20 December 2007

Mr. John W. White
Director
Division of Corporate Finance
Securities and Exchange Commission
100 F Street, NE
Washington DC 20549-9303

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

Dear Mr. White,

The CFA Institute Centre for Financial Market Integrity (the “CFA Institute Centre”) respectfully submits this letter to suggest improvements to the Securities and Exchange Commission’s executive compensation disclosure rules (the “Rules”) that were implemented during the 2006-07 proxy process. Please feel free to contact either Kurt Schacht, CFA, at +1.212.756.7728 or kurt.schacht@cfainstitute.org, or James C. Allen, CFA, at +1.434.951.5558 or james.allen@cfainstitute.org, if you or your staff have questions or seek clarification of our views.

Sincerely,

/s/ Kurt Schacht
/s/ James C. Allen

Kurt Schacht, CFA
Managing Director
CFA Centre for Financial Market Integrity

James C. Allen, CFA
Director, Capital Markets Policy Group
CFA Centre for Financial Market Integrity

cc:
Mr. Christopher Cox, Chairman, U.S. Securities and Exchange Commission

Ms. Anne Krauskopf, Senior Special Counsel, Office of the Chief Counsel, Division of Corporate Finance, U.S. Securities and Exchange Commission
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Re: Executive Compensation and Related Party Disclosure (Re: File No. S7-03-06)

Dear Mr. White,

The CFA Institute Centre for Financial Market Integrity (the “CFA Institute Centre”) respectfully submits this letter as a follow up to the Securities and Exchange Commission (the “Commission”) requesting improvements to the executive compensation disclosure rules (the “Rules”) that were implemented during the 2006-07 proxy process. This letter supplements the CFA Institute Centre’s letters dated 13 April 2006 and 30 May 2006 regarding the Commission’s Executive Compensation and Related Party Disclosure proposals.

Like many observers, we were highly disappointed in the inconsistent and overly complex implementation of the Rules exhibited by many companies. The CFA Institute recommendations provided below cover a number of information needs that were omitted or unclear in the final Rules, but primarily relate to the manner in which the Rules were interpreted and applied by reporting companies. The length, complexity, and lack of transparency of the disclosures suggest companies either ignored or misunderstood the spirit and intention of the Rules.

The CFA Institute Centre’s suggestions are based on an analysis of the current disclosure Rules and how issuing companies (“Issuers”) applied those Rules during 2007. Our suggestions also consider the Commission’s own review of adherence to its executive compensation disclosure requirements (the “2007 Review”).

1 The CFA Institute Centre for Financial Market Integrity is a part of CFA Institute. With headquarters in Charlottesville, Virginia, USA, and regional offices in London, Hong Kong, and New York, CFA Institute is a global, not-for-profit professional association of more than 92,500 financial analysts, portfolio managers, and other investment professionals in 132 countries and territories, of whom 80,000 are holders of the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 135 member societies in 56 countries and territories.
1. The Quality and Clarity of Disclosures

The goal of the Rules was to improve both the content and quality of executive compensation information in several respects. The Rules called for the use of plain language so that investors could see in a concise and understandable format the full picture of an Issuer’s executive compensation process. Unfortunately, this goal was ignored by many firms who, in the first year of implementation, reverted instead to the past practice of using incomplete, overly complex, and legalized explanations that tended to frustrate even the experts in proxy review.

We strongly encourage and support the Commission’s efforts to direct companies to meet the intent of full, open, and honest communication of compensation practices. The use of endless and complex legal boiler-plate, and the avoidance of full disclosure by inappropriate claims that compensation metrics are proprietary, should be a key focus of these efforts.

2. Involvement of the Compensation Committee and Investor Relations Staff

We encourage the SEC to further inform Issuers about the responsibilities of their compensation committees to actively participate in the review and preparation of the CD&A. We also encourage the Commission to call on compensation committees to ensure that the goals of understandable and transparent disclosures are fully met.

While we recognize that the Commission cannot control who authors or prepares the CD&A, it is appropriate for the Commission to offer guidance on achieving the stated goals. The primary goal of the report is investor communication and information. We believe it is more likely to achieve this goal if both the compensation committee and investor relations staff take primary responsibility for preparation of the CD&A. We encourage the Commission to consider providing such direction.

3. Report fair value of new share-based awards in the Summary Compensation Table (the “SCT”) rather than share-based GAAP compensation expense

The CFA Institute Centre recognizes the reasons behind the Commission’s late changes to the SCT to have Issuers report only the portion of share-based compensation that is recorded as an expense in the income statement. The reason given was that the amount reported should coordinate and relate to the amounts reported in the financial statements. Nevertheless, the SCT continues to require inconsistent reporting in other areas of executive compensation.

Investors are interested in determining the current value of how much the board has committed the Issuer to pay these individuals in future years. Indeed, in a survey of more than 1,000 CFA Institute members on this topic, more than 86% said that the number reported in the SCT for executive stock option grants should reflect the value of all options.
granted to the executive in the current year.\(^2\) The amount the company expensed for those awards in the current year is less relevant to long-term investment decisions, and Issuers should provide such information in a separate supplementary table or, more appropriately, in a footnote to the SCT.

Finally, if an Issuer has previous awards to named executive officers ("NEOs") expire unexercised, the Issuer should reflect the write-off for the expired and worthless stock options in a footnote or in a separate column of the SCT. However, Issuers should not net written-off option awards against current period awards.

4. **Describe any use of company asset worth more than $10,000, regardless if paid for by the company or by the individual executive through a perquisite purchase program**

Many Issuers have avoided full disclosure of their NEOs' use of company assets such as aircraft and homes, or the awarding of other personal services or products to these senior executives through a perquisites "allowance." These executives are then permitted to purchase whatever services they wish.

These structures appear to have been adopted in a precise effort to avoid disclosing what was intended by the Commission's disclosure requirements: specifically, how much NEOs have benefited from perquisites. "We avoid the embarrassment of disclosing allowances for fresh flowers at the company apartment and other things," we recently heard at a board of directors conference. To avoid such opacity, the CFA Institute Centre urges the SEC to require full disclosure of the actual use of any such allowance.

5. **Strictly limit the ability of companies to use “competitive considerations” as a reason to avoid disclosure of compensation strategy**

In its response to the Proposals, the CFA Institute Centre expressed support in its 13 April 2006 letter for the disclosure of the formulas and metrics used to determine performance-based compensation. This position was based on two factors. First, the trend toward pay that is tied to performance merits the release of such information. Second, without a reasonable description of such information, it is impossible for shareowners to understand and hold board members accountable for how senior executives are paid.

The CFA Institute Centre also anticipated that Issuers would take advantage of the competitive exemption to avoid disclosure by structuring compensation packages to take advantage of such an exemption, and ultimately leave shareowners less informed. It appears

from the 2007 Review that a large number of Issuers have adopted such strategies, thus prompting the Commission to make inquiries into Issuers about the lack of disclosure.

We encourage the Commission to require Issuers to disclose the formulas and metrics used to determine performance-based compensation. Such disclosures will likely cause companies to use practical and verifiable benchmarks, or at the very least, cause them to base pay on larger corporate strategies that are identifiable. We also urge the Commission to require Issuers to describe any changes made to performance metrics during the past year and to discuss why such changes were needed.

6. **Disclose how much compensation consultants are earning from the company for other consulting work**

In the same way that Issuers now must disclose how much independent audit firms are paid for services not related to the financial statement audits, Issuers also should disclose the name of the board’s compensation consultants, if they are working in other capacities for the Issuer, and, if so, how much they are receiving. Furthermore, Issuers should provide such information in a table similar to the one required to disclose payments made to independent audit firms. Such disclosures will allow shareowners to determine whether the board’s consultants are sufficiently independent from senior management with regard to executive compensation advice.

7. **Issuers should disclose the role the Issuer’s CEO played in determining his/her own compensation**

As part of the CD&A, members of the compensation committee should disclose the role played by employees who report to the Issuer’s CEO in developing the CEO’s compensation package. Such information is needed if shareowners are to consider whether the board of directors has used appropriate judgment and maintained sufficient independence in its consideration of senior executive pay.

8. **Three years’ comparable information in the SCT for each NEO, regardless of whether the NEO would have qualified for NEO status in prior years.**

In the 29 August 2006 amendments (Release No. 33-8732a; the “August Release”), the Commission states the following on page 12:

“Following the Compensation Discussion and Analysis, we have organized detailed disclosure of executive compensation into three broad categories:
• compensation with respect to the last fiscal year (and the two preceding fiscal years)...” [emphasis added]

A further review of the 22 December 2006 amendments (Release No. 33-8765; the “December Release”) finds no apparent change to the number of years of reporting that were to be included in the SCT. Nevertheless, numerous Issuers disclosed NEO compensation information in the SCT only for the latest fiscal year.

Regardless of the cause, the CFA Institute Centre believes three years’-worth compensation data for each NEO—regardless of whether the NEO was included in the top five executives in prior years or not—is needed to permit shareowners to recognize the trends in overall executive pay at the company. By not providing such information for prior years, Issuers have reduced the ability of shareowners to determine whether the return on executive pay set by the board of directors has generated sufficient returns.

9. Require Graphic Comparisons of Issuers’ Performance Against Their Peers

The CFA Institute Centre believes that investors benefit from a comparison of how an Issuer’s shares have performed relative to those of its chief competitors and peer companies over an appropriate time period, such as three years. Such a comparison was provided graphically prior to the adoption of the Rules. That presentation allowed investors to determine not only how the Issuer performed relative to its peers and competitors, but also enabled investors to determine whether the compensation awarded to senior executives was warranted by that relative performance.

Therefore, the CFA Institute Centre urges the Commission to reinstate the requirement for such a presentation. Moreover, the presentation should appear in immediate proximity to the SCT to help investors determine how the growth in the compensation of NEOs compares with the Issuer’s relative performance.

We also urge the Commission to require Issuers to disclose who is included in their peer groups each year. Issuers also should have to disclose any changes made to their peer groups in the past year and a description of why such changes were made.

10. Issuers should disclose the names of specific competitors used by the company to create a benchmark for determining executive compensation.

In general, the CFA Institute Centre believes Issuers have done a good job providing such disclosure. However, some Issuers have been less than forthcoming with such information. Consequently, the Commission should mandate disclosure of such information to enable shareowners to determine whether the board of directors has used appropriate judgment in developing a benchmark for executive pay.
The CFA Institute Centre for Financial Market Integrity appreciates this opportunity to suggest changes it believes are needed to improve the Commission's executive compensation disclosure Rules. Please feel free to contact either Kurt Schacht, CFA, at +1.212.756.7728 or kurt.schacht@cfainstitute.org, or James C. Allen, CFA, at +1.434.951.5558 or james.allen@cfainstitute.org, if you or your staff have questions or seek clarification of our views.

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