

## NOTICE AND REQUEST FOR COMMENT

### Proposed Repeal and Substitution of Form 51-102F6 *Statement of Executive Compensation*

and

### Consequential Amendments

**February 22, 2008**

We, the Canadian Securities Administrators (CSA), are publishing for a 60-day comment period the following materials:

- A. Proposed repeal and substitution (the Proposed Form) of Form 51-102F6 *Statement of Executive Compensation* (Form 51-102F6);
- B. Proposed consequential amendments (the Proposed Amendments, and together with the Proposed Form, the 2008 Proposal) to National Instrument 51-102 *Continuous Disclosure Obligations* (NI 51-102) and Form 51-102F5 *Information Circular* (Form 51-102F5) of NI 51-102.

We invite general comment on the 2008 Proposal.

We are publishing the text of the Proposed Form and the Proposed Amendments concurrently with this notice. The Proposed Form is in Appendix C of this notice and the Proposed Amendments are in Appendix D of this notice. You can also obtain this notice from the websites of CSA members.

#### **A. THE 2008 PROPOSAL**

##### **1. Purpose**

The 2008 Proposal is a republication reflecting comments to the previously proposed repeal and substitution of Form 51-102F6 and proposed consequential amendments to NI 51-102 that we originally published for comment on March 29, 2007 (the 2007 Proposal). A summary of changes to the Proposed Form and the Proposed Amendments from the versions published with the 2007 Proposal is in Appendix B of this notice.

The 2008 Proposal is an initiative of all members of the CSA to repeal and substitute the current Form 51-102F6. Since we introduced the current requirements for executive compensation disclosure in 1994, compensation practices have evolved and become increasingly complex. Under the existing requirements, investors are provided with fragmented compensation information, which makes it difficult for them to assess the total compensation paid to executive officers. The purpose of the 2008 Proposal is to improve the quality of executive compensation disclosure. Improved disclosure will

result in better communication of what the board of directors intended to pay or award certain executive officers or directors and will allow users to assess how decisions about executive compensation are made. It will also provide insight into a key aspect of a company's overall stewardship and governance.

The 2008 Proposal will require companies to disclose all compensation awarded to certain executive officers and directors and to provide this disclosure in a new format. Our intention is to create a document that will present executive compensation information in a consistent, meaningful way, and that will continue to provide a suitable framework for disclosure as compensation practices change over time.

## **2. Publishing jurisdictions**

The 2008 Proposal is an initiative of the securities regulatory authority in each jurisdiction in Canada. If adopted, the Proposed Form and the Proposed Amendments are expected to be adopted as:

- rules in each of British Columbia, Alberta, Manitoba, Ontario, Québec, New Brunswick, Nova Scotia and Newfoundland and Labrador;
- Commission regulations in Saskatchewan;
- policies in each of Prince Edward Island, the Northwest Territories and Yukon; and
- a code in Nunavut.

## **3. Background**

On March 29, 2007, we published for comment the 2007 Proposal. Part A of the 2007 Proposal related to the proposed repeal and substitution of Form 51-102F6. Part B of the 2007 Proposal related to certain other amendments to the continuous disclosure obligations in NI 51-102 and to Forms 51-102F2 *Annual Information Form* (Form 51-102F2) and Form 51-102F5, including a version of the Proposed Amendments. The comment period expired on June 30, 2007. We received and reviewed 41 comment letters.

On August 31, 2007, we published CSA Notice 51-325 *Status of Proposed Repeal and Substitution of Form 51-102F6 Statement of Executive Compensation* updating market participants on the status of our review of executive compensation disclosure requirements. After extensive review and consideration of the comments received regarding the 2007 Proposal, we decided to republish for comment and delay implementation.

On October 12, 2007, the CSA published a Notice of Amendments to NI 51-102 and other related instruments (the October Notice). Appendix B to the October Notice contains a summary of the comments made by 15 of the 41 commenters to the extent that these comments related to Part B of the 2007 Proposal, other than the version of the Proposed Amendments published with the 2007 Proposal.

Since our 2007 Proposal, we have continued to focus on ways to improve the Proposed Form and have made changes to increase its value in providing meaningful disclosure on executive compensation by companies. In drafting our 2008 Proposal, we have considered the comments received.

As well, during our review period, the staff of the U.S. Securities and Exchange Commission (the SEC) published on October 9, 2007, a report discussing the principal themes that emerged from its initial reviews of the disclosure of 350 public companies for compliance with the new SEC rules for executive compensation and related person disclosure that came into effect in 2007. Two principal themes emerged from these reviews. First, SEC staff expected companies to provide more focused disclosure through more detailed analysis of the how and why of specific executive compensation decisions. Second, SEC staff focused on the manner of presentation – in particular, using plain language and organizing tabular and graphical information – to provide more direct, specific, clear and understandable executive compensation disclosure.

Though we considered these SEC staff observations about the reviews of executive compensation disclosure, we departed from the U.S. approach in several instances in response to the comments we received on our 2007 Proposal.

## **B. ANTICIPATED COSTS AND BENEFITS**

When proposing rule amendments, we must consider our mandate of promoting fair and efficient markets while protecting investors. To fulfill this mandate, we must consider the costs of new regulation imposed on issuers and whether those costs are justified by the likely outcomes.

The anticipated costs and benefits of implementing the 2008 Proposal were previously outlined in a paper which was published with the 2007 Proposal on March 29, 2007. Compared to the 2007 Proposal, the changes in the 2008 Proposal do not impose any significant additional requirements upon companies. As a result, we believe that the benefits of the 2008 Proposal continue to outweigh the costs.

As explained in more detail in Appendix B of this notice, we have departed from the 2007 Proposal of including in the Summary Compensation Table (SCT) the value of equity awards derived using the accounting method. Instead we propose requiring compensation disclosure using the grant date fair value in this table. We believe that disclosing grant date fair value of equity awards in the SCT will better allow investors to assess the compensation decisions that are made in any given year. In keeping with a principle-based approach, our 2008 Proposal allows companies some flexibility in valuing these awards, thus limiting the potential costs to the company of obtaining valuations. Also, this requirement does not impose any additional cost to companies because the grant date fair value is the starting point in determining accounting expense.

In response to the comments received, we have also modified the measure used in the SCT to capture pensions. We now propose requiring disclosure of just compensatory amounts rather than the change in actuarial value, which includes both compensatory and non-compensatory amounts. Disclosure in the pension column of the SCT will include both defined benefit and defined contribution plans. The changes to the

retirement plan benefits provisions of the 2008 Proposal result in a continuity schedule for both defined benefit and defined contribution plans. These tables are easier to understand and follow emerging best practices from leading companies in Canada. These changes will better focus on the elements related to the actual compensation decisions in the area of pension benefits disclosure. The information required in these tables are typically calculated by companies and should not impose an additional cost to prepare.

### **C. UNPUBLISHED MATERIALS**

In proposing the 2008 Proposal, we have not relied on any significant unpublished study, report or other written materials.

### **D. PROPOSED EFFECTIVE DATE**

The proposed effective date for the 2008 Proposal is December 31, 2008.

### **E. AUTHORITY FOR AMENDMENTS - ONTARIO**

The following provisions of the *Securities Act* (Ontario) (the Act) provide the Ontario Securities Commission (the OSC) with authority to adopt the 2008 Proposal.

- Paragraph 143(1)22 authorizes the OSC to make rules prescribing requirements in respect of the preparation and dissemination by reporting issuers of documents providing for continuous disclosure that are in addition to the requirements under the Act, including requirements in respect of an annual report, an annual information form and supplemental analysis of financial statements.
- Paragraph 143(1)23 authorizes the OSC to exempt reporting issuers from any requirement of Part XVIII (Continuous Disclosure) of the Act.
- Paragraph 143(1)24 authorizes the OSC to require issuers to comply with Part XVIII of the Act relating to continuous disclosure or to rules made under Paragraph 143(1) 22.
- Paragraph 143(1)39 authorizes the OSC to make rules requiring or respecting the media, format, preparation, form, content, execution, certification, dissemination and other use, filing and review of all documents required under or governed by the Act, the regulations or the rules and all documents determined by the regulations or the rules to be ancillary to the documents, including proxies and information circulars.

### **F. SUMMARY OF WRITTEN COMMENTS ON THE 2007 PROPOSAL**

We published the 2007 Proposal on March 29, 2007 for a 90-day comment period.

The comment period expired on June 30, 2007 and we received submissions from 41 commenters who are listed in Appendix A of this notice. Of the 41 commenters that responded

- 38 addressed issues pertaining to Part A of the 2007 Proposal (executive compensation) and certain aspects of Part B of the 2007 Proposal (report of voting results, definition of venture issuer and disclosure of cease trade orders)
- 3 limited their comments to one aspect of Part B of the 2007 Proposal (the proposed change to the definition of venture issuer).

A summary of these comments, together with our responses, are contained in Appendix A of this notice.

## **G. REQUEST FOR COMMENTS ON 2008 PROPOSAL**

We request your comments on the 2008 Proposal. Please provide your comments by April 22, 2008. **Due to timing concerns, we will not consider comments received after the deadline.** Address your submissions to all of the CSA member commissions.

Please deliver your comments to the addresses below. Your comments will be distributed to the other participating CSA members.

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If you do not submit your comments by e-mail, provide a diskette containing the submissions in MS Word format.

We cannot keep submissions confidential because securities legislation in certain provinces requires that a summary of the written comments received during the comment period be published.

## **H. QUESTIONS**

Please refer your questions to any of the people listed below:

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