TORONTO stock EXCHANGE

Summary of 2005 TORONTO STOCK EXCHANGE Corporate Governance Disclosure Survey

Building on our strengths

Summary of findings and recommendations from the fourth Toronto Stock Exchange (TSX) survey of corporate governance disclosure.

Background for the 2005 survey

This is the fourth year that Toronto Stock Exchange has surveyed issuers to assess whether they comply with the TSX corporate governance disclosure requirement, to examine the quality of disclosure and to identify areas for improvement.

We require all companies listed on TSX to describe completely their corporate governance practices each year, with specific reference to each of the TSX 14 voluntary guidelines, in their annual report or information circular. In their disclosure, companies must describe their practices against each guideline and, if their practice differs, they must provide the reason for the difference.

We remain convinced that mandatory disclosure against best practice guidelines provides investors with useful investment information and enhances the quality of Canadian capital markets. We are therefore committed to improving and enhancing corporate governance disclosure.

How we conducted the 2005 survey

We examined whether the issuers referred to all aspects of each guideline, and whether they explained the differences between their practices and the practices outlined in the guidelines. We determined whether issuers fully addressed, partially addressed or did not address each guideline. We also looked at the quality of the disclosure, and whether issuers provided additional information beyond that required by the guidelines.

We determined that issuers who did not address all the practices set out in a guideline had partially addressed the disclosure requirements of the guideline. For example, Guideline 1 states that the board of directors should assume responsibility for the stewardship of the company. It also lists five stewardship responsibilities. If an issuer did not disclose its practices against all five specific responsibilities, we considered that the issuer only partially addressed the guideline.

What we found

The results show that companies made further improvement in complying with the TSX disclosure requirement and communicating their corporate governance practices. In 2005, companies fully or partially disclosed against a greater number of guidelines than in 2004.

From June through September 2005, we reviewed the most recent governance disclosure of 342 listed companies, 65 business trusts. The companies and trusts we surveyed represent a wide range of issuers in terms of market capitalization and industry segments.

We found that:

- 98% of companies fully or partially addressed 12 or more of the guidelines (92% in 2004)
- 86% of companies fully or partially addressed all 14 guidelines (75% in 2004)
- 2% of companies did not address four or more guidelines (6% in 2004)
- 97% of business trusts voluntarily addressed at least one of the guidelines (95% in 2004)
- 81% of small caps ($0-100mm), 89% of mid cap ($101-500mm) and 91% of large caps (>$501mm) addressed fully or partially 14 guidelines
- 95% of S&P/TSX composite index companies fully or partially addressed all 14 guidelines
- 85% disclosed that they have a majority of unrelated directors
- companies in the technology and real estate sectors were more likely to disclose against all 14 guidelines
- consistent with last year's findings, companies with higher market capitalizations were more likely to comply with the disclosure requirement
- companies that used a narrative format for their disclosure fully or partially addressed an average of 13.6 guidelines, and companies that used a table format addressed an average of 13.8 guidelines. Companies that used a combination of the two formats addressed an average of 13.9 guidelines
- issuers at times used language that did not clearly convey practices or may not be easily understood by the reader
- 70% of companies have adopted at least eight of the practices outlined in the guidelines (64% in 2004)

New Corporate Governance Disclosure Requirements

On April 15, 2005 the Canadian Securities Administrators published in its final form National Policy 58-201 *Corporate Governance Guidelines (the Policy)* and National Instrument 58-101 *Disclosure of Corporate Governance Practices*, Form 58-101F1 and Form 58-101F2 (collectively, the *Disclosure Instrument*).

The Disclosure Instrument came into force on June 30, 2005. TSX issuers subject to the rule must provide the Form 58-101F1 disclosure in their first information circulars or AIFs, as the case may be, filed following financial years ending on or after June 30, 2005.

TSX replaced its current corporate governance disclosure requirement and guidelines (the "comply or explain" system requiring specific reference to each of the 14 TSX guidelines), with the requirement to explain your corporate governance practices in accordance with the Disclosure Instrument. The TSX disclosure requirement only applies to issuers which are subject to the Disclosure Instrument. TSX will continue to actively review our issuers' disclosure to ensure that it meets our standards and investors' expectations.

What we recommend

To ensure that you clearly communicate your corporate governance practices, we recommend that you:

- Review the Disclosure Instrument and provide the disclosure required in Form 58-101F1
- Expand your disclosure to ensure that your investors receive a full and complete description of your corporate governance practices. For ideas, you may find it helpful to review the disclosure by the winners of the CICA Corporate Reporting Awards for Excellence in Corporate Governance Disclosure, the corporate governance guidelines published by the Canadian Coalition for Good Governance and Version 1.0 of TSX's updated publication, *Corporate governance: A guide to good disclosure*
- Review your corporate governance disclosure each year to ensure it fully reflects your current practices and explains changes made during the year
- Write your corporate governance disclosure in plain language

What's next?

To help you with the quality of your disclosure, we will continue to review the corporate governance disclosure of our issuers in 2006 and provide feedback when necessary. We have posted Version 1.0 of the updated, *Corporate governance: A guide to good disclosure*, which contains specific information to help you better disclose your approach to corporate governance using Form 58-101F1.

If we advise a company to improve its disclosure and it fails to do so, we may require the company to republish its disclosure. If the company continues to fail to comply with the disclosure requirements, we can suspend or delist the company's securities, publish its name or refer the company to the Ontario Securities Commission.

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For more information

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