

Canadian Securities Administrators seeks to boost clarity on executive pay packages

Canada's securities regulators want more information from companies on executive pay packages amid concerns that short-term incentives may be encouraging excessive risk-taking.

The Canadian Securities Administrators have proposed amendments designed to make compensation packages easier for investors to understand and also to bring Canada in line with proposals being put forward by the U.S. Securities and Exchange Commission.

"One of the many contributing factors cited as a basis for the recent problems in the financial markets is that, at a number of large financial institutions, the short-term incentives created by their compensation policies were misaligned with their long-term objectives," the 41-page paper said. "Without proper compensation disclosure, the shareholder cannot determine if management's incentives are aligned with shareholder interests and whether the level of compensation reflects the executive's performance," it said.

One of the biggest changes will require companies to provide a detailed assessment of whether or not the company's compensation packages could pose a risk to the company. That includes information on how the board of directors is overseeing and taking steps to reduce the risk, and whether pay structure is likely to encourage an individual executive to take excessive chances. ...

The proposals also ask for more detail if the company asks for an exemption from the requirement to disclose performance goals on the grounds that it would seriously prejudice the interests of the company.

The company will need to explicitly state it is relying on the exemption and detail why disclosure would harm the business. Under the new guidelines, the company will need to say if an executive has the right to buy hedging instruments that are used to protect the value of stocks issued as part of a compensation package.

The regulators also want more information about how much a company pays external consultants for advice on compensation packages and the role they play in structuring executive pay.

The proposal springs from concern about potential conflicts of interest where the advisor making recommendations on executive pay may also be swayed by the fact it also does business for the company in other areas, such as human resources.

The proposals are open for comment until Feb. 17 next year.

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