

CSA STAFF NOTICE 51-314 – RETIREMENT BENEFITS DISCLOSURE**1. Purpose**

We understand that a number of issuers are presently considering providing enhanced disclosure on retirement benefits payable to executives that goes beyond that which is mandated by current securities law requirements. The purpose of this Notice is to provide guidance from CSA staff (except for staff in British Columbia, which is not participating in the notice) to issuers that choose in this way to broaden their disclosure. The requirements for executive compensation disclosure are found in Form 51-102F6 *Statement of Executive Compensation* of National Instrument 51-102 *Continuous Disclosure Obligations* (the Form).

2. Commentary

The complexity of compensation mechanisms has grown steadily in recent years, making it more difficult for investors to understand what executives are paid and how that compensation is determined. Current requirements in the Form provide a general framework for disclosure on many different types of compensation. We understand that some issuers are thinking about how to provide disclosure that goes beyond the strict requirements of the Form.

In particular, some issuers are considering disclosing additional information on the value of retirement benefit plans, such as supplementary pension plans granted to senior executives. Although Item 6 of the Form (Defined Benefit or Actuarial Plan Disclosure) requires some disclosure related to pensions, this requirement does not result in the disclosure of the overall value of a benefit plan for each executive. Additional disclosure could include, among other information:

- i) the total retirement benefit liability of the issuer associated with each executive;
- ii) the total service costs in respect of the plan during the past year; and
- iii) the estimated annual benefits payable on retirement to specific executives.

This information could be set out in narrative form or could be represented in a table.

We acknowledge that this additional disclosure is not technically required by the Form or by any other aspect of securities law. However, when companies choose to provide this additional disclosure, we believe it is important that the disclosure specify:

- (a) that these are estimated amounts based on assumptions, which represent contractual entitlements that may change over time;
- (b) that the method used to determine any estimated amounts will not be identical to the method used by other issuers and as a result the figures may not be directly comparable across companies; and

(c) the key assumptions.

These assumptions include, but are not necessarily limited to:

- **Retirement:** Issuers will need to make assumptions about the length of time an officer will remain employed. For example, will the officer work until a standard retirement age (such as 65) or retire at an earlier date?
- **Vesting:** Some pension benefits will not vest until a future date and their current value will need to be estimated for disclosure purposes.
- **Increases in compensation:** Issuers must take into account future pay increases granted to executives when estimating a value for retirement benefits. Potential future earnings affect the value of the benefit to the executive, as typically, these benefits are based on the executive's income in the years immediately before retirement. Issuers must also consider how to reflect any changes to the disclosure when actual amounts differ from what was originally estimated and disclosed.
- **Interest rates:** Issuers must determine whether to use pre-tax or after-tax interest rates when determining the value of benefits granted to executives.
- **Employee Contributions:** Where the pension plan includes employee contributions, issuers may wish to disclose whether such contributions are included in estimated figures for benefits or liabilities and how they are taken into account.

CICA Handbook section 3461 requires disclosure in financial statements of significant assumptions used in accounting for employee future benefits for the enterprise as a whole. Where appropriate, we believe the assumptions used for financial statement purposes should be consistent with those used for the purpose of individual executive compensation disclosure. Major differences in assumptions should be highlighted and explained.

For some of these matters, it may be useful to provide disclosure reflecting different possible assumptions. For example, in respect of vesting, disclosure could be made both to reflect an executive's current entitlement and to reflect an assumption that all benefits are immediately vested. In respect of retirement date, disclosure could be made to reflect an executive's entitlement both if he or she retired immediately and at the standard retirement date.

It may also be appropriate to disclose the key contractual terms of the relevant benefit plan, particularly when they are unusual or when their impact is significant. For example, under some plans, the executive is ultimately credited for benefit calculation purposes with a number of years' service in excess of that actually worked. In such cases, we believe that it would be appropriate to identify this contractual provision and to reflect it in the stated assumptions.

Additional information on executive pensions is likely to be most useful to investors if it is clearly identified and is included with the issuer's other disclosure on executive compensation, contained in the issuer's proxy circular.

We will continue to monitor developments in this area and may decide in the future that amendments to executive compensation disclosure requirements are warranted.

Questions may be referred to:

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