Watson Wyatt
Worldwide

September 15, 2009

Ms. Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Subject: Proxy Disclosure and Solicitation Enhancements (File No. S7-13-09)

Ladies and Gentlemen:

Enclosed are comments under the Commission's Proposed Amendments to the Proxy Disclosure Requirements for Executive and Director Compensation, focusing specifically on § 229.402 (Item 402) Compensation regarding Revisions to the Summary Compensation Table and Expanded Disclosure under the Compensation Discussion and Analysis. These comments represent the views of Watson Wyatt Worldwide, an international consulting firm providing executive compensation, actuarial and other consulting services. We have sent a comment letter on the issue of consultant independence under separate cover.

Please contact Steven Seelig at 703-258-7623 if you have further questions regarding our comments.

Best regards,

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I. Executive Summary

Watson Wyatt applauds the Securities and Exchange Commission (the "Commission") for its continued efforts, through proposed amendments to the proxy disclosure rules in its Proposing Release[1], to provide shareholders more clarity on how registrants design their executive pay structures. While our comment letter will provide our views on many of the questions raised in the SEC release, its primary focus will be on how the SEC can assist shareholders in determining whether a company accomplishes the goal of "pay for performance," which we see as a primary tenet of executive compensation programs and one of utmost concern to shareholders. To accomplish this goal, our comment letter reiterates the request made in our Petition for Rulemaking[2] for substituting a new Summary Compensation Table ("SCT") that emphasizes depicting annual compensation by using "pay realizable," and provides an additional alternative the Commission should consider that could help to accomplish the same goal.

Our alternative proposal would recommend the Commission add a new section to the CD&A entitled: "How Our Company Pays For Performance," wherein each registrant could best determine the approach it would take to illustrate how it accomplishes this goal, consistent with the principles-based approach of the proxy disclosure rules. If adopted, this new section would become an essential part of the Compensation Discussion and Analysis ("CD&A"), where registrants could depict the type of qualitative analysis the Commission seeks companies to provide to shareholders as part of the CD&A.

II. The Need for Better Disclosure on "Pay for Performance"

In rereading the preamble to the release of the current proxy disclosure rules as amended on September 8, 2006,[3] we were reminded of how the Commission's principles-based approach to the CD&A disclosure asked registrants to discuss how prior company and individual performance affected the decisions made and the policies in place during the year compensation was granted.[4] Unfortunately, descriptions to shareholders of how compensation earned by the executives help advise pay decisions made by the compensation committee for the current year are often lacking from company CD&As. For example, while most every CD&A we've read indicates the company seeks to "pay for performance," there are very few disclosures that help explain to shareholders exactly how that happens. By definition, to back up this statement companies would have to provide some sort of comparative analysis of pay earned to corporate

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[1] Release No. 33–9052 (Jul. 17, 2009) [74 FR 35086].

[2] May 26, 2009, rulemaking petition submitted by Ira T. Kay and Steven Seelig, Watson Wyatt Worldwide, File No. 4-585

[3] Release Nos. 33–8732A; 34–54302A; (Sept. 8, 2006) [71 FR 174].

[4] Examples of issues that would be appropriate to address included:

- "what specific items of corporate performance are taken into account in setting compensation policies and making compensation decisions;
- "how specific elements of compensation are structured and implemented to reflect these items of the company's performance and the executive's individual performance;
- "the factors considered in decisions to increase or decrease compensation materially;
- "how compensation or amounts realizable from prior compensation are considered in setting other elements of compensation (<u>e.g.</u>, how gains from prior option or stock awards are considered in setting retirement benefits);"

performance that can be analyzed by shareholders to better judge if this goal has been accomplished.

The questions raised in the Proposing Release[5] regarding the contentious issue of when performance targets must be disclosed offers a window into the Commission's intention as to the "pay for performance" issue, while they also outline the challenges in crafting a workable solution. When it promulgated the current rules, the Commission hoped that by requiring disclosure of performance metrics and goals with actual results attained, shareholders could determine for themselves if those goals were appropriate for company executives and were properly calibrated to accomplish corporate goals. With several years of history becoming available, shareholders could then further determine the extent to which these goals were too easy or too hard, and could make their own decisions about how well the compensation committee was doing its job in setting goals based on appropriate metrics.

These disclosure rules were well-intended. Yet, due to concerns that disclosure of certain performance goals would provide confidential or proprietary information about corporate matters, shareholders often did not see these goals disclosed. Even if a company provided some guidance on how difficult goals were to attain when actual goals were not disclosed, these "degree of difficulty" disclosures were not a sufficient proxy for shareholders to understand if these were based on the proper metrics or if they were set at the proper level.

While Watson Wyatt is not offering comments on the questions raised in the proposing release on whether the current standards governing disclosure of performance goals should be modified, we would offer the view that unless all goals are disclosed to shareholders, the theory of providing the information needed by shareholders to determine "pay for performance" cannot be met.

Furthermore, even assuming shareholders were provided all the information needed on performance-based plans, it would still be very difficult for shareholders to accurately determine the value of equity earned for a given performance period when equity vesting is time based. Equity gains or losses are a very real part of most compensation structures, and understanding these values is essential to understanding if the "pay for performance" model is in place.

We appreciate that the total compensation earned for a given year or performance period can be calculated by shareholders – Watson Wyatt often does these "pay realizable" calculations (described in more detail in the next section) to help clients understand their "pay for performance" alignment. But this misses the point of most concern to shareholders, which is whether they know the compensation committee had access to this type of analysis when making their pay decisions for the year. As currently configured, a disclosure of whether the compensation committee understood the total pay earned by executives for the year may, or may not, appear in the CD&A under the principles-based approach the Commission has adopted. Thus, in many cases shareholders do not have a firm appreciation of the extent to which the compensation committee has considered the question of whether their company actually "pays for performance."

A. Proposed Alternative: Depicting Pay realizable in An Alternative Summary Compensation Table

[5] Release No. 33–9052 (Jul. 17, 2009) [74 FR 35086].

Under this Proposed Alternative, we would reiterate the request made in our Petition for Rulemaking[6] that the Commission adopt an alternative Summary Compensation Table that depicts the concept of "pay realizable" for equity grants rather than the current approach that follows the principles of FAS 123R. The following Table depicts how that concept would work:

Summary Compensation Table -- Total Compensation Realizable

Name and Principal Position (a)	Year (b)	Salary ($) (c)	Bonus ($) (d)	Stock Awards Realizable ($) (e)	Option Awards Realizable ($) (f)	Non-Equity Incentive Plan Compensation ($) (g)	Change in pension value and NQDC earnings (h)	All Other Compensation ($) (i)	Total ($) (j)

Columns (a)-(d); and (g)-(i) remain the same

Column (e): The difference in fair market value for restricted stock/RSUs from the start of the fiscal year until year-end, applied only to equity for which the company records an expense under FAS 123R for the fiscal year. This number can be negative for decreases in value.

--Performance vested grants that move from "probable" to "not probable" of attainment under FAS 123R, or vice versa, would have their change in fair market value added to or subtracted from this column, depending on the circumstances.

--For restricted stock/RSUs granted during the fiscal year, the fair market value of the grant made for the year is measured at year-end.

Column (f): The difference in intrinsic value ("in-the-money" value) for options/SARs from the start of the fiscal year until year-end, applied only to equity for which the company records an expense under FAS 123R for the fiscal year. This number can be negative for decreases in value, although the intrinsic value itself cannot be negative.

-- Performance vested grants that move from "probable" to "not probable" of attainment under FAS 123R, or vice versa, would have their change in intrinsic value added to or subtracted from this column, depending on the circumstances.

-- For options/SARs granted during the fiscal year, the increase in intrinsic value from the grant date until year-end. This number could not be negative for current fiscal year grants.

A depiction of "pay realizable" for a given year provides an easy-to-reference measure of pay earned by each Named Executive Officer for the year, that can be compared directly to whichever corporate performance measure that might be relevant to an individual shareholder. We are aware the Commission is concerned that shareholders do not base corporate performance solely on the performance of a company's stock price, but rather a more comprehensive discussion of "the relationship of executive compensation to the performance of the company".[7] Having this "pay realizable" number available to shareholders permits them each to choose the relevant measure or measures of corporate performance for their own analysis. Perhaps more importantly, requiring this number to be included in the Summary Compensation Table also

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[6] May 26, 2009, rulemaking petition submitted by Ira T. Kay and Steven Seelig, Watson Wyatt Worldwide, File No. 4-585

[7] "However, we remain of the view that the Performance Graph should not be presented as part of executive compensation disclosure. In particular, as noted above, the disclosure in the Compensation Discussion and Analysis regarding the elements of corporate performance that a given company's policies consider is intended to encourage broader discussion than just that of the relationship of executive compensation to the performance of the company as reflected by stock price." Release Nos. 33–8732A; 34–54302A; (Sept. 8, 2006) [71 FR 174]; Page 53168.

helps to ensure it is being reviewed and considered by the compensation committee in its pay setting decisions.

We are aware this proposed alternative Summary Compensation Table can be subject to the criticism that it ignores the "pay opportunity" granted that year by the compensation committee. However, we believe the Commission already has dealt with this issue by requiring a robust disclosure in the Grants of Plan Based Awards Table, where it requires disclosure of potential payments from both time-vested and performance-based equity grants, as well as cash-based incentive plans. Pay opportunity is far more easily determinable by use of the Grants Table than would be the calculation of the far more relevant to shareholder value depicted by "pay realizable." For example, for an annual cash-based plan, the current Summary Compensation Table only depicts the amount of the payout. Shareholders must look both to the Table's footnotes and the Grants of Plan Based Awards Table to connect the "pay opportunity" granted for the year with the payment earned for the year.

Our proposal does not suggest a sea-change in the way compensation is depicted. To the contrary, it would simply require the value depicted for equity-based grants in columns (e) and (f) to be treated analogously to how cash-based awards already are treated under existing rules. Stated more succinctly, our proposal would finally resolve the "apples to oranges" problem that has subjected the current Summary Compensation Table to perhaps unwarranted criticism, and would provide far more relevant information to shareholders on whether company executives are "paid for performance."

B. Proposed Alternative: Required Disclosure of a New Section in the Compensation Discussion and Analysis Describing "How Our Company Pays For Performance"

To the extent the Commission determines it is not appropriate to adopt an amendment to the existing Summary Compensation Table, we propose the Commission consider including an additional section in the Compensation Discussion and Analysis entitled "How Our Company Pays for Performance." Consistent with our Petition for Rulemaking, we believe this can best be accomplished by through a depiction of "pay realizable" compared to corporate performance, although we understand there are other approaches that may provide similar information useful to shareholders. For this new CD&A section to have meaning, however, the Commission must require registrants to provide a degree of comparative analysis so the "How Our Company Pays for Performance" section illustrates how the pay earned by the executives is aligned with the company's performance.

As we noted earlier, requiring a depiction of a "pay for performance" analysis can help assure shareholders that the compensation committee was focused on this question in making pay decisions for the current year. We would expect that compensation committees discover through this analysis their existing pay programs are not well-aligned with corporate performance would recalibrate these programs based on the results of this analysis. We believe this approach can be implemented without raising similar concerns regarding the alternative presentation of the Summary Compensation Table suggested in the prior section, and might be viewed as more consistent with the Commission's principles-based approach to disclosure. Nonetheless, we would recommend inclusion of this section be made a mandatory requirement for the CD&A,

with the principles-based notion that guides the proxy disclosure rules being preserved by permitting companies to choose how they would depict their analysis.

To illustrate by example the quality of analysis the Commission may help elicit by requiring this discussion, we've provided a sample of an analysis we have provided to clients who have sought to quantify whether their program "pays for performance." [See Appendix 2] We recognize this is but one of enumerable approaches companies could take to fulfill this disclosure requirement. As the Commission will note, this type of disclosure provides the type of qualitative analysis we believe shareholders want to see in the proxy so they understand the compensation committee has considered this very important issue in making its pay decisions.

Appendix 1: Including a New Compensation Discussion and Analysis Section Entitled Preferred "How Our Company Pays For Performance"

Regulation S-K, Item 402 Executive Compensation:

The SEC rule would read as follows:

Revise §229.402 (Item 402) "Executive compensation" to read as follows:

In Item 402(b)(v), delete the word "and"

In Item 402(b)(vi), delete the "." and add the word "; and"

Add a new subsection 402(b)(vii) that states: "How the registrant determined the extent to which compensation earned by each NEO reflected the performance of the company and how the registrant's decisions regarding compensation for the fiscal year reflected a consideration of that analysis."

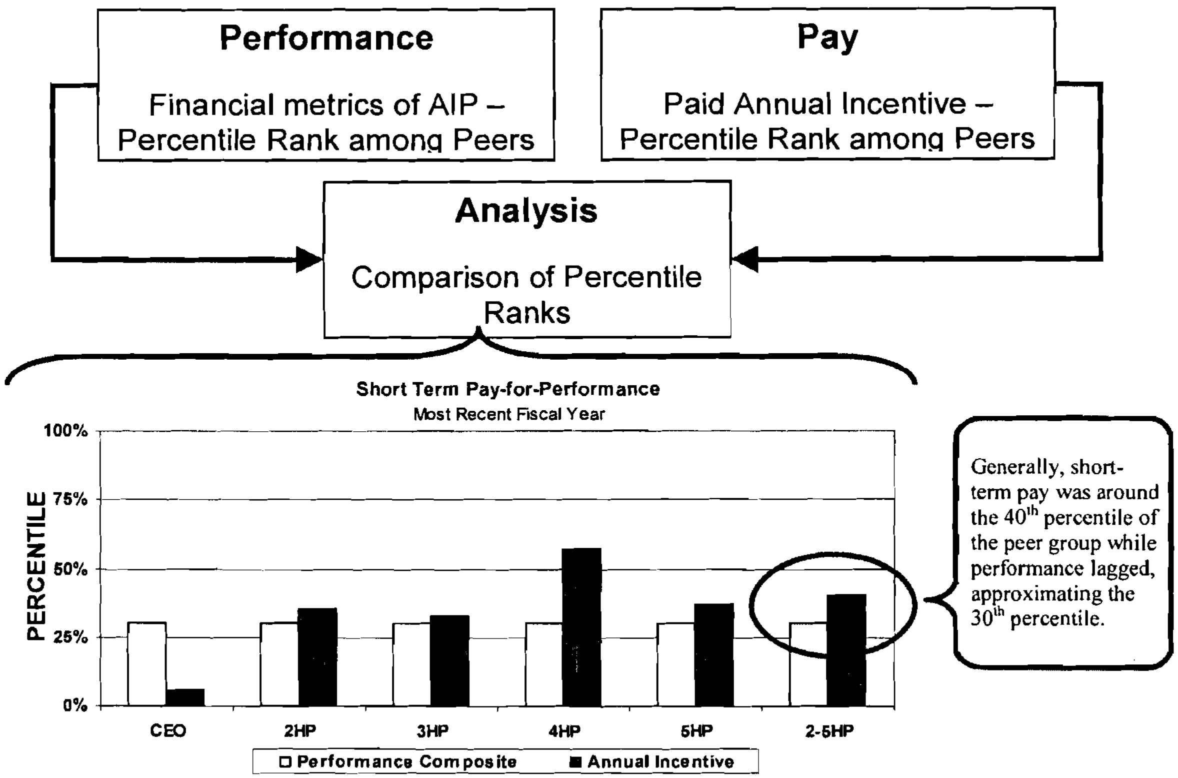
Appendix 2: Sample Disclosure: "How Our Company Pays For Performance"

As noted in our Executive Summary, Company A continues to have a strong "Pay for Performance" culture and has designed its compensation programs with this goal in mind. To assure ourselves these programs accomplished this goal, we annually undertake an analysis of our executive compensation program to provide a perspective on the alignment of pay and performance versus a peer group or external reference.

This historical analysis included a comparison of Company A relative to the peer group regarding the pay realizable of our NEOs against a number of financial metrics during fiscal years 2006-2008. In this analysis, we defined "pay opportunity" as the sum of the executive's base salary, the target amount of the annual bonus, and the grant date fair value of stock options, restricted stock, and performance shares granted during the relevant period. "Pay realizable" was defined as the sum of the base salary, the actual amount of the annual bonuses, the current value of any in-the-money stock options and restricted stock, and the value of any performance share payouts during the relevant period.

The analysis reached the following conclusions:

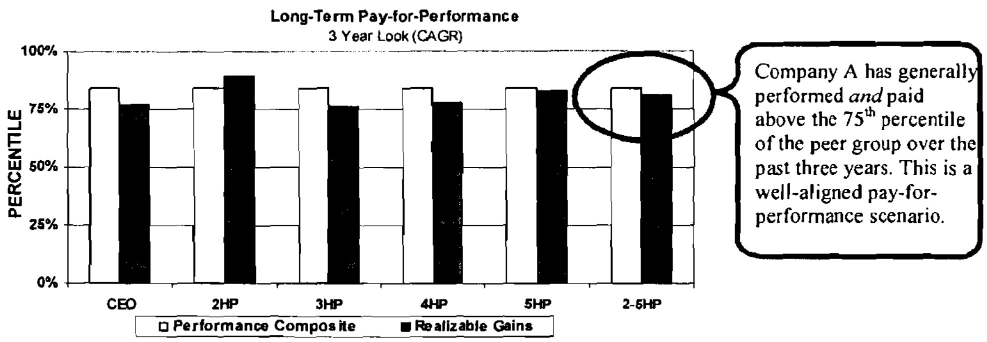
"Short-term" Pay-for-Performance



Regarding short-term compensation, the results reflected the need for recalibration of the performance goals under our annual cash bonus program. The adjustments made to that program are reflected in the discussion of our annual plan in a later section of the Compensation Discussion and Analysis, but these changes were minor based on the results of our analysis of the Long-Term plan and Total Compensation in the tables that follow:

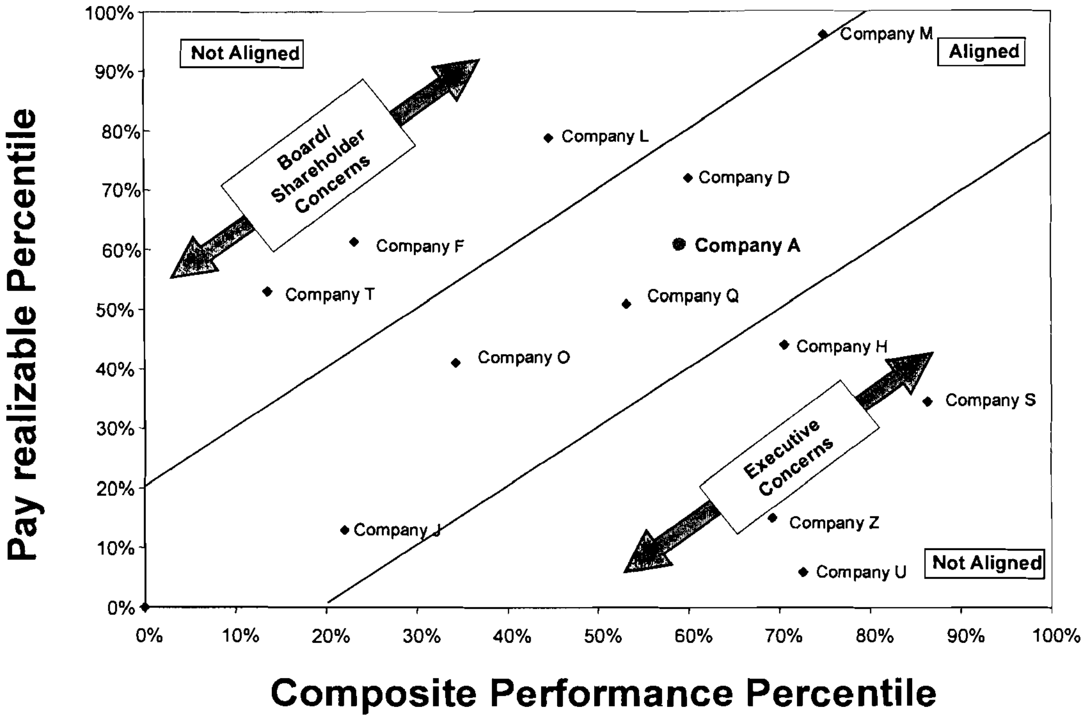
"Long-term" Pay-for-Performance

Performance	Pay
Compare Financial Metrics: - Total Shareholder Return - Metrics employed by LTPP - Other appropriate industry metrics	Determine **Realizable Gains:** - In the money value of stock options - Actual value of restricted stock grants - Actual payout of performance plans:



Our analysis reveals good alignment of long-term pay with corporate performance for the metrics we regard as important indicators of corporate growth and creation of shareholder value.

The following chart depicts a comparison of Total Compensation Realizable with a Composite Performance Percentile. As with our Long-Term Plan, Total Compensation is well-aligned with performance based on a comparison of peer compensation and performance over the 2006-2008 performance period.


Pay realizable Percentile
Composite Performance Percentile
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
100%
Not Aligned
Aligned
Not Aligned
Board/ Shareholder Concerns
Executive Concerns
Company M
Company L
Company D
Company A
Company F
Company T
Company Q
Company O
Company H
Company S
Company J
Company Z
Company U