

To:
John Stevenson, Secretary
Ontario Securities Commission
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From:
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Re:
Request for Comments
Proposed Repeal and Substitution of Form 51-102F6
"Statement of Executive Compensation"

1.)

Quote: "We believe that disclosing grant date fair value of equity awards in the SCT will better allow investors to assess the compensation decisions that are made in any given year."

The primary point of the disclosure should be "putting a value on the compensation", not on "assessing the decision". It is not possible to evaluate compensation without first knowing its value.

2.)

Quote: "...the objective of communicating what the board of directors intended to pay".

When compensation comes from equity it is realized over time with no reference to any director's "intent". By measuring intent rather than fact you further hide the true cost of options. The intent of management's issue of stock options can be easily measured by multiplying the dilution percentage of outstanding options by the normal P/E ration of the stock (**% options dilution**) * (**P/E ratio**). . This easy ratio measures the percent of future earnings growth that will accrue to options owners (not the public owners). see Note 1 below.

3.)

None of your question on the original RFC allowed for direct comment on the valuation of equity options. You still refuse to address the issue. To reiterate the comments of my original submission ...

Errors in your proposed measurement of stock options.

- All options issued before the change in rules are ignored. They are not part of any measured liability on the Balance Sheet. But they do in fact exist. They are in fact a liability. .

- Revaluation of the options is wrongfully ignored at subsequent Balance Sheet dates. Again, at exercise they are not revalued. Obviously they do in fact change in value as the stock price changes..
- The total value of an option to management is its intrinsic value at the exercise date. This by necessity is the cost to the company. The total of all expenses recognized over the life of the option should equal this final intrinsic value. Currently it does not, because of the errors above.
- The use of the Black-Scholes value at the time of issue is irrelevant. When issued at or above market, they have no value. There has been no economic event - only a decision made. The argument that they have value results from the presumption that they can be sold or used as collateral for a derivative position to offset their risk. Since the whole point of options is to force stock risk upon management, there should be regulations preventing their sale or use as collateral. The valuation should still be the intrinsic value.

The cost of options to the company is equal to the sum of:

1. The value of options exercised in the year (mkt value less exercise price),
2. plus the market value of options outstanding at the end of the year (or even the B-S value if you refuse to use mkt value),
3. less the market value of options outstanding at the beginning of the year

Just because the accountants refuse to measure stock options correctly does not mean that YOU must follow suit. This is your chance to correct their error. Why do you refuse to even consider it?

NOTE 1: Proof that **(% options dilution) * (P/E ratio)**. measures the percent of earnings increases that will go to options owners - not the public.

E.g. if the options outstanding equal 5% of the issued shares and the P/E=20, then $(5/105*20=)$ **95%** of any increase in earnings goes, not to the shareholders..

Assume

- The number of options outstanding is 5% of the issued stock.
- The P/E is stable over time at 20.
- The published earnings to start are \$1.00/share, so the stock trades at \$20.00.
- The exercise price of the options is \$20.00, so the liability (per share) for options is 0.

What happens if the earnings increase 10%?

- Published EPS increases \$0.10 to \$1.10.
- The stock price increases \$2.00 to \$22.0.
- The options value will now be $(22-20=)$ \$2.00.
- That liability 'per total #shares' is $(5/105*\$2.00=)$ \$0.0952/share.
- Compare the increase in liability (which was not booked as an expense) to the increase in earnings = $(.0952/0.10=)$ **95%**