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INTERNATIONAL BROTHERHOOD OF TEAMSTERS

JAMES P. HOFFA
General President

25 Louisiana Avenue, NW
Washington, DC 20001



C. THOMAS KEEGEL
General Secretary-Treasurer

202.624.6800
www.teamster.org

April 7, 2006



Ms. Nancy M. Morris, Secretary
Securities & Exchange Commission
100 F Street, NE
Washington, DC 20549

RE: File Number S7-03-06

Dear Secretary Morris:

Teamster-affiliated pension and benefit funds hold roughly \$100 billion in equity assets representing the retirement security of roughly 1.4 million active and 600,000 retired members of the International Brotherhood of Teamsters (IBT). On their behalf, I am pleased to comment on File No. S7-03-06, "Executive Compensation and Related Party Disclosure" and support the proposal of the Securities and Exchange Commission (SEC) requiring improved clarity and transparency of executive compensation and related party transactions.

Executive Compensation is a primary concern among investors because it appears that so much of the compensation is unrelated to his or her performance. The absolute levels of executive compensation have exceeded all pretense of incentive. For example, at United Technologies (UTX), the Board of Directors awarded its Chair and CEO, George A. L. David, compensation worth more than \$121 million¹ for 2004 and 2005. This figure does not include a Black-Scholes Value of options granted in the two years, valued by The Corporate Library at more than \$27 million for 2005 alone.² If the Company's

¹ Including Base Salary, Bonus, Other Annual Compensation, LTIP Payout, Restricted Stock & Options Value Realized.

² The Corporate Library's Black-Scholes formula is: (# of shares) x (Exercise Price) x 0.346635.

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disclosure included perquisites and other sources of compensation, UTX may have had to report even greater pay packages for the two years. Regardless of whether one feels that compensation levels like this are excessive and disproportionate, disclosure of this information enhances investor knowledge about a company's management practices. Greater disclosure of real executive compensation practices, as proposed by the SEC, is the first step in giving investors the tools they need to evaluate a company's real value and to rein in boardroom excesses.

Compensation Discussion & Analysis

The IBT strongly supports the proposed Compensation Discussion & Analysis (CD&A) and its integration of principle-based and rules-based approaches as an essential and important improvement in executive compensation disclosure. However, we believe that the CD&A should not only "collect, itemize and summarize all compensation elements for each senior executive, providing bottom line analysis,"³ it should also require shareholder approval. Shareholder approval of the CD&A ensures that full disclosure does not legitimize excessive compensation.

CD&A should include (but not be limited to):

- An explanation of the compensation committee's philosophy of executive compensation;
- A detailed discussion of the rationale behind key components of the executive pay program;
- A detailed discussion of the links to performance contained in the program as a whole and specific to each key element of the program;
- Disclosure of key pay-related policies, such as "clawback" provisions;⁴
- A collection, itemization and summary of the elements of the compensation packages received by the top five most highly compensated officers OR by all executives receiving total compensation⁵

³ Jeffrey N. Gordon, "Executive Compensation: If There's a Problem, What's the Remedy? The Case for 'Compensation Discussion & Analysis,'" in *The Journal of Corporation Law*, Summer 2005, pp 102-30.

⁴ Clawbacks are enforceable provisions that force executives to return performance-based pay upon restatements of a company's financials that retroactively conclude that the performance metric used was not met.

⁵ Total Compensation should include deferred compensation, SERPs, Pensions, Health & Welfare contributions on behalf of the executive, stock options, perquisites and all other compensation.

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which is greater than twenty-five times the average compensation of all employees in the company, whichever is the lesser number;⁶

- Justification for the compensation; and,
- The signature of the members of the compensation committee affirming the CD&A.

Further, the CD&A must be presented to the shareholders at the annual meeting for a precatory vote of approval or disapproval. A precatory vote on the CD&A empowers constituent investors to let their directors know how well they are doing.

While we are strongly supportive of the proposed CD&A, we believe that reporting the previous year's or previous performance period's target levels with respect to specific quantitative and qualitative performance-related factors, or any factors or criteria involving commercial and business information, would have no significantly adverse effect on the company. Companies should disclose qualitative and quantitative benchmarks when established. Should forward-looking disclosure put a company at a competitive disadvantage, such disclosure should be made retroactively, after the conclusion of the performance period. Companies should bear the burden of proof that forward-looking disclosure puts them at a competitive disadvantage.

The IBT believes that the Performance Graph is important for inclusion in a company's proxy. The Performance Graph is a useful tool for peer group comparison and should be retained. We agree that such graphs are readily available via business-related websites, but we believe that such availability makes the cost of inclusion immaterial.

Summary Compensation Table

The proposed Summary Compensation Table is an improvement over the current tables used in the proxy, bringing together data – some new, some separated – in a concise statement of exactly how much real total compensation is awarded, addressing and disclosing not only the principle, but also the absolute number. The IBT is supportive of the new table, although we believe

⁶ Total Compensation disclosure should minimally report on the top five most highly compensated executives, but there should be an absolute number above which boards must report to shareholders. By tying an absolute number to a multiple of the average compensation within a given company, it allows the rule to always be current without any need for inflation-related adjustments.

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that it would not be burdensome for a company to provide several years of compensation data, rather than just one year.

The function of the disclosure is to assist investors. Therefore, in order to improve the clarity and consistency of the summary compensation table disclosures, the IBT recommends that the SEC amend column (h), "Non-Stock Incentive Plan Awards," to provide a grant date fair value estimate of the awards instead of the actual earned award value. Such a move would better represent the decisions of the compensation committee during the year the decisions were made. The IBT proposes that companies be given direction to calculate these values using probability estimates of achieving the award, discounted to a present value.⁷ The IBT believes that the actual payouts of non-stock incentive plan awards (consistent with the proposed column (h)) be disclosed in the Option Exercise and Stock Vesting Table.

Related Party Transactions

The IBT believes that the proposed increase in related party transactions *de minimus* from \$60,000 to \$120,000 is unacceptable. \$60,000 is already, in the words of SEC Chair, Christopher Cox, above "what many of a company's shareholders make all year, and it's far above the median household income of \$44,400."⁸ We believe the *de minimus* for related party transaction should be set at \$250.⁹ Shareholders have a right to know that the persons whom they are led to believe are independent are truly independent of the company. Currently, the son or daughter of an otherwise independent director can earn up to \$59,999 – "far above the median household income of \$44,400"¹⁰ – without having to report to shareholders that the independent director's independence is compromised by having his or her child's income dependent on the company's management, the same management the director is supposed to oversee. The proposed increase would mean that the compromised director would now not have to report the dependence of a family member upon the company's management ostensibly overseen by the director for \$119,999 of income. Chairman Cox noted, "empowering investors is what the SEC is all about"

⁷ Methodology and assumptions should be disclosed in a required footnote.

⁸ Speech by SEC Chair Christopher Cox – Remarks Before the Council of Institutional Investors (CII), Washington DC, March 30, 2006.

⁹ There is precedent for this from the Department of Labor. The current *de minimus* for reporting on Form LM-30 (for the recipient) and on Form LM-10 (for the Employer) a thing of value provided to a union officer by an employer (regardless of the employer's union status) is \$250.

¹⁰ Speech by SEC Chair Christopher Cox – Remarks Before the CII, Washington DC, March 30, 2006.

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because the SEC is “the investors’ advocate.”¹¹ This proposal is antithetical to empowering investors. To empower investors to put controls on related party transactions, the SEC’s rule needs to force company’s to report on all related party transactions above \$250.

The IBT believes that the current \$10,000 perquisite disclosure for directors should also be lowered to \$250 on the same basis.

Unfortunately, the independence of many directors is suspect, in part because of the inadequate definition of independence in the listing standards of the securities exchanges. To safeguard investors, the SEC should adopt the CII definition of independence: “An independent director is a person whose directorship constitutes his or her only connection to the corporation.”¹²

The IBT supports the proposed requirement for disclosure of the policies and procedures established by the company regarding related party transactions. This type of data is material to investors. At a minimum, the disclosures should include:

- The types of transactions that are covered and the standards to be applied pursuant to the policies;
- The person(s) on the board responsible for applying the policies;
- Whether the policies are in writing and where a complete version can be viewed; and,
- Whether there are transactions requiring disclosure under § 404(a) where a company’s policies and procedures did not require review or were not followed or if any type of exception was granted.

Golden Parachutes, Golden Handshakes, Perks & Pensions

Many boards and compensation committees create camouflage compensation packages to hide from investors the real cost of total executive compensation. The camouflage of preference is a mix of defined benefit SERPs, deferred compensation, life insurance policies, post-employment use of the company’s aircraft (for the executive *and* his/her family and guests), chauffeured automobiles, personal assistants, financial planning, home-security systems, club memberships, sports tickets, office space, secretarial help and cell phone

¹¹ Speech by SEC Chair Christopher Cox – Remarks Before the CII, Washington DC, March 30, 2006.

¹² The Council of Institutional Investors Corporate Governance Policies, p. 18.

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service. Additionally, retired executives can direct charitable giving by the company.¹³ The value of these perks is not reported when they are agreed to, nor are they reported when they are paid. In the first case, there is no disclosure because the expense is not incurred. In the latter case, the compensation expense is post-employment, and the company is not required to report the compensation of retired executives.

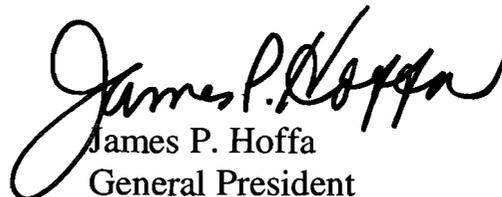
The IBT believes that executives should be required to disclose the full value of all perquisites, not just the incremental costs to the company. The valuation of perquisites should be estimated using either the equivalent market value, or the full accounting cost to the company, including depreciation and capital costs.

Bebchuk & Fried, in their book, *Pay Without Performance*, note that almost a third of a chief executive's total career compensation is in the form of pension promises.¹⁴ That's why the Teamsters support disclosure in a separate column in the summary compensation table. A further breakdown of executive retirement benefits would provide clarity. Disclosure should occur within a year of the directors' approval of the promised pension packages.

Conclusion

The Teamsters appreciate the opportunity to offer comment on this issue of great importance. Should you have any questions, please do not hesitate to contact Carin Zelenko, Director of Capital Strategies for the Teamsters, at (202) 624-8100.

Sincerely,



James P. Hoffa
General President

JPH/jh

¹³ Retired FleetBoston CEO Terrence Murray was able to direct the charitable giving of \$3.5 million of investor money.

¹⁴ Cited in "Companies Must Come Clean on Executive Pay," in the *Sunday Times*, by Irwin Stelzer, January 22, 2006.