



## Shareholder Proposal

# Bank of Montreal Vertical Comparison of Executive Compensation

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### **Be it resolved that:**

The Human Resources Committee of the Board provide a report to shareholders by January 2014 , at reasonable cost and omitting proprietary information, assessing the results and risks of basing senior executive compensation on horizontal comparison with peer companies. The report should discuss the potential to integrate vertical comparison metrics, such as average employee compensation within the company; and indicate if the company plans to change its approach to setting total compensation, or explain the rationale for not doing so.

### **Supporting Statement**

We believe BMO's efforts "to balance our commitments to financial performance, customers, employees, the environment and communities" are not best served by the practice of exclusively using horizontal comparison with peer companies to establish total compensation targets for senior executives.

This practice assumes that top executives can easily transfer their skills to competitor companies. However, as Elson and Ferrere showed in their recent paper Executive Superstars, Peer Groups and Over-Compensation, senior managers tend to be less successful after moving to another company. It also seems to assume that executives are motivated solely by money, although human resources experts tell us consistently that this is not the only criterion that influences commitment.

Recent experience suggests that the comparator group paradigm drives compensation in an upward spiral. Senior executives of major companies already rank among the highest-paid individuals in the economy. In the absence of mechanisms to assess whether levels of compensation are reasonable, the vast gap that has opened over recent years between the compensation of senior executives and other workers will continue to grow.

Increasing disparity with compensation at lower levels within a company may create risk to engagement and motivation of employees – undermining the strategic objective to attract and retain talented people. Increasing disparity with income levels in the wider economy poses risks to the company, the industry and society as a whole. At a time when many people are facing stagnant or declining economic prospects, allowing top executive compensation to reach unreasonable levels may not only alienate bank customers, but also contribute to fractures in society. The Board has a corporate citizenship responsibility to help reverse this trend and ensure that senior executive compensation increases do not outpace income growth in the economy as a whole.

Changing the current compensation model is a challenge, but it must be addressed for the long-term sustainability of our economic and social system. This proposal does not prescribe a solution, but asks the board to explore alternative approaches for determining the quantum of senior executive compensation. One possibility is introducing metrics of vertical comparison with average employee compensation within the company, or with income levels in the economy as a whole. We are filing similar proposals at other major banks, recognizing the systemic nature of the risk, and the competitive challenge for a single company to act if peers do not.

NEI INVESTMENTS

T: 604.633.0615 F: 604.633.0619

NEIinvestments.com Toll Free: 1.866.888.0615

500 - 1111 West Georgia Street Vancouver, British Columbia V6E 4T6