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September 15, 2009

Ms. Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: FILE NO S7-13-09
PROPOSED RULE — PROXY DISCLOSURE AND SOLICITATION ENHANCEMENTS — NEW DISCLOSURES REGARDING COMPENSATION CONSULTANTS

Dear Ms. Murphy:

Towers Perrin appreciates the opportunity to provide comments to the Securities and Exchange Commission on its proposed amendments to the disclosure requirements for executive and director compensation. These comments are addressed specifically to the proposed new disclosures regarding compensation consultants described in Section II.D of the Commission's July 10 proposed rule. Towers Perrin is a global professional services firm that provides our clients with innovative solutions in human capital management and other areas, including executive compensation consulting and the design and valuation of retirement benefit programs.

We support the Commission's goal of ensuring that all investors have meaningful and relevant information that enables them to make informed investment and proxy-voting decisions, including information about how compensation committees set executive compensation. While the proposed disclosures relating to compensation consultant fees may add to the amount of information available to investors, we believe this information will do nothing to provide meaningful insight or transparency into the process by which compensation committees deliberate about and arrive at decisions concerning executive compensation. Furthermore, we believe the contemplated disclosures are likely to limit companies' ability to retain well-qualified and objective executive compensation advisors. We offer the following comments for your consideration, followed by our response to the specific questions posed in the Commission's proposal.

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The proposed fee disclosure requirement is a flawed barometer for judging a consultant's objectivity.

The primary thrust of the Commission's proposal regarding compensation consultant disclosures is an amendment to Item 407 of Regulation S-K to require that companies disclose consulting fees paid to firms that "also provide other services to the company." According to the proposed rulemaking, such disclosures are warranted because the "provision of such additional services by compensation consultants or their affiliates may create the appearance, or risk, of a conflict of interest that may call into question the objectivity of the consultants' executive pay recommendations."

We acknowledge a point of view held by some that a *potential* conflict of interest may exist when a company's executive compensation advisor provides other services to the company. Adoption of the Commission's July 10 proposal is likely to lend support to this perspective, despite the fact that recent academic research found no evidence of any actual conflict. In our view, focusing on the disclosure of fees paid to multi-service consulting firms (i.e., those that provide both executive compensation advice and "other services") responds to a *perceived* problem that reputable studies show does not exist, and we believe requiring such disclosures is likely to lead to unfortunate and unintended consequences. Moreover, we question whether disclosing executive compensation consulting fees paid by a company will, in fact, serve the Commission's stated purpose of providing investors and potential investors "additional information that would enhance their ability to make informed voting and investment decisions."

We understand the Commission does not see its role as defining standards for "consultant independence," yet the proposed fee disclosure is quite likely to be misinterpreted as a "bright line" test — i.e., implying that (a) an executive compensation consultant cannot be considered objective if the consultant's firm performs other work for the company, and (b) an executive compensation consultant whose firm does no other work for the company is conflict-free. Any rule that focuses solely on the disclosure of fees paid to multi-service firms is likely to create a presumption of non-independence if the firm does *any* other work for the company in addition to executive compensation consulting. As demonstrated by rigorous academic analysis and as a result of the safeguards and protocols used by multi-service consulting firms to ensure the objectivity of their executive compensation advice, such a presumption is false.

The Commission's proposed disclosure requirement singles out clients of multi-service firms for additional disclosures. In today's corporate governance environment, many compensation committees simply do not want to have to defend the appearance of a potential conflict, even where they are convinced of the consulting firm's integrity, are confident in the processes in place for mitigating any perceived conflicts, and have conducted a thorough evaluation and concluded that alternative consulting resources are less qualified or may come with their own potential conflicts — albeit ones that aren't required to be disclosed.

In short, we believe that compensation consulting fees are largely irrelevant to helping investors understand how executive compensation is set in any given organization. There is wide variation in how companies use compensation consultants. For example, in some companies, the executive compensation consultant is retained by the compensation committee of the board, while in other companies the consultant is retained by management. Some companies use multiple consultants (e.g., one to advise management and one to advise the board), while other companies use none. And, sometimes compensation committees retain multiple consultants for advice on different matters (e.g., competitive total compensation, incentive plan design, executive benefits, etc.). The consulting fees paid to any given firm relate more to the scope and complexity of the assigned work than to the impact of the consultant's advice on the committee's deliberations and decisions. Requiring companies to disclose details of the fees paid to compensation consultants does little, if anything, to help investors understand how compensation decisions are made. In fact, we believe it's more likely to mislead investors than to enlighten them.

Recent studies by prominent academic researchers plainly refute the proposition that potential conflicts of interest at multi-service consulting firms play any meaningful role in the escalation of executive pay.

Representative of these studies is research by the Wharton School and the Alliance Center for Global Research at INSEAD,[1] which reported that "we do not find evidence suggesting that potential conflicts of interest associated with the much criticized cross-selling incentives are a primary driver of excessive CEO pay." We also note that many of the recently publicized stories criticizing executive pay either involved companies whose compensation committees retained consultants from single-line firms (i.e., those that provide only compensation consulting advice) or where no consulting firm was used at all.

Despite these recent research findings, multi-service firms are losing market share to single-line firms simply because companies are concerned about the growing media and governmental attention to levels of executive pay, including suggestions of perceived lack of compensation consultant independence. As reported in the July 27, 2009 issue of *Agenda* magazine (citing Equilar data), the *Fortune* 1000 market share held by single-line executive compensation consultants grew by several percentage points to almost 40% from 2007 to 2008, continuing a recent trend. The prospect of fee disclosure has accelerated this trend, as will the adoption of any final rules that competitively disadvantage multi-service consulting firms.

Multi-service firms have established effective protocols to ensure that companies receive objective executive compensation advice.

Without question, corporate boards and compensation committees should demand — and get — integrity and objectivity from their executive compensation consultants. Towers Perrin has long been highly sensitive to potential conflicts and has adopted multiple safeguards to ensure that the executive compensation advice we provide to clients is both sound and objective:

- Regardless of whether we are retained by management or the board, we consider our client to be the enterprise itself — not a particular individual.
- Our fees are never linked in any manner to the size of any given executive's compensation package.
- Our executive compensation consultants who provide board advisory services to a company are not permitted to participate in account planning or sales of other work for that client or to serve as client relationship manager for a broader relationship.
- Our Code of Business Conduct, enforced by our Chief Ethics and Compliance Officer and a network of Professional Standards Officers, articulates the firm's commitment to providing clients with impartial, objective advice.

The recent academic research suggests that the processes and protocols maintained by multi-service firms have proven effective in mitigating any potential conflicts that may be perceived to exist. For example, the Wharton/INSEAD study cited above notes that "opposing incentives to maintain consultants' credibility or safeguards put in place by compensation committees limit actions taken with regard to cross-selling incentives."

Improved transparency about the process for selecting executive compensation advisors and the protocols used to ensure their objectivity would give investors more meaningful insight than proposed fee disclosures.

We agree that investors have a right to know how companies select and use executive compensation advisors, including the nature of any potential conflicts of interest the advisors may have and the protocols in place for mitigating them. As noted earlier, we question whether the proposed disclosure of fees paid to executive compensation consultants advances this objective or provides investors meaningful information about how the compensation committee sets executive compensation.

If the Commission is persuaded that disclosure of consulting fees is essential to help investors understand how executive compensation decisions are made, we strongly recommend that the Commission adopt a disclosure rule that generally limits its focus to the role of advisors in the compensation committee's deliberations and the board's decision-making process.

Rather than imposing disclosure rules that focus on the compensation consulting and other fees paid only to multi-service consulting firms, we believe investors would be better served by rules that require disclosure about *any* executive compensation consultants or other advisors retained by the board of directors or its compensation committee, the key considerations and decision-making processes used in such selections, the processes and safeguards the compensation committee and its advisors have in place to ensure objectivity and the fees paid for such executive compensation related advice. Consultants retained by management (or by the committee for the sole purpose of working with management) should not be subject to this disclosure.

In cases where the board-appointed executive compensation consultant's firm receives more than a specified threshold of its total revenues from a client (e.g., at least one-half of one percent), it may be appropriate to require that company to disclose that percentage (stated either as a percentage, or for consulting firms whose total revenues are not otherwise publicly disclosed, a percentage range) as well as the nature of the services provided and fees for the entire relationship (if total fees are more than the executive compensation consulting fees otherwise disclosed). But, requiring detailed disclosure of all fees paid to multi-service consulting firms will create more problems for companies and their investors than it solves.

At the end of this letter is an exhibit Towers Perrin developed in conjunction with three other multi-service consulting firms that provides a sample disclosure for the situation in which a multi-service firm is retained by the compensation committee and the fee threshold referenced above is exceeded.

Following are our answers to the specific questions posed by the Commission's request for comment.

Responses to the Commission's Questions

1. *Will this disclosure help investors better assess the role of compensation consultants and potential conflicts of interest, and thereby better assess the compensation decisions made by the board?*

   In our view, the proposal's narrow focus on fees paid to multi-service firms ignores other equally, or more important, considerations relating to the consultant's qualifications, selection, and role. As a result, we believe the proposed disclosure would give investors a distorted view of how companies use and select executive compensation consultants. Since the role of consultants is not uniform or mandated (in contrast to a company's auditors) and varies considerably from company to company, we believe investors should be given an understanding not only of the role consultants serve for each company but of the board's or compensation committee's selection process, including how it assessed the consultant's qualifications and how any potential conflicts of interest that may have been identified are mitigated by formal processes or the internal controls and processes maintained by the consulting firm.

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In our experience, virtually every professional advisory relationship presents potential conflicts of interest. All professional advisors — whether a law firm, a consulting firm, an accounting firm or others — want to maintain good relationships with their clients and strive to be trusted advisors to their clients. The top advisory firms establish their reputations and strong client relationships by providing objective, impartial and, at times, unpopular advice.

Moreover, unlike multi-service firms that do not rely on any particular client relationship for success, single-line executive compensation consulting firms (which are generally significantly smaller than their multi-service counterparts) have substantial potential conflicts that are not addressed by the proposed rules. For example, conflicts can arise when smaller, single-line firms derive a disproportionate amount of their total revenue or reputational stature from a single client (a "concentration" conflict); in such circumstances, client preservation can become a higher-order priority than providing sound, objective advice. Smaller, single-line firms also may feel added pressure to temper their recommendations when they have relationships with directors who serve on multiple boards, for fear of jeopardizing their work for those other boards.

2. *Would the disclosure of additional consulting services and any related fees adversely affect the ability of a company to receive executive compensation consulting or non-executive compensation related services? If so, how might we achieve our goal while minimizing that impact?*

We believe the Commission's proposed disclosures may, ultimately, deprive companies and their compensation committees of value-added services and advice that benefits all stakeholders. Some commentators have incorrectly speculated that the "independence issue" with regard to executive compensation consultants is likely to play out the same way that it did for audit firms under the Sarbanes-Oxley legislation — that is, a company's executive compensation consultant would agree to do no other work for the company. In our view, this is an unlikely outcome given the economics of human resource consulting.

Compared to the potential revenue multi-service consulting firms can receive for other work, the value of executive compensation consulting work is relatively modest. And, since the executive compensation work does not come with any assurance of multi-year revenue opportunities, it is not economically rational for a multi-service firm to agree to do no other work as a condition of being named the executive compensation consultant to a company's board.

In our experience, multi-service consulting firms will not (with rare exceptions) accept executive compensation consulting engagements that come with a stipulation that the firm can do no other work for that client. Likewise, in many cases multi-service consulting firms will not be willing to have their competitively sensitive pricing information for non-executive-compensation services disclosed to receive comparatively modest fees for executive compensation work.

We believe it will be counter-productive from a public policy perspective for leading U.S. companies to lose access to executive compensation advisory services from respected and well-qualified multi-service consulting firms like Towers Perrin. An issue often overlooked by critics of executive compensation is that companies in most cases derive real value from forging long-term relationships with consultants who can provide broad insights, robust data and analyses, strong technical expertise and extensive global resources to help company leaders address a range of complex business and talent issues. Leading multi-service firms like Towers Perrin have the resources to invest in cutting-edge intellectual capital, extensive proprietary data collection and evaluation, and the best consulting talent available. Our clients also benefit from the enhanced quality assurance and data management/security processes maintained by larger multi-service firms.

As noted above, Towers Perrin does not believe fee disclosure will provide investors with any meaningful information relating to how compensation committees set executive pay. In the event the Commission decides otherwise, to mitigate the competitively adverse impact of the proposal on multi-service firms and to help to ensure that large, complex and global companies have access to the robust consulting services that they require, we believe the Commission should modify its proposed disclosure rules as follows:

- All companies should be required to disclose the role of executive compensation advisors in connection with decisions made by the compensation committee and/or board of directors in setting compensation for the executive officers of the company, including how the advisors were selected and how any potential conflicts of interest are managed. All companies should also disclose the fees paid for executive compensation advisory services provided to the compensation committee and/or board of directors with regard to compensation for the executive officers. Disclosure should not be required for fees paid for compensation advisory services provided to management or for compensation survey data that is not accompanied by advice.

- If the executive compensation consulting firm's total annual fees paid by the company equal or exceed one-half of one percent of the consulting firm's total annual revenue, then that percentage, the nature of the services provided and the total dollar amount of all fees paid by the company to the consulting firm should also be disclosed to investors. If the revenues of the compensation consulting firm are not otherwise publicly disclosed, that percentage could be shown as a range (e.g., the total annual consulting fees paid by XYZ Company represent .5% to 1.9% of the firm's total annual revenue, 2.0% to 4.9%, 5.0% to 9.9%, 10.0% or higher).

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3. *Are there competitive or proprietary concerns that the proposed disclosure requirements should account for? If so, how should the amendments account for them if the compensation consultant provides additional services?*

   Pricing information for the consulting services provided by professional services firms normally is maintained on a confidential basis, so any firm that is required to have its fees or fee structures disclosed would be at a significant competitive disadvantage compared to those firms whose pricing remains confidential. For this reason, if the Commission determines that companies must disclose the fees paid for executive compensation advisory services provided to the board or compensation committee, then that requirement should be applied consistently without regard to the category of firm that provides those services.

   Perhaps most competitively damaging is the proposed disclosure of fees paid to multi-service consulting firms for services other than executive compensation consulting. Where these services involve a single type of work (e.g., global actuarial services), such a disclosure could cause substantial competitive harm because it would necessarily reveal confidential and competitively sensitive pricing information. In some cases, this harm could be so substantial that a consulting firm would decline to provide executive compensation services simply to avoid having to disclose the fees for other services it provides to the company. The Commission could lessen this impact by adopting our proposed alternative fee disclosure requirement outlined in our response to the previous question.

4. *Are there additional disclosures regarding the potential conflicts of interest of compensation consultants that should be required? For example, would requiring disclosures of any ownership interest that an individual consultant may have in the compensation consultant or any affiliates of the compensation consultant that are providing additional services to the company help provide information about potential conflicts? If so, why?*

   As noted above, there are many types of potential conflicts of interest that could affect the objectivity of a consultant's advice, all of which should be fully disclosed to the compensation committee to allow the committee to decide whether such conflicts should be mitigated or if they disqualify the consultant or firm from providing executive compensation services to the committee.

   In addition to the perceived conflict the Commission is seeking to address in its proposed rulemaking (i.e., fees paid for other consulting services), potential conflicts can arise from a single-line consulting firm being too dependent on a particular client from a financial or reputational perspective, as well as from certain fact-specific interlocking relationships consultants may have with company executives or directors. If public disclosure is required for any potential fee-based conflict, comparable disclosures should be required for all material potential conflicts. Where potential conflicts are identified, companies should also be required to disclose any steps the company or consulting firm has taken to mitigate the effect of the potential conflict.

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5. *The proposed disclosure requirement calls for disclosure of services during the prior year. Should we also require disclosure of any currently contemplated services in order to capture a situation where the compensation consultant provides services related to executive pay in one year and in the next year receives fees for other services? If so, should we require that fees for the currently contemplated services be estimated? Is there a better way to require that information, for instance through the date of the filing? Should we require disclosure for the three prior years?*

   These questions highlight the practical challenges companies will confront in trying to provide meaningful insights to investors via a structured or tabular disclosure of executive compensation and other fees paid to multi-service consultants. Where do you start? Where do you stop? What fees relate to what? Should fees be reported when services are performed, billed or paid? How do you handle mid-year mergers of either consultants or clients? Exactly what does “executive compensation consulting” mean (especially in other parts of the world)?

   The questions and practical challenges posed by the proposed rule are wide-ranging and significant, and the ebb and flow of consulting assignments and relationships in large, complex global businesses don’t lend themselves to simplified reporting such as that contemplated by the proposed rule. For these reasons, we believe compensation committees are in the best position to gain a proper understanding of the relevant facts and ask whatever questions the committee deems necessary to carry out its important role, including identifying potential conflicts of interest and how those potential conflicts can best be managed and mitigated.

   The issues identified in our response to this question further highlight the reporting challenges companies are likely to face in complying with any new fee disclosure requirement, especially in determining the total fees paid to a particular consulting firm (including affiliates) on a global basis.

   Consequently, we suggest that the implementation of any total fee disclosure requirement be postponed until the 2011 proxy season (i.e., requiring disclosure of fees paid in fiscal 2010) to give companies time to establish processes for developing reasonably accurate and relevant fee information.

6. *Is the proposed exclusion for consulting services that are limited to broad-based, non-discriminatory plans appropriate? Should we consider any other exclusions for services that do not give rise to potential conflicts of interest? If so, describe them.*

   From our perspective, the proposed exemption for consulting services that relate to broad-based plans is too narrow. For example, an exclusion most certainly should apply in cases where a company only participates in or purchases a compensation survey but receives no advisory services. Further, the term “executive compensation consulting” should be defined to cover only consulting advice provided to the compensation committee that relates to the compensation of individuals who are executive officers of the company.

As we note above, compensation consultants retained by a company's human resource department or similar functions do not present any potential conflict of interest that should require additional disclosure or regulation.

Under corporate law of the various states and listing requirements of major stock exchanges, boards of directors and compensation committees, as a practical matter, have full and ultimate decision rights with respect to the pay, benefits and performance management of the CEO and other senior executives, as well as policy-setting and approval roles for other incentive compensation and equity-based plans. Simply put, the compensation committee and the board have responsibility for setting compensation for executive officers. Any additional disclosure requirements should be limited to information about advisors who serve the compensation committee or the board.

7. *Should we establish a threshold based on the amount of the fees for the non-executive compensation related services, such as above a certain dollar amount or a percentage of income or revenues? If so, how should the threshold be computed?*

   Yes, we suggest the Commission consider a materiality threshold similar to (but somewhat stricter than) the one used by the New York Stock Exchange to assess the independence of directors, which is denominated as a percentage of the consulting firm's total revenues. In cases where a client generates a very small (clearly immaterial) portion of the consulting firm's total revenues, it is highly unlikely that the firm would jeopardize its reputation to provide anything but fully objective executive compensation advice, especially where other protocols exist to help ensure objectivity.

   Specifically, we believe any required disclosure of information about the overall size of the consulting relationship should be required in the proxy statement only where the client relationship represents at least one-half of one percent of the consulting firm's total revenues.

8. *Would disclosure of the individual fees paid for non-executive compensation related services provided by the compensation consultants be more useful to investors than disclosure of the aggregate fees paid for non-compensation related services provided as proposed?*

   We believe the proposed requirement for companies to disclose detailed information regarding fees paid for services other than executive compensation consulting to the board or compensation committee would impose significant competitive harm on multi-service firms. This harm would be especially severe where the disclosure could be tied to particular types of services. We believe such a requirement likely would cause multi-service firms to decline to provide executive compensation consulting services to companies for which they perform other work.

In our view, it would be more constructive for consulting firms to provide such details to compensation committees, which can ask whatever questions and impose whatever safeguards they deem necessary to mitigate potential conflicts. Committees should disclose the *process* by which they evaluate and ensure the executive compensation consultant's objectivity, without publicly disclosing competitively sensitive specifics about the fees paid to the consulting firm for other services. Disclosure should not be required for fees related to other consulting services unless the consulting firm's total relationship with the company is material in relation to the overall size of the consulting firm.

9. *Would disclosure about the fees paid to compensation consultants and their affiliates help highlight potential conflicts of interest on the part of these compensation consultants and their affiliates? Is fee disclosure necessary to achieve this goal, or would it be sufficient to require disclosure of the nature and extent of additional services provided by the compensation consultant and its affiliates? Should disclosure only be required for fees paid in connection with executive compensation related services?*

   As noted previously, we believe public disclosure of consulting fees provides very little insight or meaningful information to investors about the existence or nature of any potential conflicts of interest and whether or how such conflicts may be affecting companies' decision-making with regard to executive pay. We are also concerned that requiring detailed disclosures of consulting fees paid to multi-service firms will cause substantial competitive harm to firms like Towers Perrin because it would reveal competitively sensitive pricing information that other competitors would not be required to disclose. One likely result of any such disclosure regime is that companies would no longer have access to the robust executive compensation consulting expertise offered by multi-service firms because such firms would be unwilling in many cases to perform executive compensation work where doing so would subject competitively sensitive pricing information to disclosure or would result in a requirement that they perform no other work for a company.

   We seriously question whether disclosure of detailed fee information for multi-service consulting firms will be meaningful to investors or help them understand how the compensation committee and board make decisions about executive pay. Consider the following scenarios, for example, both of which involve companies that pay a total of $500,000 in a given year for executive compensation consulting services provided to the compensation committee:

   - In Company A, the compensation committee uses a multi-service consulting firm for all of its executive compensation advisory needs. Under the Commission's proposed rule, this company would be required to disclose that it paid the consultant $500,000 for executive compensation consulting and also disclose any fees paid for other services provided to the company.

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- Company B's compensation committee pays a single-line consulting firm $250,000 for overall executive compensation advice, pays a law firm $100,000 for advice on negotiating executive employment agreements, pays a specialized financial analysis boutique $75,000 for the use of its proprietary financial model that is a key driver of senior executives' long-term incentive goals and pays a multi-service consulting firm $75,000 for competitive compensation benchmarking data. Under the Commission's July 10 proposal, this company would disclose only $75,000 in fees to the multi-service consulting firm, along with any fees paid to this firm for other services.

Clearly, the information disclosed in these two examples using the proposed rules offers investors no meaningful insight into the compensation committee's deliberations and the processes and information considered by the committee to make pay decisions.

10. *Should we make any special accommodations in the proposed amendments to Item 407(h) for smaller reporting companies? If so, what accommodations should be made and why?*

    We believe all companies should be subject to the same disclosure rules.

11. *Are there other categories of consultants or advisors whose activities on behalf of companies should be disclosed to shareholders? If so, what kind of disclosure would be appropriate?*

    There are many advisors involved from time to time with executive compensation matters, including lawyers, executive search firms and others. Where these other advisors provide material advice to compensation committees regarding the pay of a company's executive officers, we believe it would be relevant to disclose each advisor's role. If public disclosure of the role of compensation consultants is required, the process for hiring those other advisors (including any process for ensuring that no conflicts of interest exist) and information about the roles they play with regard to executive compensation decisions should also be disclosed. If fees for compensation consultants are required to be disclosed, we believe all advisors who perform related or similar services should be subject to the same disclosure requirements.

We appreciate the opportunity provide these comments and thank the Commission for considering our views.

Gary M. Locke
Managing Director

Paula H. Todd
Managing Principal

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[1] *The Role and Effect of Compensation Consultants on CEO Pay,* by Brian Cadman (David Eccles School of Business, University of Utah), Mary Ellen Carter (Carroll School of Management, Boston College) and Stephen Hillegeist, INSEAD, February 2009; see also *Economic Characteristics, Corporate Governance, and the Influence of Compensation Consultants on Executive Pay Levels,* by Christopher S. Armstrong (The Wharton School, University of Pennsylvania), Christopher D. Ittner (The Wharton School, University of Pennsylvania) and David F. Larcker (Stanford University Graduate School of Business, Rock Center for Corporate Governance), June 12, 2008.

Exhibit: Sample Disclosure

Compensation Committee Disclosure: Role of the Compensation Consultant

How We Selected the Consultant

As permitted by the Compensation Committee (the "Committee") charter, the Committee has retained XYZ Firm as its executive compensation consultant to assist in the Committee's evaluation of the company's executive officer compensation program and incentive plan design. The Committee's consultant selection process included three steps. Board members were asked for potential candidates, the Committee worked with the Company's chief human resource officer to prepare a request for proposal sent to seven candidates, and the Committee made its selection following committee interviews of three finalists selected based on the proposal responses.

In making the decision to select the incumbent, the Committee placed particular weight on the consultant's industry knowledge and experience on matters of particular importance to the Company's unique business circumstances. The consulting firm's database includes robust data relevant to the company. We were also influenced by the recommendations provided by other clients of the consultant, which noted the consultant had been both practical and creative in addressing difficult compensation and business issues. Finally, the individual consultant has a team and resources capable of meeting the Committee's needs in a timely and effective manner.

How We Work With the Consultant

The Committee, with management input, defines the work to be performed by the consultant. The consultant works with management to gather data required to prepare analyses for Committee review.

The Compensation Committee has the sole authority to retain and terminate the executive compensation consultant. In considering the advice provided by the consultant, and whether to retain the consultant, the Committee requires that the Company regularly inform the Committee of all work provided or to be provided by the consultant's firm in addition to the executive compensation services provided to the Committee, and the fees charged or to be charged for those services. Annually, the Committee evaluates the quality of the services provided by the consultant and determines whether to continue to retain the consultant.

Specifically, the consultant provides the Compensation Committee with market trend information, data and recommendations to enable the Compensation Committee to make informed decisions and to stay abreast of changing market practices. In addition, the consultant provided analysis on the alignment of pay and performance and assisted in the process of preparing this disclosure. While it is necessary for the consultant to interact with management to gather information and obtain recommendations, the Committee has adopted protocols that govern if and when the consultant's advice and recommendations can be shared with management. Ultimately, the consultant provides his recommendations and advice to the Compensation Committee in an executive session where company management is not present. This approach ensures the Compensation Committee receives objective advice from the consultant so that it may make independent decisions about executive pay at the company.

Other Consultant Work With the Company

During our selection process, we were fully informed of the other services XYZ provides to the company. XYZ provides actuarial services to the company. The total fees paid to XYZ for all services in 2009 exceeded the revenue concentration threshold in Item 407. The fees paid to XYZ for executive compensation consulting services to the Committee was $200,000 and for all other products and services was $3 million, above the threshold of .5% of the consulting firm’s total revenues. The Committee is confident that the advice it receives from the individual executive compensation consultant is objective and not influenced by XYZ’s relationship with the Company because of the rigorous procedures XYZ and the Committee have in place. These include:

- The consultant receives no compensation based on the fees charged to the Company for other services;
- The consultant does not participate in XYZ sales meetings regarding opportunities at the Company;
- XYZ’s Code of Business Conduct specifically prohibits the individual consultant from considering any other relationships XYZ may have with the Company in rendering her advice and recommendations; and
- The protocols for the engagement (described above in How We Work With the Consultant) limit how the consultant may interact with management.

The Committee believes the consultant's qualifications, expertise and protocols ensure that the advice provided to the Committee is both objective and of the highest quality available.