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British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission – Securities Division
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
New Brunswick Securities Commission
Registrar of Securities, Prince-Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Government of Yukon
Registrar of Securities, Department of Justice, Government of the Northwest Territories
Registrar of Securities, Legal Registries Division, Department of Justice, Government of Nunavut

John Stevenson, Secretary **VIA E-MAIL**
Ontario Securities Commission
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Suite 1900, Box 55
Toronto, Ontario
M5H 3S8

Anne-Marie Beaudoin, Corporate Secretary
Autorité des marchés financiers
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Dear Sirs, Mesdames,

We wish to thank the Canadian Securities Administrators for allowing us to submit our comments after the close of the official comment period.

CGI Group Inc. ("CGI" or "we") submits the following comments concerning the proposed amendments to Form 51-102F6 *Statement of Executive Compensation.*

Our observations relate primarily to two of the proposed changes:

- The proposal to compel the disclosure of performance goals based on revenue growth and net earnings; and

- The proposal to withdraw the possibility for reporting issuers to make changes to the content and presentation of information in the *Summary Compensation Table* ("SCT").

Both of our concerns stem from the sharp focus that our compensation policy places on the achievement of performance targets. We have always believed strongly in tying our employees' compensation to our overall corporate performance. This is one of the important steps that we take to seek a balance among the interests of our key stakeholders: our customers, our shareholders and our employees, whom we call our members.

Aligning our members' compensation with our overall corporate performance results in aligning their interests closely with those of our shareholders. This is not simply a feature of our executive compensation policy, it is a key principle of our overall management processes. We call those processes our *Management Foundation* which is the blueprint for the way we run our business. The *Management Foundation* guides all our management initiatives, from the first client contact, through the structuring of client engagements, through to the execution and delivery of our services, including our quality control processes, and ultimately to the achievement of our business strategy and finally to the disclosure of the results of our operations to our shareholders. The *Management Foundation* is encapsulated in an industry-leading ISO 9001 framework that ensures that it is applied consistently in all of our worldwide operations.

Performance-based compensation under CGI's short and long-term incentive plans (respectively the *Profit Participation Plan* and our stock option plan) is one of the primary linkages in our *Management Foundation* that serves to align the interests of our members with those of our shareholders.

It is also a principle that institutional investors strongly believe in and, for that reason, there is constant pressure from institutional investors on issuers to adopt pay-for-performance as a principle in their compensation policies and programs.

We welcome changes in executive compensation disclosure that improve the quality of information that investors receive, while maintaining a level playing field among reporting issuers and industry competitors who may, or may not be, reporting issuers in their own right.

We also feel strongly that the securities regulators ought to take a close look at how incentives are linked to the interests of investors in other sectors of the capital markets.

For instance, since most investors now participate in the capital markets indirectly through managed funds of one type or another, it is just as vitally important in protecting the interests of investors that regulators focus on how compensation structures function for fund managers, and particularly whether their compensation aligns their interests with those of the investors for whom they act, namely whether their compensation is appropriately linked to their performance in creating value for investors.

One of the most important rights that investors have is to vote their shares. This is reflected in the initiatives that institutional investors are taking to promote an end to slate voting for director candidates. It is therefore equally important that the regulators focus as closely on the dynamics of the capital markets that impact how investors actually vote their shares.

One factor that ought to be taken into account is the investor's profile. The *Institute for Governance of Private and Public Organizations* has proposed, for instance, that investors be required to hold their shares for a minimum period of time before they become entitled to vote, so that important decisions that affect public companies are not left in the hands of investors who have no long term interest in the issuer. The *Institute* points out that investors now hold their shares on average for less than eight months.[1]

Other factors are the roles of proxy agents such as *Broadridge Inc.* and investor services firms such as the *ISS RiskMetrics* unit of *MSCI Inc.* which need to be scrutinized, understood, and, if appropriate, provided with adequate structures to ensure that the interests of investors are served appropriately.

The regulators therefore need to take a balanced approach that ensures:

i) not only that investors get accurate and timely information, but that they are able to act on that information in a meaningful way by exercising their right to vote effectively and not via organizations such as the ones listed above who adopt a "one-size-fits-all" approach and whose methods and metrics are sometimes questionable. We will submit specific comments on this topic as part of our response to OSC Staff Notice 54-701 – *Regulatory Developments Regarding Shareholder Democracy Issues*;

ii) that the interests of the intermediaries who increasingly intervene between the issuers who create value and the investors who seek it, are closely aligned with the interests of investors; and

iii) that the incentives of intermediaries that drive their performance are disclosed to investors in a manner that is as comprehensive, effective, and timely as the process that requires issuers to disclose executive compensation information to those same investors.

When enacting new rules, or amending existing ones, it is critically important that regulators act with prudence and reserve so as to avoid the unintended consequences of regulations that can sometimes undermine the benefits that are sought. One prominent unintended consequence of enhanced executive compensation disclosure that has been well-documented is the substantial inflationary pressure that has been placed on senior management salaries.

In that vein, we are quite concerned that the proposed changes on which we are providing specific comments below will have immediate collateral effects that will substantially hamper our ability to compete in our industry, and mislead our investors on the total compensation we pay to our senior executives.

It is against that backdrop that we submit the following detailed observations on the proposed changes to the executive compensation rules.

[1] Institute for Governance of Private and Public Organizations – *Corporate Citizenship and the Right to Vote*, November 2006.

The proposal to compel the disclosure of performance goals

CGI agrees with the proposed requirement to state explicitly whether the reporting issuer is invoking the serious prejudice exemption in order not to disclose specific performance goals.

We disagree, however, with the proposed regulation's intention to compel the disclosure of performance goals based on income statement measures such as revenue growth and net earnings.

Our company is a professional services firm that operates in a competitive environment against global companies. Our performance objectives are based on revenue growth and net earnings margin, with a strong emphasis on net earnings margin. The effect of our formula is to place special importance on meeting the profitability objectives. If the profitability threshold is not met, there is no payout. The achievement of the revenue growth target is a separate performance measure which impacts the payout.

Requiring that we disclose our performance targets will require us to publish our target margins.

We set aggressive performance targets for our managers so that our shareholders benefit from a reasonable return on their investment. Disclosing our targets is likely to have a negative impact on our ability to compete with our peers in the information technology market, while maintaining our margins.

Furthermore, we believe that requiring us to provide additional information on the performance targets set in respect of our managers' compensation would provide valuable information to our competitors seeking to solicit our employees. Being a company whose main assets are the expertise and experience of its professionals, this could significantly reduce our competitiveness. Conversely, the proposed new rules would provide additional basis for professionals in one company to compare their compensation and the basis for it with competitors' practices. As history has shown these comparisons usually result in upward pressure on companies to increase the compensation of their managers, thereby reducing their competitiveness especially as against companies that are not subject to the same disclosure rules.

The existing regulation requires that issuers relying on the exemption provide meaningful disclosure to inform investors about the portion of the executive's compensation that is dependent on meeting the performance goals and how difficult it might be to achieve the targets.

We disclose clearly that we do not reveal our targets.

We also provide clear disclosure of the following information:

- How the performance goals are applied in the formula that determines i) payouts under our short term incentive plan, the *Profit Participation Plan*, and ii) the vesting of stock options which make up our long term incentive plan;
- The percentage of the Named Executive Officers' ("NEOs") compensation that is dependent on the achievement of the performance goals, showing each component of compensation that is performance-based;

- The assessment of the difficulty of achieving the performance goals. In support of that disclosure we show the overall percentage of total compensation that is at risk and the percentage of that compensation that was in fact paid out (or in the case of performance-based stock options, options that became eligible to vest) based on the achievement of performance goals;
- The total compensation for each NEO which is now disclosed in accordance with the new rules on the SCT;
- The degree of alignment of the total compensation paid to our NEOs to our executive compensation policy, which is to align total compensation at the median of our comparator group; and
- The reasons that we feel disclosing the performance goals would result in serious prejudice to CGI.

Our investors are therefore able to gauge i) whether, in comparison to our industry peers, management is reasonably remunerated for the results obtained, as well as ii) the degree of difficulty that the objectives present.

Compelling the disclosure of targets will add little in the way of meaningful additional information for investors, yet it will directly and negatively impact our ability to compete and grow our bottom line. We respectfully submit that this is definitely the wrong approach for the regulator to take.

The regulator ought to discern alternative regulatory paths that will provide better and more meaningful information in the case of reporting issuers, like CGI, that are reluctant, on competitive grounds, to disclose actual targets. We firmly believe that it is entirely possible to achieve the stated aims of the regulation, fulsome disclosure of executive compensation policies and results in a format that investors are able to understand and act upon, without causing unnecessary and potentially irreparable commercial harm to the reporting issuer.

The regulator ought therefore to temper its approach to the disclosure of performance goals.

It might be reasonable to compel the disclosure of performance goals under extraordinary circumstances. For example, if it appeared that the reporting issuer's board of directors consistently ignored the performance goals in making performance-based payouts that are consistently at or above the executives' target bonuses when the issuer's financial performance declined over the corresponding period; or if the total executive compensation for the issuer as a percentage of revenue were egregiously high and out-of-step with that of its peers; or if other indicators of possible dysfunction or inequity in matters of executive compensation were present.

Simply insisting on the disclosure of targets in a one-size-fits-all approach to regulation is too simple and too blunt an instrument. Such an approach would accomplish too little in terms of providing meaningful information for all investors, while at the same time causing potentially irreparable harm to some reporting issuers, and without a substantial corresponding benefit to investors.

Harming an issuer's ability to compete effectively in its industry sector is a consequence that securities regulators must avoid.

Removing the right to make changes to the SCT

We are one of very few issuers that have chosen to award performance-based stock options.

This is a practice that investors understandably favour, and it is closely aligned with the pay-for-performance principle supported by advocacy groups.

We apply the same performance objectives as a pre-condition for the vesting of stock options as those that apply to the payout of target bonuses under our *Profit Participation Plan*.

Options that do not become eligible to vest based on the achievement of performance goals are forfeited. The performance goals apply to the fiscal period for which the options were issued and they are assessed at the same time that the Board of Directors, on the recommendation of the Human Resources Committee, determines payouts under the *Profit Participation Plan*. The results of the assessment are therefore known and are able to be taken into account in reporting total compensation for the NEOs in the *Management Proxy Circular*.

For the past two years, in order to show an accurate total compensation amount in the SCT, we have added a column that deducts the fair value of options that failed to become eligible to vest based on the performance results.

Stock options are a significant component of the total compensation of our NEOs.

For instance, in fiscal 2010, 45% of our CEO's total compensation, and 100% of our CEO's long-term compensation, took the form of stock options.

If we had not added the additional column to the SCT, our CEO's total compensation would have been overstated by $1.2 million, and would therefore have shown total compensation of $5.6 million versus the true total compensation of $4.4 million. The resulting distortion would have represented, in our case, a 27% difference in total compensation for the CEO.

Removing the possibility of adding a column to the SCT, as proposed in the draft amendment, would therefore result, in the case of CGI, in substantially overstating total compensation, and would therefore run counter to the spirit of the new regulation which specifically strives to present a more accurate total compensation picture for NEOs.

The flexibility that the instrument currently, and we submit rightly, affords to reporting issuers to alter the basic layout of the SCT in order to achieve its ends more fully and accurately, is the appropriate approach to take in order to ensure that the SCT delivers on its promise of disclosing accurate total compensation.

Again, we must emphasize, that taking a one-size-fits-all approach on these difficult executive compensation disclosure issues will have the unintended consequence, in our case, of overstating significantly the total compensation paid to our NEOs. It would be the same result as requiring the disclosure of bonuses at target instead of on an as-paid basis.

It is hard for us to see how that outcome makes any sense or serves the interests of investors. Allowing the issuer to add compensating disclosure elsewhere in the Management Proxy Circular is simply not an appropriate compensating response.

Many investors and analysts do not go beyond the SCT in assessing an issuer's executive compensation profile. This means that in many cases the correcting disclosure will be missed by many.

We doubt that the regulator would tolerate disclosure in a table that misrepresented the information provided to investors by more than 20%, but made up for it in a footnote to the table or in a subsequent table indicating that the previous amount was overstated. The regulation should not be framed in a way that leads to that result.

If the regulator observed that a particular issuer abused the privilege of making changes to the SCT, the regulator has the means at its disposal to require that the offending disclosure be restated.

If the concern related to changes to the format of the SCT were substantial enough, the regulator might require that variances to the table be pre-screened and pre-approved, in the same way as for other discretionary exemptions from disclosure rules.

One alternative that the regulator might consider is simply to alter the requirement for the disclosure of the fair value of stock options granted to provide that, where stock options are performance-based, and the results of the formula are known when the disclosure is prepared, that the amount to include in the SCT for stock option awards be the net value of stock options that the NEO actually received based on the achievement of the performance measures.

We feel strongly that a one-size-fits-all approach will leave many reporting issuers and investors with ill-fitting, potentially misleading, and possibly harmful disclosure.

We are available to answer any questions you may have on our submission.

Yours truly,

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