CSA/ACVM

Canadian Securities Administrators
Autorités canadiennes en valeurs mobilières

FOR IMMEDIATE RELEASE

November 4, 2002

Regulators Require Companies To Improve Executive Compensation Disclosure

TORONTO – Securities regulators have revealed the results of a review of how well publicly-traded companies comply with executive compensation disclosure requirements. The Canadian Securities Administrators (CSA) found that 95 per cent of companies studied tended to discuss executive compensation in very general terms, without explaining specifically how compensation was determined or how it related to the companies' performance.

"The compensation committee reports need improvement by the vast majority of companies we examined," said Doug Hyndman, Chair of the CSA, the umbrella organization representing the 13 provincial and territorial securities commissions. "We issued comment letters to these companies and received commitments from them to improve their disclosure, including explaining clearly their reasons for the salaries and bonuses paid, the options granted and the other compensation awarded to their executive officers. I trust that all issuers will note our findings and raise the bar on their compensation disclosures."

Boilerplate language used in company reports
For example, these two extracts from different reports do not give a reader much insight into how the issuers determine compensation. The use of generalities and the absence of specific required compensation information significantly decrease the value of these disclosures:

> Example 1
> "*The Board of Directors is of the view that the Executive Compensation Plan is appropriate for the Company in that it provides an adequate level of motivation for the executive officers*".
>
> Example 2
> "*Base salary levels for all executive officers (including the Executive Chair and CEO) are based upon performance and in relation to comparable positions within the industry and in the markets in which the Corporation operates*..."

Other deficiencies (% of companies) noted in the study concerned the following areas:

? 7% required to correct the summary compensation table;
? 5% required to correct the information on options or stock appreciation rights (SARs)
? 5% required to correct the pension plan information; and
? missing disclosure of details of employment contracts or termination agreements, using an incorrect measurement point in the presentation of multi-year performance data, or missing cross-references to information presented elsewhere in the reports.

Examples of the types of information that the study examined:

? The specific relationship between corporate performance and executive compensation;
? If an executive is rewarded under a performance-based plan despite failing to meet the stated performance criteria, the reasons for any waiver or adjustment to the compensation formula;
? The basis for the CEO's compensation, including the factors and criteria on which the compensation is based and the relative weight assigned to each factor; and
? The competitive rates on which the CEO's compensation is based if it is determined by assessments of competitive rates, as well as information about how the comparative group was selected and at what level in the group the compensation was placed.

"Recent scandals in the United States have given prominence to the gap between the level of information companies provide on executive compensation and the level that investors require," said Hyndman. "Our coast-to-coast review of executive compensation disclosure revealed areas where Canadian companies can improve their disclosure practices. We will monitor compensation disclosures to ensure they meet the requirements."

The *CSA Staff Notice 51-304 "Report on Staff's Review of Executive Compensation Disclosure"* is available from the commission websites listed below.

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