

# Options timing alive and well in Canada': Review by Veritas National Post Tuesday,

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**Boyd Erman**

Some of Canada's biggest companies may be manipulating the timing of stock-option grants to give executives bigger bonuses, signalling the options-rigging scandal may not be confined to the United States.

Prompted by probes of U.S. companies such as Home Depot Inc. and Apple Computer Inc., Toronto-based Veritas Investment Research analyzed option grants by 60 of Canada's biggest, most heavily traded companies, and found signs that some may be timing grants for periods when stock prices are depressed. That benefits executives by supercharging any gains in the value of the options.

The review "suggests that options timing is alive and well in Canada, as evidenced by a statistical drop in prices towards the date of the options grant and an upswing in prices immediately after," study authors Sam La Bell and Chris Silvestre concluded.

Companies can rig the game by backdating option grants to a day when the stock was low, or by timing the grants to follow bad news or precede good news.

The Veritas report did not single out specific companies, citing the "circumstantial nature of the evidence." The review looked at the members of the Standard & Poor's/TSX 60 index, which includes the big banks, insurers and other familiar names.

Options are designed to give executives an incentive to drive up share prices. Options give holders the right to buy stock at a pre-set exercise price at some point in the future. Options become profitable when the market price of the stock rises above the exercise price.

Timing options to create built-in gains undermines the whole point of the bonuses, from a shareholder perspective. Doing so also contravenes Toronto Stock Exchange regulations.

The Veritas study showed that stock prices for the 60 companies were on average half a percentage point higher 10 days before the grant date and more than a percentage point higher 15 days afterward. Grant dates chosen at random should show no such pattern, according to Veritas.

"You do see a pattern, so you wonder," Mr. La Bell said in an interview.

"But to actually prove one company or another is doing anything wrong is very difficult," he added. "Coincidence is a pretty powerful defence."