OFFICE OF
STATE TREASURER
DENISE L. NAPPIER

NEWS

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NAPPIER'S 'OPEN LETTER' TO CORPORATE BOARD MEMBERS URGING ACTION NOW ON EXECUTIVE PAY DISCLOSURE BEING DISTRIBUTED BY NATIONAL ASSOCIATION OF CORPORATE DIRECTORS

Connecticut Treasurer Says Corporate Boards Shouldn't Wait for SEC to Prepare for Disclosure

Connecticut Treasurer Denise Nappier's "open letter" to members of corporate boards of directors, urging them to begin preparing for greater disclosure of executive pay packages of top executives, is being sent this week to 8,500 top corporate directors nationwide by the National Association of Corporate Directors (NACD).

The NACD has 8,500 members who have joined either as individuals or as part of a full corporate board membership. Members represent the boards of companies ranging from Fortune 100 public companies to private, closely-held, and not-for-profit organizations. Two-thirds of NACD's Corporate Board members are public companies.   The organization is publishing Nappier's 'open letter' in its May newsletter, being mailed this week, as well as on its website.

Nappier, principal fiduciary of the $23 billion Connecticut Retirement Plans and Trust Funds, is a board member of the Connecticut chapter of the NACD, the first public fund member to serve in that capacity. She said that when the SEC finalizes the disclosure rules, expected later this year, the executive pay landscape could change dramatically.

Saying that acting now is in the company's best interest, Nappier's open letter calls on compensation committee members and corporate boards to begin preparing for new SEC rules that will "increase 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."

"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. "What investors don't want, and what our economy can't afford, is a fumble," Nappier commented.

The Connecticut Treasurer said corporate directors should use draft rules issued earlier this year by the SEC as the framework for a trial run of greater disclosure of pay packages provided to top executives. The proposed rules would require for the first time that all types of executive compensation be disclosed in one document and in plain English, and may also require that a single total compensation number be provided to shareholders. The rules are expected to take effect for 2007 proxy statements.

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Among the factors suggested by Nappier for inclusion in executive pay disclosures are:

- degree to which the current compensation package is tied to performance
- methodology used by proxy voting and consulting firms in rating company compensation packages
- roles and responsibilities of the Compensation Committee, the Board, and management in the development, determination and approval of executive compensation policies and awards
- independence of consultants used by the Compensation Committee, including whether other work is performed for the same company
- parameters outlined in the Compensation Plan for internal pay equity between top executives and senior management.

Nappier also suggests including company policy regarding communication with shareholders on compensation issues and a review of the company's track-record on restatements of financials related to previous compensation awards, among other factors.

Roger Raber, President and CEO of the National Association of Corporate Directors, said, "If boards and compensation committees do not take leadership in correcting executive compensation, the regulators will. Then, we will have failed the investing public."

NACD is including Nappier's letter, as well as the complete list of nine factors that Connecticut's Treasurer suggests be considered by corporate boards, on their website, www.nacdonline.org. The Treasurer's open letter was first released during a recent meeting of the Connecticut NACD chapter, and has also been circulated to nearly 1,000 recipients of regular updates from the Council of Institutional Investors, which has over 140 pension fund members, including the Connecticut pension fund, whose total assets exceed $3 trillion. The organization is recognized as a significant voice for institutional shareholder interests.

"There may be some disagreement on the details, but I believe there is broad agreement on the critical need for information that is more thorough, and more understandable," the letter 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 cited a study last year published by 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.

"Now is the time to act decisively, to ensure that the transition to new, broader disclosure regulations will work to the greatest advantage of the company and its shareholders," Nappier added.

Nappier has been one of the nation's leading voices for corporate governance reform and accountability to shareholders. She was the first Connecticut Treasurer to file a shareholder resolution, in 1999, and has reached landmark agreements with leading corporations on a range of corporate governance issues, including conflicts of interest in accounting practices, board independence and diversity, and separation of the CEO and Board Chairman functions.

(Entire text of Nappier's open letter and nine factors can be reviewed at http://www.state.ct.us/ott/pressreleases/press2006/pr041106openletter.pdf)

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