De : Chris Reed [mailto:ChrisReed@shaw.ca]
Envoyé : 29 janvier 2011 12:30
À : CSA ACVM Secretariat
Objet : CSA Proposed Amendments to Form 51-102F6 "Statement of Executive Compensation"

Please find below my comments on your proposed changes to Executive Compensation Disclosure Requirements
http://www.osc.gov.on.ca/en/NewsEvents_nr_20101119_csa-amd-disclosure-requirements.htm

I have issues with the reporting of options compensation. There is an economic cost to the company for receiving less-than-market-value for any shares issued. No where in any reporting is this cost measured. Since the accountants are paid for by management it is understandable (but not excusable) that they choose to simply ignore this cost. The fact that THEY make this choice does not excuse you from making the same error.

The excuse you give is that you are measuring 'management decisions' not 'costs'. Who says that is what you should be measuring? Management decisions result in costs. Costs that are quantifiable. The point of disclosing executive compensation is to disclose the AMOUNT of compensation - the amount realized and unrealized in each year - totaling the final value realized on exercise of the options - the total cost to the company. And yes, it is a cost to the company, just like giving away its assets to friends instead of selling them for market value would be a cost - an opportunity cost - even a theft.

Even more importantly, options have the effect of simply taking away the % interest a shareholder owns in a company, and giving it to the option-exerciser. Why do your reports not require the company to disclose a reconciliation of book-value-per-share such as offered at http://www.retailinvestor.org/earnings.html ? That would effectively disclose the cost of options.

The cost of options compensation is exactly the same as the benefit received by management. The values are documented by the stock market every day. Economic realities are best reflected by accrual accounting during the holding period. Each year's 'options cost' equals the sum of
1) the intrinsic value of options exercised during the year, plus
2) the change in market value of in-the-money options outstanding at the year ends.

When management are fired or retire, they exercise huge blocks of outstanding options that have accrued in value over years. The media wrongly attributes the gains to the single year, and management correctly objects. But the flip side of that reality is that management should be reporting the accruals in value along the way. By their objection to the reporting of windfalls at retirement, they prove they agree with my argument that market value accruals should be reported as they occur.

2008 exemplified exactly what is wrong with the reporting of options compensation. Management tried to tell the public how much the drop in share prices had hurt their compensation, but of course, their/your decision to NOT measure it in the good times, meant they could not measure it in the bad times. Investors lose on both counts. Because option-holders 'participate' in the good times, the remaining increase in value going to existing shareholders is reduced - and should be reported as reduced. In the bad time, like 2008, a lot of market volatility could have been prevented if the accrued liability to the holders of outstanding options could have been written off (as a negative expense). Because management participates in the bad time, the fall in value going to the existing shareholders is reduced.

The reporting of options in Form 51-102 consists of only
1) the Black-Scholes value of the options at the date of issue in the Summary Compensation Table. This is essentially the risk premium because most are issued with strike prices equal to market prices, and
2) the market value of unexercised in-the-money options outstanding at year end in the Incentive Plan Awards Table.

Nowhere is the full cost of options measured and disclosed. You don't require either
1) the intrinsic value of options exercised during the year, or
2) the change in market value of in-the-money options outstanding at the year end.
Even if we do the work ourselves, the two pieces of information given are not sufficient for a yearly accrual basis calculation OR even a wait-till-exercised-to-value basis calculation. In fact the chosen disclosures are meant to provide the PRETENSE of disclosure, without any reality.

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Investor