

679

State of Connecticut

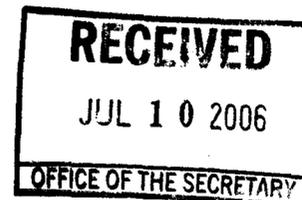


DENTISE L. NAPPIER
TREASURER

Hartford

July 10, 2006

Nancy M. Morris, Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-9303



Re: Executive Compensation and Related Party Disclosure, File No. S7-03-06

Dear Ms. Morris:

As principal fiduciary of the \$23 billion Connecticut Retirement Plans and Trust Funds (CRPTF), I am writing to draw your attention to the issue of the independence of compensation consultants. It was among a series of matters briefly highlighted in formal comments provided on behalf of the CRPTF in correspondence dated April 10, 2006, in response to your consideration of broader disclosure requirements with respect to executive compensation.

Recent revelations regarding the backdating of stock options, already known to have occurred in more than fifty well-known companies, has opened a new front in the public's continuing consternation regarding excessive pay packages provided to senior corporate executives. The SEC has publicly stated its intention to pursue this matter, and rightly so.

Unfortunately, concerns over executive pay do not end there.

As part of its comprehensive review, I would urge the SEC to specifically require that companies disclose whether a compensation consultant, employed by the Board's compensation committee, is also performing other work for the same company, the nature of that work and the fee arrangement specifically for the services.

In my view, multiple business relationships within a company may compromise the independence of a consultant's recommendations and/or advice to the compensation committee, and such information is fundamental to any assessment by investors as to the independence of the advice and guidance provided by the consultant. As executive pay continues to draw scrutiny, this often integral aspect in the formulation of compensation packages will surely gain attention as well. That awareness holds the potential of further heightening concerns about the exorbitant levels of executive pay.

In fact, the Conference Board identified this issue late last year¹, asserting that compensation consultants can indeed be conflicted when they also provide services for management of the same company. Based on best practice experience and legal precedent, the authors suggest that a compensation committee's fiduciary duty is met when the

¹ Conference Board Report, December 2005, "Dealing in Good Faith: The Evolving Role of the Compensation Committee and its Relations with Consultants"

Nancy M. Morris, Secretary

-2-

July 10, 2006

committee hires a consultant whose sole relationship to the company is in the capacity as compensation consultant.

We have been down a similar road before. On behalf of the CRPTF, I wrote to the SEC in September 2000 requesting the adoption of a rule requiring auditors to be free of conflicting interests, particularly as it related to one company performing both auditing and accounting functions. The value of auditor independence later became clear when, as a result of the accounting scandals at Enron and other companies, we saw what can happen when a company's role as auditor conflicted with its often far more lucrative role as a consultant.

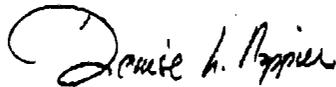
The Sarbanes-Oxley Act and the New York Stock Exchange rules now significantly limit auditors' ability to perform non-audit services for their audit clients, thus promoting auditor independence. Consultant independence may prove to be as significant an issue.

The breadth of current concerns about executive pay cannot be underestimated. A recent survey by Watson Wyatt found that only 22% of institutional investors think the current system of executive pay has contributed to positive U.S. economic performance. A full 90% expressed the view that top executives were dramatically overpaid.

I believe that the SEC now has an opportunity to alleviate those concerns by acting to prevent the same mistake from being made twice: first, by requiring that companies disclose this potential conflict-of-interest, and subsequently by considering a prohibition of such a practice. Additionally, the SEC should clarify what oversight, external to the company and its board, investors can rely on to achieve the goal of ensuring that compensation consultants meet a test of independence that is in the best interest of the company, its investors and our economy.

I applaud the Commission for its interest in more comprehensive disclosure, and appreciate your consideration of my comments. Should you have any questions regarding our suggested amendments to the proposed rules under consideration, please contact Meredith Miller, Assistant Treasurer for Policy, at (860) 702-3294.

Sincerely,



Denise L. Nappier
State Treasurer