



September 29, 2008

Executive Compensation Disclosure

AMENDMENTS MADE BY THE CANADIAN SECURITIES ADMINISTRATORS



The Canadian Securities Administrators (CSA) – the forum that co-ordinates and harmonizes the regulation for Canada’s capital markets – has adopted new disclosure requirements for executive compensation. (Adoption of the new requirements follows two rounds of draft amendments and comment periods.)

The new requirements are substantially different from the original requirements and the first set of draft amendments; this is because they reflect important feedback from stakeholders. The new

rules go into effect on December 31, 2008 – subject to provincial approval – and will apply to all public companies (starting in the financial year ending on or after that date).

All companies publicly traded on any Canadian stock exchange must file an annual Statement of Executive Compensation (Form 51-102F6) to maintain their listing status. Once the new rules go into effect, these companies will be required to disclose compensation for executive officers and directors using a revised Statement of Executive Compensation, as well as an accompanying discussion and analysis.

Following the collapse of several large U.S. companies and the resulting impact on investors, there has been a growing focus on the effect of executive compensation on a company’s financial status. The U.S. Securities and Exchange Commission (SEC) released new rules for disclosing executive compensation in August 2006. These new rules were adopted for 2006 fiscal year-end reporting.

The CSA’s new disclosure rules are similar to those adopted by SEC, but not identical. The objectives of the CSA’s new rules are three-fold:

- ensure companies disclose what they have paid or intend to pay (or award) certain executive officers and directors for the financial year,
- provide insight into a key aspect of a company’s overall stewardship and governance, and
- help investors understand how decisions about executive compensation are made.

These new rules will have significant implications for the directors, senior management and audit committees of publicly traded companies.

The first half of this *Analysis* looks at the general requirements of the revised Statement of Executive Compensation; the second half focuses on the new disclosure requirements for executive pensions.

According to the CSA, the old rules governing disclosure of executive compensation were insufficient, particularly when it came to pension benefits and special awards paid out at the time of a termination or change of control. The objective of the amendments is to improve the transparency and consistency of disclosure.

WHAT'S CHANGING?

- All compensation provided to Named Executive Officers (NEOs) and directors must be disclosed, regardless of how the compensation is structured or whether it fits into the column of a particular table (the exception is pre- and post-retirement group life and health benefits that are generally available to all salaried employees). The disclosure must include potential payments on termination, change of control, resignation and retirement.
- Executives or directors who terminated prior to the end of the fiscal year must now be listed as an NEO if they would have otherwise met the requirements.
- The Compensation Committee Report that is currently required is being eliminated.
- A new *Compensation Discussion and Analysis* is required (further details are provided below).
- A performance graph must compare the cumulative shareholder return for the last five years versus the cumulative total return of one or more relevant equity market indices.
- An explanation is required about how the trend in executive compensation relates to the trend shown in the performance graph for the same period.
- The redesigned Summary Compensation Table requires disclosure of:
 - > the value of all non-equity and equity-based compensation, as well as any compensation-related change in pension value during the reporting period; and
 - > the fair value of share awards and option awards as of the grant date.
- The redesigned Retirement Plan Benefits Tables require additional disclosure: the value of the accrued pension obligation (or, in the case of defined contribution plans, the accumulated value) at the beginning of the year and the end of the year, showing any change related to compensation.

NEO DEFINITION CHANGE

The rules for who qualifies as a Named Executive Officer (NEO) have changed.

Under the old rules, an NEO includes the Chief Executive Officer (CEO), Chief Financial Officer (CFO)

and the three other most highly compensated executive officers as of the end of the reporting year if their **cash** compensation for the reporting year is \$150,000 or more. Cash compensation includes salary and bonus.

Under the new rules, an NEO includes the CEO, CFO and the three other most highly compensated executive officers for the reporting year (plus executive officers who left the company before the end of the reporting year) if their **total** compensation for the reporting year is \$150,000 or more. Total compensation includes cash, bonus, equity and non-equity incentives, and perquisites; it does not include any change in pension value.

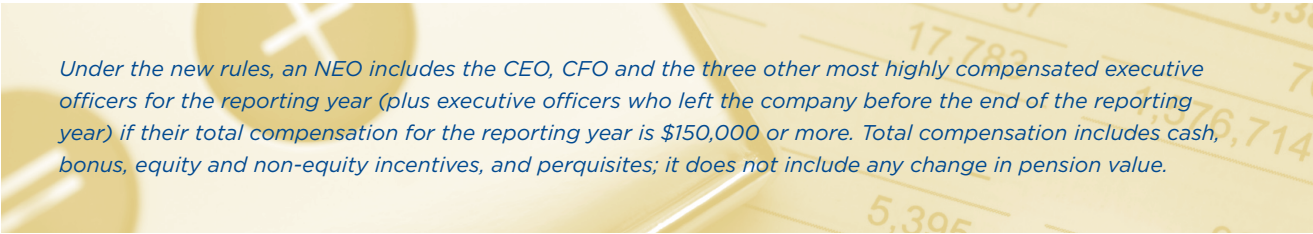
COMPENSATION DISCUSSION AND ANALYSIS

A new requirement for the Statement of Executive Compensation is the discussion and analysis of company policies related to NEO compensation during the fiscal year of reporting. The discussion should cover the following subjects:

- (1) the objectives of the compensation program;
- (2) a description of each compensation element;
- (3) the company's reasons for paying each compensation element;
- (4) how the company determines the dollar amount for each element, and what the formula is, if applicable; and
- (5) how each element of compensation (and the company's decision to pay that element) fit into the company's overall compensation objectives.

The discussion should also identify an NEO's performance-related targets, based on easily understood measures (such as the company's stock price or earnings per share). Targets that relate to specific quantitative or qualitative performance factors may be excluded if disclosing them will seriously prejudice the company's interests. This exemption does not apply to companies that have publicly disclosed performance targets or other criteria in a document filed on SEDAR (the System for Electronic Document Analysis and Retrieval) or elsewhere.

A performance graph should be shown comparing the company's cumulative total shareholder return over the last five years (assuming an initial investment of \$100) versus the total cumulative return of one or



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more appropriate market indices (generally the S&P/TSX Composite Total Return Index, if the company is listed on it). There should also be a discussion of how trends shown by the graph compare to the company's compensation trends for NEOs during the same period.

SUMMARY COMPENSATION TABLE

The Summary Compensation Table is still the primary instrument for disclosing executive compensation. That said, it is significantly changed and expanded. The table must be completed for each NEO, and information must be provided for each of the last three completed fiscal years (the company may show fewer than three years until the fiscal year ending on or after December 31, 2010).

NEO's Name and Principal Position	Year	Salary (\$)	Share Awards (\$)	Option Awards (\$)	Non-equity Incentive Plan Compensation		Pension Value (\$)	All Other Compensation (\$)	Total Compensation (\$)
					Annual Incentives (\$)	Long-term Incentives (\$)			
CEO	2006 2007 2008								
CFO	2006 2007 2008								
NEO A	2006 2007 2008								
NEO B	2006 2007 2008								
NEO C	2006 2007 2008								

Two new columns, "Share Awards" and "Option Awards", have been added to capture the dollar value of awards (rather than the number of securities granted, as currently required). For both columns, fair value as of the grant date must be disclosed.

The "Non-Equity Incentive Plan Compensation" columns should capture awards other than company securities. For example, the "Annual Incentives" column should include bonuses related to the reporting year, as well as other annual awards.

Pension Value: Defined Benefit Plans and Defined Contribution Plans

A "Pension Value" column has been added to the Summary Compensation Table to show the change in the actuarial present value of an NEO's compensation-related pension during the fiscal year - under all defined benefit and defined contribution pension plans (registered and non-registered).

The CSA changes introduce the term "compensatory" to refer to those components of the pension that are compensation based. Compensatory components include:

- the service cost, net of employee contributions;
- the value of plan changes, including the impact of revisions to valuation assumptions changed as a direct result of the plan changes;

- any change in value that is due to differences between the actual and estimated earnings for a defined benefit plan; and
- above-market earnings for defined contribution plans (above-market earnings apply to non-registered plans only and refer to earnings that exceed the rate normally paid by the company on securities or other obligations that have similar features and that are issued to third parties).

To calculate the Pension Value, the new rules require that you use the same assumptions that are used for financial statement reporting (which currently follow the Canadian Institute of Chartered Accountants Handbook Section 3461). This means the Pension Value shown for an executive in the Summary Compensation Table should be consistent with the pension cost shown in the company's financial statements.

All Other Compensation

The "All Other Compensation" column should capture:

- Any amounts paid to an NEO at the time of retirement, termination or a change of control, including accelerated pension payments.
- Perquisites and other personal benefits paid to an NEO where the aggregate amount is at least \$50,000 or 10% of their annual salary and bonus. (It's worth

noting that the SEC has lowered the U.S. threshold to \$10,000.) Each perquisite or benefit that exceeds 25% of the NEO's total perquisite value must be identified by type and amount in the footnote.

- Other post-retirement benefits, such as post-retirement health benefits or life insurance that are not generally available to all salaried employees.

Total Compensation

A new column has been added at the end of the table to show the total compensation for each NEO (the aggregate total of all columns). This figure will include the value of any stock and/or option awards, even though these values may never be realized.

ADDITIONAL DISCLOSURE FOR RETIREMENT PLAN BENEFITS

Additional detailed disclosure must be provided for all retirement plans. As a result, there are two new tables – the DB Retirement Plan Benefits Table and the DC Retirement Plan Benefits Table. Keep in mind that the Retirement Plan Benefits Tables cover only the fiscal year end for which the proxy filing is being prepared.

The DB Retirement Plan Benefits Table

The DB Retirement Plan Benefits Table captures:

- years of credited service,
- the lifetime pension payable as of the end of the reporting year and at age 65 (based on earnings and service to date), and
- the value (i.e., accrued obligation) of the pension as of the beginning and end of the reporting year.

All items disclosed in the table must be calculated using the same assumptions and methods that are used for financial statement reporting.

The change in accrued obligation for the reporting year must be split – showing compensatory and non-compensatory components. And amounts reported in the “Pension Value” column of the Summary Compensation Table must be consistent with the compensatory values disclosed in the DB Retirement Plan Benefits Table.

Non-compensatory changes refer to any change in the pension obligation that is not related to compensation (for example, a change that occurs when the discount rate is adjusted at year end).

The table is laid out as shown below.

NEO's Name and Principal Position	Years of Credited Service	Annual Benefits Payable (\$)		Accrued Obligation at Start of Year (\$)	Compensatory Change (\$)	Non-compensatory Change (\$)	Accrued Obligation at Year End (\$)
		At Year End	At Age 65				
CEO							
CFO							
NEO A							
NEO B							
NEO C							

In the commentary that accompanies the table, you should disclose the valuation method, as well as the key assumptions used to determine the accrued obligation at year end. Alternatively, you can include a reference to the relevant disclosure in the company's financial statements or footnotes to the financial statements.

The DC Retirement Plan Benefits Table

The DC Retirement Plan Benefits Table captures the accumulated value of the pension benefit as of the beginning and the end of the reporting year. The change in the accumulated value must be split into compensatory and non-compensatory components.

The compensatory component should include employer contributions and, for non-registered plans, any earnings that are “above market” (i.e., exceed the rate normally paid by the company on securities or other obligations that have similar features and that are issued to third parties).

The non-compensatory component should include employee contributions, investment earnings in registered plans, and any earnings in non-registered plans that are not “above market”.

The amounts shown in the Pension Value column of the Summary Compensation Table must be consistent

with the compensatory values disclosed each fiscal year end in the DC Retirement Plan Benefits Table. All items disclosed in that table must be calculated using the same assumptions and methods that are used for financial statement reporting under Generally Accepted Accounting Principles.

The DC table is laid out as shown below.

NEO's Name and Principal Position	Accumulated Value at Start of Year (\$)	Compensatory Change (\$)	Non-compensatory Change (\$)	Accumulated Value at Year End (\$)
CEO				
CFO				
NEO A				
NEO B				
NEO C				

OTHER COMPENSATION DISCLOSURES

In addition to the separate disclosure of retirement plan benefits, other separate disclosures are required for Stock & Option Awards, Non-Equity Incentive Plan Awards, Termination & Change of Control Benefits, and Director Compensation.

WHAT SHOULD BE DONE NOW?

Your compensation committee should be advised of the changes. Data gathering from many sources will be required to fill in the Summary Compensation Table and meet the other disclosure requirements. In addition, calculations will be required by your actuary to determine the “split” in pension values that must be reported.

Since the proxy season is not that far away, we suggest that you contact your Eckler consultant soon for assistance.

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