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Connecticut Treasurer Urges Compensation Committee Members to Prepare Now for SEC Rules on Executive Compensation Disclosure; Says New Era of Increased Scrutiny Can Benefit Shareholders & Companies

Nappier Files SEC Comments, Says Boards Should Begin "Trial Run" of Expanded Disclosure

(Hartford) -- Connecticut Treasurer Denise L. Nappier said today that imminent Securities and Exchange Commission (SEC) rules that would broaden the disclosure of pay packages provided to top executives will provide an unprecedented opportunity for shareholders to understand, evaluate and question those packages.

Speaking to the Connecticut Chapter of the National Association of Corporate Directors (NACD), and in an "open letter" sent today to corporate Compensation Committee members, Nappier urged board members not to wait for final SEC rules to begin taking steps to respond to a changed disclosure landscape, and the inevitable reactions of shareholders.

"Members of Compensation Committees are about to receive a hand-off from the SEC, and how far downfield the ball will travel is – literally and figuratively – in the hands of corporate directors, especially those serving on comp committees," Nappier said. "What investors don't want, and what our economy can't afford, is a fumble."

Treasurer Nappier's comments come a day after the formal comment period closed on unprecedented draft SEC rules regarding executive compensation disclosure. The proposed rules would require for the first time that all types of executive compensation be disclosed into one document and in plain English, and may also require that a single "total compensation" number be provided to shareholders. The SEC will now consider comments on the draft rules, and is expected to adopt final rules later this year.

"There may be some disagreement on the details, but I believe there is broad agreement on the critical need for more comprehensive data, and more comprehensible data," Nappier said. "Greater disclosure will lead, as it should, to greater scrutiny of the information that is disclosed. For institutional investors, for individual shareholders, and for the corporate bottom line, I view that as good news."

Nappier called on compensation committee members to use the proposed SEC rules as the basis for a "trial run" of information gathering and analysis, so board members are not surprised by data that is likely to be necessary under whatever final rules are adopted.

In her “open” letter to Compensation Committee board members, Nappier said they should begin preparing for the new SEC rules because doing so is in the company’s best interest, and in preparation for “increased scrutiny by investors regarding compensation committee members’ decisions and policies, especially where there is an apparent disconnect between pay and performance, and where compensation is perceived to be excessive.”

Olof Nelson, President of the NACD Connecticut Chapter, said: “It is the board’s responsibility to ensure not only that the company has a transparent compensation system, but that it is based on a core set of clearly-established principles, a link to performance, and a spirit of courageous independence.” Added Nelson, “Compensation disclosure will provide transparency, but boards must go further by proactively establishing pay principles that align the interests of management with those of investors.”

In formal comments filed with the SEC, Nappier described executive compensation as a “window” into the working of the board as a whole. The Treasurer noted to the SEC her strong support for increased disclosure of more comprehensive rules and urged the SEC to retain the “total compensation” figure and to require more information about the independence of the consultant for investors to review.

Nappier cited a study done last year for the International Roundtable on Executive Remuneration which found that 60 U.S. public companies in the bottom 10% of the Russell 3000 lost $700 billion in market value and $485 billion in economic profit over the past five years, while paying their top five executives an average of $40 million each.

“I am hopeful that greater disclosure will spark an important dialogue that either affirms the philosophy and benchmarks a company is already using, or raises issues that can force a better alignment of values and interests going forward,” Nappier said. “In either case, we owe it to ourselves – whatever our vantage point in the financial community – to be prepared and not wait until the other shoe drops at the SEC to begin to address these issues.”

A copy of Treasurer Nappier’s “Open Letter” is attached.