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Investors Applaud Actions of Top Companies to Develop "Best Practices" to Assure Independence of Compensation Consultants; Call on Corporate Boards to Follow Examples to Help Control Increases in CEO Pay

Nation's Leading Companies Respond to Call for Disclosure of Policies

(Hartford, CT) -- A coalition of institutional investors representing $849.5 billion said today that 18 of the nation's 25 largest U.S. corporations have responded to a call for information outlining how their compensation committees ensure the independence of consultants who assist in setting the pay packages of top executives.

The good news, say the investors, is that more than half of the responses form a road map of "best practices" to avoid conflicts that could contribute to excessive executive pay packages - packages that do not reflect a pay-for-performance principle providing a true alignment of interest between investors and senior executives. They called on other corporations to voluntarily adopt the best practice approach exhibited by these top companies and support the fundamental principle of independent compensation consultants.

While urging companies that have yet to respond to do so, the investors were pleased that many leading companies can and are creating "best practices" on the issue, especially in the wake of the SEC's failure to require boards to disclose whether consultants performed significant work for the management of the same company. They did not rule out filing shareholder resolutions at companies with policies that fall short of the independence goal, and expressed a desire to continue dialogue with those companies who expressed concerns about ensuring consultant independence.

According to their responses to the investors, some companies have adopted formal policies to ensure independence while others have established guidelines at the compensation committee level to deal with the issue. The responses provided by the 18 companies are being provided by the investor coalition to each of the top 25 companies, and released to the investing public.

"We are convinced it is in the best interest of shareholders and corporations for compensation consultants to provide independent, unbiased advice regarding executive compensation, and the responses confirm that a solid number of leading companies agree," said Treasurer Denise L. Nappier, principal fiduciary of the $23 billion Connecticut Retirement Plans and Trust Funds, leading the effort. "The results are in: compensation consultant independence is achievable and desirable, for corporations and their investors."

The ten companies cited by the investors as appearing to have "best practices" policies in place regarding compensation consultant independence were: Cisco Systems Inc.,

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Wachovia Corp., ConocoPhilips, Pfizer Inc., ExxonMobil, Goldman Sachs & Co., Motorola Inc., Lockheed Martin Corp., Procter and Gamble Co., and The Home Depot.

Also responding to the investor letter were Bank of America, AT&T, Morgan Stanley, Johnson & Johnson, Dow Chemical, Occidental Petroleum, Microsoft and General Electric Co. In addition, Wal-Mart Stores has contacted the Connecticut Treasurer's Office to report that the information being sought will be provided. The investors noted that two-thirds of the responses (12) came directly from compensation committee chairs.

Not responding, thus far, are Hewlett Packard Co., Merck & Co., CitiGroup, JPMorgan Chase, Texas Instruments Inc., and Verizon Communications.

The coalition includes the California State Teachers Retirement System, North Carolina Retirement Systems, New York State Common Retirement Fund, New York City Pension Plans, AFL-CIO Reserve Fund, SEIU Pension Fund, State of Illinois Board of Investment, F&C Asset Management, Walden Asset Management, The International Brotherhood of Teamsters, Universities Superannuation Scheme Ltd., and Central Laborer's Pension Fund.

In October, they voiced concerns about the SEC's failure to act on the issue in the face of rising levels of executive pay and called on the nation's top corporations to explain their current practices, and, where necessary, take steps to end the practice of board-hired compensation consultants also doing work for company management. Investors viewed the top 25 companies as having the clout to set a best practice standard.

"We recognize that a great many factors influence the determination of executive compensation packages. Removing this potential conflict by ensuring independence, while not the entire solution, is essential, and we urge other businesses to follow-through on these examples, especially as the SEC continues to defer action in this area," Nappier added.

Earlier this year, the SEC issued revised rules calling for the disclosure of compensation consultants. While the rules require for the first time that every public company share with investors the identification, role and hiring contact of the board's compensation consultant, they did not require disclosure of whether the consultant performed other services for management of the same company – a significant omission in the view of the coalition of investors.

The investors noted that the precise definition of independence varied by company, ranging from committee discretion to determine independence to an explicit prohibition on additional consultant work for management of the same company. Several highlighted the company's need, on the management side, to purchase compensation surveys from the consultants, at a nominal cost.

The Wachovia Corporation's compensation committee chair, for example, told the investor coalition that "I couldn't agree more with the concerns you and your colleagues have raised with respect to the potential for conflicts of interest and the importance of independent, unbiased advice from consultants with no other ties to the company. We have followed a policy of having separate, independent outside executive compensation consultant reporting directly to the Board's Compensation Committee since 2004."

The Proctor & Gamble Company reported that its retention agreement with the company's compensation consultant specifies that the consultant "will do no work for management and will have no other connection to the Company."

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A Cisco Systems policy prohibits the compensation consultant from “taking on any projects involving management except at the request of the Committee Chair and in the capacity of the Committee’s agent.”

The investors had said previously that when a company’s compensation consultant has a lucrative relationship with the company, and then recommends pay packages for executives, the dual relationship can result in reduced shareholder value and exorbitant pay increases, which can set an inflated benchmark for truly independent consultants seeking to ensure that the companies they represent remain competitive in attracting and retaining top-flight executives.

The joint letter was sent to the compensation committee chairs of the 25 largest U.S. companies by market capitalization in the S&P500.The investors called on the companies to:

- Inform investors of the nature and extent of work being done for company management by consulting firms that also recommend executive pay packages to the board’s compensation committee,
- Provide information on any existing board policies to prevent or prohibit the same consulting firm from providing services to both management and the board, and
- Express a willingness to adopt formal policies to prevent compensation consultants from working for both management and the board.

The investors drew parallels to past concerns regarding audit firms receiving compensation for providing consulting work for the same corporation, a practice that came under scrutiny in 2000 and was later directly addressed as part of corporate governance reforms that were codified in the Sarbanes-Oxley federal legislation in the wake of Enron and other corporate scandals. “The value of auditor independence is clear,” the letter said, “particularly when measured against the accounting scandals at companies where an accountant’s role as auditor conflicted with its often far more lucrative role as consultant.”

“Alleviating continuing investor concerns about exorbitant executive pay, especially in circumstances where company performance lags, is pivotal to efforts aimed at restoring investor confidence,” Nappier said.

Timothy Smith of Walden Asset Management added, “This investor initiative focusing on executive compensation includes actions ranging from dialogue with companies on the role of consultants in setting executive pay to shareholder actions with dozens of companies urging them to allow advisory shareowner votes on executive pay packages. 2007 will see a huge outpouring of investor scrutiny and demands for checks and balances on an executive pay process that too often is exploding out of control.”

Copies of the 18 corporate responses and the original request from the investor coalition are available at www.state.ct.us/ott

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