

**Stock options, insider trading and out of date technology – New report by
School of Public Policy calls for system revamp to restore integrity**

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CALGARY - It's not uncommon for corporate senior managers in Canada to receive stock options as part of their overall compensation. When stock options are granted, they must be reported in corporate annual information circulars. But are stock options always reported? According to a new report by author Prof. Lindsay Tedds, published by The School of Public Policy, the answer is "no".

Fully 12 per cent of stock option awards are not made public outside of company circulars, with 10 per cent of awards to CEOs, nine per cent to CFOs and 15 per cent to VPs going unfiled. The incidence of unfiled reports also includes 22 per cent of insiders for whom stock options are the only award. Equally worrisome is the fact that 26 per cent of insiders have at least one option award that goes unreported and nearly eight per cent of insiders never file. Some 34 per cent of insider awards are filed with information that differs from the data reported in the firm's information circular.

Why? There are several reasons, but Tedds points to The System for Electronic Document Analysis and Retrieval (SEDAR), the continuous disclosure database that firms use, which cries out for modernization. Not only does its archaic reporting system limit its accessibility, but it functions separately from the database insiders use, the System for Electronic Disclosure by Insiders (SEDI). Linking the two databases would streamline insider filing requirements, increase compliance with insider disclosure, and improve the audit and compliance function of the securities regulators.

The penalties for non-compliance or irregularities should be an incentive for both insiders and issuers to educate themselves and ensure they are meticulous in producing error-free, timely data and in making those data public. Unfortunately, enforcement is inconsistent. Currently, penalties tend to be applied only if another serious regulatory breach accompanies the misfiling, late filings or chronic nonfiling.

Canada's disclosure system needs fixing to achieve the highest level of transparency on executive compensation. Some of these fixes are simple, others may be costly, but if improvements are not made, the system's integrity, along with shareholder and public confidence, risk being seriously compromised.

You can find the report at www.policyschool.ca/publications/ after 10:00 a.m. MT today.

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To request an interview with the author or for more information please contact:

Morten Paulsen

403.220.2540

Morten.paulsen2@ucalgary.ca