

# CORPORATE GOVERNANCE REGULATIONS CITED AS MOST IMPORTANT ISSUE IMPACTING BUSINESS TODAY

*Regulatory Change Perceived To Have Greater Impact Than  
Economic Conditions On Business Today  
Strong Support (75%) For Single National Securities Regulator*



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**CORPORATE GOVERNANCE REGULATIONS CITED AS  
MOST IMPORTANT ISSUE IMPACTING BUSINESS TODAY**  
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Economic Conditions On Business Today*  
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**Toronto, ON** - Nearly one-half (48%) of respondents with responsibilities in the areas of Investor Relations, Corporate Governance and Disclosure, and/or Corporate Directors or Board Members within their companies believe the most important issue impacting their business today is related to “Regulations and Governance”, including government policy, disclosure requirements, and increasing regulations according to a major industry survey released today. This emerges ahead of such other issues as “Growth/Survival”, “Finance”, “Business/Market Environment”, and “Economic Environment” issues. The study also found strong support for a single National Securities Regulator, with three-quarters (75%) of respondents stating that they support the need for a single, national securities regulator.

***Most Important Issues Impacting Business***

When asked about the most important issues impacting their business today, nearly one-half (48%) of respondents believe that “Regulations and Governance”, including government policy, disclosure requirements, and increasing regulations are at the top of the list. A further eleven percent named “Growth/Survival” related issues, followed by 10% who cited “Finance”, 9% who cited “Business/ Market Environment” issues and 8% who pointed to “Economic Environment” issues.



## ***Preparation For Review Of Disclosure Has Increased ...***

Respondents reported that time for preparation and review of disclosure (77%) has increased as a result of new regulator requirements as well as the role of the Audit Committee (74%), and the role of the Legal Counsel (68%). Respondents have found an increase in the review of analyst reports by Investor Relations Officers (16%), an increase in Investor Relations Staffing (14%), and an increase in costs (13%).

## ***Strong Support For Single, National Securities Regulator ...***

Of the 97% of respondents whose company headquarters are located in Canada and who worked for a single board or company, three-quarters (75%) indicated that they support the need for a single, national securities regulator, while only 7% oppose the need for this position (interestingly, 67% of those in Alberta and 69% in BC support the need for a single national securities regulator).

*These are some of the findings of an Ipsos-Reid/ Canadian Investor Relations Institute (CIRI)/ Blake Cassels & Graydon LLP/ The Institute of Corporate Directors (ICD)/ TSX Group poll conducted from July 12 to July 30, 2004. For the survey, a representative randomly selected sample of 688 respondents with Investor Relations responsibilities were interviewed via 20-minute online interviews. The respondents sample was drawn from CIRI (consultants and issuers) and TSX / TSX Venture directors, and included Investor Relations Officers, Corporate Directors/Board members and those responsible for corporate governance and disclosure within their company. With a sample of this size, the results are considered accurate to within  $\pm 3.7$  percentage points, 19 times out of 20. The margin of error will be larger within sub-groupings of the survey population.*



## *The Survey Findings In Perspective And Detail...*

The findings of the survey indicate that a new corporate governance and disclosure regulations are having a major impact on the Canadian Investor Relations community. A majority of those responsible for Investor Relations (IR) within Canadian companies believe that these new regulations are having a larger influence on their business today than any other issue facing their industry. The issues associated with corporate governance and disclosure extend to related issues, such as the reputation and integrity of the investment community, which has been greatly affected by public image scandals that have resulted in uncertainty among many investors.

The role of IR professionals has been directly impacted by these new regulations. Learning about new regulations, keeping up with changes to guidelines and the additional time required in order to adhere to new regulations, including shorter filing deadlines, are among the many areas of their role that have changed as a result. In addition, the shareholders they communicate with are more cautious, sceptical and reluctant - increasing the effort required to maintain these relationships.

The relationship of the IROs with the Board of Directors, the provision of forward looking statements and financial guidance, and shareholder relations are the IR issues that will have the most important impact on the conduct of public companies in the future according to the findings. Currently many companies do not provide revenue or earnings guidance, and despite identifying relationships among key stakeholders (IRO, Shareholders, Board of Directors) as an essential ingredient to future management of public companies, formal policies regulating communication between these groups, more often than not, do not exist.



In addition, IR reports to the Board are most often submitted on an ad hoc basis and within many companies, these types of reports are never submitted to the Board.

According to the findings, the most significant Corporate Governance issues for the future will be the formalization of Governance guidelines, CEO/CFO certification of disclosure controls and the creation of a national securities regulator. There is very strong support within the IR industry for a single, National Securities Regulator.

Respondents indicate that many of the new corporate governance and disclosure requirements will have a positive impact on the investor community. New audit committee responsibilities and composition, regulations, enhanced continuous disclosure obligations incorporating “acceptable accounting principles,” auditing standards, and reporting currency are all viewed as improvements to the existing structure. These new regulations have also had a significant effect on the role of IR in terms of responsibilities, resources, time and costs. Shorter filing deadlines, enhanced continuous disclosure obligations, and certification of disclosure in issuers’ annual and interim filing are having the greatest effect on these areas of the IR role.

The relationships that exist between the Investor Relations Officer, the Board of Directors and Shareholders also appear to be undergoing fundamental changes as a result of new regulations. The importance of the role of the IRO has increased and IROs are perceived to play an essential role as a liaison between shareholders and the Board. However, there appear to be discrepancies between the IRO’s and Board’s understanding of the IR role and it’s importance. Communication between the IRO and the Board is perceived neither as particularly structured nor effective, nor in most cases does a formalized process govern it.



Clarifying these ambiguities will be a critical element to enhancing the relationship between the Board and Investor Relations Officers.

### ***Impact Of The New Regulations...***

For those involved in the IR community, the largest work-related area affected by regulations and governance issues, is their “workload” (38%) including “learning, understanding and keeping up with regulation changes, a generally increased workload that includes an increase in communication and correspondence.” In addition, respondents report that they are working extra hours in order to keep up with new regulations.

When asked to rank the Investor Relations issues that will have the most important impact on the conduct of public companies in the future, 28% of respondents rank “board oversight/interaction with IR” as the most important issue followed by “Forward looking statements/financial guidance” (23%). Corporate governance issues that will have the most important impact include “Corporate Governance guidelines becoming rules” (32%) and “CEO/CFO certification of disclosure controls”(24%).

### ***Structure & Process...***

Eight in ten (78%) respondents report that their company has a code of ethics and business conduct.

Three-quarters (73%) of respondents report their company employs a share trading blackout period. Of those respondents saying their company has a share trading blackout period, 28% report that it begins 1 or more days after the end of the Quarter and 42% report that it ends 2 days after the earnings release.



## ***Board And IRO Communication Not Governed By Formal Policies...***

A formal policy regulating communication is more likely to exist between the Investor Relations Officer and Shareholders (40%) or Board & Shareholders (38%) than between the Board and the Investor Relations Officer (19%).

## ***Investor Relations Reports To Board Of Directors Largely Delivered On An Ad Hoc Basis, But Often Not At All...***

Investor Relations printed and oral reports are most frequently submitted on either an ad hoc basis (31% and 46% respectively) or quarterly basis (24%, 19%) while within many companies printed or oral IR reports are never submitted (23%, 18%).

Reports on Shareholder views of the company, its strategy, management and performance (43%), and Analyst reports (46%) are most often submitted on an ad hoc basis. Twenty-three percent of respondents report that Shareholder reports are never submitted and 20% say that Analyst reports are never submitted.

## ***Many New Governance And Disclosure Requirements Will Have A Positive Impact On The Investor Community...***

Respondents believe that new Audit Committees requirements (Responsibilities & composition - MI 52-110) will have a positive impact (40%) followed by "Enhanced Continuous Disclosure Obligations (NI 51-102)" (11%), "Acceptable Accounting Principles, Auditing Standards and Reporting Currency (NI 52-107)" (31%). "Shorter Filing deadlines (NI 51-102)" was considered to have the most negative impact (12%) though slightly more respondents (17%) believed the impact of these shorter deadlines would be positive.



## ***New Requirements Are Having A Significant Impact On Investor Relations Role In Terms Of Responsibilities, Resources, Time And Costs...***

Shorter filing deadlines (NI 51-102), Enhanced Continuous Disclosure Obligations (NI 51-102) and Certification of disclosure in Issuers Annual Interim filings (NI 51-102) are the new corporate governance and disclosure requirements that will have the most impact on respondent's IR role within their organization in terms of their overall responsibilities, resources, time and costs.

## ***Composition Of Board Of Directors Expected To Undergo Changes...***

Almost two-thirds of respondents anticipate that the composition of their board will change in response to various factors within the IR field. Specifically, 41% believe board composition will change to improve their specialist competency set, while new regulatory requirements (33%), improving company reputation (26%) and maintaining investor confidence (23%) were other key reasons for a change in the composition of the board.

## ***Interaction Among Key IR-Related Professionals Has Increased Substantially As A Result Of New Regulatory Requirements ...***

Since the introduction of the new regulatory requirements (March 30, 2004) respondents report that interaction has increased between the Board and legal counsel (54%), the IRO and legal counsel (45%), the IRO and Finance (39%) as well as interaction between the Board and IRO (27%).





Time for preparation and review of disclosure (77%) has increased as a result of new regulator requirements as well, as have the role of the Audit Committee (74%), and the role of the Legal Counsel (68%). Only 16% of respondents report that Investor Relations Officer review of analyst reports has increased and 14% report an increase in Investor Relations Staffing.

### ***Company Policies With Regards To Providing Financial Guidance Varies Widely Within The Industry ...***

- 37% of respondents state that their company has never provided revenue and/or earnings guidance
- One-fifth report that their company provides qualitative guidance on key factors that will affect business results only
- 19% say that their company provides forecasts of revenues and/or earnings including qualitative guidance on key factors that will affect business results
- 8% state their company provides forecasts of revenues and/or earnings only
- 7% say their company used to provide revenue and/or earnings guidance, however no longer supplies this information

Two-thirds (67%) of respondents state that the Audit Committee approves their Interim financial statements and earnings releases, while 65% report that the Full Board of Directors approves these statements, 58% state that the CFO has this responsibility and 55% indicate that the CEO does.



Two-thirds (66%) of respondents say that their company has engaged its auditors to review interim financial statements.

In order to help support CEO / CFO certification of financial statements, 63% of respondents report that their company has incorporated discussion with auditors, 34% incorporated sub-certification by direct reports or finance staff and another 27% incorporated disclosure committee review.

***For Disclosure And Corporate Governance Issues Companies Rely On External Legal Council Or Both External And Internal, However Rarely Just Internal...***

Four in ten (39%) of respondent companies primary rely on external legal counsel, 36% rely on both internal and external legal council, while only 15% rely on internal legal council/department for disclosure and corporate governance issues.

***Of Those Respondents Whose Company Relies On Internal Legal Counsel, About 1 In 5 Respondents Will Solely Rely On Internal Counsel For...***

- Keeping apprised of disclosure requirements (21% vs. 14% who will not rely at all on internal counsel for this)
- Reviewing all company earnings releases and regulatory findings (18% vs. 16% who will not rely at all)
- Reviewing other material press releases (21% vs. 16% who will not rely at all)



## *Of Those Respondents Whose Company Relies On External Legal Counsel...*

- 18% solely rely on external counsel for keeping apprised of disclosure requirements.
- Almost one quarter (23%) will not rely at all on external counsel for reviewing all company earnings releases and regulatory findings (vs. 9% who will solely rely on external counsel).
- 21% will not rely at all on external counsel for reviewing other material press releases (vs. 10% who will solely rely on external counsel).

## *Domestic Retail Investors Are The Most Prevalent Type Of Investor Holding Company Stock...*

- Eighty-eight percent of respondents report that Domestic Retail Investors hold their company's stock, with 75% reporting Domestic Institutional investors and 65% of the total reporting Foreign investors.

## *Ability To Identify Shareholders Has Improved...*

- About one-third (34%) of respondents say their ability to identify their shareholders has improved over the past 5 years, while 42% report this ability has stayed the same and 11% reporting it has worsened.



## ***The Top Three Sources Used To Gather Shareholder Intelligence Are...***

- Computershare /Georgeson Shareholder (39%),
- Bloomberg (18%),
- Thomson (Sharewatch Web, IR Channel) (17%); and
- 31% of respondents state that they are not gathering shareholder intelligence.

## ***Improving Communication Among The Investor Relations Officer, The Board Of Directors And Shareholders Are Essential To Maintaining Relationships Between These Three Key Groups...***

The findings indicate that changing rules and regulations have increased the importance of the role of the IRO (33%) and the IRO is viewed as playing an essential role as liaison between shareholders and the Board (27%). However, only 24% agree that the board has a clear understanding of the roles and responsibilities of the IRO. Further, companies are not spending additional time communicating Corporate Social Responsibility policies to investors (39% rate 1 or 2) and communication between the Board and the IRO is not governed by a formalized process (44%).



## *Separate Roles And Compensation...*

Seven in ten (70%) report that they have separated the roles of Board Chair and Chief Executive Officer and 56% compensate directors with options instead of shares.

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