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Nappier Calls on SEC to Expand Disclosure of Compensation Consultant Work; Says Investors Should Know if Potential Conflict of Interest Exists

Lack of Independence Could Influence Advice Provided to Board on Executive Pay

Connecticut Treasurer Denise L. Nappier is calling on the Securities and Exchange Commission (SEC) to expand public disclosure of the work done and pay received by consultants hired by the compensation committees of corporate boards of directors.

Nappier says that a lack of independence by consultants hired by the board – especially if they are simultaneously working for corporate managers whose salaries and bonuses they are helping to determine – creates a potential conflict of interest that could influence the excessive pay packages that boards often approve for lead executives. Such a practice, Nappier points out, is not in the best interest of a company's bottom line and serves to exacerbate continuing investor and public disdain over executive compensation packages.

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In a letter to the SEC, which is in the midst of considering a range of additional disclosure requirements sought by shareholders, Nappier said the oversight agency should “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 her correspondence, Nappier drew parallels with the now-prohibited practice of audit firms receiving compensation for providing consulting work for the same corporation, a practice which she criticized in 2000 and which was later banned as part of the corporate governance Sarbanes-Oxley reforms in the wake of Enron and other corporate scandals.

“Consultant independence may prove to be as significant an issue as auditor independence,” Nappier said. “There were strong indications that a company’s role as auditor was compromised for the sake of its more lucrative consulting business.”

Nappier, principal fiduciary of the \$22 billion Connecticut Retirement Plans and Trust Funds (CRPTF) and a member of the executive committee of the National Association of

State Treasurers, pointed out that the Conference Board asserted in a report issued in December, 2005 that “compensation consultants can indeed be conflicted when they also provide services for management of the same company.”

The Conference Board is a non-profit organization that brings together executives and corporate board members to share ideas on improving performance and strengthening corporate governance.

Charles Elson, Director of the Weinberg Center for Corporate Governance at the University of Delaware, said: “This proposed disclosure would be of great importance to investors in evaluating the appropriateness of executive compensation levels and the effectiveness of the directors who are elected by the shareholders to oversee the compensation process.”

Nappier also cited recent reports indicating that the investing public remains quite concerned about the salaries, bonuses and retirement packages received by corporate leaders, especially when there is a wide gap between corporate pay and company performance.

The Connecticut Treasurer said the SEC has “an opportunity to alleviate” investor concerns “first, by requiring that companies disclose this potential conflict of interest, and subsequently, by considering a prohibition of such a practice.” She warned that inaction on the issue “holds the potential of further heightening concerns about the exorbitant levels of executive pay.”