

Message from the Chair – Doug Pearce

The Third Annual Meeting of the Canadian Coalition for Good Governance

June 28, 2006

Good afternoon and welcome to the Third Annual Meeting of the Canadian Coalition for Good Governance. It's a pleasure to see so many of you here today. Your attendance affirms the important role that good governance has in today's capital markets.

My job as Chair is made a lot easier by the efforts and contribution of Michael Wilson, our inaugural Chair, who resigned from the Coalition in February of this year to assume the role of Canadian Ambassador to the United States. Michael's appointment as Coalition Chair in May of 2003 signalled that the Canadian Coalition for Good Governance was serious about improving corporate governance practices in Canada. His guidance and insight were instrumental in establishing the framework for how the Coalition would accomplish its mission to better align the interests of institutional shareholders with those of directors and management. Under Michael's tenure, the CCGG grew from an initial membership base of 13 institutional investors, managing approximately \$350 billion dollars of assets, to today where there are 47 Coalition members having close to \$950 billion of assets under management. More importantly, under Michael's chairmanship, we achieved a level of success that I believe surpassed the expectations of both our members and corporate Canada. In three short years, the Coalition has established itself as an influential participant in Canada's capital markets. On behalf of the members of the Coalition, I would like to pay tribute to Michael, who is

not only an exceptional business leader, but an exceptional Canadian. We wish Michael much success as Ambassador Wilson.

The mission of the Canadian Coalition for Good Governance is to represent Canadian institutional shareholders in the promotion of corporate governance practices that best align the interests of boards and management with those of the shareholder. We accomplish this mission using four distinct strategies –dialogue, publication, participation and investigation.

Dialogue. I use the word *dialogue* purposely to describe our first strategy. The Canadian Oxford dictionary defines dialogue as “a valuable or constructive communication between different groups”, which fittingly describes how we approach discussions with companies. When we meet with a company, we not only talk, we listen. When we listen, we understand. And when we understand, we are more likely to find a common ground that will lead to improved governance practices. Our dialogues with companies are done outside the media glare as we believe it is much more constructive to do so.

Publication. Over the past three years the Coalition has produced some important publications designed to help companies improve their corporate governance practices:

- ***Corporate Governance Guidelines for Building High Performance Boards***
- ***Working Paper on Principled Executive Compensation***
- ***Considerations when Drafting the Audit Engagement Letter***

- ***Best Practices in Shareholder Communication***
- ***Generic Policy Statement on Majority Voting.***

We make these papers available on our web site and talk about them whenever possible. These documents are both theoretical, in that they communicate the position of the CCGG on governance, compensation, audit engagement letters, disclosure and majority voting, and practical as they offer suggestions on implementing and communicating these corporate governance practices. Month after month, these five reports are the most popular downloads from our web site.

Participation. The Coalition has been, and will remain, active in the public policy debate on corporate governance. Whenever it is appropriate, we will submit comments on issues that directly affect corporate governance. To assist in this initiative, we have established two subcommittees – the Public Policy Subcommittee and the Accounting and Auditing Subcommittee to take the lead on identifying issues of importance and drafting comments for member approval.

Investigation. Each year we partner with the Rotman School of Management to examine, in great detail, the current status of corporate governance in Canada. The Board Shareholder Confidence Index published by the Rotman School of Management is an important tool for us in identifying companies where governance risk may be heightened. Using the Rotman scores as a starting point, we do an in-depth governance analysis against our guidelines for each company which Rotman determines has elevated governance risk. When our analysis confirms the presence of governance risk,

we communicate this to our members. This year we will be again contacting the higher risk companies to start, or in some cases, continue, the dialogue on improving their governance practices.

In executing our strategies, we follow the Wagon Train analogy of the late Peter Drucker. Professor Drucker, often cited as the father of modern management, had the ability to simplify the complex. He believed that affecting change was similar to speeding up a wagon train. To speed up a wagon train, move to the front and learn what is being done well. What are the front wagons doing that make them faster? Then, take these lessons and share them with the middle of the train. The end of the train will be required to adopt the practices of the middle in order to keep up.

Dr. Drucker's Wagon Train analogy is all about celebrating excellence. We have always believed many companies have exceptional governance practices – not because they had to in order to comply with a regulation, but because they wanted to. Because it is sound business practice. The problem was not too many people knew of these companies or their practices. That is why we created documents such as Best Practices in Director Communication and presented the Governance Gavel Award. This year, our annual report recognizes the good work happening in many companies. On the front page of the annual report we highlight the 2005 Governance Gavel Award winner, Nexen Inc. as well as the three honourable mentions – Canadian Pacific Rail, Enbridge and TD Bank Financial Group. On the back cover is a list of companies that have

scored well on both the Rotman and Report on Business Board Games governance evaluation systems.

An annual meeting is a good time to celebrate the achievements of the past year. David will be addressing many of these in his comments so I will briefly review some of the highlights from 2005.

1. There has been an improvement in executive compensation disclosure. We are extremely pleased with the efforts that many companies made to incorporate into their proxy circulars the suggested disclosures found in the ***Working Paper on Principled Executive Compensation*** and to better explain the philosophy and mechanics of their compensation regimes. However, there remains much work to be done, but we are off to a promising start.
2. Corporations are doing a better job communicating with their shareholders. In September of last year, we released ***Best Practices in Shareholder Communication***. This document is a compilation of effective disclosures of director information used by Canadian companies. We have noticed, after a review of the 2006 proxies, that many companies have adopted some of the disclosure practices highlighted in this document. Some have improved on the best practices of 2005. This fall, we will be issuing the 2006 version of this document.
3. We awarded the first ever Governance Gavel Award. This award was created to recognize companies that excel in communicating clearly and effectively with their shareholders through the annual proxy circular. As you can see on the front

cover of this year's annual report, Nexen was the 2005 winner with CP Rail, Enbridge and TD Bank Financial Group receiving honourable mentions. The 2006 award will be presented at the annual Corporate Secretaries Conference to be held this year in Kelowna B.C. on September 10th to 13th.

4. Companies are adopting majority voting policies. Last fall we issued a draft policy on majority voting for directors that boards could adopt. In a relatively short period of time, over 35 boards have adopted a majority voting policy and we expect that number to increase for 2007.

In addition to these specific achievements, the governance scores of both the Board Shareholder Confidence Index and the Board Games, respectively published by the Rotman School of Management and the Globe and Mail, continue their year-over-year increase. These results are even more impressive given that with each passing year the scoring standards get tougher.

However, we cannot ignore the fact that out of the 170 companies that have been evaluated each of the past four years by Rotman, 40% of them have been assessed as having either medium or high governance risk. Clearly, we need to do more work in this area in the upcoming year.

Other areas of focus for 2006 include continuing with the majority voting and executive compensation initiatives launched in 2005. We also have projects underway looking at

income trusts, audit engagement letters and break fees. David will address these issues in more detail in his presentation.

In calendar 2005, ten new full members were added to the CCGG membership roll and continue to recruit new members in 2006. We are better at affecting change when we speak with one voice – the more members we have, the louder our voice can be.

I encourage all members to continue to be active on issues and to exhibit leadership within the Coalition. The Coalition works for the benefit of its members and, given our small staff, a driving force behind the successes we experience is the active contribution of our members. Thank you to all who have volunteered over the past year.

Before I conclude my remarks, I would like to welcome back Emilian Groch to the Board of Directors. Emilian is the Chief Executive Officer of the Alberta Teachers' Retirement Fund located in Edmonton, Alberta. Emilian is rejoining the board after a year's absence. We welcome him back and look forward working with him over the next year.

In addition, there some individual "thank yous" that must be given. First, I would like to thank the 2005 Board of Directors – Tony Arrell, David Beatty, Sian Burgess, David Denison, Stephen Jarislowsky, Claude Lamoureux and Don Reed. Each of you individually and collectively have been instrumental in the successes we have achieved over the past year. I would like to specifically acknowledge Claude and Stephen, who's idea it was to form a coalition in the first place. Without your vision, we would not be

here today talking about how much corporate governance practices have improved over the past few years.

Finally, I would like to recognize the efforts and contribution of the staff of the Coalition – David Beatty, Paul Schneider and Mary Stillich. On behalf of the Board and all the CCGG members, thank you. You are the ones responsible for executing the strategies that make sure the vision of the Coalition is accomplished. A special thank you to Mary for all your hard work in organizing today's event.

In closing, 2005 was a year of many successes and new initiatives. Looking at David's work plan for 2006, I am certain we will be here next year discussing the many accomplishments of 2006. Thank you.