April 22, 2008

Mr. John Stevenson,
Secretary
Ontario Securities Commission
20 Queen Street West
Toronto, Ontario M5H 3S8

Madame Anne-Marie Beaudoin,
Directrice du secrétariat
Autorité des marchés financiers
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Dear Mr. Stevenson et Madame Beaudoin:

RE: PROPOSED REPEAL AND SUBSTITUTION OF
FORM 51-102F6 *STATEMENT OF EXECUTIVE COMPENSATION*

Towers Perrin appreciates the opportunity to provide comments to the Canadian Securities Administrators ("CSA") on the amended Form 51-102F6 (the "Form") disclosure requirements for executive and director compensation proposed in your February 22, 2008 Notice and Request for Comment.

Towers Perrin is a global professional services organization whose Human Capital business provides global human resource consulting in areas including executive compensation and the valuation and design of retirement benefits programs.

Background

We are generally supportive of the changes that the CSA has made to the revised draft rules. We appreciate that the CSA has carefully reviewed the responses to the original proposals dated March 29, 2007 and incorporated a number of the improvements that were suggested.

The changes to the Form go a long way to meeting the information requirements of Canadian investors by allowing them to more readily understand the compensation decision-making processes and actions of Boards of Directors.

We note that the following changes have been made as suggested in Towers Perrin's original submission dated June 29, 2007:

- Inclusion of key objectives in the revised proposals gives companies a set of principles to guide them in their drafting of the new compensation disclosure.

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- Replacement in the Summary Compensation Table (SCT) of the previously-proposed accounting expense allocation with the grant-date compensation value of stock options and stock awards makes disclosure more consistent with the quantum of awards Boards intend to pay and hence use in their assessment of executive compensation.

- Replacement of the previously-proposed change in the actuarial value of pension benefits during the year with the compensatory value of additional pension accruals removes items such as interest and changes in measurement assumptions – items that don't alter the pension promise itself and hence which are not generally considered by Boards in assessing executive compensation for the current year.

- Continuation of the current method of reporting annual incentives in a separate column from longer term incentive payments, which is more consistent with the way that Boards consider incentives (relative to the previous proposal to combine annual and longer-term non-equity incentives into one column).

- Disclosure of the in-the-money value of all outstanding options will assist readers in assessing the degree to which the Named Executive Officers' (NEOs') equity stake is affected by changes in the share price, without requiring a lot of additional calculations.

- Modifications to pension reporting rules simplify the disclosure for companies and make it easier for readers to assess the value of executive pensions. These changes result in (1) aggregated disclosure of each NEO's pension entitlements across all defined benefit (DB) plans and (2) employer contributions to defined contribution (DC) plans being included in the Pension value column along with DB compensatory values (rather than in the All other compensation column).

While we are pleased overall with the thrust of the changes made to the revised proposals, we have a number of suggestions for further improvement and on issues where the interpretation of the proposed rules could be clarified. The issues we will address in this letter focus in particular on:

— Treatment of non-equity versus equity incentives,
— Disclosure of outstanding deferred share unit balances,
— Clarification of pension measurements and related calculations, and
— Clarification of post-retirement benefit disclosure.

The rest of this document contains our detailed comments on the Items in the proposed Form in the order in which they appear in the Notice.

TOWERS PERRIN

We would be happy to further discuss our views or answer any questions you may have.

Sincerely yours,

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Comments on Section 1.3 – Definition of "equity incentive plan"

We note that the CSA's response regarding the comments made on the definition of equity incentive plans [reference 2.4 on page (2008) 31 OSCB 2026] indicates that "Equity incentive plan generally does not include awards of cash for which the performance condition is based on a threshold price of the company's stock." This interpretation would seem to exclude performance cash plans which have a market-based performance measure such as total shareholder return (TSR) from being disclosed in the Share award column in the Summary Compensation Table (SCT) or in the "Outstanding share awards and option awards" table.

We also note, however, that in Section 1.3 – Definitions of the proposed Form, "equity incentive plan" is defined as "an incentive plan or portion of an incentive plan under which awards are granted that fall within the scope of Section 3870 of the Handbook." A performance cash plan with either a threshold share price condition or a market-based performance measure is in fact subject to Section 3870 accounting.

If the CSA is intent on excluding performance cash plans from being considered as equity incentive plans regardless of the performance measures used, we believe you should add further clarity to the definition in Section 1.3.

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

In Item 2 of Appendix B, "Summary of Changes to the 2007 Proposal", paragraph (iii) on Performance targets states that if a company relies on the competitive harm exemption to avoid disclosing performance targets used to determine NEO compensation, it may "subsequently be required to demonstrate how disclosing specific target information would seriously prejudice its interests".

It is not clear to us whether the CSA intends the "serious prejudice" requirement to impose a more stringent test on the issuer than the "competitive harm" test. Accordingly, we believe it would be helpful for the CSA to provide additional clarification in this regard.

Comments on Item 3 - Summary compensation table

Revisions to wording in SCT commentary
Commentary number 6 under subsection 3.1(5) indicates that "Under Section 3870 of the Handbook, a company does not recognize any accounting expense at grant date for awards that call only for settlement in cash and *if the exercise price is not equal to fair market value*."

We believe the last part of this comment should be corrected to read "if the exercise price is equal to or exceeds the fair market value of the shares on the grant date."(We note, however, that IFRS2 would require a compensation expense in such a case.)

You may wish to reword the last sentence of Commentary number 8(a) under subsection 3.1(5) to read “The company is not required to report these amounts again in column (f) when they are actually paid to an NEO.”

Commentary number 8(d) under subsection 3.1(5) indicates that any annual cash compensation (such as bonus) deferred into shares, options or other non-cash compensation should be included in the *salary* column. We believe that the comment should read “be included in the annual incentive plans column” in the case of bonus deferrals.

Treatment of health/life insurance and similar benefits provided during active service
Subsection 3.1(10)(b) makes specific reference to the need for other post-retirement benefits to be reported in the All other compensation column. No similar reference exists for benefits provided to NEOs during their active service period. We would like to confirm if it is the CSA's intention that active-service benefits can be ignored by companies, provided they apply equally to all salaried employees.

Compensatory Value of Post-Retirement Benefits (other than pension) – Subsection 3.1(10)(b)
Firstly, we would like to confirm that post-retirement benefits (like retiree health/life insurance) would qualify for exemption from the definition of "plan" (and hence reporting) if the plan’s terms are non-discriminatory and generally available to retirees from the salaried employee group. We raise this simply because the latest proposals include some explicit references to post-retirement benefits (and where similar references do not exist regarding benefits provided during the active service period).

We would also like to confirm that, where disclosure of non-pension post-retirement benefits is required in the SCT's All other compensation column, the compensatory value used for this reporting is to reflect the same measurement principles as apply to pension benefits – notably, service cost and plan amendment impacts as determined for the company’s GAAP reporting purposes.

Disclosure of Deferred Share Unit (DSU) Value on Termination in SCT
By virtue of its reference to Section 6.1, subsection 3.1(10)(d) requires companies to report the incremental amounts paid or payable as a result of the termination, resignation, retirement, change of control or change in an NEO’s responsibilities (hereinafter referred to as “termination”).

While Section 6.1 does not deal specifically with DSUs, in your February 22, 2008 responses regarding the comments you received on DSUs, you indicate that:

> “DSU awards will not be reflected in column (h) (“All other compensation”) of the SCT unless related to termination. In this case, the DSUs would not have been captured in the SCT.” (page 2068)

> "We consider a DSU to be an equity-based award and should accordingly be included by companies in the SCT in the year of grant. We note that, at termination, the incremental fair value of any DSUs that were previously granted must also be disclosed." (page 2070)

If the incremental value of DSUs on termination is to be included in SCT column (h), the result would be double counting as the grant date compensation value of DSUs would have previously been reportable in the SCT, either as a share award in the year of grant (as DSUs are subject to Section 3870 accounting) or as a deferral of base salary or bonus into DSUs: that initial SCT value implicitly includes the expected stock price appreciation and dividend yield that will be realized in the future.

Furthermore, the incremental compensation from settling vested DSUs on termination would not reflect how the Board of Directors intended to compensate the executive during the year, contrary to the primary objective of the Form. In addition, the DSU approach would be inconsistent with the treatment of other share awards, such as RSUs and PSUs, which have vested but are not paid out until a subsequent fiscal year: their incremental value on settlement would not be considered additional compensation to be reported in SCT column (h) in the absence of accelerated vesting on a termination.

Accordingly, it is our view that the incremental value of previously reported share awards, including DSUs, that have vested should not be required to be reported again in the SCT in the year they are settled.

Notwithstanding the foregoing, we believe that investors want to know how much of a stake each executive has in the company each year regardless of when share awards come due. We accordingly suggest requiring companies to report each executive's shareholdings, both real shares and notional vested holdings each year (e.g. RSUs, PSUs and DSUs) in a separate table under Item 4 of the Form.

Benefits accelerated on account of retirement – Subsection 10(i)(ii)
Subsection 10(i)(ii) references the need to report in SCT All other compensation column (h) compensation arising from pension benefits that "have been accelerated as a result of termination (whether voluntary, involuntary or constructive), resignation, retirement, a change in control of the company or a change in an NEO's responsibilities." The language of this section goes on to note that information other than for accelerated payments is to be reported in SCT Pension value column (g) -- thus implying that it is only the acceleration of pension benefits which needs to be isolated and reported in SCT column (h).

It is extremely rare for pension programs to pay any benefit prior to termination of employment; this is something that simply doesn't occur unless employment is continuing beyond age 65. Yet, the situations identified as warranting this reporting in SCT column (h) would seem to cover all potential circumstances of an NEO's termination of employment. In the circumstances, it is not apparent to us what the CSA intends by the term "accelerated benefit". Consider some examples.

- An NEO retires in the normal course during the year at age 61. The measurement assumptions used for the prior year end reporting anticipated retirement at age 60. The plan terms are such that no benefit would have become payable had the NEO’s employment not terminated. We presume the CSA would not see this situation as one giving rise to an “accelerated benefit”.

- An NEO retires in the normal course during the year at age 61. The measurement assumptions used for the prior year end reporting anticipated retirement at age 62, and plan terms are such that no benefit would have become payable had employment not terminated. We presume the CSA would not see this situation as one giving rise to an “accelerated benefit”.

- An NEO retires during the year at age 61. Although this individual's employment was terminated following a Change of Control, his/her pension benefits are identical to those provided in the absence of a CoC. We presume the CSA would not see this situation as one giving rise to an “accelerated benefit”.

- An NEO dies during the year while in active service. We presume the CSA would not see this situation as one giving rise to an “accelerated benefit”.

- An NEO retires as a consequence of a Change of Control and, due to termination of employment, begins to receive pension benefits. The subject individual was already eligible to retire in absence of the Change of Control, but the Change of Control caused the amount of pension to be larger than it otherwise would have been. The Change of Control event triggered a de facto amendment to the NEO's pension arrangements causing a different pension entitlement to arise. Does the CSA see this situation as one giving rise to an “accelerated benefit”? We presume yes, and that the amount to be reported in SCT column (h) is the present value of incremental pension (and that such amount would not also be reported in column (g) as an amendment impact).

Because pension benefits tend not be paid prior to termination of employment, we find it confusing to have an all-inclusive list of potential circumstances of departure as triggering this disclosure. We suggest that some additional commentary outlining what is considered an “accelerated benefit” would prove helpful.

Comments on Section 4.1 – Outstanding share awards and option awards table and Section 4.2 Value on pay-out or vesting of incentive plan awards table

Change in Heading for Value on pay-out or vesting of incentive plan awards table
For option awards, the column heading should probably read "Option Awards - Value during the year on *exercise*" rather than "… on year of *vesting*."

Share Award Performance Assumptions
Subsection 4.1(7) requires companies to assume threshold performance goals in reporting the number and value of unvested share awards at the end of the year unless the threshold performance has already been attained. We believe companies should instead be required to assume that their target performance goals will be achieved if the actual performance is not readily determinable at the year end. This approach would be consistent with how companies typically account for these plans in their financial statements, i.e. they initially accrue assuming target performance and then adjust their accruals upwards or downwards towards the end of the performance period based on the likelihood of the expected results.

Otherwise, the reporting in column (g) will be inconsistent with both the amounts reported in SCT column (d) and with what the board of directors intends to pay on vesting, all other things being equal (e.g. actual performance and the impact of changes in the stock price).

Treatment of Non-Equity Incentive Plans
The currently proposed rules treat the disclosure of outstanding equity awards very differently from outstanding non-equity awards.

The table on the following page compares how equity-based MTIPs (PSUs) and non-equity MTIPs (performance cash) with the same performance vesting and cash payment terms (with the sole exception of the impact of the stock price on payouts) would be disclosed in the proxy circulars from the date of grant to the date of settlement based on our understanding of the proposed rules.

Plan A Performance Share Unit Plan	Plan B Performance Cash Plan
3 year cumulative revenue/profit improvement 3 year cliff vesting: 50% of target threshold 200% of target maximum Value of vested share units payable in cash in early Year 4.	3 year cumulative revenue/profit improvement (same) 3 year cliff vesting: 50% of target threshold 200% of target maximum (same) Vested amounts payable in cash in early Year 4. (same payout date)
In Years 1 & 2	
Report grant date fair value in SCT (e.g., target award) in Year 1 Include # of unvested units assuming threshold performance (i.e. 50%) and their $ value in "Outstanding Awards" table in Years 1 and 2 Provide general description of performance formula in narrative in both years	Nothing reported in SCT in either Year 1or 2 Nothing reported in "Outstanding Awards" table in either year Provide information on estimated future payouts at threshold, target and maximum in narrative in both years
In Year 3	
Report $ value earned on vesting in "Value on Pay-Out" table	Report $ value earned in SCT column (f2) for Year 3. Add footnote re: timing of pay-out
In Year 4	
No reporting required re: actual pay-out	Report $ payment in "Value on Pay-Out" table

In the eyes of the Board of Directors and most investors, there is little difference between Plan A and Plan B, with the exception that Plan A is subject to Section 3870 due to the share price connection. However, under the current proposals, there would be no disclosure of the grant or outstanding value of the performance cash plan (Plan B) and no disclosure of any compensation value until amounts were earned in year 3.

In order to provide complete information about the value of all outstanding long-term incentive awards, we suggest adding a column to the "Outstanding share awards and option awards table" to address the estimated pay-out value of outstanding unvested non-equity incentive plans, similar to the current proposed disclosure of the market or pay-out value of share awards that have not vested. Given that in Canada, performance based mid-term incentives are in most cases eventually settled in cash, whether they are classified as share awards (performance share units/PSUs) or non-equity incentive awards (performance cash), they should be treated in a similar fashion in the disclosure of outstanding awards. If this column is added, we suggest renaming the table “Outstanding incentive plan awards”.

We note that the current proposal requires the disclosure of non-equity incentives in both the SCT (in the year earned) and again in the “Value on pay-out or vesting of incentive plan awards” table (when paid out, which is frequently early in the following fiscal year). We question the need to disclose the amounts earned and the subsequent pay-outs (which are generally the same) in two consecutive proxies; we suspect this will only confuse the readers. Instead, we propose that the only requirement be that the non-equity incentive (both annual and mid-term) amount earned be shown in the SCT in the respective subcolumn, with appropriate footnotes regarding the timing of the payout, and not once again under Item 4 in the year of payment. In this case, the “Value on pay-out or vesting of incentive plan awards” table would be limited to options and share awards.

Treatment of Deferred Share Units
As discussed in our comments on the SCT, DSUs may arise from the deferral of bonuses or other cash payments, or from standalone grants. These phantom grants are generally fully vested upon award or otherwise typically within three years from grant, but for tax reasons cannot be accessed until the executive leaves the company. Between the grant and settlement dates, the DSU values fluctuate with the share price and typically accumulate dividend equivalents, representing a growing liability. We believe investors and other proxy readers want to know the outstanding liability/DSU balance for the NEOs each year during the deferral period.

We also believe that investors want companies to disclose the current equity ownership levels (e.g. vested RSUs, PSUs, DSUs and real shares) for each NEO. This information could be required by Item 4 to be provided in a separate table that would show how each NEO’s equity stake compares to the company’s equity ownership guidelines. Companies are already required to disclose ownership levels for the slate of directors subject to election, so it would be reasonable to disclose the executive ownership as well.

[Alternatively, if a separate equity ownership table is not required by the final Form, the outstanding vested DSUs and other share awards could be captured in an additional column in the “Outstanding share awards and option awards” or “Value on pay-out or vesting of incentive plan awards” tables.]

Comments on Item 5 – Retirement Plan Benefits

Reporting of Post-Retirement Benefits (other than pension)
Subsection 5.1(1) indicates that the defined benefit pension table is to incorporate "all plans that provide for payments or benefits at, following, or in connection with retirement, excluding defined contribution plans." On the other hand, subsection 3.1(10) clearly places

other post-retirement benefits, like retiree medical/life insurance, into the SCT All other compensation column (h) (where reporting of these benefits is required). This language creates potential confusion around the required reporting of non-pension post-retirement benefits.

We presume that the CSA's intention is for the pension tables to focus on pension entitlements and that pension values disclosed in the SCT are to align with amounts reported in the DB/DC pension tables. Additionally, the requirement to report service credits (as required for DB pension) isn't relevant in the context of most retiree health/life insurance programs. In practice, then, we presume that the intention is not to include non-pension benefits (like post-retirement health/life insurance) within the DB pension table. We would like to confirm that these assumptions are correct and if so, suggest that they be clarified in the final Form.

Pension amounts

The defined benefit pension table requires that annual pension amounts be reported in columns c1 and c2 – in one case, the benefit payable at age 65 and, in the other case, at the end of the most recently completed fiscal year. The commentary on column c1 indicates that it is to be based on service and actual earnings history through to the end of the financial year. We understand that column c2 is to be the projected pension including the impact of service credits as projected to age 65 – but it is unclear what compensation base the CSA intends column c2 to reflect. Is it to reflect:

- actual compensation history through to the end of the end of the financial year, as per column c1?
- a presumption that compensation in all future years will equal that for the year just ended?
- a presumption that compensation in all future years will equal the upcoming year's target pay level? or
- a presumption that compensation will increase in future years in line with the assumptions used for the company's GAAP pension accounting?

In the absence of some clarification on this matter, we suspect that the reporting in column c2 could lack consistency.

We also observe that pension programs often include two types of benefit – a lifetime benefit and a "bridge" benefit payable until age 65. We presume that columns c1 and c2 are to report the lifetime entitlements, and suggest that clarification of this could be incorporated into the Form.

Measurement of DB accrued pension obligation

For defined benefit entitlements, measurement of an NEO's accrued pension obligation must reflect a host of assumptions -- for example, when retirement will occur, longevity in retirement, spousal benefit entitlements and the discount rate used for valuing the resulting expected pension payment stream. We observe that the CSA proposals require that these measurements "use the same assumptions and methods used for financial statement reporting purposes under the issuer's GAAP."

In undertaking a company's GAAP accounting measurements, an assumption is required regarding what the individual's pensionable earnings history will be at the time of retirement. The requirement of the CSA proposals to use GAAP accounting assumptions infers that pensionable earnings should be projected for purposes of the calculations. There are pros and cons as to whether the pension measurements used for executive compensation disclosure purposes should incorporate an anticipation of future pay increases.

Perhaps the most obvious issue is that future pay increases might not emerge as anticipated in the pension measurements. We understand that as and when actual pay changes differ from those assumed, this difference will give rise to pension compensation in the year the experience emerges. As such, this experience could be either positive or negative – and the overall amount of pension compensation in any year (including service cost and amendment impacts) may well be negative. The CSA's thinking (as outlined in note 4.12 of Appendix A) – that a negative compensatory value of pension cannot arise due to the construction of the new proposals – is not correct. We can see other anomalies arising from the projection of future pay increase in the pension measurements, like the treatment of dollar caps on pensionable earnings.

When Boards ask for the pension expense implications of potential current year pay increases for executives, the information they receive from their advisors typically incorporates an assumption with regards to future pay projections. So while there are pros and cons to projection of future pay increases in the pension measurements, our sense is that inclusion of some pay projection is better aligned with the objectives and principles for executive compensation disclosure.

We observe, however, that such a projection requirement will increase the frequency in reporting of negative pension compensation, for example when an executive is now expected to receive less pension than was previously estimated due to lower expectations about future pay than in the past. Reporting of negative pension compensation therefore should be accommodated in such situations.

Compensatory value of DB pension -- change in measurement assumptions and treatment of emerging experience

The CSA proposals segment the year-over-year change in the accrued obligation between two categories:

- factors that are compensatory in nature, notably the service cost, the impact of plan amendments, and the impact of pay-related experience; and
- factors that are non-compensatory in nature, like interest adjustments and the impact of assumption changes.

In light of this segmentation, we observe that the assumptions used to measure an organization's accrued pension obligations are influenced by a number of factors -- including the terms of the pension program itself. For example, the valuation assumption for a program having generous early retirement features would (all other factors being equal) typically be earlier than that for a program not having generous early retirement features.

To the extent then that a valuation assumption changes as a consequence of an amendment to the benefit terms, we presume that the impact of that assumption change should be treated as part of the program amendment -- and hence characterized as compensatory.

Additionally, we observe that the impact of pay-related experience on pension obligations gives rise to pension compensation. For consistency between the treatment of this pay-related experience and the assumptions by reference to which pay-related experience is determined, we presume that the impact of a change in the assumption regarding future pay increases would be treated as compensatory.

The CSA proposal indicates in subsection 5.1(7) that the impact arising from a change in measurement assumptions is non-compensatory. We presume that the CSA intention is for assumption changes other than those identified above (namely, a change in the future pay assumption or an assumption change that arises as a consequence of a plan amendment) to be non-compensatory in nature. On the understanding that all other assumption changes are non-compensatory in nature, we presume that experience from all other factors would also be non-compensatory – otherwise experience would be treated differently to the assumption by reference to which it is determined.

We would like to confirm that the foregoing is a correct understanding of the CSA's intentions, and suggest that the language of the proposals be clarified in this regard.

Service cost
Under the CSA proposals, pension compensation includes service cost net of any employee contributions. In our view this inclusion of net service cost to the company is appropriate.

We note that these calculations are to be undertaken using assumptions and methods consistent with the organization's GAAP accounting. In this regard, we observe that GAAP accounting expense for DB plans (of which service cost is an element) is typically fixed at the beginning of an organization's fiscal year. In practice, then, the service cost is fixed before it is known whether an NEO will or will not render service for the full fiscal year. For example, the GAAP accounting might anticipate retirement of an executive mid-way through the fiscal year even though, in practice, that executive might render service for the full year (and accrue pension benefits for the full year). Similarly, an executive might actually render service for less than the period of time contemplated in the service cost. In the context of the total pension plan, "overages" for some individuals will be offset by "shortfalls" for others – and the net effect should be immaterial to the organization's overall financial reporting.

But immateriality is not assured when reporting results on a person-by-person basis. In our view, service cost as used for year-end executive compensation disclosure should be prorated (upward or downward as the case may be) to reflect the then-known actual service credits of each NEO. We suggest that this issue be clarified in the final Form.

Effective Date

We suggest that companies whose current financial years end before December 31, 2008 be allowed to comply with the requirements of the new Form for this year, rather than with the old Form, if they wish.

Conclusion

Towers Perrin appreciates the opportunity to comment on the revised proposals and would welcome the opportunity to discuss our suggestions with the CSA at any time.