. Morgan Fleming  
KBSH Capital Management Inc.  
Legg Mason Canada Inc.  
Leith Wheeler Investment Counsel Inc.  
Mackenzie Financial Corporation  
MFC Global Investment Management  
OMERS  
Ontario Pension Board  
Ontario Teachers' Pension Plan (Teachers')  
OPSEU Pension Trust  
RBC Asset Management Inc.  
SEAMARK Asset Management Ltd.  
Signature Funds (CI Funds)  
Sionna Investment Managers Inc.  
Standard Life Investments Inc.  
State Street Global Advisors Ltd.  
Trustees of the IUOE Local 793 Pension Plan for Operating Engineers in Ontario  
UBS Global Asset Management