



**THE OFFICE OF
STATE TREASURER
DENISE L. NAPIER**

NEWS

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Connecticut Treasurer Leads \$1.4 Trillion Investor Coalition in Pushing SEC to Prevent Conflicts of Interest on Corporate Boards; Calls for More Robust Disclosure of Executive Compensation Consultant Relationships

Nappier Requests Meeting with Cox on Regulatory Solution to Fill Information Gap on Independence of Board Compensation Consultants

HARTFORD -- Connecticut Treasurer Denise L. Nappier led a coalition of 21 institutional investors representing more than \$1.4 trillion today in calling on the Securities and Exchange Commission (SEC) to require greater disclosure of information on the independence of board compensation consultants, allowing shareholders to better understand and evaluate pay packages to top executives.

Nappier, principal fiduciary of the \$26 billion Connecticut Retirement Plans and Trust Funds (CRPTF), is a leading voice on executive compensation packages that are transparent and tie pay to performance. In a letter dated May 12, 2008, the 21 large domestic and international investors urged the SEC to require all companies to disclose fees paid to the consulting firm engaged by the board compensation committee for executive compensation consulting and any other management services. The letter also asks the SEC to compel companies to discuss any ownership interest a consultant working for a company's compensation committee may have in the parent consulting firm. Currently, companies are only required to identify the consultant, along with who engaged them on behalf of the committee, and the nature of the assignment for the compensation committee—this despite prior calls from investors urging the SEC to consider disclosure about whether the consultant is independent.

“The business relationship between compensation consultants and publicly traded companies should not be treated as a hush-hush matter,” Nappier said. “It’s about time the SEC took this matter seriously and required companies to be completely transparent.”

The letter cites recent research by the U.S. House Committee on Oversight and Government Reform that shows that the most severe potential conflicts of interest between the board compensation consultant and management could result in executive pay roughly two thirds higher than at companies where the consultant is independent. It also calls for disclosure of “any ownership interest a consultant working for the committee may have in the parent consulting

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firm”—an unprecedented move by investors. Although the so-called “full-service” firms—firms that have the capacity to provide both consulting and management-based services such as benefit plan administration and human resources consulting—often have some structures in place to separate the consulting business from other business units, the letter calls such measures “inadequate” because of the equity interest risk. Such a risk led James F. Reda, managing director of James F. Reda & Associates, to testify before the House Oversight Committee in December that compensation consultants who have ownership interests in the consulting firm are unable to remain neutral because their retirement and overall wealth are tied to the firm’s ability to attract business.

“These disclosures will grant shareholders the information they need to make an informed decision on whether they want a conflicted firm giving the board advice on setting executive pay, and whether they want a consultant whose pay is contingent upon the amount of business his or her company can attract advising the board on compensation issues,” Nappier said.

This was not the first time Nappier has tackled the issue of compensation consultant independence. Nappier led an investor engagement team in October of 2006 in calling on 25 of the largest U.S. corporations to exceed SEC compensation reporting requirements in their 2007 annual reports by disclosing the nature of compensation consultant engagements, including whether or not the consultant was independent.

Earlier this month, Nappier settled shareholder resolutions with R.R. Donnelley & Sons and Caterpillar Inc. which asked the companies to adopt a policy that would prohibit compensation consultants engaged by the board compensation committee from doing additional work for company management. R.R. Donnelley agreed to adopt all provisions of the shareholder proposal. Caterpillar agreed to disclose in the 2008 proxy statement both the fees paid to the board compensation consultant for consulting work and other management contracts. And in a landmark move by a major American company, Caterpillar also will report that the compensation consultant engaged by the compensation committee holds shares in the consulting firm, a potential conflict of interest. The AFL-CIO Reserve Fund and the New York State Common Retirement Fund joined Nappier in filing the shareholder proposal at Caterpillar.

“Investors are no longer sitting back, watching their shareholder dollars reward executives who merely show up for work,” Nappier said. “We look to the SEC to take speedy and decisive action to grant investors the tools to competently evaluate pay packages. Recent performance failures at our largest and once-revered corporations—failures that still netted the executives responsible handsome pay packages while their shareholders lost billions—prove that in our post-Enron, Countrywide world, it’s high time for executives to be paid for the job they do, not the job they should do.”

In addition to the Connecticut Retirement Plans and Trust Funds, other investors signing the letter include AFL-CIO Reserve Fund; Amalgamated Bank LongView Funds; California Public Employees’ Retirement System; California State Teachers’ Retirement System; Central Laborers’ Pension, Welfare & Annuity Funds; Florida State Board of Administration; F&C Management Ltd.; I.A.M National Pension Fund; Illinois State Board of Investment; Hermes Equity Ownership Services Limited; Illinois State Universities Retirement System; International Brotherhood of Teamsters; Maryland State Retirement Agency; New York City Office of the Comptroller; New York State Common Retirement Fund; North Carolina Department of State Treasurer; Railpen Investments; SEIU Master Trust; Universities Superannuation Scheme Ltd; and Walden Asset Management.

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