

Evaluating the Effectiveness of Suncor's CD&A (Compensation Discussion and Analysis) Report

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There have been increased disclosure requirements for public companies over the years, and reasons are the increasing complexity of the business environment, more timely information demanded, and accounting serves as a control and monitoring device. The quality of CD&A should be assessed based on several criteria: readability, completeness, transparency. Besides meeting those criteria, the ability of referring to other financial reporting subjects to quality testing as well.

In terms of readability, the right information along with the delicate number of details enable users to have a clear understanding about the compensations and make better judgements. Disclosure in CD&A should use concise and organized language to explain the methodologies and situations associated with. CD&A is less readable than letters to shareholders, but more readable than MD&A, and there is a positive association between CD&A and excess CEO pay is driven by non-cash overpay of compensation. (Huang, Xuan & Krishnan, 2016). The Suncor's CD&A structure is clear to users by providing various parts of information in a separate and independent paragraph. Though the order and headings of major disclosing components may be different from other company's CD&A, investors would still be able to acquire and locate information conveniently. The language used in the explanation is candid for users with reasonable knowledge. Visual representation provides effective comparison across years. Readability can be enhanced by using distinct colors in graphics and highlights. Overall, the Suncor Energy Inc's 2021 CD&A satisfies the readability expectation.

As for completeness, general users can benefit from knowing the following information: 1. Past performance highlights and compensation 2. Adjustment in Compensation Program 3. key compensation practices 4. Measurement/Approach 5. Compensation framework's risk considerations 6. Comparator group. We will analyze each of them with Suncor's disclosure below.

Past Performance Highlights and Compensation

The past performance serves as the most concrete support of all kinds of compensations. It is natural to understand that all profits, dividend, and retained earnings of each company originate from revenue earned from all business activities. Past performance should not be limited to the

result of profitability but should include non-business achievements such as safety achievement, diversity goals, and CSR contributions.

Suncor's CD&A starts with 2021 Named Executive Officers, followed by Pay and Performance Overview. In this part, Suncor regards performance from various perspectives and ends with key practices that are related to the overall compensation program. It is surprising that the performance is not detailly explained in this part even though the heading is 'Pay and Performance Overview.' What comes after is 'Compensation Governance,' which may look abrupt to users. The performance of the year is separately presented ten pages later from the 'Pay and Performance Overview' part. This formatting is prone to pose inconvenience for users, whereas in terms of richness in disclosure, the performance disclosure is sufficient. It releases performance and duty of care of each Named Executive Officers, along with their key performance results and total direct compensation details, respectively. Therefore, regardless of presentation format, Past Performance Highlights and Compensation is usefully disclosed and provide reasonable information for users.

Adjustments in Compensation Program

It is reasonable for companies to adjust the compensation program, and such practice is welcomed as it aligns with companies' goal of increasing transparency, reducing volatility, and incorporating better governance into the company.

For the Changes in compensation program for the upcoming year, Suncor's CD&A provides a section called 'Looking Ahead to 2022' that includes changes in compensation structure proved by HR&CC to remain competitive with peers and drive sustainability performance. The changes are not significant, as only a few benchmarks are being adjusted. Users may hold skeptical attitudes towards the changes as it should be well-rounded. This volume of change does not seem convincing. Explanation of why there are no significant changes in the compensation program should be included.

Key Compensation Practices

Key practices are usually presented as a checklist and functioning as regulating overall program and controlling purpose. The control environment can be tested and examined from the key practices released in the CD&A. Good control approaches are: HR&CC, robust target-setting process, and restrictions such as no option repricing. Users can refer to the checklist (or other forms of presentation) to assess considerations on the regulations and hedging. The measurement of compensation should be provided with a performance report to increase the readability.

In terms of the Key Compensation Practices, Suncor's CD&A provided a checklist that listed 19 major key practices to ensure effective governance and control are in place. Such brief yet clear disclosure is important for users to know the control environment and considerations. Followed by Compensation Governance, Key Risk Mitigating Features are presented. The risk assessment provides assurance about the possible fraud and other risks that could emerge from the

compensation program. Such analysis and disclosure are important as it reasonably assures users that compensation policies and practices are unlikely to have a material adverse impact on the corporation.

Measurement/Approach

The measurement of compensation programs assesses the ‘rigor of a company's target performance level’ and provides insights about the company’s business strategy, target, growth path, policy, etc. This section of the CD&A should provide rich information as users would be able to assess whether the company’s strategy for business aligns with the program, the morality of compensation philosophy, and effectiveness of compensation approaches. Apart from that, cross-referencing the information in this section can be beneficial. By reading the CEO letter, users can assess whether the company strategy and outlook match with the philosophy of compensation plan for senior management and use MD&A to understand what the company is, where it has been, and where it is going.

The Measurement/Approach part is iterated under the segment of ‘Our Approach to Executive Compensation’ and ‘Compensation Disclosure of the Named Executive Officers’ in the CD&A. In the ‘Our Approach to Executive Compensation’ part, it introduced and explained the philosophy and methodology of the compensation plan. Suncor’s business strategy, long-term performance goals, and other business aims are integrated into the compensation program. In the ‘Compensation of the Named Executive Officers’ segment, apart from those explanative disclosures, quantitative calculations and spreadsheets are presented for users to assess the reasonableness and mechanism of major compensation components based on performances. Therefore, the disclosures related to Measurement/Approach are explained such that the reliability and usefulness of the CD&A can be assured. As for cross referencing, we are delighted to see the net-zero objective introduced in the CEO Letter is incentivized by a new form of PSU grant that will vest based on progress relative to the company’s climate initiatives. Also, the digital technology capabilities to improve the safety in CEO letters is maintained by business unit components. The fatality mentioned in the CEO letter is the cause of ‘overall safety performance below target’ in CD&A.

Compensation Framework’s Risk Considerations

The risk considerations reflect how management, and its functioning committees manage controls and risks in the company. Effective and well-designed risk management procedures ensure that the compensation plan works smoothly without going rogue. Meanwhile it shows the internal control environment of the company, enhancing the accountability and reliability of the company, thus providing investors with assurance about potential fraud and misappropriation of assets.

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Comparator Group

According to Ronald Mueller, a partner at Gibson, Dunn & Crutcher, one of the disclosure focuses is benchmarking its peers. The presentation of a comparator group can also show the market-driven and performance-based merit. In Suncor's CD&A, it does not provide a separate part related to Compensation Comparator Group. Suncor only compared itself with other competitors in terms of TSR percentiles for calculating compensation purposes. However, in Teck Resources CD&A, Suncor's Asset Value, Annual Revenue, Market Capitalization are compared. Therefore, Suncor may be at a disadvantage in terms of disclosure.

After analyzing aforementioned criteria, Suncor's CD&A is now one left away from satisfying completeness requirements. The last thing in terms of completeness is to compare consistency in the MD&A. For example, the carbon risk that MD&A discussed included compensation plans that senior management alleged with respect to climate challenge. Therefore, we would consider that the CD&A's completeness lives up to users' expectations.

In terms of transparency, it bases on the degree of voluntary disclosure and discretion on what can be deceptive. Since the CD&A is not audited financial reporting, therefore the transparency would in the sense rely more on voluntary disclosure. However, the assessment would be more complex and difficult because it is nearly impossible to figure out what information has not been disclosed. One applicable method is to compare contents with its competitors such as Teck Resources. After an analytical comparison, we found that estimations in Suncor's CD&A have more explanations and disclosures; Both disclosures are reflecting economic realities that are capital-intensive. In terms of discretion, users can compare the tone and rhetorical subtleties in the CD&A and MD&A. We found that the language has consistency in those two financial reports, and we do not believe there is something that CD&A deliberately intended to hide. The business performance matches with the compensation metrics, therefore, we deem that the transparency is maintained.

In summary, the overall quality of Suncor's CD&A is high. It contains useful information and writing languages it adopted can discourse relevant and accurate information to users.

Information is complete and can conveniently refer to contents in other financial reporting.

However, the formatting of the CD&A should be improved in a more logical way that can eventually enhance the readability. The comparison between competitors should include more information so that the compensation programs between competitors can be more comparable.