

# State of Connecticut

DENISE L. NAPPIER  
TREASURER



Hartford

November 18, 2010

## Via Email

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

Re: *Shareholder Approval of Executive Compensation and Golden Parachute Compensation (S7-31-10)*

Dear Ms. Murphy:

I write to comment on the Securities and Exchange Commission's proposed rule on advisory votes on executive compensation and golden parachutes, known as "say on pay".

As principal fiduciary of the \$23 billion Connecticut Retirement Plans and Trust Funds ("CRPTF"), I have long advocated providing shareholders with an annual advisory vote on executive compensation, and I strongly support the legislation that this rule is implementing.

The concept of say on pay was developed in other global markets and has worked well in practice. My office was a member of the U.S. shareholder-corporate working group on say on pay which began meeting in February 2007. Over the ensuing 3-½ years, U.S. shareholders and companies have worked together to define the concept of say on pay. During this time, a number of companies -- at the urging of shareholders (through shareholder resolutions) -- have adopted the advisory vote. Companies that received TARP funds were required to have such an advisory vote beginning in 2009.

Throughout this period of time, the basic tenet of say on pay has been to foster better direct communication between shareholders and the companies in which they invest on

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the topic of executive compensation. Several Commission rules requiring greater transparency on executive compensation, particularly in the annual proxy statement, have supported this effort.

The Dodd-Frank Act requires three votes: (1) an advisory vote on executive compensation; (2) an advisory vote on the frequency of the advisory vote on executive compensation; and (3) an advisory vote on golden parachutes. The key word is advisory. Because the vote is advisory the issue for the Commission from my perspective comes back to how the rule can better foster communication between shareholders and corporate leaders on executive compensation. I therefore urge the Commission to adopt the aspects of the rule that provide as much transparency as possible on executive compensation data and apply it to the broadest number of public corporations, including smaller reporting companies.

Communication is a two-way street. Over the past few years, the say on pay initiative has significantly increased dialogue between shareholders and corporate leaders on this issue. There will be some companies that will not join the trend and others that will ignore shareholder objections to poor compensation practices. I would expect shareholders will use other tools to get the attention of these companies, such as voting against the election of members of the compensation committee and filing shareholder resolutions on specific aspects of a company's executive compensation program. Ultimately, I anticipate companies will more readily accept say on pay and present shareholders with better executive compensation programs and disclosures as both corporations and shareholders become more comfortable with the say on pay process.

The one technical comment I want to add concerns the advisory vote on the frequency of say on pay. The proposed rule holds if a company implements the wishes of a plurality of shareholders on frequency, a shareholder resolution addressing frequency of the vote would be deemed already implemented. I strongly support an annual say on pay vote. My concern is the case when a plurality of shareholders, say 40 percent, prefers a three-year cycle, while all other shareholders prefer a one- or two-year cycle. In this case, a majority of shareholders clearly would prefer a more frequent vote than every three years, yet the three-year period between say on pay votes would prevail. To mitigate the potential disenfranchisement of shareholders through a plurality vote, the proposed rule should allow shareholders to file resolutions advocating a more- or less-frequent say on pay vote than implemented by their company, especially since the "frequency votes" occur every six years.

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I appreciate the opportunity to express my views to the Commission on this matter. Please contact Donald Kirshbaum, Investment Officer for Policy, with any questions. He can be reached at (860) 702-3164 or [Donald.Kirshbaum@ct.gov](mailto:Donald.Kirshbaum@ct.gov).

Sincerely,



Denise L. Nappier  
State Treasurer