



SOCAN

2010 Annual Report to Members
(published June 2011)



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Governance Disclosure

Board Composition

Number of Directors

The business and affairs of the Society shall be managed by a Board of Directors consisting of eighteen (18) Directors, nine (9) of whom shall be Writer Members and nine (9) of whom shall be Publisher Members. The Board shall be elected or appointed as the case may be in accordance with this By-law. The Board shall have the authority to appoint, from the Members, additional Directors provided that any appointments are made in pairs, namely, one (1) Writer Member appointment and one (1) Publisher Member appointment. The maximum number of additional appointments by the Board at each election shall be six (6).

Qualification

In addition to any qualifications provided by the Act and by this By-law or any of the other By-laws, the eighteen (18) Directors referred to shall meet the qualifications set out in this section.

Regional Representation

The regional representation on the Board shall be as follows:

- a) Three (3) Directors shall reside in the West. The "West" shall mean the provinces of Manitoba, Saskatchewan, Alberta, British Columbia, and the Northwest Territories, Yukon and Nunavut. Two (2) of these Directors shall be Writer Members and one (1) shall be a Publisher Member.
- b) Six (6) Directors shall reside in the Province of Quebec. Three (3) of these shall be Writer Members and three (3) shall be Publisher Members.
- c) Nine (9) Directors shall reside in the East. The "East" shall mean the provinces of Ontario, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador. Four (4) shall be Writer Members and five (5) shall be Publisher Members.
- d) "Reside" shall mean, in the case of a Writer Member, the place where the Writer Member has his/her principal residence and in the case of a Publisher Member, the place within Canada where the Publisher Member carries on business.

Francophone Representation

The Francophone representation on the Board shall be as follows:

- a) Six (6) Directors shall be Francophone.
- b) "Francophone" shall mean, in the case of a Writer Member, an individual who declares himself/herself a Francophone for the purposes of the nomination procedures and, in the case of a Publisher Member, a music publishing business that declares itself to be a Francophone music publisher.

New Classical Music Representation

The New Classical Music representation on the Board shall be as follows:

- a) Two (2) Directors shall be writers of New Classical Music and one (1) Director shall be a Publisher Member of New Classical Music.
- b) "New Classical Music" shall mean, in the case of a writer, a composer who declares himself/herself and is active as a New Classical Music writer and in the case of a publisher, an entity that declares itself and is active as a publisher of musical works created by New Classical Music writers.
- c) "New Classical Music" for the purpose of this Section V of this By-Law shall include but is not limited to music that is referred to by the music community as serious music, electroacoustic music, contemporary classical music, concert music or experimental music and that excludes music otherwise included in popular genres.

Music Other Than New Classical Music Representation

- a) Five (5) Directors shall be writers of music other than New Classical Music, at least one (1) of whom shall reside in the West, at least two (2) of whom shall reside in the East and at least two (2) of whom shall reside in Quebec.
- b) "Music Other than New Classical Music" shall mean, in the case of a Writer, a Member who declares himself/herself a writer of music other than New Classical Music and who creates music or songs including, but not limited to, pop, country, rock, blues, folk, jazz, film and television music.

Board of Directors

The role of the Board of Directors of SOCAN is to:

Members

- ensure on behalf of members that they are receiving value for their investment in SOCAN
- convey the views of members to the Board and Management of SOCAN
- vote for the best interests of SOCAN (all members)
- sponsor and champion decisions of the Board of Directors to members and others

Strategy

- ensure a strategic plan exists: work with management to develop the plan and approve it
- monitor implementation of the plan; measure progress using performance indicators

Finances/Risk

- ensure risk management framework is in place, including traditional Operational audit function having direct access to the directors
- approve annual budget and monitor actual performance

Chief Executive Officer

- work with Management to develop options and approve policy recommendations in the areas of corporate identity, government lobbying strategy, tariff proposals and distribution rules, and other areas as agreed, such as SOCAN Awards

Governance

- establish a framework for information flowing from Management to the Board for Board decision making
- after consulting CEO and others, take decisions regarding governance role, structures, processes and procedures
- specifically, make decisions about ongoing Board of Director's information requirements, ensure new Board members are appropriately oriented to governance and ensure appropriate succession of the Board of Directors
- propose By-law changes for approval by members, when appropriate

Attendance at Board/ Committee Meetings

The Board of Directors has four scheduled meetings per year and in 2010 held one additional meeting.

All Committees of the Board also meet four times a year, on a scheduled basis. The Executive Governance Committee meets generally three weeks before Board meetings to prepare the agenda for the board. Other Board Committees meet either the day before or the day after the Board meetings to minimize traveling expenses. Occasionally, a Committee may require more than the scheduled meetings to discharge of its mandate.

- A Denotes membership in the Executive Governance Committee
- B Denotes membership in the Risk Identification and Management Committee
- C Denotes membership in the Tariff, Licensing and Distribution Committee
- D Denotes membership in the Membership committee

Note: President of the Board may attend all Committee meetings in his capacity as ex-officio

January – December 2010	Board of Directors	Executive Governance Committee	Risk ID & Management Committee	Tariff, Licensing & Distribution Committee	Membership Committee
Number of meetings held:	(5)	(4)	(4)	(4)	(4)
Meeting Attendance					
Rosaire Archambault A, B	4	3	3		
Geneviève Côté D	5				3
Victor Davies A, C	5	4		4	
Jodie Ferneyhough D	5				4
Gary Furniss A, C	4	3		3	
Edmund Glinert B	5		4		
Bill Henderson D	5				4
Craig Horton B	5		4		4
Michael McCarty C	5			4	
Ben Mink D	5				4
Glenn Morley B	5		4		
Stan Meissner A, B, C	5	4	4	4	
Marc Ouellette C	5			4	
Pierre-Daniel Rheault A, B	5	4	4		
Earl Rosen A	5	4	4	4	4
Carol Ryan C	5			4	
Gilles Valiquette A, D	5	4			4
Jim Vallance B	5		4		

Strategic Plan

In conjunction with Management, the Board elaborates and approves SOCAN's Strategic Plan. The Plan is the roadmap to SOCAN's future success and the blueprint against which the company's business activities, both operations and corporate initiatives are measured.

The first Strategic Plan was developed in 2000. In 2005, it was felt that a new plan was needed to reflect the internal and external changes that had occurred since the beginning of the millennium. The new plan, approved on September 20, 2005, put forward 23 distinct key strategies to attain the long-term objectives that the Board has set, grouped into the following areas:

- Service to Members
- Industry Leadership
- Growth The Future
- Human Resources
- Infrastructure
- Public Advocacy & Policy

SOCAN's Corporate (business) Planning Process and annual budgets flow directly from the Strategic Plan. Hence there is a need to continually ensure its validity and appropriateness, something that is accomplished through an annual "review and refresh" of the Plan.

Code of Conduct for Directors

1. Act in the overall best interests of all members of SOCAN.
2. Declare known or potential conflicts of interest to the President, e. g. possibility of personal pecuniary gain when a company owned, operated or affiliated (majority of minority) by a Director; wishes to do business with SOCAN. This includes acting as a Director for one or more organizations whose interests are or may be conflicting with those of SOCAN or those engaged on opposing sides of the same transaction.
 - (a) All Directors of SOCAN are also members of the organization and therefore have a business relationship with SOCAN that is bound by the membership agreement. Any other business relationship a Director may have with SOCAN will likely find the Director facing conflicting interests: those of his/her fiduciary responsibility as a SOCAN Director and those of his own business or of the business that he/she represents. Therefore these business relationships should generally be avoided. However there may be times when it is in SOCAN's interest, as determined by the CEO, to have such a business relationship with a Director. When that is the case, the advantages may outweigh the risks. However, great care must be taken by the Director to ensure the following:
 - that SOCAN's President and Executive Governance Committee are notified and kept apprised of the relationship
 - that the Director abstains from voting on any resolution to approve the contract or transaction in question
 - that the contract or transaction is fair and reasonable to SOCAN
 - (b) Regarding notification: The President and EGC must be notified and informed by the Director of all relevant matters:
 - at the time SOCAN decides to initiate a business relationship with the Director
 - at the time a business agreement is reached with SOCAN
 - at any time of a breakdown in negotiations and/or decision to not go forward with agreement
 - at any time when a dispute arises between SOCAN and the Director over the business agreement or relationship

The Director must answer any questions the President or EGC may ask him/her at any time regarding any business relationship the Director may have with SOCAN.

3. Vote on all motions before the Board unless potential conflict of interest exists.
4. Maintain confidentiality of information related to employees, licensees, members and SOCAN's strategic interest (survives the Director's term).
5. Return all documents and materials received as a Director to SOCAN if requested.
6. Make every effort to be fully prepared in advance of meetings including reviewing the advance materials.
7. Attend meetings as scheduled (missing 3 consecutive meetings may result in being dismissed from the current Board).
8. Recognize that SOCAN's CEO is the only member of SOCAN's management and staff that is directly accountable to its Board of Directors, and that no individual director, only the Board as a whole, has authority over the CEO. The President, however, acting on behalf of the Board, interfaces with the CEO between meetings as required by the day-to-day development of issues.
9. Do not advocate on behalf of individual members.
10. Acknowledge leadership role of the Chair of the Board of Directors in managing discussion according to agreed upon rules and interpreting this Code of Conduct.
11. Regardless of individual vote, supporting and championing decisions of the Board in public.
12. Forward requested agenda items or informational materials through the Chair for circulation to the Board.

Board Policy on Committees of the Board

Purpose and Responsibilities

Committees of the Board of Directors of SOCAN will:

- provide information, research and in-depth analysis as well as clear and well digested thinking to help the Board make informed decisions
- may or may not make a recommendation to the Board, depending on how options and conclusions can most usefully be packaged for the Board i. e. Committee may refer to the Board issues for full Board debate without a recommendation
- follow the agreed Information Framework of the Board of Directors
- welcome Board colleagues to ask questions to assure comprehensive research and analysis, but not to retrace in detail the work of the Committee

Committees of the Board of Directors of SOCAN will not:

- take over the action or decision-making role of the Board unless specifically mandated by the Board
- do work that is appropriately the role of management, although management may seek the advice of Committee members in these areas
- direct management in operational areas
- approve or manage SOCAN's operational budgets

Leadership and Membership

- The Executive/Governance Committee of the previous Board will recommend to the incoming Board, in an election year, Board members for Committees. This is done after receiving the election results but before the first meeting of the new Board. The current Executive/ Governance Committee will recommend candidates for any Committee vacancies that occur.
- The President is an ex-officio, non-voting member of all Board Committees.
- Standing Committees will have 6 members and Ad Hoc Committees will have 4 members.
- The Committee will elect its own Chair and Vice-Chair.
- The Committee Chair will preside at meetings and will be responsible to ensure the work of the Committee is well organized, adheres to the Board's governance guidelines, remains within the scope of the Committee's Terms of Reference and meets any timelines provided by the Board.
- The Committee Chair will ensure the Committee prepares an Annual Committee Plan for Board approval.
- The Committee Chair will communicate and liaise with the Chairs of other Board Committees when issues of mutual interest arise.
- The Chair will arrange for the Vice-Chair to preside in the Chair's absence.
- No one shall sit as Chair for more than two consecutive terms.
- A quorum consists of four members for standing committees and three members for ad hoc committees.

Operating Principles

- Committees will exist for a maximum term coincident with that of the Board.
- Committees may request Board approval for the use of external advisors as described in the Committee's Annual Work Plan.
- The Chair, in consultation with Management, prepares agendas consistent with the Annual Committee Plan and Annual Committee Schedule and ensures minutes are prepared and distributed on a timely basis. These minutes are subsequently presented to the Board.
- The Chair will respond to any requests from members of the Board of Directors to review information used by the Committee in its work, unless the information is confidential, as per the Code of Conduct.
- All Committee members, including the Chair, have one vote.
- Committee members will review this Board Policy on Committees of the Board of Directors before electing the Committee Chair and Vice Chair.

Director Information, Education and Orientation

SOCAN provides an orientation program for new Directors and a refresher for returning Directors on Governance Policies and Procedures at the beginning of the Directors' three-year term.

Directors are provided with a Resource Guide in a choice of hard copy, CD Rom and on-line. It covers subjects such as:

- Tariffs
- Distribution Rules
- Financial and Management tools
- Code of Conduct (for both Directors and Management)
- Strategic and Corporate (Business) Plans
- Board Values
- SOCAN By-laws
- Media Guide

Directors are also encouraged to further their governance knowledge through attendance at the Institute of Corporate Directors' (ICD) workshops and seminars, as well as through tutorials provided by the Canadian Institute of Chartered Accountants (CICA).

Throughout the year, Directors are exposed to scheduled formal presentations by the heads of the various business units / functional areas to enhance their understanding of the company's operations.

Board Access to Management

While the formal interface between the Board and Management is through the CEO, there are numerous opportunities, both formal and informal, for Board members to interact with management. Directors are encouraged to discuss matters that they may wish to pursue with management. Board members are also able to meet with other employees at social functions throughout the year.

Executive Governance Committee—Terms of Reference

1. The Executive/Governance Committee is a standing committee of the Board.
2. The purpose of the Committee is to:
 - (a) Ensure the governance system and processes are effective, efficient and enhance corporate performance.
 - (b) Enable efficient and effective Board work.
 - (c) Provide continuity for SOCAN operations between Board meetings.
3. Work of the Committee will include:

Governance

For recommendation to the Board:

- Review and revise, on an ongoing basis, structures and processes to address governance issues and maintain compliance with governance guidelines, including but not limited to:
 - The Roles of the Board of Directors and Management
 - Code of Conduct For Directors
 - Board Policy on Committees
 - Terms of Reference for Committees
 - A Competency Profile for potential directors
 - New Director Orientation Program and Board Development Program
 - Board Competencies and Effectiveness Evaluation
- Develop and maintain SOCAN Board Policies containing, at a minimum, the above.
- Monitor the result of the Board's election rules and processes; revise rules and processes as appropriate.
- In an election year, create a slate of Committee members for all Board Committees (except the Executive/Governance Committee) on behalf of the incoming Board (after receiving the election results but before the first meeting of the new Board). Identify candidates to fill vacancies if these occur.
- Analyze and make recommendations for Directors' compensation changes for Board approval.
- Monitor developments in the field of Governance Best Practices and consider options for SOCAN.

Board Operations

- Review the information and documentation provided by management and committees to ensure consistency with the Board's information framework and to enable the Board to conduct its work effectively and efficiently.
- Provide leadership to help focus strategic issues, including acting as a sounding board for the President/Chair of the Board.
- Act as Board contact point for Management if the need arises between meetings.
- Manage the Human Resources function for CEO's position, including recruitment and selection, performance management and compensation.
- Ensure that Board agendas are structured for completeness, while ensuring that the Board's business is done in a time-effective manner.

Risk ID & Management Committee—Terms of Reference

1. The Risk Identification and Management Committee is a standing committee of the Board. None of its members are signing officers or other employees of the organization.
2. The purpose of the Committee is to assist the Board of Directors to fulfill its oversight responsibilities by:
 - (a) ensuring that management has implemented appropriate systems to identify, monitor, and mitigate significant business risks, both strategic and operational
 - (b) ensuring that the risk identification and management process incorporates priorities and new initiatives as outlined in the organization's Strategic Plan
 - (c) ensuring, through the work of the Operational Audit function, that management has implemented appropriate systems of internal control, and that those systems are operating effectively
 - (d) ensuring that the annual financial statements of the organization are fairly presented in all material respects
 - (e) ensuring a thorough review of the budget in order to recommend acceptance to the board
 - (f) ensuring that the External Audit function is operating effectively, and
 - (g) acting as a key communication point between the External Auditor and the Board
3. The work of the committee will include:
 - (a) Risk Management
 - (i) agreeing on the significant risks identified by management and the plans to mitigate those risks
 - (ii) monitoring management's implementation of those plans
 - (b) Internal Controls and Operational Audit Function
 - (i) reviewing Operational Audit findings and recommendations
 - (ii) reviewing the independence of Operational Audit, and the appropriateness of resources allocated to the function
 - (iii) receiving in-person updates from the Operational Auditor twice per year
 - (iv) ensuring that the Operational Auditor has direct access to the Risk Committee when the Auditor deems it necessary, and that the Risk Committee has direct access to the Operational Auditor when the Committee deems it necessary
 - (c) Financial Reporting
 - (i) reviewing annual financial statements with management and the External Auditor to ensure they are prepared in accordance with Generally Accepted Accounting Principles, and that accounting policies selected are appropriate
 - (ii) reviewing the financial forecasts with management to ensure the continued financial health of SOCAN
 - (d) External Auditor
 - (i) liaising with the Operational Auditor on a regular basis - meeting in person at least twice annually
 - (ii) reviewing the External Auditor's fees, independence, and performance
 - (iii) arranging for at least two meetings annually between the Board of Directors and the External Auditor
 - (iv) recommending the appointment of External Auditors to the Board of Directors
 - (e) Business Continuity
 - (i) ensure business continuity plans, crisis management plans and IT recovery plans are kept up to date and practiced by management
 - (f) Investments—Security and Performance
 - (i) ensure the funds awaiting distribution (capital funds) are kept secure and at the same time earn an appropriate rate of return
 - (g) IT Security
 - (i) ensure that member & company information is always kept secure while respecting the applicable privacy policies in effect
 - (h) Records Management
 - (i) ensure that records management policies and procedures are kept up-to-date and practiced by management

4. The Committee will meet at least four times per year. Additional meetings may be held as deemed necessary by the Chair of the Committee or as requested by the External or Operational auditors, or Management.

The Committee may retain external expertise to assist it in fulfilling its responsibilities.

5. The Committee has the authority to investigate any activity of the organization in order to fulfill its duties and responsibilities.

The Committee may, in addition, inquire into any other matters referred to it by the Board of Directors.

Tariff, Licensing and Distribution Committee—Terms of Reference

1. The Tariff, Licensing and Distribution Committee is a standing committee of the Board.
2. The purpose of the Committee is to assist the Board of Directors to fulfill its responsibilities to members to:
 - ensure appropriate tariffs are proposed to the Copyright Board
 - oversee SOCAN's licensing strategies
 - ensure fair and appropriate Distribution Rules
3. Work of the Committee will include to:
 - annually review SOCAN's tariffs and, where required, propose changes
 - monitor and review the use of music in the marketplace and, where appropriate, propose new tariffs
 - review SOCAN's positions before the Copyright Board and review Copyright Board decisions
 - review SOCAN licensing strategies and monitor results
 - review and recommend approval of negotiated agreements with licensees
 - review SOCAN's Distribution Rules; monitor the results and effectiveness of those rules and to propose changes as required
 - review the effectiveness and efficiency of SOCAN documentation and distribution methods and practices and to recommend changes as required
 - review and consider concerns of members regarding the application of tariffs and distribution rules

Membership Committee—Terms of Reference

1. The Membership Committee is a standing committee of the Board
2. The purpose of the Committee is to:
 - (a) identify and recommend member service opportunities, considering all of SOCAN's constituencies
 - (b) determine retention and growth strategies for SOCAN's membership
 - (c) develop policies and strategies to ensure a high integrity link between the Board and SOCAN members
3. Work of the Committee will include, for recommendation to the Board:
 - (a) policies and strategies to retain high earning members
 - (b) policies and strategies for the professional development of SOCAN members
 - (c) policies and strategies for SOCAN member events, such as the AGM, Awards, etc.
 - (d) opportunities to improve member satisfaction based on analysis of member satisfaction data

Government Affairs Committee—Mandate

Context:

- Government affairs are a strategic issue and thus, a SOCAN Board concern.
- SOCAN Board Directors want to actively participate in discussing Government affairs before SOCAN takes a position on issues.
- Since the SOCAN Board meets only 4 times a year, it is necessary to offer SOCAN's Management a working connection to the Board so it can properly manage Government affairs on a timely basis.
- Thus,
 1. Government Affairs Committee is a Committee of the Board, mandated by the SOCAN Board to discuss and offer assistance to Management at times when the SOCAN Board is unavailable or for practical reasons.
 2. The purpose of the Committee is to assist the Board of Directors in fulfilling its responsibilities to Members to:
 - a) Ensure that SOCAN has appropriate policies with regard to Canadian and international law; and the policies and programs of the Canadian government and its regulatory agencies, as they affect the rights of SOCAN and SOCAN Members.
 3. Work of the Committee will also include to:
 - a) Review SOCAN's government policies, and where required, propose changes;
 - b) Review policy statements and submissions to government by SOCAN (excluding tariff-related submissions to the Copyright Board, which are the responsibility of the TLD Committee);
 - c) Review SOCAN's Public Advocacy Strategy.
 4. The President of SOCAN will act as Chair of the Committee.

Directors' Compensation Policy

SOCAN's Directors' Compensation Policy is positioned as to recognize:

- the demands placed on elected Directors by their fiduciary duties
- the special nature of SOCAN as a not-for-profit member owned organization and
- the responsibility associated with the stewardship of a \$200M organization with 300 employees and offices across Canada

To this effect, SOCAN positions its Directors' compensation by reference to the compensation paid by a group of Canadian publicly listed financial sector organizations with annual revenues of \$100 to \$500M. The median compensation paid by these organizations (50th percentile) is discounted by at least 25 to 40% to reflect the unique character of the organization in order to arrive at the compensation to be paid to SOCAN Directors.

Every three years, the outgoing SOCAN Board of Directors obtains relevant market data from a reputable, independent compensation consultancy organization and uses that information to establish the compensation of the incoming Board for the following term in accordance with the above policy.

Board and CEO Evaluation

On an annual basis:

The CEO's performance is measured in two ways: first, through results related to the financial, operational and strategic objectives set between the CEO and the Executive Governance Committee; and second, through a structured qualitative assessment by the Board of the CEO's leadership, administrative, people management, interpersonal, communication and strategic business skills.

The Board also uses a self-assessment questionnaire that zeroes in on individuals' contribution and the effectiveness of the Board as a group.

Management Roles & Responsibilities

Board / Management Relations

The role of Management through the office of the CEO of SOCAN is to:

- Work with the Board of Directors to manage the affairs of SOCAN in the best interests of members.
- Establish the scope of issues on which senior managers will communicate directly to the Board, its committees and individual Board members.

Operations

- Take decisions and manage day-to-day operational performance of SOCAN, informing Board of Directors of significant issues as appropriate.
- Ensure efficiency and effectiveness of the means through which the approved strategic plan is accomplished.

Human Resources

- Take decisions and manage SOCAN's human resources below the level of CEO including hiring, performance evaluation, compensation and termination, within the guidelines of approved budgets and organizational values.

Finance and Information

- Provide timely, accurate and comprehensive information as required by the Board of Directors, consistent with the information framework approved by the Board.
- Propose annual budget, based on operational plans, for approval by the Board.

Strategy

- Work with Board of Directors to develop strategic plan.
- Lead management team to operationalize strategic plan.

Management Code of Conduct

The role of SOCAN management entails many responsibilities that are critical to the viability and success of our organization. It is incumbent upon us to demonstrate integrity, loyalty, collegiality, transparency, and due diligence whenever we are acting in our executive capacity. To help guide our behaviour we have committed to the following code of conduct:

1. We act in the overall best interests of SOCAN.
2. We devote 100% of our professional life to SOCAN and do not engage in outside work or activities that might adversely affect our obligations to and responsibilities at SOCAN.
3. We maintain confidentiality of information related to employees, customers, members and SOCAN's strategic interests.
4. We support and champion decisions of the Board, CEO and Executive Management Committee regardless of our personal views.
5. We foster relationships of mutual respect and trust between SOCAN and its stakeholders and behave in a transparent manner in our relations with them.
6. We are responsible for defining and executing the Corporate (Business) Plan of SOCAN and accountable for global results as well as for those of our respective functional areas.
7. We are accountable to the CEO, through the CEO to the Board of Directors, through the Board of Directors to the membership, and answerable to our fellow management associates.
8. We declare conflicts of interest, abide by moral, ethical and legal standards and display "intellectual integrity" at all times.
9. We protect SOCAN's assets and carefully manage all resources entrusted to us, including human, capital and time.
10. We lead by example and promote a working environment that respects the dignity, self-worth, and human rights of all SOCAN employees.

11. We perform our job to the best of our abilities, are reliable, accessible and provide a high level of professional service to our internal and external stakeholders.
12. We encourage an open exchange of information and viewpoints; provide the opportunity to contribute to discussions and decision-making and respect honest differences.

Please note that the above is complemented by a complete system of Human Resources Policies & Practices and a set of values by which all SOCAN employees must abide.

Executive Compensation Policy

- SOCAN, with the assistance of independent external advisors, Hay Group Limited, undertakes an annual review of executive compensation to ensure that it is properly aligned to external markets for comparable positions.
- The governing principle is that compensation will be fair and equitable in order to attract, retain and motivate effective and efficient employees.
- Management cash compensation is made up of two components; base salary and an incentive plan. Incentive amounts are based on corporate, departmental and individual performance goals and payments are only generated if the company achieves its targeted net management expense ratio.
- Included, as part of the executive compensation package, are a competitive health plan, pension arrangements and use of a company leased automobile.

2010 Board Committees Reports

The following is a summary of activities conducted by the SOCAN Board of Directors and its various committees during the course of 2010. The Board of Directors is open to any input that individual members may take to the Board and encourages members to contact anyone on the Board if you have any concerns with SOCAN's policies.

Executive Governance Committee (EGC)

Members:

- Earl Rosen, President
- Gilles Valiquette, First Vice-Chair
- Gary Furniss, Second Vice-Chair
- Rosaire Archambault, Secretary
- Stan Meissner, Treasurer
- Pierre-Daniel Rheault, Past President
- Victor Davies, Ex-Officio Member

2010 Activities (highlights):

Board Meeting Preparation

In cooperation with the executive team, the committee developed an annual schedule of board presentations. These presentations allow directors to remain up-to-date on operations and major endeavors undertaken by management. Similarly, the committee created a calendar of strategic discussions for the year regarding development of the 2011–2015 strategic plan, self-assessment of the board, budget, advocacy policy, CEO performance feedback program, and the balanced scorecard. The calendar made it easier for both management and the board to monitor progress towards meeting our strategic objectives.

CEO Transition

In January 2010, the board hired a new CEO to commence in May 2010. The committee negotiated and approved the contract with the new CEO and managed the transition from the previous to the new CEO.

Board of Directors Election Process Review (New Online Voting System)

After the 2009 election, the committee, working with management, conducted a detailed review of online voting and recommended to the Board that, commencing with the 2012 election, all voting be done online. This will result in a considerable savings. After Board approval of this policy recommendation, the committee worked with SOCAN's legal department to prepare by-law changes needed to implement this policy. The changes were approved by the membership at the June 2010 AGM.

Governance Manual Review

The board has a detailed governance manual which sets out policies and procedures to be followed by the board, board committees, and individual directors to ensure effective and transparent governance of SOCAN. This manual was written in 2000 with some updates since then. The committee undertook a thorough review of the Governance Manual and updated it to ensure that best practices in corporate governance are followed and that the governance procedures are consistent with SOCAN's by-laws.

Membership Committee

Committee Members:

- Gilles Valiquette, Chair
- Geneviève Côté
- Jodie Ferneyhough
- Bill Henderson
- Craig Horton
- Ben Mink

*Earl Rosen, President, also attended meetings

2010 Activities (highlights):

Member Satisfaction

SOCAN has conducted member surveys every year from 2002 to 2009. Based on the low rate of participation in 2009, the committee decided to conduct the survey every second year. Based on feedback received, the committee noted that members would benefit from a better understanding of the distribution of royalties. As such, SOCAN undertook the following initiatives in 2010:

- Creation of four videos about SOCAN distribution, including radio, television and concerts distribution;
- Simplification of distribution rules posted on the website; and
- Telephone campaign to provide more information about distribution rules.

Also, during 2010, over 110 information sessions on SOCAN and copyright were presented to future and current members, as well as music producers and industry representatives.

Maintenance of SOCAN's Member Service Standards

To ensure changes that were implemented as a result of the member services department re-engineering resulted in improvements, the maintenance of member service standards was added to the committee's annual work plan. Excellence in customer service is monitored on an ongoing basis.

SOCAN Awards

The committee oversaw the organization of the SOCAN Awards in both Toronto and Montreal and fine-tuned the criteria for the different categories of earners. For example, the criteria for the Jan V. Matejcek New Classical Music Award were revised in 2010.

SOCAN AGM

The committee oversaw the SOCAN AGM. In 2010, SOCAN introduced an on-line proxy and the committee was consulted for its development and implementation. As part of the action plan to raise the profile of board directors with SOCAN's members, one-on-one sessions were held at the member meetings in Montreal, Toronto, and Vancouver.

SOCAN Policies

The committee examined the New Members Conflict Policy, as well as the eligibility of foreign publishers for SOCAN membership. Changes to the New Members Conflicts Policy were approved (details provided to members through communications).

Risk Identification and Management Committee

Members:

- Pierre-Daniel Rheault, Chair
- Rosaire Archambault
- Edmund Glinert
- Craig Horton
- Glen Morley
- Jim Vallance

*Earl Rosen, President, and Stan Meissner, Treasurer, also attended meetings.

2010 Activities (highlights):

Risk Mitigation

The committee continued to track and assess major risks through quarterly updates from management regarding IT security, employee satisfaction, value of investments, and other potential risks, to ensure control effectiveness as management completes certain actions and puts more controls in place. Nineteen risks that were identified in 2010 were being managed or monitored.

Financial Results

The audited financial statements were reviewed in detail by the committee in the presence of SOCAN's external auditors. KPMG's audit findings demonstrated that Canadian Generally Accepted Accounting Principles, as set out by the Canadian Institute of Chartered Accountants, were followed, and they do not have any concerns about the financial controls at SOCAN. The Board approved the audited financial statements, based on a recommendation from the committee.

The committee reviewed quarterly revenue and expense forecasts produced by management and discussed any large unfavourable variances or trends with the goal of recognizing problems ahead of time and taking corrective action if required.

The committee also reviewed the 2011 budget with management, ensuring that targets are fairly stated, and recommended approval of the budget to the Board.

Investments

Management continually looks for ways to optimize returns on investments, and, from time to time, this may involve changing investment managers. During 2010, the committee, under advice from management and SOCAN's external financial consultant, approved on behalf of the Board the termination of services of SOCAN's global investment manager and the engagement of two new firms that share the management of 15% of the capital account portfolio.

Similar investment policies and principles apply to the management of the employees' pension fund. The committee aims to ensure that the monies currently being paid to retired employees do not affect

our ability to provide pension benefits to future retirees. To that effect, three members of the Risk Identification and Management Committee form 50% of the Society's Pension Committee, with three members of management providing the other 50%. Our external consultant also assists the Pension Committee in assessing the performance of the Pension Fund investment manager.

Operational Audit

The Operational Auditor undertook audits to verify the amounts paid by licensees and, as a result, uncovered additional revenue. Along with internal departmental and control audits, this will continue to play an important part of the Auditor's 2011–2012 plans.

Business Continuity Program

The committee has been working to continually improve SOCAN's Business Continuity Planning (BCP). Departmental BCP plans were reviewed and updated in June and December 2010. The Critical Dates Calendar, which lists important activities and dates for each department, was updated in November 2010. All fire wardens for SOCAN as well as the tenant in the Toronto building received emergency evacuation training in May 2010. A real-life full building evacuation took place during the earthquake in June 2010. The fire wardens completed a 'Building Evacuation Report' and noted that staff exited the building quickly and efficiently. Some problems were noted and solutions recommended that will be put into practice at the next annual building evacuation. As well, disaster recovery planning exercises were undertaken in May (IT and business perspectives) and November (IT perspective), with positive results (i. e. no failures).

IT Security

IT security is taken very seriously at SOCAN. Internal and external assessments are undertaken to provide a high level of confidence in the processes that management have put in place. The Risk Committee is updated regularly regarding areas for improvement that are identified through internal or external reviews. The following are some of the key changes implemented in 2010:

- Adjusted wireless security settings (secure logon for administrators, increased encryption)
- Reviewed and investigated access controls for social media sites and network traffic (bandwidth)
- Created procedures for performing system vulnerability scans, conducted quarterly scans, and remediated issues that were identified
- Created distribution balancing procedures to support data integrity
- Developed IT user access removal document
- Changed local administrator passwords on all servers to comply with IT security policy; set up password manager program to change passwords every 90 days
- Ensured payment card industry compliance (80% complete)
- Created maps of network infrastructure and monitored traffic flow of network by installing remaining What's UP Gold applications (What's Connected, NetFlow)
- Improved existing standards for secure configurations for SOCAN systems (reviewed IT web team, PCLan, operations)
- Conducted technical evaluation of Palo Alto Next Generation Firewall (virus and malware scanning, firewall controls at the application level, URL/content filtering)
- Educated employees about security through quarterly newsletters and monthly tips & tricks

Tariff, Licensing, and Distribution (TLD) Committee

Members:

- Victor Davies, Chair
- Gary Furniss
- Michael McCarty
- Stan Meissner
- Marc Ouellette
- Carol Ryan

*Earl Rosen, President, also attended meetings.

2010 Activities (highlights):

- Reviewed distribution of foreign revenues;
- Reviewed distribution methodologies for 2010 Vancouver Olympics performances;
- Proposed changes in methodology for station weighting for cable distributions;
- Reviewed relevance to SOCAN of new digital fingerprinting technologies and services;
- Reviewed Tariff 1a—Commercial Radio decision resulting in changes to broadcaster reporting and performance identification.

Performed regular reviews as follows:

- Regular reviews and updates of status of all SOCAN tariffs by Legal department;
- Annual review of CBC Radio Pool;
- Regular status updates and proposed approach for distribution of expected new digital tariffs (Tariff 22—Internet, Tariff 25—Satellite Radio);
- Regular report on licensing activities, including licensing strategy and quarterly licensing management report;
- Quarterly detailed review of distribution summaries report; and
- Regular updates of international PRO distribution and deductions table.

2010 Management Report

Membership Achievements

SOCAN's membership included approximately 94,000 creators and 12,000 publishers, for a total of over 100,000 members in 2010. Of the 37,000 earning members, 31,000 were creators and 6,000 were publishers. \$195 million was distributed in the form of royalty payments to our members and distributions to foreign societies

A number of initiatives were undertaken to enhance the value of membership with SOCAN. LA House was opened and is fully booked until the end of 2011. Based on input from membership, improvements were made to the online concerts reporting form and to the secure section of the website to make them both easier to use it. Also, the quarterly member e-newsletter was completely redesigned, and the online proxy for the 2011 AGM was implemented (now, if a member is unable to attend the AGM in person, they can delegate their vote by proxy).

Also, in response to member input, we have created more industry info webcasts, provided info on distribution by other societies, and simplified distribution rules.

Licensing Achievements

SOCAN licensees totaled over 42,000 in 2010. Total domestic revenues were almost \$230 million, representing an increase of 15.6% over 2009. Most of our domestic revenues came from the media tariffs, at \$164 million. This was followed by new media at \$30 million, which included an arrears payment for internet music use between 1996 and 2009; general licensing at \$19 million; and concerts at \$16 million. The breakdown of domestic revenues by licensee type shows radio as our leading source of income (\$60M), followed closely by cable (\$56M) and broadcast television (\$46M).

2010 Challenges

Politico-economic Environment:

Last year was another tumultuous year for businesses across the globe, as efforts were made to pull out of the recent recessionary environment. The increase in SOCAN revenues in 2010 can be attributed to the strong economic rebound of most Canadian businesses using music, an increase in the number of licensees, and arrear payments for the performance of music on the internet. Meanwhile, copyright reform took centre stage in 2010 through the proposed Bill C32, and SOCAN was active in advocating for our members' rights in this regard.

With the recent election and a new government in place, SOCAN will continue to advocate on behalf of our members with regards to ensuring the next iteration of copyright reform satisfies the rights of music creators and publishers.

Legal Settlements

Settlements were reached in 2010 with MLSE (Air Canada Centre performances) and Astral radio stations, and for retransmission (cable and satellite radio).

We are awaiting results for tariffs we are pursuing, related to CBC radio, background music (tariff 15) , background music services (tariff 16), internet (tariffs 22A-G—appeal to be heard by Supreme Court in 2011, and satellite radio (tariff 25—decision may be appealed to Supreme Court).

2011 & Beyond

The Board of Directors has been working with management to develop a new strategic plan for SOCAN to help us navigate our way in this very turbulent time for the music industry. A bold new vision and business purpose statement have been developed, and, as we work towards achieving the objectives set out in the strategic plan, we will keep in mind that our ultimate vision is for SOCAN to raise the bar for music rights.

SOCAN is changing. In 2011, we are undertaking a number of activities to raise our profile amongst various stakeholders. In addition, we will focus on expanding member recruitment & retention; growing revenue streams; improving value; furthering copyright advocacy; and changing corporate culture. Also, we are working towards increasing the value of certain tariffs and pursuing the creation of new ones. Our goal is full coverage of all music performance uses. We are also embarking on two major projects: to modernize our technology (vendor in place and project will kick off this fall) and to update our brand (to reflect SOCAN today). Finally, we are turning up the volume by enhancing our communications to members, to licensees, and to government regarding the various industry issues that have an impact on your success as a music creator or publisher.

From a licensing perspective, a few of the things we are focused on include increasing account and revenue growth; making it easier to apply for a licence or report music use by creating dynamic forms and launching eSOCAN; and enhancing the connection between music users and music creators.

In addition to continuing to enhance our various membership benefits, we are also focused on improving member satisfaction with 2 key projects: a major concerts campaign, during which we will inform members for whom we have royalties pending in order to pay these out as quickly as possible; and the creation of a mobile app, to make it easier for members to access SOCAN.

Our international strategy for 2011 includes, strengthening the collective rights management system; pursuing productive relationships with foreign music rights organizations; learning from foreign MRO best practices; developing effective common information system; and furthering SOCAN's international standing.

