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June 29, 2007

Via E-Mail

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorite des marches financiers
New Brunswick Securities Commission
Nova Scotia Securities Commission

c/o John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
Suite 1900, Box 55
Toronto, Ontario
M5H 3S8
By Email: jstevenson@osc.gov.on.ca

and

c/o Madame Anne-Marie Beaudoin
Directrice du secrétariat
Autorité des marchés financiers
Tour de la Bourse
800, square Victoria
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Montréal, Québec
H4Z 1G3
By Email: consultation-en-cours@lautorite.com

Dear Mr. Stevenson and Madame Beaudoin,

Re: Proposed Amendments to National Instrument 51-101F6 Statement of Executive Compensation - Request for Comment

We are writing concerning the proposed amendments to the Canadian executive compensation rules. We wish to express our support for some of the proposals and our concern for others.

Nexen is a foreign private issuer and has been a voluntary 10-K filer in the US for several decades. For 2006 compensation disclosure, we chose to rely on compliance with the existing Canadian rules, but sought to increase our disclosure to the level required by the

new SEC rules wherever possible. **Based on our experience last year in preparing the new disclosures, we feel we can provide some valuable insight to the Canadian regulators with respect to the proposed rules for Canadian executive compensation.**

We acknowledge that there is value in adopting an approach similar to that taken in the US so that we can be compared with industry competitors. However, we find the Canadian approach to be much more well-described and clear, with appropriate thought given to reducing the amount of new disclosure where it would not provide valuable information. We applaud this approach. There are a number of main comments that we would like to make and elaborate on and we will also address several of the questions posed by the regulators in regard to the rules.

Time Estimates

Firstly, in our experience we estimate the cost to comply, to the extent that we did, with new disclosure requirements have been in the range of at least two-thirds to one person-year (1200-1800 hours). The cost was incurred by legal, governance, human resources and accounting professionals and senior management. This excludes time spent before issuance of the final SEC rules and is in distinct contrast to the SEC's estimate that companies would spend 95 hours on average in each of the first three years to comply. **We feel it is important in the Canadian approach to balance the costs to Canadian industry (in general and administrative expenses) and its shareholders against the value and utility of new disclosure.** That being said, Nexen supports improved transparency and disclosure.

Timeline

Secondly, even with the relatively early release date of the SEC rules (August 17, 2006) it was very challenging for us to prepare, review, negotiate, explain, refine and finalize all of the new disclosures to ensure it would be set out in a way that would flow well and make sense to readers. We understand it was even more of a challenge to US issuers who were required to track and document unreasonably restrictive requirements regarding perquisites, with an unreasonably low threshold. **We feel that it is imperative that the final Canadian rules be released no later than mid-August if they are to be effective for reporting of compensation for 2007. If the release date is any later, we would strongly recommend that the implementation be delayed until the reporting of compensation for 2008.**

Compensation Discussion & Analysis

Thirdly, we would submit that there are a number of areas included in the CD&A section and the commentary to the CD&A that in some cases impose more onerous requirements than the SEC rules and that appear to be exercises in providing educated guesswork that could impose future liability or would see the release of competitive data that could be harmful to companies. Specifically:

- **We are concerned that moving the share performance graph to the CD&A and requiring comparison to executive compensation gives too much prominence to only one measure of success that will have widely varying relevance for companies based on how well established they are and where they are in their current growth cycle.** These factors should be (and we feel are required to be) specifically discussed in the CD&A, but not on the basis of analyzing the change in

executive pay directly in light of the change in share price. Such a format may also emphasize short-term growth, contrary to the long-term interest of shareholders. An example would be when a well-run company undertakes a capital intensive long-term project that results in limited short-term growth in share price compared to others in its industry.

- **The request to portray "expected compensation levels for future periods, under various performance scenarios" we see as unduly burdensome and nebulous.** Such scenarios would have so many variables, would require analysis of so many different possible fact patterns and would be unable to anticipate unexpected future events, so as to be without value to investors and expensive to prepare for companies. In addition, such discussion could arguably be seen as a promise to pay an executive and potentially lead to liability in an unanticipated fact set (likely, only in the case of a CEO who has been asked to leave, but that would be the case we presume most investors would want to see prevented) or could create expectation among candidates when a key position becomes vacant and needs to be filled. This is not required under the SEC rules.

- The request to disclose benchmarking data used in determining compensation or elements of compensation, including the peer group used and how companies were included or excluded is an onerous requirement that US companies are spending much time working around to ensure that competitive advantage, which in the long run could severely impact shareholder value, is not lost. As a foreign private issuer, we did not provide this level of information last year. With increased public scrutiny, shareholders now have many avenues to dialogue and propose improvements to companies where they feel the need to do so, but merely requiring all companies to provide sensitive data, that could result in competitive disadvantage, does not seem an appropriate course of action. Rather, **we would suggest that disclosure be required to indicate whether benchmarking is done and on what basis companies are included or excluded in the benchmark, without divulging the specific companies used.** Both management and the compensation committee need to be comfortable that the correct benchmarks are being used, but providing the specific list could lead to the release of competitive data.

- The request to disclose waivers or changes to specified performance targets cripples the ability of the compensation committee to make and compensate for qualitative assessments of performance of the CEO and management. This also relates to the requirement in the CD&A to disclose performance targets specifically, if they are an objective measure, or a description if they are qualitative. The disclosure of a target is appropriate only if it is already a publicly disclosed number; beyond that we are again getting into the area of data that is important to a company's competitive advantage. For example, we do not want competitors to be able to reverse engineer our data to determine competitive information such as market price assumptions, reserve targets, etc. As well, it is important to note that companies using a balanced scorecard may have any number (including upwards of 50) of specific targets with various weightings. To disclose these, as noted, would be a competitive disadvantage and to describe them would be both time consuming and provide pages of disclosure that would not be useful to investors. Instead, **we would recommend that companies should disclose the areas in which they set performance targets, how many targets and parameters are in each of the various areas and the overall results in each of the areas.** Some consideration will have to be given to define the types of areas to be disclosed, but

could include, as appropriate to each company, factors such as safety, level of general and administrative expenses, operating costs, environmental incidents, stock performance, etc. For example, in this year's proxy, Nexen disclosed certain of its Key Qualitative and Quantitative Performance Measures in three major categories, "Overall Business Measures", "Growth and Investment Measures" and "Operational Measures". This approach would allow each company to determine those items it feels are important to highlight and poor disclosure will be determined and addressed directly by investors when they have concerns.

Perquisites

Fourthly, based again on our experience, **we feel it is imperative to use appropriate definitions and provide clarity around perquisite disclosure.** This, even though we determined to rely on Canadian rules for our disclosure of 2006 information. Specifically:

- The proposed definitions, like the ones adopted in the US, refer to an exemption for items generally available to all employees. This definition will be unduly burdensome for a company such as ours, with operations outside of Canada. For example we have been advised that we will need to review certain matters in order to confirm whether they constitute perquisites: e.g., terms of life insurance for Canadian employees (including NEOs); Canadian schedules for option exercise cash payments, where they may be earlier or more frequent than international payroll schedules; etc. If there is favourable treatment on such items at the location of an NEO, they are perquisites requiring disclosure of the incremental cost differences/advantages. Accordingly, **we strongly recommend that the regulation be reworded to provide an exemption for items generally available to all employees working in the same location as the NEO, which is a more appropriate measure of whether an item is a perquisite.**

- As well, **we recommend that clarity be provided in the commentary to confirm that all travel for business purposes is "integrally and directly related to the performance of an executive officer's or, if appropriate, a director's job".** There was much debate and legal fees incurred by companies in the US (avoidable here) over the last year in order to confirm that for example, the incremental cost of a car and driver provided to an executive officer while on business, over the cost of a taxi, is not a perquisite.

Comments on Specific Questions

Following are our responses to several of the specific requests for comments.

Item 1 – General Provisions

2. Do you agree with our proposal not to substantially change the criteria for determining the top five named executive officers? Should it be based on total compensation or some other measure, such as those with the greatest policy influence or decision-making power at the organization?

Nexen: Yes, we agree with the measure of total compensation provided the criteria remain as executive officers. It is not appropriate, for example, to change criteria so that a senior employee of a division would be included on the basis of competitive pay that is largely non-

equity incentive related when that person has no policy-making function at the corporate level.

3. Should information be provided for up to five people individually, or should the information be provided separately for the CEO and CFO, then on an aggregate basis for the remaining three named executive officers?

Nexen: We agree that the information should be provided for all five people individually, to correspond with the SEC rules.

Item 2 – Compensation discussion and analysis (CD&A)

4. Will the proposed CD&A requirements elicit a meaningful discussion of a company's compensation policies and decisions?

Nexen: Subject to our earlier comments and those below, we agree with the requirements of the CD&A as proposed.

5. Should we require companies to provide specific information on performance targets?

Nexen: We believe general performance target areas should be disclosed but that greater detail is not beneficial. See our Compensation Discussion & Analysis comments above.

6. Will moving the performance graph to the CD&A and requiring an analysis of the link between performance of the company's stock and executive compensation provide meaningful disclosure?

Nexen: We are not in favour of moving the performance graph to the CD&A. See our Compensation Discussion & Analysis comments above.

Item 3 – Summary compensation table

12. Should we include the service cost to the company in the summary compensation table instead of the change in actuarial value or in addition to it?

Nexen: The service cost to the company should be reported in the summary compensation table as these changes in pension value are a consistent measure of benefits accrued during the year, plus changes in compensation in excess of actuarial assumptions. This value is the most reflective of compensation-related cost of pension. Reporting the full change in the actuarial value would also include the financing costs (both the interest on prior year's obligations and changes in the discount rates used to measure the obligations) and the impact of non-compensatory assumption changes. The financing and non-compensatory assumption changes costs are not driven by compensation decisions for the executives and providing them in the summary compensation table would be a disservice to investors. In addition, the financing costs are particularly volatile and may result in negative values in any given year. However, the change in the actuarial value that results from interest and the non-compensatory factors could be reported separately in a year-over-year pension benefit obligation table.

14. Should we provide additional guidance on how to identify perquisites?

Nexen: Yes, additional guidance is needed for identifying perquisites as noted in our comments above. As well, the threshold for reporting aggregate perquisites should be a single brightline test. The threshold, for example, should be greater than $50,000, or some other appropriate amount (given the $50,000 threshold was set in 1994).

Item 4 – Equity-based awards

17. Is the information a company will provide in the tables required by item 4 the most relevant information for investors? Do you agree with our decision to take a different approach to the SEC? Could material information be missed by this approach?

Nexen: We agree that the information in the tables is the most relevant for investors. Different approaches from that of the SEC rules are okay, but specifically allow companies to use a tabular format to present the information if they believe it constitutes better disclosure.

Item 7 – Termination and change of control agreements

19. Should we require estimates of termination payments for all NEOs or just the CEO?

Nexen: It is desirable to require the information for all NEOs. For example, a change of control is likely to involve all of them. It is also desirable that the requirements of the Canadian rules give investors the same information that's required under the SEC rules.

20. Will it be too difficult to provide estimates of potential payments under different termination scenarios? Should we only require an estimate for the largest potential payment to the particular NEO?

Nexen: We are in favour of reporting only an estimate of the largest potential payment to NEOs. It is important to give investors the same information whether it is a Canadian company or a US company and to give them the most relevant information that does not require the company to expend excessive time and effort.

Item 8 – Director compensation

21. Will expanded disclosure of director compensation provide useful information?

Nexen: It is useful to have more disclosure for director compensation, especially for larger companies because they have more sophisticated compensation programs. For the benefit of smaller companies, more disclosure should only be required if the total compensation to each director reaches a specified dollar threshold. The Commission may want to consider whether a different level of disclosure would be appropriate for venture exchange listed companies in order to ease their reporting burdens.

Item 9 – Companies reporting in the United States

22. Do you agree that executive compensation disclosure should remain in the management information circular? Would moving it to another disclosure document provide a clearer link between pay and performance?

Nexen: We agree that it should remain in the management information circular. This is where Canadian investors expect to find executive compensation disclosure and most institutions specifically review compensation as part of the proxy voting process.

25. Would the prescription of a performance measurement tool provide useful information on the link between pay and performance?

Nexen: We do not agree with this approach as it implies that compensation determination is almost a "check the box" or rule-based activity. Since there are a wide variety of compensation practices and a wide variety of relevant performance metrics among various companies and industries, a single performance measurement tool would not provide useful information on the link between pay and performance. See our Compensation Discussion & Analysis comments above.

Transition and other amendments

26. Do you think the suggested timeline will give companies enough time to implement these proposed disclosure requirements?

Nexen: Our experience indicates that additional time is required to comply with these rules. See our timeline comments above.

Thank you for the opportunity to comment on the proposed amendments to National Instrument 51-102F6. If you have any questions, please contact me at (403) 699.5339, Rick Beingessner, Vice President and General Counsel, Corporate, at (403) 699.4434 or Sylvia Groves, Assistant Secretary, at (403) 699.5291.

Yours truly,

/s/ Eric B. Miller

Eric B. Miller
Vice President, General Counsel and Secretary (Acting)