

# COUNCIL GOVERNANCE ALERT

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## **Coalition of Institutional Investors Calls on SEC to Require More Disclosure about Board Compensation Consultants**

A coalition of 21 institutional investors, led by the Connecticut Retirement Plans and Trust Funds (CRPTF), sent a letter May 12 to SEC Chairman Christopher Cox urging him to require greater disclosure of information about the independence of board compensation consultants.

The letter asks Cox 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. It also asks the SEC to compel companies to discuss any ownership interest that a consultant working for a company's compensation committee may have in a 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. "These disclosures will grant shareholders the information they need to make informed decisions 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," said Connecticut Treasurer Denise Nappier. A copy of the letter can be viewed here in the "Executive Compensation" section of the Council's Web site.

In October 2006, a group of institutional investors, led by CRPTF, sent letters to 25 of the largest U.S. companies and urged them to go beyond the SEC requirements in their 2007 annual reports by disclosing the nature of compensation consultant engagements, including whether or not the consultant was independent.

Earlier in May, Nappier withdrew shareowner resolutions from R.R. Donnelley & Sons and Caterpillar. The proposals asked the companies to adopt policies 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 proposal. Caterpillar agreed to disclose in its 2008 proxy statement both the fees paid to the board compensation consultant for consulting work and those given to the consultant under management contracts. The company also agreed to report that the compensation consultant engaged by the compensation committee holds shares in the consulting firm. The AFL-CIO Reserve Fund and the New York State Common Retirement Fund joined the Connecticut Treasurer in filing the resolution at Caterpillar.