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Canadian Securities Administrators

Autorités canadiennes en valeurs mobilières

FOR IMMEDIATE RELEASE

May 15, 2002

Securities Regulators Look at How Companies Report Executive Compensation

VANCOUVER – Securities regulators have launched a review of how well publicly-traded companies comply with their executive compensation disclosure requirements. The Canadian Securities Administrators (CSA) are seeking to identify areas where disclosure could be improved.

"Investors are entitled to detailed information telling them how executive compensation is linked to corporate performance," said Doug Hyndman, Chair of the CSA, the umbrella organization representing the 13 provincial and territorial securities commissions. "We are measuring how well that information is revealed. We hope that our findings will result in meaningful guidance for people who disclose information on behalf of companies."

The initial step is a review conducted by the securities regulators of how 75 Canadian companies comply in their information circulars with reporting requirements. Any company whose disclosure diverges from the requirements will be asked for an explanation. A report will be published later this year.

"Even though the regulations are clear and specific, the quality of executive compensation reports varies among companies," said John Hughes, Chair of the CSA's Continuous Disclosure Committee. "Most companies provide the basic numeric data required, but we are concerned with the narrative discussion of their approach to executive compensation."

Examples of the types of information that must be disclosed include:

- 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;
- 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.

In the second phase of the project, regulators will assess whether issuers have followed appropriately the recommendations of the new accounting standard on stock-based compensation and other stock-based payments.

“Some companies use boiler plate language to describe executive compensation,” added Hyndman. “Publicly-traded companies across Canada are required to report in detail the framework of executive compensation. Investors should be able to see precisely how the compensation received by executives is derived, and determine if they support the practices given the company’s performance.”

“We are using a common approach to review compliance with continuous disclosure obligations coast-to-coast,” said Hyndman. “The national review of executive compensation disclosure marks another important step toward a harmonized national securities regulatory presence.”

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