

June 28, 2007

Mr. John Stevenson, Secretary  
Ontario Securities Commission  
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Re: Proposed Form 51-102F6 Statement of Executive Compensation

Dear Mr. Stevenson and Ms. Beaudoin,

**The Ethical Funds Company®** is an investment firm based in Vancouver, BC, with \$2.7 billion in assets under management. Our approach to investment is based on the thesis that companies incorporating environmental, social, and governance (ESG) factors into their strategy and operations will provide lower risks and higher returns to investors over the long term.

We are writing to you today to offer our comments on the proposed repeal and substitution of Form 51-102F6 Statement of Executive Compensation, hereafter the "proposed rules". With regular headlines on excessive executive pay, and growing director and investor dissatisfaction with pay compared to performance, we welcome the proposed rules to increase the transparency of executive compensation packages. We believe the proposed rules will improve disclosure for investors and create greater accountability from board compensation committees. We would also like to offer a few additional points for consideration.

### **Compensation Discussion and Analysis**

Our comments focus largely on the Compensation Discussion and Analysis. We support a new Compensation Discussion and Analysis aiming to better illuminate all elements of executive compensation packages. The provisions and supporting commentary offer sufficient guidance such that future disclosure should offer a useful analysis of executive compensation and avoid boilerplate language.



We understand that in developing the proposed rules, including the new CD&A, the CSA reviewed the Securities and Exchange Commission's (SEC) recent executive compensation disclosure rules. We also understand the CSA sought to balance the SEC rules with Canada's principles based approach to governance. With this in mind we are hopeful that companies will produce more meaningful CD&A's in comparison to the first round of disclosures seen in the US. However, we ask the CSA to consider measures to monitor compliance with the new disclosure requirements.

### **Qualitative and Quantitative Performance Targets**

We strongly support the recommended disclosure of quantitative and qualitative performance targets. Greater investor scrutiny of compensation packages is the best way to address the growing frustration with excessive executive pay. Meaningful disclosure of performance criteria and specific targets are critical for evaluating the pay for performance merits of compensation packages. If guidance with regard to the scope and content of the CD&A is sufficient, we anticipate a useful analysis of performance criteria, the rationale for these criteria, specific targets for performance criteria, any assumptions underlying the executive compensation plan, and importantly, any changes made to performance targets during the year.

### **Current and Forward looking disclosure**

We recommend the CSA distinguish between current and forward looking performance criteria disclosure. This will provide greater clarity in understanding executives' short and long term performance criteria. Investors agree there is an unbalanced focus today on short term performance. The inclusion of long term performance criteria in executive compensation packages is central to the successful achievement of long term shareholder value creation. Disclosure of forward looking performance criteria is vital to enable a full analysis of a company's strategic approach to long term shareholder value creation.

We note with concern the option to withhold information on targets in cases where companies believe disclosure may result in competitive harm. We anticipate great disparity in how companies will apply this non disclosure clause. We ask the CSA to consider limiting this non disclosure clause only to forward looking disclosures and then only to a limited extent. Current year performance targets are historical at the time of disclosure in the proxy circular. For this reason we do not see any competitive harm in disclosing the current year performance targets. While companies may hesitate to disclose specific targets for forward looking performance criteria, a general description of qualitative and quantitative performance criteria should not pose any competitive harm. The UK, Australia, and the Netherlands currently require detailed forward looking disclosure of compensation plan performance criteria. Research from the Corporate Library found that a number of US companies already offered this level of disclosure for investors. Alternatively, and at a minimum, in the absence of our recommendations for the non disclosure clause we expect that companies disclose the percentage of an executive's total compensation that relates to the undisclosed performance target.

### **Narrative Discussion**

We applaud the CSA's inclusion of qualitative targets as a component for disclosure. We recommend more emphatic language to ensure companies adopt this disclosure. We also ask the CSA to consider adding additional guidance on the scope and content of the narrative description of qualitative targets. There has been a dramatic shift in recent years by institutional investors towards a new understanding of fiduciary duty. As a result a growing number of institutional investors now integrate material environmental, social, and governance (ESG) issues into investment decision making. This, in turn, is driving demand for enhanced disclosure of corporate ESG performance. In Canada, a 2007 Social Investment Organization report found that investors representing approximately \$500 billion in Canadian assets under management now integrate ESG analysis into investment decision making. Internationally, the United Nations Principles for Responsible Investment are another clear demonstration of this trend. Representing more than USD\$8 trillion in assets under management, signatories agree to consider ESG issues in their investment decision making. Further, the international Carbon Disclosure Project currently totals USD \$42 trillion in assets under management, representing investors with a shared concern for corporate readiness with regard to the risks and opportunities arising from climate change.

We believe this trend is heading quickly towards investor demand for enhanced disclosure of ESG performance criteria in executive compensation packages. Corporate ESG performance is a recognized driver of long term shareholder value. For example, a recent survey from the Canadian Coalition for Good Governance found that investors and directors support the use of qualitative or ESG performance criteria such as employee satisfaction, leadership development, or sustainable development. These types of qualitative criteria are an important component of long term shareholder value creation. Narrative disclosure of ESG performance is critical to our evaluation of a company's strategic commitment to long term value creation.

### **Performance Plan Scenario Testing**

We support scenario testing to demonstrate how pay may vary based on the level of achievement of key performance criteria. Executive compensation packages are highly complex and this disclosure will offer investors some indication of how pay is linked to short and long term performance criteria. Internally, scenario testing is also an important tool for the board compensation committee to understand and evaluate the impacts of various compensation packages on long term value creation.

### **Performance Graph**

We support maintaining the performance graph as well as the CSA's recommendation to require analysis of stock performance compared to the trend in the company's compensation for executives over the same period. Companies typically base a portion of executive compensation against their peer group's performance. With this in mind we further recommend that the graph also include performance against the company's peers along with a narrative disclosure of the actual peer group. While recognizing that stock performance is not an exclusive measure of

shareholder value, nevertheless, a graphic representation of performance against a disclosed competitor peer group is useful in evaluating performance.

#### **Definition of NEO**

In the interests of promoting best practices in disclosure we recommend the CSA consider existing UK disclosure requirements whereby compensation for all executives must be disclosed. According to the Corporate Library, companies reporting in this jurisdiction have not faced any obstacles in complying with this provision. In response to the CSA's query, we recommend that compensation information be disclosed separately for each NEO. Transparency and clarity are best achieved through separate disclosure.

#### **Conclusion**

Canadian companies have been successful in garnering a respectable corporate governance reputation globally under our current principles based requirements. Investors are increasingly frustrated with excessive executive compensation that too often does not reflect stock performance and does not balance the need for long term shareholder value creation. We support the proposed rules and respectfully ask the CSA to consider our recommendations in the spirit of maintaining Canada's positive reputation on governance disclosure.

Sincerely,



Robert Walker  
Vice President Sustainability  
The Ethical Funds Company