

Canada Executive Edition

Executive Share Ownership: Current Landscape in Canada

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Executive share ownership policies in Canada are currently not mandated by any securities regulations but have been in place for decades. In the early 2000s, such policies were often referred to as “share ownership guidelines” and were considered a standard feature of good governance among publicly listed companies for achieving the following objectives:

- Alignment with shareholder interests by encouraging executives to create sustainable long-term value and to discourage the behaviour of chasing short-term gain.
- Appropriate risk-taking by executives when their personal wealth is directly tied to company outcomes.
- Fostering a culture where executives think like owners, with strengthened accountability and stewardship. It reduces the optics of executives selling shares prematurely.
- Fulfilling governance standards widely advocated and supported by institutional investors, as a best practice for corporate accountability.

Today, most TSX constituents have adopted some form of share ownership policies, and more companies refer to them as “requirements” rather than “guidelines.” Following an extensive research on equity ownership policies in 2022, Canadian Coalition for Good Governance (“CCGG”) outlined five recommendations for Boards’ consideration:

1. Establish share ownership requirements that continually build an officer’s economic interest over time.
 - Shift from share ownership requirements to annual share purchase requirements.
 - Require NEOs to either use a portion of the vested RSUs/PSUs to purchase common shares or retain a portion of the shares if settled through shares.
2. Establish share ownership requirements relative to total direct compensation (“TDC”), as opposed to base salary. CCGG estimated that the vast majority of current ownership requirements that tied to base salary are essentially less than 1x TDC, which is not seen as meaningful for senior executives.
3. Require NEOs to meet a majority of their ownership requirements through common shares alone. Equity-linked instruments (such as RSUs and PSUs) are generally not regarded by institutional investors as being equivalent to common share holdings.
4. Consider only vested equity awards that are full value in nature, and which must be held until retirement (e.g., DSUs) with the following views:
 - Stock options are not full value awards and do not track total shareholder return; and
 - Unvested RSUs or PSUs should not be given credit.
5. Consider share ownership at either market value (preferred) or at acquisition price rather than at the higher of market value or acquisition price to better align with shareholder interests.



Two years after CCGG published its recommendations, Korn Ferry in 2025 conducted research on this topic by reviewing the share ownership policies disclosed in management information circulars of the TSX 60 companies. This article examines Korn Ferry’s findings and provides thoughts for various stakeholders including shareholders, Boards and management.

ANNUAL SHARE PURCHASE

TSX 60 companies still maintain share ownership requirements as a standard policy. No companies have made a policy switch to annual share purchase requirements.

However, there are isolated cases of individual arrangement implemented along with the share ownership policy. For example, the President & CEO of Sun Life Financial Inc. is required through the Compensation and Appointment Policy to acquire shares annually to support alignment with shareholder experience. This is in addition to the CEO’s current ownership requirement to maintain 10x multiple of annual salary in common shares, DSUs, Sun Shares and SLC Management Phantom Units.

BASIS OF OWNERSHIP

Over 90% of the TSX 60 companies currently use a salary multiple as the basis for ownership consideration. Two companies use number of shares, and one defines ownership requirement as a multiple of LTIP target. Only three TSX 60 companies link their share ownership considerations to TDC:

Magna International Inc. – Each NEO is subject to an equity maintenance requirement (expressed in fixed dollar amounts) set forth in his employment contract. If an NEO’s total TDC is increased, their equity maintenance requirement increases proportionally, subject to a three-year period in which to achieve the new level.

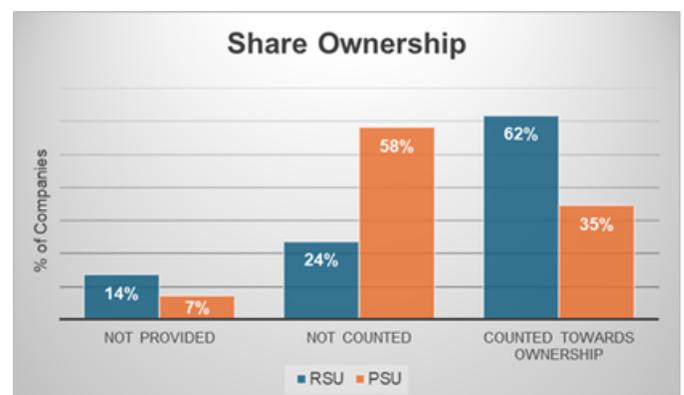
Metro Inc. – The Company will calculate share ownership for the NEOs on the basis of their total direct compensation with effect from fiscal 2025. The President & CEO will be required to own the equivalent of two times his TDC in shares, while the Executive Vice Presidents, including the CFO, and the Chief Operating Officer will be required to own the equivalent of one time their respective TDC in shares.

National Bank of Canada – Effective February 1, 2025, the minimum holding in shareholding and direct shareholding requirements for Executive Officers is a multiple of the average TDC target for the last 3 years during which the employee has held the role subject to the policy. If the Executive Officer has held the role subject to the policy for less than 3 years, then the average target TDC for the period to which they are subject to the policy is used.

EQUITY INSTRUMENTS CONSIDERED FOR OWNERSHIP

Common shares, shares purchased through employee savings plan, and DSUs, where provided, all count towards ownership requirements. In line with CCGG’s recommendations, sixteen TSX 60 companies count only common shares and/or DSUs towards compliance. Only a couple of companies take into account vested and unexercised in-the-money stock options.

Among companies with a share ownership policy that also provide RSUs or PSUs, over 60% still count unvested RSUs towards ownership and only 35% do so for unvested PSUs.



PSUs have been emphasized among the TSX companies. While there is a notable shift as more companies are excluding PSUs from ownership considerations, PSUs are seen as effective in aligning the interests of executives and shareholders. For tenured executives, the total amount of PSUs are non-trivial amounts considering the cumulative grants in multiple overlapping cycles.

Because of the deferred income tax advantage and share dilution concerns, most share unit plans are cash-settled in Canada. It would be a challenge to exclude all RSUs or PSUs, especially when investors strongly favour more PSUs to strengthen pay-for-performance alignment.

For example, Hydro One Limited stated in its proxy circular: “The inclusion of equity-settled PSUs with 100% performance-based payouts for the President and CEO and EVPs reflects the highly performance-oriented nature of the company’s LTIP where no time-vesting only units were provided to NEOs in 2024, and the PSUs provide directional alignment with the company’s share price.” These are the opinions from proxy advisors:

ISS – supports share ownership requirements as a best practice for aligning executives’ and directors’ interests with shareholders and as one of the measures to discourage excessive risk taking.

Glass Lewis – considers counting unearned performance-based full value awards and/or unexercised stock options without cogent rationale as problematic. While Glass Lewis views unearned performance-based equity is less effective in the context of ownership, Glass Lewis continues to believe that performance-based equity compensation plays an important role in aligning executive pay with performance.

VALUATION METHOD

About nineteen companies explicitly state they use the greater of acquisition price and current market value to determine actual ownership level. Twenty companies use current market value in their assessment, and another ten companies disclose the share ownership level of individual officers referencing fiscal or calendar year-end share price.

If we combine the latter two categories of companies, half of the TSX 60 companies are using current market value in valuation.

JOURNEY AHEAD

Korn Ferry anticipates it may take time for the TSX companies to fully or partially adopt CCGG’s recommendations, given the different objectives and circumstances. Some companies, like Franco-Nevada Corporation, do not feel the need for more prescriptive share ownership policies given the track record of the NEOs, while some companies may make changes in stages over time, based on their own situation. We have outlined various suggestions for consideration:

1. Adopts current market value in valuation: this should be a relatively easy step and will simplify future administration. Additional compliance period may be granted for those who fall below the required ownership level due to temporary share price changes.
2. Encourages common share ownership: full value shares should be encouraged. However, achieving CCGG’s recommendation of 75% to 100% shareholding in common shares may be a challenge. Korn Ferry recommends taking a gradual approach, perhaps over a pre-defined period, for executives to build up their personal holdings.

Examples:

Barrick Gold Corporation – at least 50% of share ownership requirement in Barrick shares.

Manulife Financial Corporation – 10% of the pre-tax proceeds of all annual incentive, RSUs and PSUs awards are delivered in Manulife common shares purchased on the open market.

National Bank of Canada – separate ownership requirements into shareholding and direct shareholding to encourage personal investment in shares.

Stantec Inc. – the CEO must hold a minimum of two times base salary in shares, while the remaining requirement can be held in shares and/or RSUs.

Sun Life Financial Inc. – the CEO and Executive Team members are required to achieve at least 25% of their minimum level of personal share ownership through shares and DSUs.

3. Counts a portion of unvested RSUs / PSUs towards share ownership: some companies, like Canadian Natural Resources Limited, include the full target value of PSUs, provided that at least 50% of the threshold target value of equity ownership to be held by the executive must continue to be satisfied through the ownership of common shares. But more TSX companies would recognize a portion, typically 50%, of the full value equity compensation in ownership.

Examples:

CAE Inc. – only 50% of RSUs are included.

Hydro One Limited – include 50% of equity-settled PSUs, 25% of performance cash-settled LTIP grants.

Kinross – 80% of equity-settled RPSUs.

Restaurant Brands International Inc. – RSUs net of 45% tax rate.

Rogers Communications Inc. – 50% of PRSUs.

4. Examines the application of TDC as a basis of ownership: unless a company maintains target TDC values, using actual TDC may introduce greater volatility into individual ownership calculations, reflecting two moving parts—changes in TDC and changes in current market value. As actual TDC will always be more variable than base salary, companies should

examine the relationship between TDC and base salary to determine the appropriate basis of ownership. If the companies elect to use base salary, additional disclosure on multiple of TDC could be included to provide more information for shareholders.

5. Reviews the application of annual share purchase program: most TSX companies may not be ready to switch their share ownership requirements to annual share purchase requirements. A full policy change would require more planning and analysis. Excessive amount of “forced” share ownership may constrain effective strategy development and could discourage executives from taking appropriate, value-enhancing risks. In the meantime, companies may consider annual share purchase arrangements for top officers in addition to current ownership requirements (see example of Sun Life Financial Inc. CEO above). In the case of Constellation Software Inc., a portion of the executive annual bonus is usually required to be used to purchase common shares despite not having a share ownership policy.
6. Develops appropriate share accumulation policies: while enforcement mechanisms vary, most TSX 60 companies have a policy in place to require executives who have not met their requirements within the compliance window to purchase and increase common shares holding through various share retention programs such as:
 - A pre-defined portion of their annual bonus.
 - A pre-defined portion of RSUs / PSUs after tax payments for open market purchase.
 - A pre-defined portion of exercised stock options.
7. Considers post-retirement / employment holding requirements. Over 40% of TSX 60 companies have such policy for their CEO, but some also extend the holding requirements to NEOs. Under these arrangements, top executives are required to maintain the same or a percentage of share ownership for a specified period (typically 2 years for CEO and 1 year for NEOs) after retirement or departure from the company.

CHALLENGES

There is no “one size that fits all” solution. Every organization must evaluate its needs based on its industry type and cycle, growth stage and plan (e.g., IPO vs maturity), commodity prices (if applicable), ownership structure (e.g., widely held vs. majority owners), and executive talent strategy etc. The following list of challenges is merely prepared for general reference:

Policy complexity – simplicity is for communication while complicated details are for clarity; for example, the definition of counts (RSUs vs. PSUs vs. in-the-money stock options) for ownership, the alignment with hedging and pledging restrictions, or the accumulation period for new hires vs. promotions. What should be the right balance between flexibility and control?

Market volatility – this can mean surprises of non-compliance for executives created by a sudden share price decline or market downturn. While the valuation method may moderate the negative impact, the lack of compliance may weaken the Board’s credibility. Should there be a reasonable extension of the grace period?

Risk impact – although risk management is desirable, there may also be a potential for overly risk-averse decision making, especially when market volatility is taken into account. What should be the right measures to avoid desired risk taking?

Share accumulation policies – mandatory common share ownership may be a burden for younger executives and may not be attractive to new executive candidates. What should be the appropriate amount of ownership before affecting executive behaviour negatively?

Administrative burden – monitoring all eligible forms of equity compensation, tracking all equity holdings, and performing periodic valuation can require excessive efforts and reporting. What are the protocols that make enforcement and discussion less challenging when there are cases of non-compliance.

KORN FERRY IS HERE TO HELP

We hope this article can help various stakeholders in planning and developing their own solutions or changes to share ownership policies, ensuring good governance along with pay-for-performance principles.

Our purpose is to inspire and unleash the potential of your people, teams and organizations. Our dedicated, global specialists — spread across 100 offices in over 50 countries — are primed and ready to support you in executive compensation matters. Should you have any comments or needs, please reach out.

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