THE FINANCIAL SERVICES ROUNDTABLE

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October 23, 2006

Nancy M. Morris
Secretary
U.S. Securities and Exchange Commission
Station Place
100 F Street, N.E.
Washington, DC 20549-9303

Re: Reproposed Provisions of the Executive Compensation and Related Party Disclosures Rules Regarding "Up to Three Additional Employees," File No. S7-03-06

Dear Ms. Morris:

Thank you for providing the opportunity to comment to the Securities and Exchange Commission ("SEC") in response to its Reproposed Rules on Executive Compensation ("Rules"). The Financial Services Roundtable ("the Roundtable") represents 100 of the largest integrated financial services companies providing banking, insurance, and investment products and services to the American consumer. Roundtable member companies provide fuel for America's economic engine, accounting directly for $50.5 trillion in managed assets, $1.1 trillion in revenue, and 2.4 million jobs.

Summary of Concerns

While the Roundtable and its member companies strongly support the Commission's goal to improve disclosure of the elements of executive compensation, we remain seriously concerned that the requirements of the reproposed rules regarding the "up to three additional employees" do not further the SEC's stated goal of disclosing the compensation of the firm's policy makers.

In addition to this fundamental concern, we believe that the reproposed rule would have several unintended and deleterious consequences. Specifically, the Roundtable believes that two unintended consequences of the reproposed rule would be to: (i) increase the costs to attract and retain key employees; and (ii) impose costs to collect and analyze data that was not previously required.

Additionally, we fear that the reproposed provisions could have the further unintended consequence of creating a competitive imbalance in the marketplace. This new disclosure could make it harder for public companies to seek and retain key employees than for private equity and other private companies that would not be required to make the same proposed disclosure filings. Most financial services firms are competing for the same non-policy making, but highly compensated, key personnel. Moreover, this provision could create friction and engender unwanted departures when employees who do not know the complete job descriptions of their peers, assume that they should be compensated the same way. Also, foreign registered companies are not subject to this rule. In short, it is hard to conceive how shareholders and investors of public companies could benefit from the competitive disadvantage inherent in requiring that this information be disclosed.

Proposed Disclosure Does Not Accomplish its Stated Goal

In its July 26th Release, the SEC states, in pertinent part:

> *"[o]ur intention is to provide investors with information regarding the most highly compensated employees who exert* ***significant*** *policy influence by having responsibility for significant policy decisions."*
> SEC July Release, p. 92.

Disclosing the compensation of three individuals who are non-executive officers gives anecdotal information to investors, but does not inform them in any analytically meaningful way.[1] These individuals are not "policymakers" in the sense that they direct payment of their own salaries, so self-dealing is not at issue. The compensation of these individuals: depends on market forces; is usually short term focused (*e.g.* percentage of earnings or some other indices*)*; and can fluctuate dramatically from year-to-year. This absence of continuous and comparable disclosure further dilutes the relevance of such information. There is no discernible corporate governance rationale for requiring disclosure of the compensation of this varying list of individuals.

The highly variable and questionably valuable information required of the three unnamed employees is in marked contrast to "executive" compensation, which is more meaningful as it is generally long-term, more strategically focused and depends on the profitability of the company as a whole. Since these non-executive individuals are not part of policy management, they are more

[1] Information about those employees "with policymaking making functions" is already required by the SEC under Rule 3b-7 of the Exchange Act of 1934. Moreover, banks have to identify these parties for Regulation O purposes as well.

comparable to vendors or raw material contractors that are simply part of providing operational capital and/or short-term, highly variable resources to the business.[2]

Anti-competitive Consequences of Proposed Disclosure

Disclosure of the salaries of certain highly compensated individuals will be of little or no use to investors but is likely to cause real competitive harm. Compensation is market-based and highly competitive. Under the current proposal, the identity of the three unnamed individuals would not be disclosed in the proxy statement, but it is highly likely that other employees within the firm and competitors will be able to "pick off" key employees. This is apt to increase demand for higher compensation within the firm by similarly-situated employees who are not as highly compensated. It also will provide an open opportunity for competitors and head hunters to bid highly productive employees away from the company, leading to an overall higher compensation cost. Moreover, many key employees maintain strong, personal relationships with their clients based on the clients' trust in the employee, and the departure of these key employees could cause the loss of clients, which could have an adverse effect on the company.

This requirement would create a competitive imbalance between public companies and foreign firms or private equity or venture capital firms to attract and retain key employees. Salaries of key employees are "confidential" even if privacy protections are not part of any formal agreement. To force disclosure of their compensation would violate their expectations of privacy, even if their names are not given. This requirement could induce many portfolio or fund managers or other key personnel to desert public companies and their shareholders for hedge funds, private equity or foreign firms not subject to the same regulations. In sum, this provision would create a competitive imbalance in the markets by putting public companies at a disadvantage with regard to their private sector and foreign peers.

[2] In some circumstances the public company issuer, by virtue of structural or contractual arrangements with its subsidiaries, has no connection with or impact on the compensation arrangements. This structure arises principally in acquisition settings, where the acquiring issuer (which functionally becomes a partner rather than a parent to the acquired firm) structurally relinquishes any rights to (i) oversee the allocation of the operating expenditures of the acquired entity, and (ii) recapture as cash flow or profit any portion of the operating expense not used for compensation. While the release is silent under these circumstances, we understand that the Commission's new disclosure requirements would not apply under the above circumstances.

Difficulty and Costs of Collecting Required Information

Finally, the collection and analysis of this previously non-required and uncollected information would be costly. While there is an established collection framework and most public firms have executive compensation committees, these mechanisms and infrastructure do not exist for collecting and analyzing the salaries of three other non-executive employees. Public firms would have to construct a new analytical framework to collect and evaluate these salaries. Moreover, most highly-compensated employees receive the major component of their compensation in a "bonus" generally awarded by March of the *following* year. This information would be stale in the next reporting year and therefore not provide shareholders with the comparative, long-term information normally reported and which is so necessary to align executive salaries with corporate performance.

Roundtable Proposed Solutions:

As discussed above, the Roundtable urges the Commission not to adopt this reproposed rule. However, if the Commission does adopt some form of this rule we ask that it be amended and narrowed. Specifically, we propose that the amended provisions:

1. Include only those persons who are **policy makers** with authority to effect corporate, entity-wide decision making as covered under Section 16 or Rule 3b-7 of the 1934 Act.

2. Apply disclosure requirements to **encompass employees of the parent company** but not operating subsidiaries.

3. Apply any newly-adopted provisions prospectively to the corporations' next complete fiscal year's report, but in no event earlier than 2007 fiscal year end filings.

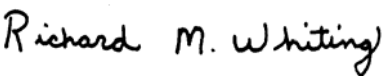
4. Allow for exemptive relief for those firms that have contractual privacy agreements with key employees.

5. Require "ranges" of compensation disclosure, instead of precise dollar amounts.

CONCLUSION

The Roundtable looks forward to working with the Commission on these important matters to improve shareholder disclosure. If you have any questions concerning these comments, or would like to discuss these issues further, please contact me at rich@fsround.org or 202-589-2413, or Mitzi Moore at mitzi@fsround.org or 202-589-2424.

Sincerely,



Richard M. Whiting
Executive Director and General Counsel

cc: Commissioner Paul S. Atkins
Commissioner Roel C. Campos
Commissioner Annette L. Nazareth
Commissioner Kathleen L. Casey
Director of Corporation Finance, John W. White