



March 15, 2006

Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-9303

File Number S7-03-06

Subject: Proposed Amendments to the Disclosure Requirements for Executive and Director Compensation

Dear Ladies and Gentlemen:

Enclosed are comments under the Commission's Proposed Amendments to the Disclosure Requirements for Executive and Director Compensation. These comments represent the views of Watson Wyatt Worldwide, an international consulting firm providing executive compensation, actuarial and other consulting services.

Please contact me at 703-258-7623 if you have further questions regarding our comments.

Sincerely,

A handwritten signature in black ink that reads 'Ira Kay'.

Ira Kay
Global Practice Director of Compensation Consulting

A handwritten signature in black ink that reads 'Steven A. Seelig'.

Steven A. Seelig
Executive Compensation Counsel
Research and Information Center

Enclosure

Watson Wyatt Comments Regarding the Commission's Proposed Regulations for Executive and Director Compensation Disclosure

I. EXECUTIVE SUMMARY

The following comments relate to provisions of the Commission's proposed rule on Executive Compensation and Related Party Disclosure. Watson Wyatt Worldwide, an international consulting firm providing executive compensation, actuarial and other consulting services, appreciates the opportunity to comment on the proposed rule and provide recommended enhancements, which include the following:

- A. We recommend requiring disclosure of two revised Summary Compensation tables: the first would focus on new grants made during the immediately prior fiscal year and would be termed "Total Compensation Opportunity;" the second would focus on previous grants earned during the year and would be termed "Total Compensation Realized."
- B. We recommend that, for our recommended table termed "Total Compensation Realized," the Commission clarify that the amount of Non-Stock Incentive Plan Compensation that is to be reported in Column (h) is the amount vested or paid to the executive for the covered fiscal year if the relevant performance measure is satisfied for that year, rather than an amount that would be "attributable" to a covered fiscal year.
- C. We recommend that determination of the most "highly compensated" officers and individuals be based on Column (c) "Total Compensation" of our recommended "Total Compensation Opportunity" table.
- D. We recommend requiring the Compensation Discussion and Analysis be provided over the names of the members of the Compensation Committee of the Board of Directors as well as over the names of the PEO and PFO.
- E. We recommend retaining the Performance Graph as a required disclosure item.
- F. We recommend that for reporting of nonqualified retirement programs in Column (i) "All Other Compensation," the proposed regulations be clarified so that the approach to reporting for defined benefit and defined contribution programs will be the same, requiring the reporting of the value of new benefits/contributions earned during the year as well as the reporting of the increase during the year in value of the benefits/account value that existed as the beginning of the year.
- G. We recommend the Commission clarify that a rollover of the lump sum value of a frozen or terminated defined benefit plan to a defined contribution plan would not need to be disclosed as a current year defined contribution plan contribution or allocation.
- H. We recommend that, in the event of a modification or "repricing" of a stock option or SAR award to a NEO, the amount of compensation reportable for the modified award in Column (g) of the Summary Compensation Table — or in Column (g) of our recommended "Total Compensation Opportunity" table — would be the excess, if any, of the fair value of the modified award over the fair value of the original award immediately before its terms are modified, as determined in accordance with FAS 123R.



II. WATSON WYATT COMMENTS

Watson Wyatt appreciates the opportunity to comment on the Commission’s proposed rule on Executive Compensation and Related Party Disclosure. We commend the Commission for proposing amendments that represent a vast improvement over current rules toward achieving the Commission’s objectives. We provide our comments in the spirit of fully supporting the Commission’s goal of creating far greater transparency than is required by the current disclosure rules, and we are largely in support of the methods by which the Commission seeks to accomplish this goal. Our recommendations, detailed below, are intended to enhance corporate stakeholders’ understanding of and perspective on compensation amounts realized by executives in relation to both compensation opportunities provided those executives and company performance.

We believe our recommendations are entirely consistent with the Commission’s dual desires that all elements of compensation be disclosed and that the reasons for payments be clearly enunciated in the Compensation Discussion and Analysis report. We are hopeful the Commission will strongly consider our recommended enhancements.

A. Summary Compensation Table

1. Summary.

Watson Wyatt believes the proposed disclosures in the Summary Compensation Table will be confusing, and will likely result in misinterpretation by shareholders and commentators alike. In particular, we are concerned about fundamental differences in the nature of data to be reported and the resulting lack of comparability and consistency across the various columns of the table. As a result, we recommend the Commission consider requiring disclosure of two tables: the first would focus on *new grants* made during the immediately prior fiscal year and would be termed “**Total Compensation Opportunity**,” the second would focus on *previous grants* earned during the year and would be termed “**Total Compensation Realized**.”

2. Recommendations.

Watson Wyatt believes there is a reasonable way to avoid the problems of:

- Mixing “realized amounts” of compensation and “opportunities” for compensation in the same table, and
- Mixing time frames associated with long-term incentive compensation in the same table.

Our primary recommendation is to require two perspectives of the Summary Compensation Table:

- **Total Compensation Opportunity:** This perspective focuses exclusively on compensation opportunity provided to NEOs during the fiscal year; and
- **Total Compensation Realized:** This perspective focuses exclusively on compensation realized (being paid, earned or accrued) by the NEOs during the fiscal year.

3. Explanation

As proposed, the Summary Compensation Table requires registrants to provide the following compensation data:



- Base Salary [(Column (d))] – dollar amount earned during the fiscal year
- Bonus [Column (e)] – dollar amount earned during the fiscal year
- Stock Awards [Column (f)] – aggregate grant-date fair value of awards granted during the fiscal year and all earnings on outstanding awards for the fiscal year
- Option Awards [Column (g)] – aggregate grant-date fair value of awards granted during the fiscal year and all earnings on outstanding awards for the fiscal year
- Non-Stock Incentive Plan Compensation [Column (h)] – dollar value of all earnings for services performed during the fiscal year pursuant to awards under non-stock incentive plans and all earnings on outstanding awards for the fiscal year
- All Other Compensation [Column (i)] – dollar value of all compensation for the fiscal year that is not reported in the other columns of the Summary Compensation Table, reflecting – as appropriate – earnings for the fiscal year, cost attributable to the fiscal year, benefit accruals for the fiscal year, amounts paid during the fiscal year, registrant contributions during the fiscal year and increases in actuarial value for the fiscal year
- Total Compensation – sum of these elements [Columns (d) through (i)].

Our first area of concern is that the table requires disclosure of “realized amounts” (being paid, earned or accrued) with respect to some compensation elements, while it also requires disclosure of “opportunities” with respect to other compensation elements:

- “Realized amounts” disclosed
 - Base Salary
 - Bonus
 - Non-Stock Incentive Plan Compensation
 - All Other Compensation
- “Opportunities” disclosed
 - Stock Awards
 - Option Awards

The result is that the Total Compensation disclosed would be a mixture of “realized amounts” and “opportunities” and could be highly misleading.

Our second area of concern is with respect to the mixture of time frames associated with the compensation elements disclosed in the arena of long-term incentive compensation.

The proposed regulations require that the aggregate grant date fair value of Stock Awards and Option Awards granted during the fiscal year be disclosed in Columns (f) and (g). In the vast majority of situations, these awards are earned (either through achievement of performance goals or continued employment) over several years (most typically, three to five years). Thus, the total value of the equity-based award is reported with respect to the year in which the award



is granted. Earnings with respect to outstanding equity-based awards that are attributable to the fiscal year are also included in the amounts reported.

At the same time, still in the arena of long-term incentive compensation, the proposed regulations require that the amount of Non-Stock Incentive Plan Compensation that is to be reported in Column (h) is the amount attributable to the covered fiscal year if the relevant performance measure is satisfied for that year, including plans using a multi-year performance period (with such amounts not being reportable again in the fiscal year when the awards are actually paid). Please see comment “B” below for our recommendation on disclosure requirements for Column (h).

The immediately preceding paragraphs illustrate how the proposed regulations result in significantly different treatment of equity-based awards as compared to non-stock awards. Both types of awards have clearly defined performance/vesting periods. The amounts associated with Non-Stock Incentive Plan Compensation are attributed to the specific years in the performance/vesting period. However, the amounts associated with Stock Awards and Option Awards are not attributed to the specific years in their associated performance/vesting period – rather, the grant date fair value of the entire award is reportable in the year of grant.

The following graphic illustrates the differences in the nature of the compensation data to be reported in the Summary Compensation Table under the proposed regulations:

Summary Compensation Table as Proposed:

Name and Principal Position	Year	Total (\$)	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Stock Incentive Plan Compensation (\$)	All Other Compensation (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
		↑	↑	↑	↑	↑	↑	↑
		<i>Mix of Realized Compensation and Compensation Opportunity; Mix of Aggregate Value for Performance/-Vesting Period and Annual Attribution of Value to Specific Years in the Performance/-Vesting Period if Relevant Performance for the Fiscal Year is Satisfied</i>	<i>Realized Compensation</i>	<i>Realized Compensation</i>	<i>Compensation Opportunity; Aggregate Value for Performance/-Vesting Period</i>	<i>Compensation Opportunity; Aggregate Value for Performance/-Vesting Period</i>	<i>Realized Compensation; Annual Attribution of Value to Specific Years in the Performance/-Vesting Period if Relevant Performance for the Fiscal Year is Satisfied</i>	<i>Realized Compensation</i>

Watson Wyatt believes that the problems with using a single Summary Compensation Table can be overcome through requiring use of two tables:

- **Total Compensation Opportunity:** this perspective focuses exclusively on compensation opportunity provided to NEOs during the fiscal year; and
- **Total Compensation Realized:** this perspective focuses exclusively on compensation realized (being paid, earned or accrued) by the NEOs during the fiscal year.



Our recommendations with respect to the Summary Compensation Table are illustrated below:

Overview of Watson Wyatt's Recommendation for Two Perspectives of the Summary Compensation Table:

Summary Compensation Table -- Total Compensation Opportunity

Name and Principal Position	Year	Total Compensation Opportunity (\$)	Salary (\$)	Target Bonus Opportunity (\$)	Stock Awards Granted (\$)	Option Awards Granted (\$)	Non-Stock Incentive Plan Compensation Target Opportunity (\$)	All Other Compensation (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)

Column (d): For full-year executives and newly hired executives, the actual salary paid during the fiscal year; for executives terminated during the year, the actual salary paid during their period of employment annualized to reflect the full year

Column (e): The "target" opportunity specified in the Bonus Plan. If no "target" opportunity is specified, the amount shown should represent the registrant's best approximation of the amount that will be paid if the company's business goals and any applicable individual performance goals for the year are achieved.

Column (f): Same disclosure as proposed by the Commission

Column (g): Same disclosure as proposed by the Commission

Column (h): The "target" opportunity specified in the Non-Stock Incentive Plan. If no "target" opportunity is specified, the amount shown should represent the registrant's best approximation of the amount that will be paid if the company's business goals and any applicable individual performance goals for the year are achieved

Column (i): Same disclosure as proposed by the Commission

Summary Compensation Table -- Total Compensation Realized

Name and Principal Position	Year	Total Compensation Realized (\$)	Salary (\$)	Bonus Payout (\$)	Stock Awards Vested (\$)	Option Awards Exercised (\$)	Non-Stock Incentive Plan Compensation Payout (\$)	All Other Compensation (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)

Note 1

Note 2

Note 3

Note 4

Note 5

Note 6

Column (d): For full-year executives and newly hired executives, the actual salary paid during the fiscal year; for executives terminated during the year, the actual salary paid during their period of employment annualized to reflect the full year

Column (e): The actual bonus paid to the named executive officer for the fiscal year

Column (f): The value realized on Stock Awards on the date upon which they vested/earned, plus any earnings for the covered year with respect to outstanding Stock Awards

Column (g): The value realized on Stock Options on the date upon which they were exercised, plus any earnings for the covered year with respect to outstanding Stock Options

Column (h): The dollar amount of payouts from Non-Stock Incentive Plans received during the fiscal year

Column (i): Same disclosure as proposed by the Commission

Given that the elements of compensation included in Column (i) All Other Compensation do not carry the same potential for variability between "opportunity" and "amount paid," we believe that it is appropriate for Column (i) to be reported as the same amounts (with associated footnotes) in both the "opportunity" and "realized" versions of the Summary Compensation Table.

B. Disclosure of Compensation Amounts for Non-Stock Incentive Awards

1. Summary.

Watson Wyatt recommends that, for our recommended table termed "Total Compensation Realized," the Commission clarify that the amount of Non-Stock Incentive Plan Compensation that is to be reported in Column (h) is the amount vested/paid to the executive for the covered



fiscal year if the relevant performance measure is satisfied for that year, rather than an amount that would be “attributable” to a covered fiscal year.

2. Recommendation.

We recommend the Commission clarify that, for plans with a multi-year performance measure, the amount to be reported for a fiscal year will be the amount which is paid to the executive, or to which the executive has a non-forfeitable or vested right to receive attributable to performance measure during that fiscal year. In our experience, it is rare that a cash-based, long term incentive plan will actually provide a payment or a vested right to payment for an executive until the completion of the multi-year period. Performance under that program will be measured based on the cumulative performance over that period and we do not often find companies performing detailed measurements during an interim year of the degree to which those goals have been attained.

We are concerned the Commission’s instructions accompanying Item 402(c)(2)(viii) may be construed to require such interim year calculations: “If the relevant performance measure is satisfied during the fiscal year (including for a single year in a plan with a multi-year performance measure), the earnings are reportable for that fiscal year, even if not payable until a later date, and are not reportable again in the fiscal year when amounts are paid to the NEO.” We do concur, however, that interim year accruals should be reported to the extent they become non-forfeitable or vested during that year.

We recommend these instructions be clarified so that interim year long-term incentive accruals would not be reported until the year in which such amounts are non-forfeitable or otherwise vested, rather than during the year in which accrued.

C. Determination of Individuals to Be Reported

1. Summary.

Watson Wyatt recommends that the determination of “compensation” used to determine the most “highly compensated” officers and individuals would be the number from Column (c) “Total Compensation” of our recommended “Total Compensation Opportunity” table.

2. Recommendation.

Watson Wyatt believes that the use of Column (c) “Total Compensation” from the “Total Compensation Opportunity” table preserves the Commission’s intention of assuring that all elements of compensation are considered in determining the most “highly compensated” officers and individuals without creating unnecessary volatility in that determination. As we discussed above, we believe it is extremely relevant to shareholders to understand the compensation realized by key management employees of registrants via disclosures in a “Total Compensation Realized” table to provide a more accurate picture of the relationship between pay opportunities provided and actual compensation realized for actual performance relative to established performance goals. However, we believe that shareholders’ understanding of a company’s investment in executive compensation will be best served by disclosure of the potential and actual compensation of the executive officers to whom the company provides the largest compensation opportunities, as represented in our recommended Total Compensation Opportunity table.

While we are in agreement with the Commission’s use of Column (c) “Total Compensation” to determine the most the most “highly compensated” officers and individuals, we would point out



that inclusion of both defined benefit plan accruals and contributions and earnings for nonqualified defined contribution programs will create additional volatility in the determination of NEOs. The current approach could cause otherwise innocuous events, such as changes in actuarial assumptions or an executive's immediate entry into a defined benefit program, to change the demographics of those included in the disclosure. We hope the Commission will balance this increased volatility against its desire to use a single "Total Compensation" number for all purposes.

D. Compensation Discussion and Analysis

1. Summary.

Watson Wyatt agrees with the Commission's proposal that the Compensation Discussion and Analysis report should be provided over names of the PEO and PFO, but we also recommend the report be provided over the names of the members of the compensation committee of the board of directors.

2. Recommendation.

Compensation committee members are responsible for ensuring that the company develops an appropriate executive compensation philosophy and maintains compensation programs that effectively support that philosophy. In light of this responsibility, compensation committee members should also play a key role in developing the report and addressing topics outlined by the Commission – such as compensation program objectives, determination of compensation amounts, and how each compensation element fits into the company's overall compensation objectives. "Signing" the report would serve as a means for compensation committee members to communicate to investors their role in actively governing and approving the compensation program. Therefore, we make this suggestion in the spirit of sound corporate governance and clear communication with investors.

In addition to sound corporate governance, providing the report over compensation committee members' names is appropriate because the PEO and PFO may not have complete background on and access to the compensation committee's (and/or full board's) deliberations on the company's compensation program. Because certain deliberations are increasingly held in executive session, only members of the compensation committee would be best qualified to address certain report topics, including issues that would potentially be appropriate to address in the report as outlined by the Commission, such as:

- Specific items of corporate performance taken into consideration in setting compensation policies and making compensation decisions
- How specific elements of compensation are structured to reflect these items of the company's performance and the executive's individual performance.

Without the requirement for the compensation committee's approval and signature of the Compensation Discussion and Analysis, we are concerned that certain material information about the compensation objectives and policies could be omitted.

E. Performance Graph

1. Summary.



Watson Wyatt believes the Performance Graph should be retained as a required disclosure item.



2. Recommendation.

We agree that widespread availability of stock price information enables investors to access this information from sources other than company disclosures with the Commission. However, retaining the Performance Graph to supplement the Compensation Discussion and Analysis report provides investors with pay-for-performance context to compensation disclosure from the same disclosure source. In addition, retaining the Performance Graph may help ensure that the Compensation Discussion and Analysis report addresses the degree to which the company aligns pay with performance, with regards to both total shareholder return performance and other measures of performance that affect the company's compensation decisions.

F. Disclosure of Non-Qualified Retirement Programs

1. Summary:

Watson Wyatt recommends that the amount reportable in Column (i) of our recommended Total Compensation Opportunity and Total Compensation Realized tables be structured so that there is consistency between defined contribution and defined benefit programs. Current instructions for the Summary Compensation Table leave open the possibility of different handling of reporting for defined benefit pensions and nonqualified defined contribution retirement accounts.

2. Recommendation

We recommend that the instructions to Column (i) "All Other Compensation" of the Summary Compensation Table (or of our recommended Total Compensation Opportunity and Total Compensation Realized tables) require consistency in disclosure between defined contribution and defined benefit programs. The current proposed regulations provide for a divergent approach to disclosures of employer-based contributions or accruals for different types of plans that may provide confusing to shareholders.

The proposed regulations require that registrant contributions to nonqualified defined contribution programs and earnings on nonqualified deferred compensation, regardless of whether attributable to current-year or prior-year employee deferrals or employer contributions, must be reported in the All Other Compensation column.

In contrast, for all defined benefit programs, the proposed regulations provide that only the "increase in actuarial value of benefit accrued during the year" will be required to be reported in the All Other Compensation column. This phrase generally would be interpreted by actuaries to require disclosure of only the value of the new benefit earned (i.e., "accrued") during the year and not to require disclosure of the increase in value of previously earned benefits. This instruction would effectively omit disclosure of the defined benefit equivalent of "earnings" during the year, which would be at odds conceptually with the requirement that all earnings be disclosed for a nonqualified defined contribution plan.

To rectify this discrepancy, we recommend the instructions instead refer to the annual "increase in actuarial value of the entire benefit," or similar terminology. Use of this description would require disclosure of the value of new benefits or contributions earned during the year as well as the increase in the value of benefits earned in prior years (i.e., the "interest" on the prior account balance for defined contribution plans and the increase in the actuarial value of the defined benefit program benefit earned in prior years).



G. Disclosure of Rollovers from Defined Benefit to Defined Contribution Plans

1. Recommendation

Watson Wyatt also recommends the Commission provide clarification on the proper disclosure of a situation where a registrant freezes or terminates a defined benefit plan, and then rolls over the lump sum value of that benefit to a defined contribution plan. We are concerned that the requirement that all “registrant contributions or allocations” to a defined contribution plan would require the entire value of a previously disclosed defined contribution accrual to be disclosed in the year of the conversion. We believe this interpretation would be incorrect and be confusing to shareholders, as such reporting of the entire rollover amount would cause double-counting of an amount previously reported as a defined benefit plan accrual. We would welcome a clarification that the phrase “registrant contributions or allocations” does not include such rollover amounts.

H. Disclosure of Modified Stock Options and SAR Awards

1. Summary.

Watson Wyatt recommends that, in the event of a modification or “repricing” of a stock option or SAR award to a NEO, the amount of compensation reportable for the modified award in Column (g) of the Summary Compensation Table – or in Column (g) of our recommended “Total Compensation Opportunity” table described above – would be the excess, if any, of the fair value of the modified award over the fair value of the original award immediately before its terms are modified, as determined in accordance with FAS 123R.

2. Recommendation.

In the event that the provisions of a stock option or SAR award previously granted to a NEO are materially modified, resulting in an increase in the fair value of the award, Watson Wyatt believes that the additional fair value should be reportable as compensation to the officer. We believe, however, that the approach to measuring the incremental compensation cost of such an award modification set out by the Commission in Paragraph 51 of FAS 123R is the most appropriate approach to determining the amount of compensation reportable in Column (g) of the Summary Compensation Table for such a modified award.

As noted in Paragraph 51 of FAS 123R, when such an award modification is made, “in substance, the entity repurchases the original instrument by issuing a new instrument of equal or greater value, incurring additional compensation cost for any incremental value.” Conversely, the executive relinquishes the original instrument in exchange for the new instrument, giving up some compensation value in exchange for an award of equal or greater value. Thus, we believe that the most appropriate way to disclose to investors the compensation value of a modification of a stock option or SAR award is to disclose the incremental value resulting from the modification, consistent with the approach under FAS 123R.

