

# TALISMAN

E N E R G Y

TALISMAN ENERGY INC.  
SUITE 3400, 888 3RD STREET S.W.  
CALGARY, ALBERTA T2P 5C5  
FAX (403) 237-1902  
TEL (403) 237-1234  
[www.talisman-energy.com](http://www.talisman-energy.com)

## DELIVERED VIA E-MAIL

June 29, 2007

John Stevenson, Secretary  
Ontario Securities Commission  
20 Queen Street West  
Suite 1900, Box 55  
Toronto, Ontario  
M5H 3S8  
Fax: (416) 593-2318  
Email: [jstevenson@osc.gov.on.ca](mailto:jstevenson@osc.gov.on.ca)

Anne-Marie Beaudoin, Directrice du  
secrétariat  
Autorité des marchés financiers  
Tour de la Bourse  
800, square Victoria  
C.P. 246, 22<sup>e</sup> étage  
Montréal, Québec, H4Z 1G3  
Fax: (514) 864-6381  
E-mail: [consultation-en-cours@lautorite.com](mailto:consultation-en-cours@lautorite.com)

TO:

British Columbia Securities Commission  
Alberta Securities Commission  
Saskatchewan Financial Services Commission  
Manitoba Securities Commission  
Ontario Securities Commission  
Autorité des marchés financiers  
Nova Scotia Securities Commission  
New Brunswick Securities Commission  
Securities Office, Government of Prince Edward Island  
Department of Government Services, Government of Newfoundland and Labrador  
Registrar of Securities, Government of Yukon Territory  
Registrar of Securities, Government of the Northwest Territories  
Registrar of Securities, Legal Registries Division, Department of Justice, Government of  
Nunavut

**Re: Notice and Request for Comment dated March 29, 2007 (the "Notice") on Proposed  
Repeal and Substitution of Form 51-102F6 *Statement of Executive Compensation***

---

This is Talisman Energy Inc.'s ("Talisman") response to the CSA request for comment dated March 29, 2007 relating to: the proposed repeal and substitution of Form 51-102F6 Statement of

Executive Compensation (the “Proposed Form”); proposed amendments to National Instrument 51-102, Form 51-102F2 and Form 51-102F5; and proposed consequential amendments to Multilateral Instrument 52-110 and National Instrument 58-101.

Talisman is an independent upstream oil and gas company headquartered in Calgary, Alberta, Canada. Talisman has operations in Canada and its subsidiaries operate in the North Sea, Southeast Asia, Australia, North Africa, the United States and Trinidad and Tobago. Talisman's subsidiaries are also active in a number of other international areas. Talisman's shares are listed on the Toronto Stock Exchange in Canada and the New York Stock Exchange in the United States under the symbol TLM.

## **General Comments**

In general, we support the stated purpose of the Proposed Rule to improve the quality and transparency of executive compensation disclosure. We view executive and director compensation disclosure as a significant component of any issuer’s overall governance practices, and as evidence of our commitment to effective corporate governance, voluntarily included compensation disclosures in our March 2007 management proxy circular beyond what is currently required by Form 51-102F6.

We also note that the amendments contained in the Notice are an initiative of all members of the CSA and express our support for proposals that harmonize and consolidate securities law requirements across Canada.

With these views in mind, we provide the following comments on the Proposed Form. Where our comments correspond to a specific request for comment contained in the Notice, the relevant questions are included.

## **Specific Comments**

### Criteria for determining NEOs (question 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?*

We agree with the proposal to base the criteria for determining Named Executive Officers (NEOs) on total compensation. We recognize that a determination of NEOs based on a monetary figure may, in a few select cases, not accurately reflect the important leaders of an issuer, but we believe that the use of an objective test (which will allow the investing public to more easily understand an issuer’s compensation structures and compare between issuers) is a much fairer alternative than the use of a subjective measurement that allows for differences in, and possible abuses of interpretation.

### Summary Compensation Table (question 7)

As a preliminary comment on the summary compensation table, the introductory sentence to section 3.1 of the Proposed Form is ambiguous and should be clarified. Are issuers required to disclose three years of compensation for every individual who has served as an NEO for any portion of those past three fiscal years or are issuers required to disclose compensation only for those periods over the past three years in which an individual qualified as an NEO?

*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? (question 12)*

The compensation of an NEO in a given year not only includes the service cost, but also the interest cost and any change in the actuarial value due to changes in the actuarial assumptions (which are management best estimate assumptions) and experience gains or losses of the plan (for example, a greater than expected salary increase, thus increasing the pension value with respect to all prior years of service). We believe that including only the service cost in the table would provide an inaccurate picture of the change in the pension value and would not correctly reflect the issuer's change in liability. Details of the change in the actuarial value could be provided by including the service cost, interest cost and actuarial gains/losses in a footnote to the table.

### Disclosure of Performance Targets (question 5)

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

No. We believe that the current proposals, which allow an issuer to describe a performance target without providing specific measures if the target is subjective or based on internal processes, are sufficient for a reader to understand the components of a NEO's compensation. We do not support the disclosure of specific information on performance targets, as it will materially adversely affect an issuer's ability to keep competitive information confidential.

### Change of control/termination payments and benefits (question 20)

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

Section 7.1(ii) of the Proposed Form requires an issuer to numerically quantify the estimated payouts and benefits that would be provided to an NEO pursuant to a termination, change of control or change in responsibility. The instructions require an issuer to "consider the entire range of situations where discretionary or ad hoc payments could be made to executive officers."

We respectfully submit that the proposed requirement to numerically quantify the compensation payable in every termination or change of control circumstance is too broad to add value to an issuer's compensation disclosure. Neither the issuer nor the CSA is in a position to predict which, if any of the circumstances described (or possibly all of them) will occur. In some instances, the actual amounts payable may be a matter of negotiation between the NEO and the issuer – requiring an issuer to disclose an estimated amount in advance may eliminate potential

flexibility in the future and would not be in the best interests of the issuer. Even if the amounts payable are not a matter of negotiation, the variables that will determine the actual benefits payable in each circumstance are complex and will float until the triggering event occurs - the assumptions used to create the required table may therefore be materially different than the actual variables. Because it is impossible to predict both the events that will occur as well as the variables that will be in existence at the time of the triggering event, we believe that a description of the types of triggering circumstances and (that is, a description of general principles without numerical estimates) is all that an issuer can accurately describe. To do otherwise would, in our view, require an issuer to disclose potentially misleading figures.

#### Director Compensation Table (question 21)

*Will expanded disclosure of director compensation provide useful information?*

Yes. With the goal of providing useful information in mind, we would suggest that the “Fees Earned” column of the proposed director compensation table be more specifically delineated to disclose retainers versus meeting fees (the current instructions combine all types of fees into one aggregate sum). In addition, the proposed table does not require issuers to disclose that portion of a directors’ fees that was deferred or taken in the form of equity. We believe that these changes would more accurately reflect current industry “best practices” for directors’ compensation and would allow for more meaningful comparisons between issuers.

#### Location of Disclosure (question 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?*

We believe that executive compensation disclosure should remain in the management information circular. As noted in our introductory comments, we believe that executive compensation is a component of an issuer’s governance structures. As such, we believe that executive compensation disclosure should logically be proximately located with the main governance disclosures of an issuer, which are presently required to be contained in the information circular pursuant to National Instrument 58-101 and the related National Policy 58-201. (Talisman also voluntarily complies with many corporate governance listing standards of the New York Stock Exchange, which are also contained in the management information circular).

We also agree with the concerns raised in the Notice regarding a possible requirement to locate the compensation disclosure in the Management’s Discussion and Analysis. We believe that the timing and certification concerns discussed under “Other Major Issues Considered” – section (a) are compelling.

### Implementation Date (question 26)

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

Whether the implementation date is acceptable or too aggressive will be determined by how quickly the CSA is able to absorb the comments received and provide issuers with the final form of 51-102F6 and related amendments. In the Notice, the CSA has stated that “given the length of our comment process, we feel companies will have enough time to consider these changes and prepare for the proposed executive compensation form.” While the comment process may be lengthy, the time between the issuance of the final form of 51-102F6 and the implementation date may not be. All issuers will need time to absorb the final requirements in detail. We suggest that if the final format cannot be released in the third quarter of 2007, the implementation of these rules should be delayed (that is, issuers should not be required to comply until the year ended December 31, 2008).

### Interaction of CD&A and 58-101

The instructions at s.2.1(4) of the Proposed Form require issuers to consider the disclosure that they have provided pursuant to Form 58-101F1 Corporate Governance Disclosure when drafting the CD&A. Specifically, issuers are asked to ensure that the 58-101F1 disclosure (which requires issuers to describe the process by which the board determines the compensation for the issuers’ directors and officers) is consistent with the disclosure provided under the Proposed Form. These instructions seem to suggest that an issuer is required to provide two separate sections in the proxy circular dealing with board processes for determining compensation – one that deals with the governance requirements of 58-101 and one that deals with the requirements of the Proposed Form (including section 2.1 (a) through (f), section 2.3). We question whether this is the most efficient way to present this information and instead suggest that compliance with the specific requirements of the Proposed Form should be stated to specifically satisfy the more general requirements of Form 58-101F1. Many shareholders who review an issuer’s executive compensation disclosure are not versed in or appreciate the differences and intricacies between 58-101F1 and 51-102F6. We believe that they will find two similar sections in an issuer’s proxy disclosure dealing with compensation processes overlapping at best and most likely confusing.

### Currency conversion

Section 3.4 of the Proposed Form states that if an NEO was paid in a different currency than the issuer’s reporting currency, a footnote should be added disclosing the original currency, as well as the rate and methodology. As an issuer with international operations, we appreciate the inclusion of instructions on currency. We suggest that guidance on the appropriate date of currency conversion would also be helpful, and would allow for more direct and meaningful comparisons between issuers.

## **Conclusion**

We believe in active participation by issuers in the development of securities legislation, and the consideration of our comments encourages us to continue in our efforts. Thank you for the opportunity to contribute to this initiative.

Yours truly,

**TALISMAN ENERGY INC.**

“SIGNED”

M. Jacqueline Sheppard  
Executive Vice-President, Corporate & Legal  
and Corporate Secretary