



GOVERNANCE DISCLOSURE STATEMENT FOR FY 2017-18

BACKGROUND

Communicating openly and sharing information are essential to good governance. As part of MEC's commitment to good governance, its board of directors publishes a governance disclosure statement each year describing its performance in key areas.

MEC's Board, elected by its members, is responsible for MEC's strategic direction and overall performance. The board undertakes its governance work collectively and through the work of five committees: Finance and Audit, Human Resources and Compensation, Governance, Nominations, and Technology.

DISCLAIMER ON FY 2017-18

The 2017-18 financial year ran from February 27, 2017 to February 25, 2018. This is the first regular 12 month cycle since adjusting the financial year end from the last Sunday in December to the last Sunday in February. This change was instituted to avoid an overlap with the busy winter season and allow for more relevant year on year comparisons. This shift resulted in an extended 2016-17 financial year.

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BOARD ATTENDANCE

Within the 2017-18 financial year, the MEC Board met for five regular board meetings (lasting two-days) and two special meetings. Committees met between five to six times each throughout the year. Directors normally serve on two committees.

FOR 2017-18:

- The Human Resources and Compensation, Governance and Technology Committees met a total of five times. The Finance and Audit, and Nominations Committees met a total of six times.
- Directors attended 99% of board meetings and 96% of committee meetings.

OFFICER AND COMMITTEE APPOINTMENTS

In 2017, the board used a new process to appoint its officers (Chair, Vice-Chair and Committee Chairs) and committee members that places the organizational needs of MEC over any individual aspirations. The Chair and Vice-Chair collaborated on populating the committees; their model was reviewed by the Governance Committee and recommended to the Board.

FOR 2017-18:

- All committees had at least one member who served the previous year and one who could serve in the subsequent year.
- Ellen Pেকেles was Board Chair and Daniel Blanche was Vice Chair.

Finance and Audit Committee	Human Resources and Compensation Committee	Governance Committee	Nominations Committee	Technology Committee
Phil Arrata (Chair)	Judi Richardson (Chair)	Shawn Mitchell (Chair)	Rob Campbell (Chair)	Kathy Uher (Chair)
Daniel Blanche	Shawn Mitchell	Daniel Blanche	Kathy Uher	Phil Arrata
Judi Richardson	Kathy Uher	Rob Campbell	Bob Wallis	Daniel Blanche
Bob Wallis	Kathy Weston	Kathy Weston	<i>Members-at-large: Graham Allen Judy Martin</i>	

BOARD MAKEUP

The board does not specifically recruit for directors from any particular regions, age categories or ethnicities. However, as stated in the nominee criteria this year, to increase diversity of perspectives and experiences on the Board, we particularly wanted to hear from: candidates who come from ethnic and cultural groups not currently represented on the Board; and candidates from central and eastern Canada.

In the 2017-18 board year, this is what the board looked like:

- Four women and five men
- Ranging in age from 40s to 60s
- No members of a visible minority
- Six from BC, two from Ontario, and one from Quebec
- Eight directors have English as their first language and one has French
- Eight directors identify as straight/heterosexual
- No directors consider themselves to have a disability

TERM LIMITS

As stated in MEC's Rules of Cooperation (9.06):

A member is not permitted to be a candidate for election as a director if, on election to the longest term to be filled, the member would be a director for more than seven consecutive years without a period of at least 48 weeks in which the member was not a director.

FOR 2017-18:

- Two directors are serving their third term
- Two directors are serving their second term
- Five directors are serving their first term



CONFLICTS OF INTEREST

Director independence

All MEC directors are independent, including the Board Chair. As stated in Rule 9.04 of MEC's Rules of Cooperation, a member is not permitted to be a candidate for election as a director if:

- (a) that member, or a person in that member's immediate family, is employed or has in the past three years been employed in any capacity by the Co-operative,
- (b) that member, or a person in that member's immediate family, is employed in any capacity by any business which is in competition with the Co-operative, or
- (c) a person in that member's immediate family is also a candidate or is an incumbent director who would be on the board at the same time as that member if that member was elected.

FOR 2017-18:

- All successful candidates in the 2017 Election signed an Oath of Office/Candidate's Certificate stating their independence.

Director interlocks

In 2017-18, no members of MEC's Board of Directors served together on any other boards.

Conflict of interest declarations

Directors are responsible for:

- Disclosing annually, in writing to the CGO, all existing or contemplated business, commercial, volunteer and financial interests and activities which might create an actual, perceived or potential conflict with the duties of his or her position as director. If in doubt about whether a conflict of interest exists, the director must disclose.
- Promptly disclosing, in writing to the CGO and Board Chair, any actual, perceived or potential conflicts of interest that arise during the year.
- Bringing any concerns about their own or another director's actual, perceived or potential conflicts of interest promptly to the attention of the Chair (or the Vice-Chair, should the Chair be the subject of concern).
- Being aware of their responsibilities for disclosure under Division 2 of the BC Cooperative Association Act.
- Signing an annual *Code of Conduct and Conflict of Interest Policy Acknowledgement* statement.

The Governance Committee is responsible for:

- Annually reviewing all directors' written disclosures on behalf of the board, bringing any items of concern to the attention of the board.

The Board Chair is responsible for:

- Addressing any concerns about conflicts in an appropriate manner, and promptly reporting conclusions or recommendations to the board. Concerns must be resolved in a fair and transparent manner with objectivity and impartiality. The Chair may consult with the Governance Committee if appropriate; however, the board as a whole is the ultimate arbiter for matters related to conflicts of interest.

The CGO is responsible for:

- Ensuring that directors annually disclose all conflicts in writing and sign the Code of Conduct and Conflict of Interest Policy Acknowledgement.

Board business

Where the board discusses or votes on any matter relating to an existing or contemplated business, commercial, volunteer or financial interest or activity in which a board member has an interest, that board member must declare his or her interest and leave the room for any further discussion and/or vote. Board members may not participate in any votes related to any such interests. The declaration and recusal should be noted in the board's or committee's minutes.

FOR 2017-18:

- All directors disclosed any conflicts in writing and signed the Code of Conduct and Conflict of Interest Policy Acknowledgement.
- The Governance Committee reviewed the disclosures – there were no material conflicts.
- Three directors, who were also candidates for the 2018 Election, recused themselves from all discussions relating to the election.



IN CAMERA SESSIONS

Board process policy:

- In camera sessions are the portions of meetings at which non-board members are excluded, in part to encourage open discussion among board members and to allow discussion of sensitive items for which it is appropriate for only board members to be present.
- There is an in camera session for board members only, scheduled during each board meeting.
- All directors must maintain the confidentiality of information and discussions during in camera sessions, as is the case with information discussed in a broader sense at board meetings.
- The Chief Governance Officer may attend parts of each in camera session of the board, but other members of management do not.

FOR 2017-18:

- The board held in camera sessions at all board meetings.
- The Finance and Audit Committee held in camera sessions at all of its meetings. It also held in camera sessions with the auditor where no management was present.
- The Human Resources and Compensation Committee held in camera sessions at two of its meetings.

BOARD EVALUATION PROCESS

Format and process

The Governance Committee is tasked with developing and implementing an annual board, committee, and director assessment process. After collecting and analyzing input on performance, potential action items are conveyed to the board and to committees, and, via the Chair, to individual directors.

FOR 2017-18:

The board's evaluation cycle is intended to focus on strategic, behavioural and cultural issues rather than solely compliance-based checklists. As recommended by governance best practices, an external consultant was engaged to conduct the year-end board and director evaluations for 2017-18. The review included a peer evaluation that incorporated Executive Team feedback, and one-on-one interviews. The previous externally-led MEC board evaluation took place in 2013-14.

Board evaluation

The year-end board evaluation was completed by all members of the board and Executive Team. Feedback was confidentially provided on a broad range of governance effectiveness measures and collated into a report prepared by the external consultant. An internally-administered mid-year review, which focused on areas of success and for improvement, was also undertaken by the board.

Committee evaluation

Set up as confidential online surveys, committee evaluations are sent only to the directors that sit on each committee, as well as the Board Chair who is an ex officio member of each. Results were collated by the Governance Office and communicated to each committee, as well as the full board.

Director evaluation

Peer evaluations were administered by the external consultant, and included input from directors and members of the Executive Team.

Board composite skill matrix

The board develops and annually reviews a composite matrix that identifies the collective blend of skill sets and knowledge required for optimal performance over time. Certain skills and knowledge, such as an understanding of MEC's cooperative governance model, retail operations, legal obligations and financial conditions, are critical to the effective functioning of the board. All directors must meet a basic standard for these. Other skills and knowledge may relate to more specialized areas of MEC's operations. Not all directors need to hold specialized knowledge in all aspects of the business of MEC. However, the board as a whole must maintain all critical skills and knowledge.

DIRECTOR DEVELOPMENT

MEC's director training and development program involves a combination of (a) structured orientation for incoming directors, (b) ongoing awareness of and access to external training resources by individual directors, and (c) regular planning and implementation of customized training modules and activities for the benefit of the full board.

The program, and selected skill and knowledge areas of focus, will appropriately evolve to meet changing board needs over time, and is annually developed and adjusted as required by the Governance Committee in consultation with the Board Chair, CEO and CGO. The Governance Committee, in collaboration with the Board Chair, is also responsible for ensuring appropriate time is reserved during the course of the board's annual cycle for training and development activities.

Following completion of the annual board, committee and director evaluations, and with reference to the board's composite matrix, the Governance Committee will, in consultation with the Board Chair, consider the collective skills and knowledge of directors and advance recommendations for training and development on the basis of these findings.

FOR 2017-18:

- One director pursued ICD Directors Education Program qualifications
- Directors attended multiple ICD sessions, and governance and industry-related seminars and webinars
- One director attended Gateway 2017
- One director attended the Retail Council of Canada Conference

2017 ELECTION

Who can vote

As stated in MEC's Rules of Cooperation (12.02):

Every member who became a member 16 weeks or more before the next annual general meeting is eligible to vote in the current election of directors.

FOR 2017:

57,181 members voted.



Resolutions

The types of resolutions and how members can submit them can be found at mec.ca/resolutions.

FOR 2017:

There were no member-proposed resolutions and no board-proposed resolutions during the 2017 election.

NOMINATIONS AND RECOMMENDATIONS

Nominations criteria and process for the 2018 election:

- The Nominations Committee, which oversees the nomination and election process on behalf of the board, consists of five individuals and can include directors, members (other than directors), or a combination of the two. The Nominations Committee for the 2018 election included three directors and two members-at-large.
- The 2018 Nominee Criteria included minimum qualifying criteria and desired criteria. All nominees who met the minimum qualifying criteria went forward as candidates on the election ballot. The Nominations Committee advised the board on the extent to which nominees met the desired criteria. Based on this, the board recommended five candidates.

DIRECTOR ORIENTATION

MEC's incoming Director Orientation Program is designed to ensure new board members receive an overview of MEC's operations, board operations and overall governance framework. Under the direction of the Governance Committee, the CGO is responsible for scheduling and executing the orientation program, and for ensuring incoming directors receive the support and materials necessary to ensure full and effective participation.

The orientation program, typically comprised of a 1.5 day in-person session hosted at MEC's Head Office, involves:

- Custom modules on MEC's cooperative structure and legal/organizational requirements, retail and supply chain operations, MEC's financial condition and MEC's current business plan and capital projects, current strategic plan, risk profile and associated enterprise risk management framework.
- Opportunities to meet and get to know fellow directors.
- Access to the CEO and members of the Executive Team.
- In addition, directors are encouraged to visit MEC stores and distribution centres during their terms.

FOR 2017-18:

Two new directors were elected in 2017 (one incumbent director was also re-elected). The new directors completed their orientation in June and September 2017.

CEO COMPENSATION

The board is responsible for evaluating MEC's CEO performance and setting CEO compensation. The CEO's compensation includes incentive compensation linked to MEC's financial performance, execution of strategic goals, and achievement of sustainability targets. The compensation plans in place are the following:

- A short-term incentive plan (STIP). The bonus may be paid out annually if performance goals are achieved. 50% of the payout is calculated based on the achievement of market growth and financial health goals (sales, gross margin, expenses, surplus, inventory turn, service level). 50% of the payout is calculated based on the achievement of strategic goals (product strategy, systems implementation, regional strategy).

- A long-term incentive plan (LTIP). The bonus may be paid out at the end of a 3-year cycle if performance goals are achieved. 60% of the payout is calculated based on the achievement of market share goals (revenues, share of wallet, young member development) and 40% of the payout is calculated based on the achievement of sustainability goals (bluesign® materials, carbon emission).¹

In 2017-18, the ratio of the CEO's total compensation to average employee compensation (both hourly and salaried staff, including wages and bonuses) was 15.8:1.²

The Canadian Centre for Policy Alternatives reported that in 2016, Canada's 100 highest paid CEO's were paid 209 times more than the average income.³

The board's policy on employee compensation at MEC is that, generally, compensation for positions in opening pay-scale levels will not be less than the average paid in the external market; and that compensation for positions in more senior pay-scale levels will not exceed the average paid in the external market, except where special market conditions apply and the CEO authorizes an exception.



¹MEC's Board added a competitive long-term incentive plan (LTIP) in 2015. When the plan first matures in 2018, the CEO compensation ratio is likely to be impacted.

²Calculation based on regular wages, overtime, vacation pay and bonuses for all MEC employees, both hourly and salaried staff, in the 2017 pay calendar year.

³<https://www.policyalternatives.ca/publications/reports/climbing-and-kicking-down>