Watson Wyatt
Worldwide

June 30, 2008

VIA E-MAIL to rule-comments@sec.gov

The Honorable Christopher Cox, Chairman
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Subject: (SEC File No. 4-558), Request for rulemaking requiring companies to disclose in the proxy statement the fees associated with all engagements for a single company and any ownership interest a consultant working for the compensation committee may have in the parent consulting firm

Dear Chairman Cox:

As a full-service employee benefits consulting firm providing compensation consulting services to numerous publicly-traded companies, we are writing to you to provide important information that refutes the premise of a request sent to you on May 12, 2008, by Denise L. Nappier, Treasurer of the State of Connecticut and twenty co-signers (SEC File No. 4-558).

In that letter, Ms. Nappier contends that the integrity of compensation consultants employed by full-service firms such as Watson Wyatt "may be jeopardized" when the firm performs other services for a company's management. She also contends that such consultants have a "potential conflict of interest" and provide biased advice that leads to higher levels of executive pay. She concludes that high levels of pay can be curtailed via the use of so-called independent consultants.

However, as we outline below, these contentions are incorrect. We are hopeful the Commission will study the facts and reasoning outlined below as it considers the substance of Ms. Nappier's request.

Watson Wyatt & Company RESEARCH AND INNOVATION CENTER
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Recent Academic Studies

Perhaps most importantly, three recent academic studies [copies attached][1], have found that *companies that hire so-called independent compensation consulting firms actually have clients with higher pay levels than the companies who use full-service firms.*

For example, the study from the Wharton School of Business concludes: "Overall, we do not find compelling evidence that the controversy and accusations regarding the use of potentially conflicted compensation consultants are warranted." The authors use a sample of 2007 proxy disclosures from 880 companies in the S&P 1500 to support their conclusion and raise several other interesting points.

- There is no consistent evidence that the clients of the full-service firms (Mercer, Towers Perrin, Hewitt and Watson Wyatt) compensate their executives more highly than the clients of so-called "independent" firms.
- Clients of the two largest "independent" consulting firms pay significantly greater levels of equity and total compensation than either clients of the top four full-service consultants, or other independent consultants.
- Congressman Waxman's study, which found contrary results, failed to control for economic determinants of pay (most notably company size), and therefore its conclusions alleging conflicts among the full-service firms should be interpreted with caution.

The Importance of Choice

Unlike boutiques, our firm and other full-service firms invest significantly in performing important economic research that provides value to the marketplace, including how executive compensation can best drive corporate performance. These firms can also bring vital expertise in other areas that relate to the total compensation picture, such as executive pensions, valuation of complex equity incentives, and communication of compensation programs that is critical to their

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[1] (1) *The Role and Effect of Compensation Consultants on CEO Pay*, by Brian Cadman (The Wharton School, Northwestern University), Mary Ellen Carter (The Wharton School) and Stephen Hillegeist (INSEAD), November 2007;

(2) *Executive Pay and "Independent" Compensation Consultants,* Kevin J. Murphy (Marshall School of Business, University of Southern California), Tatiana Sandino (Leventhal School of Accounting, Marshall School of Business, University of Southern California), June 20, 2008; and

(3) *Economic Characteristics, Corporate Governance, and the Influence of Compensation Consultants on Executive Pay Levels*, Christopher S. Armstrong (The Wharton School, University of Pennsylvania), Christopher D. Ittner (The Wharton School, University of Pennsylvania), David F. Larcker (Stanford University Graduate School of Business, Rock Center for Corporate Governance), June 12, 2008

success. Also, the breadth and depth of the full-service firms gives them greater experience with certain pay programs, geographic or cultural factors and industry-specific practices.

Many clients want this quality of advice, and we believe the implication that our advice is biased cast a pall on a company's ability to select a firm that can deliver this breadth of service.

We are available to meet with you and the Staff to discuss this issue further. Please contact Steve Seelig at (703) 258-7623.

Best Regards,

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Attachments:

(1) The Role and Effect of Compensation Consultants on CEO Pay: *http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1103682;*

(2) Executive Pay and "Independent" Compensation Consultants: *http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1148991;*

(3) Economic Characteristics, Corporate Governance, and the Influence of Compensation Consultants on Executive Pay Levels: *http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1145548.*