

SAFEGUARDING REALTOR® OWNERSHIP OF REALTOR.ca AND PROMOTING GOVERNANCE EXCELLENCE

A Proposed Governance Structure for a REALTOR.ca Subsidiary

Association Executive Institute (AEI)
Canadian Delegate Memo

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****CONFIDENTIAL****



SAFEGUARDING REALTOR® OWNERSHIP OF REALTOR.ca

INTRODUCTION

CREA ownership of REALTOR.ca is not just beneficial it's also essential for the platform's future. It ensures REALTOR.ca remains a powerful, effective tool serving the interests of REALTORS® and their clients, enhancing the real estate buying and selling process in Canada. Similarly, good governance practices are foundational to the long-term success of REALTOR.ca.

“REALTORS® will be the only owners of the new company (REALTOR.ca) via their membership with CREA.”

- Guiding principle passed by boards and associations at the 2023 CREA SGM

Beginning in late 2023, the REALTOR.ca Task Force began deliberations on a governance structure for a REALTOR.ca subsidiary (“REALTOR.ca Inc.”). The Task Force began with the governance model because it lays a foundation for putting REALTOR® ownership of REALTOR.ca and other guiding principles at the forefront of decision making. Moreover, starting with governance ensures business operations and growth strategies are aligned with member priorities and that these priorities are protected for the long-term. With that in mind, this executive summary is intended to provide association executives with an overview of the proposed governance structure of REALTOR.ca Inc.

GOVERNANCE DOCUMENTS

After considering various options, the Task Force crafted a proposed governance structure centred around five inter-related governance documents:

1. Amendments to CREA’s Articles of Incorporation;
2. Draft Shareholder Declaration;
3. Draft REALTOR.ca Inc. by-laws;
4. Draft REALTOR.ca Inc. Articles of Incorporation; and
5. Draft CREA REALTOR.ca Inc. policy

This executive summary focuses on the Amendments to CREA’s Articles of Incorporation and draft Shareholder Declaration. These two documents enshrine the majority of member priorities, as communicated at the October 2023 Special General Meeting (SGM), into REALTOR.ca Inc’s governance structure.

CREA ARTICLES

CREA’s Articles of Incorporation establish the foundational legal framework and governing principles of CREA as a corporation. Changes to CREA’s Articles of Incorporation require a two-thirds majority (2/3rds) vote at a meeting of the CREA Assembly. With that in mind, the REALTOR.ca Task Force proposed two amendments to CREA’s Articles of Incorporation to safeguard the guiding principles that were voted on at the SGM – REALTOR® ownership and revenue reinvestment:

1. CODIFYING REALTOR® OWNERSHIP



To codify the guiding principle of REALTOR® ownership of REALTOR.ca, CREA is proposing an amendment to its Articles of Incorporation requiring approval of a Special Resolution by Members of any action that would result in CREA not being the sole shareholder of REALTOR.ca Inc.

2. ROCK-SOLID REVENUE REINVESTMENT

To ensure the guiding principle of revenue reinvestment is protected, CREA is proposing an amendment to its Articles of Incorporation requiring a Special Resolution by Members of any action that would result in REALTOR.ca Inc's net income being used for any purpose other than reinvestment in REALTOR.ca Inc including but not limited to paying dividends to CREA.

SHAREHOLDER DECLARATION

CREA is proposing it executes a Shareholder Declaration with REALTOR.ca Inc. that establishes a series of controls and oversights over the subsidiary to guarantee that REALTOR.ca Inc.'s strategic direction aligns with the needs and aspirations of its members.

MEMBER CONTROL

The Shareholder Declaration includes several elements that enshrine CREA's (and thereby, member) control over REALTOR.ca Inc. including:

- **Defining the Shareholder:** The Shareholder Declaration clearly states CREA is **THE ONLY** shareholder of REALTOR.ca Inc.
- **Business and Operating Guardrails:** The Shareholder Declaration limits the business of the corporation to the operation of the REALTOR.ca platform, as described in the Shareholder Declaration. The declaration also requires REALTOR.ca Inc. to adhere to CREA's trademark policies and bring value to REALTOR® members.
- **Board of Directors:** After an initial transition period, the Shareholder Declaration establishes that REALTOR.ca Inc.'s Board of Directors be made up of seven to nine directors. One of the directors will be elected by CREA from CREA's Board of Directors. The rest will be independent directors approved by CREA from a slate of candidates put forward by a REALTOR.ca Inc. nominating committee.
- **Director Removal:** Under the Shareholder Declaration, CREA can remove a director from the REALTOR.ca Inc's Board of Directors at any time. This is intended to be an emergency power to deal with unforeseen circumstances and is subject to the strict oversight and controls set out in CREA's REALTOR.ca Inc. Policy.
- **Items Requiring CREA's Approval:** The Shareholder Declaration puts limits around REALTOR.ca Inc's ability to make decisions on key issues that could expose CREA or its members to heightened risk, without CREA's approval.



MEMBER OVERSIGHT

Within the Shareholder Declaration are reporting requirements, which obligate REALTOR.ca Inc. to report regularly back to CREA. These reporting requirements are crucial for fostering transparency, accountability, and informed decision-making by CREA's Board of Directors, who, in turn, are responsible to CREA's members. The reporting requirements include:

- **Reviewing Strategy and Business Plans:** The Shareholder Declaration requires REALTOR.ca Inc. to communicate a business plan and budgets to CREA before the beginning of each fiscal year.
- **Financial Updates:** The Shareholder Declaration requires REALTOR.ca Inc. to communicate unaudited financial statements to CREA 60 days before the end of each fiscal quarter.
- **Audited Annual Statements:** The Shareholder Declaration requires REALTOR.ca Inc. to communicate comprehensive audited financial statements to CREA annually.
- **The Right to Request Anything Else:** The Shareholder Declaration gives CREA the right to request any additional financial information to better understand the affairs of the subsidiary.

PROMOTING GOVERNANCE EXCELLENCE

As REALTOR.ca Inc. seeks to navigate fast-evolving consumer and technological change, a skills-based, independent Board of Directors will be important to bring a wealth of diverse expertise, innovative perspectives, and strategic foresight supporting REALTOR.ca Inc.'s long-term success.

“REALTOR.ca will have its own skills-based board made up of diverse, experienced, and independent directors.”

- Guiding principle passed by boards and associations at the 2023 CREA SGM

Through the Shareholder Declaration and associated elements of the REALTOR.ca Inc. articles and by-laws, it's proposed REALTOR.ca Inc. be governed by a skills-based Board of Directors:

- **Independent Directors:** The Shareholder Declaration establishes one of the directors will be elected by CREA from CREA's Board of Directors. The rest of the subsidiary's Board of Directors will be independent directors approved by CREA from a slate of candidates put forward by a REALTOR.ca Inc. nominating committee.
- **Attracting Experienced Directors:** The Shareholder Declaration will support REALTOR.ca Inc. attract experienced independent directors using a nominating committee and remuneration determined by REALTOR.ca Inc. itself.
 - **Nominating Committee:** Under the Shareholder Declaration, the subsidiary will be required to establish a Nominating Committee responsible for recommending independent director candidates to CREA for approval. If the slate is rejected, then the Nominating Committee must recommend a new slate.
 - **Remuneration:** Under the Shareholder Declaration any director, whether an independent director or CREA Director will be entitled to receive reasonable remuneration as determined by the subsidiary's Board of Directors.