Governance for Owners USA Inc
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April 7, 2006

Ms. Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-9303

File Number: S7-03-06

Dear Ms. Morris:

I am writing on behalf of Governance for Owners USA, Inc. We are pleased to provide comments to the SEC on its proposals to improve the proxy disclosures for executive compensation. We are strongly supportive of the thrust of the SEC proposals and the Commission's thorough review of current disclosure requirements. Improvements in compensation disclosures are critically needed by investors to evaluate corporate performance. The status quo is not viable since shareholders are not getting the proper perspective from the disclosures made at present. Our general views and responses to some of the specific proposals are set forth below.

We are the wholly owned subsidiary of Governance for Owners, LLP, a UK investment manager and advisor, the leading principals of which are former top executives of Hermes Funds. The leading principals of the US Company are individuals who have many years of experience in corporate governance. Individually, and in our institutional roles, we have been concerned about flaws in the compensation disclosure system for many years.

I retired after 32 years with TIAA-CREF, where I was its chief investment lawyer and manager of its corporate governance program. I am now the Chief Executive Officer of Governance for Owners USA. Over the years, TIAA-CREF led numerous efforts to improve the accounting and reporting for equity and other compensation, among other governance issues. Bill Crist retired after 11 years as President of CalPERs, where he led the movement to improve corporate governance as a means of adding value to pension fund assets; he is now the Executive Vice President and Deputy Chairman of our Company. Liz Fender, formerly Director of corporate governance at TIAA-CREF, and a former FASB staff, is our Senior Consultant. Liz worked in the mid-1990s on stock compensation project, resulting in FASB Statement 123. Bob Monks, a leading advocate of good corporate governance for the past 20 years, is the Non-Executive Chairman of our Company. I attach an informational document about Governance for Owners.

We have the following specific comments on the proposals:

- The proposed Compensation Discussion and Analysis (CDA) would provide companies with sufficient flexibility to communicate a clearer picture to investors.
- The performance graph should be retained. Despite the availability of information on the internet, we would prefer to see the graphic representation included in the proxy statement. As a general comment, we would suggest that the SEC in this area require more information, rather than less given the importance of compensation and the past inadequacies of disclosure.. The performance graph seems to be appropriate companion disclosure to the CDA discussion about pay for performance.
- We believe that a total compensation amount is essential.
- Past, current and target compensation should be separately identified with clear explanation regarding which is which and why. Combining current and target compensation in a table is confusing to readers. The more clearly executive compensation can be explained the better.
- The CDA requirements should make clear that forward-looking performance criteria, if included in executive compensation plans, must be disclosed as critical to a full description of the plan. In other jurisdictions (for example, the UK, Australia, and the Netherlands), detailed forward-looking disclosure of compensation plan performance criteria is required, and we are unaware of compromised confidentiality issues.
- We agree that measurement methods for equity awards should be consistent with FASB Statement 123R. Grant date valuations for all awards are best. It would be easier for preparers and for users if consistent application between the GAAP financial statements and the proxy disclosures was required. That would mean using the same assumptions for valuation at grant, even with a small subset of the employee population. The same requirements for measuring modifications of equity awards should be applied. Treating modifications of equity awards as new awards in the year of grant, as proposed in the SEC's release, is not appropriate, and would result in "double disclosure." FASB Statement 123R requires accounting recognition only for the incremental compensation awarded by the modification, and we suggest that the SEC apply that same principle for disclosure in the year of the modification.

- The SEC's proposals state that there is no one clearly required or accepted standard for measuring the value at grant date of those cash awards that reflect performance contingencies. It would seem that GAAP has a clearly required method for measuring cash awards with performance contingencies at every reporting period. In addition, performance cash awards must always be "trued up" or adjusted to actual performance results each reporting period until due and paid, as are all liabilities. Disclosure of probable amounts is required. We suggest that the proxy disclosures should follow the same pattern. Therefore, we believe that there should be some continued disclosure after the year of grant to "reconcile" cash amounts actually paid, if differences are material.
- Perquisites and personal benefits should be valued based on the cost to the company, consistent with long-standing accounting and financial reporting for company costs.
- The SEC staff has recently allowed shareholders, via "no action" letter, to include non-binding resolutions that ask for an advisory shareholder vote on the compensation report to be included in proxies. Our colleagues in the United Kingdom are quite familiar with the practice of shareholder votes on the compensation report. Their experience is that the compensation vote has proved to be a valuable tool that facilitates productive communication between shareholders and directors. We suggest that the SEC should include the staff's current no action letter position as a permanent SEC regulation.
- Smaller public companies should not be completely exempt from the requirement to file a CDA. Some limitations on the full amount of disclosures are likely appropriate, however, we would e concerned with a full exemption. At a minimum, smaller public companies should file a narrative CDA to communicate the Board's objectives for senior compensation.
- The company's policy on "clawbacks" (recission of previously awarded compensation if based on ultimately inaccurate financial results) should be explicitly required by the proposals. Many US companies have adopted these policies and we believe the information is important to investors.
- The related party transaction reporting threshold should not be raised from $60,000 to $120,000, as proposed. It is inappropriate to raise the threshold at this time when more disclosure in these areas is certainly needed by investors.
- The proposals should require that compensation committee members sign the compensation discussion and analysis report. This added requirement would make the compensation committee report consistent with the audit committee report.

- Other work done by the compensation consultant for the company should be required to be disclosed. The proposal requires disclosure of the compensation consultant and whether the consultant was retained by the compensation committee. However, it is not clear that retention of the consultant to perform other work for the company would also be disclosed. We believe that other retentions by company management could affect the consultant's impartiality and should be disclosed.

As stated at the outset of our letter, we are strongly supportive of the SEC's re-examination of the proxy disclosures related to executive compensation. We would be pleased to discuss our comments in further detail if that would be helpful. Bill Crist can be reached at williamdcrist@aol.com. Liz Fender can be reached at elizfender@yahoo.com.

Sincerely,

/s/ Peter C. Clapman

Peter C. Clapman
Chief Executive Officer

Governance for Owners

Governance for Owners (GO) was established in late 2004 and has operations in Europe and the US. The group is an independent partnership between major financial institutions, share owners and executives dedicated to adding long-term shareholder value for clients by exercising owners' rights.

GO achieves this objective through two different products:

- the GO Focus Fund, which invests in European public companies where value can be added by exercising owners' rights to address key structural or strategic governance weaknesses that have historically impaired company performance;

- GO Stewardship Services, which offer voting and underlying engagement programmes covering 700 European and 500 US quoted equities, combined with a more intensive programme of enhanced-value engagement on a conceptual 'portfolio' of clients' investments.

GO European Focus Fund

Structural governance

internal controls
-
executive pay
-
corporate responsibility

The GO European Focus Fund invests in a highly concentrated portfolio of companies that have fundamentally strong underlying businesses whose value is not being recognised in the share price because of issues with corporate strategy, financial structure or governance. We identify the causes of the valuation shortfall and ways in which they can be resolved. A key criteria for a company's inclusion in the portfolio is that it has an institutional framework that allows a minority share owner (such as GO) to act as a catalyst for responsible change.

Strategic governance

board composition
-
strategy
-
capital structure

Once invested, GO exercises owners' rights to effect change. We work with company boards and management as they bring about changes that will, over time, result in the inherent value of the businesses being recognised and improvement in the long-term returns to share owners.

Essentially, the GO team involved in these relational share owner engagements includes experienced business executives who have credibility at public company board level.

GO Stewardship Services

GO Stewardship Services provide independent corporate governance and share owner engagement services for the world's long-term public equity owners and their fund managers. The Stewardship Service offers a progressively more resource intensive range of engagement activities.

As part of the Stewardship Service, GO provides advice to clients as to how to vote their shares based on a pragmatic review of proxy research, taking account of the unique circumstances, and the performance history and prospects, of companies. It also carries out on behalf of clients the underlying engagement with companies

that is necessary to vote intelligently. This 'structural' engagement is undertaken on approximately 20 per cent of the companies in a client's portfolio.

In addition, the GO Stewardship Service undertakes more intensive and longer term engagements on a subset of a client's portfolio. The companies covered by this 'conceptual portfolio' will share many of the characteristics of companies that might be considered for inclusion in the GO Focus Fund. The engagements tend to centre on the more strategic aspects of how a company is run. As with the GO Focus Fund, those leading the engagements on the 'conceptual' portfolio are experienced business executives who have credibility at public company board level.

Our clients are interested not only in exercising their ownership rights but in shaping the framework in which long-term investors and the companies in which they invest operate. Accordingly, the Stewardship Service team advises clients on policy and regulatory issues and works with them on responses to consultations.

The need for Governance for Owners

There is growing acceptance amongst investors, companies and commentators that corporate governance is 'a good thing'. But, amongst investors at least, there is often a mismatch between stated intentions and actions. For some it is because they don't have the resources or the expertise to discuss governance issues with companies. A handful of investors just don't see it as their job to do so but few are explicit about it. Others are content to let others deal with governance issues on the basis that all will share in any resultant benefit in any case. And so there is often a gap between the expectations of pension funds, who have for some time been supporters of corporate governance best practice, and the implementation by the fund managers who invest in companies on their behalf.

GO believes it provides the solution. Separating the investment and ownership responsibilities, and employing GO's Stewardship Services to take care of the latter, ensures pension funds, and other long-term investors, are implementing their governance strategy consistently and professionally across all their holdings. Even when different fund managers are holding shares in the same company on behalf of the one fund.

Investor or owner?

What's the difference between a responsible share owner and the average investor? Often it's a matter of perspective.

Many investors trade shares with a short term perspective. They are more inclined to sell shares in troubled companies, passing the problems on to "the greater fool" or seek short-term remedies that may undermine long-term value.

Owners tend to have a longer term perspective. They are prepared to work with and support boards to achieve changes over time that add long-term value. They understand that they have responsibilities as well as rights.

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