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Via Electronic Mail

April 10, 2006

Nancy M. Morris
Secretary
U.S. Securities and Exchange Commission
100 F. Street, NE
Washington, D.C. 20549-9303

Re: Proposed Amendments to the Executive Compensation and Related-Party Disclosure Rules
File No. S7-03-06; Release Nos. 33-8655, 34-53185; IC-27218

Dear Ms. Morris:

The Capital Markets Committee (the "Committee") of the Securities Industry Association ("SIA")[1] welcomes the opportunity to respond to the request of the Securities and Exchange Commission (the "Commission") for comments on its release entitled "Executive Compensation and Related-Party Disclosure" (the "Release") dated January 27, 2006. Members of SIA are centrally involved in the process of capital raising by companies in the securities markets. We therefore have an intense interest in the development of disclosure rules that will help to build and maintain public trust and confidence in the securities markets.

Introduction

The Committee is generally supportive of the proposals contained in the Release. On the whole, the Committee believes that these proposals will, if adopted, be useful to investors in that they will require public companies to present their executive compensation-related disclosures in a manner that is more user-friendly, transparent and complete than what is required under current rules. The Committee also believes that the proposals will, on balance, further bolster public trust and confidence in the nation's securities markets.

[1] The Securities Industry Association brings together the shared interests of approximately 600 securities firms to accomplish common goals. SIA's primary mission is to build and maintain public trust and confidence in the securities markets. SIA members (including investment banks, broker dealers, and mutual fund companies) are active in all U.S. and foreign markets and in all phases of corporate and public finance. According to the Bureau of Labor Statistics, the U.S. securities industry employs nearly 800,000 individuals, and its personnel manage the accounts of nearly 93 million investors directly and indirectly through corporate, thrift, and pension plans. In 2004, the industry generated $236.7 billion in domestic revenue and an estimated $340 billion in global revenues. (More information about SIA is available at: www.sia.com.)

Notwithstanding the Committee's general support for the proposals included in the Release, the Committee believes that the Commission should not adopt the proposed requirement that issuers disclose total compensation paid to up to three employees who are not executive officers whose total compensation for the last completed fiscal year was greater than that of any of the named executive officers. The Committee believes that this proposed new provision is inconsistent with the policy principles underlying the requirement that issuers disclose information relating to compensation. The Committee also believes that this provision would have significant adverse practical consequences and would, in addition, be exceedingly expensive and difficult to administer.

The Committee notes that the only rationale identified for the proposed provision in the Release is that this disclosure would provide shareholders with information about "the use of corporate assets to compensate extremely highly paid employees in a company." No further rationale was provided with respect to how this proposal relates to the subject of the Release, which is executive compensation and related party disclosure, nor the reason why the use of corporate assets to compensate extremely highly paid employees who are not executive officers requires greater prominence than the use of corporate assets for any number of other important corporate purposes. Statements made by the Commission staff and by individual Commissioners concerning the Release have not provided any further explanation as to why such disclosure should be required.

The Committee acknowledges that some segments of the public and press have a great deal of curiosity regarding amounts paid to highly-compensated individuals. With respect to employees who are not executive officers, however, the Committee does not believe that the benefit of providing this disclosure, which is negligible at best, outweighs its cost. It therefore requests that this provision not be included in the final rules that the Commission adopts.

Issuers Should Be Required to Disclose Compensation Information Only Regarding Employees with a Significant Policy-Making Function

Since at least 1938,[2] the Commission's disclosure rules have contemplated that issuers would include compensation disclosures in certain Commission filings. At least until the Release, the Commission's rules and proposals regarding compensation disclosure have always been limited to compensation relating to an issuer's executive officers (or, prior to 1978, "officers"). In discussing its requirements regarding compensation disclosures, the Commission has repeatedly emphasized that its requirements are limited to disclosure regarding employees with a policy-making function.[3] As the Commission explained in a 1980 release, "information about management remuneration is important to both stockholders and investors, because it is

[2] Release No. 34-1823 (Aug. 11, 1938).
[3] See, e.g., Release No. 33-6261 (November 14, 1980); Release No-6027 (February 22, 1979); Release No. 33-6003 (December 4, 1978).

necessary and appropriate in evaluating the goals and policies of the company, the governance of the company, the cost of management and the integrity of management."[4] In other words, information about how policy-makers are compensated is important in allowing investors to evaluate an issuer and its securities, particularly given that policy-makers will sometimes have a hand in setting their own compensation. Disclosure of this sort provides critical information regarding the integrity and incentives of those individuals who set policy for the issuer.

No such purpose would be served by requiring disclosure regarding employees who are not executive officers. Employees who are not executive officers by definition do not have a policy-making function with respect to firm-wide strategic imperatives and business initiatives. Disclosure of their compensation provides investors with no information regarding the integrity of management or the course that it is likely to set for the issuer.[5] As Institutional Shareholder Services aptly notes in its comment letter on the Release, disclosure related to compensation paid to employees who are not executive officers "will provide little value to shareholders."[6]

Neither does disclosure regarding compensation paid to employees that are not executive officers provide any direct window into the performance of the issuer's board of directors, as the compensation and selection of employees who are not executive officers is generally set by management rather than the board of directors or the board's compensation committee. Information regarding the compensation paid to employees who are not executive officers is therefore of no more relevance to investors than is information regarding any other expense that is outside the direct purview of the board. For instance, issuers are not generally required to disclose information regarding expenses such as the cost of specific pieces of machinery or specific raw materials. There is no good reason for the Commission to require that compensation paid to employees who are not executive officers be disclosed and we request that the Commission not do so.

Disclosure of Compensation Paid to Employees Who Are Not Executive Officers May Result in Unintended Adverse Consequences

The Committee also believes that significant adverse practical consequences could result from the imposition of this requirement. These include:

[4] Release No. 33-6261 (November 14, 1980).

[5] Chairman Cox alluded to the importance of compensation disclosures as a means to understand the thinking of management in recent remarks he gave relating to the Release. In a speech given at Stanford University, Chairman Cox remarked that compensation disclosures "often tell investors more about the mindset of management than a 75-page corporate budget." Chairman Christopher Cox, Introductory Remarks Before the Executive Compensation Disclosure Conference (April 3, 2006), *available at* http://www.sec.gov/news/speech/2006/spch040306cc.htm.

[6] Comment Letter from Institutional Shareholder Services, to Nancy M. Morris, Secretary, Securities and Exchange Commission (Mar. 28, 2006), *available at* http://www.sec.gov/rules/proposed/s70306.shtml.

Loss of Talent to Private Sector. In an industry such as the securities business, where the principal asset of most companies is their human capital, the competition for talented employees is fierce. In recent years, many private companies, including hedge funds, have been very successful in luring talented employees away from publicly-traded securities firms. If our members who are public companies are required to disclose the compensation paid to employees who are not executive officers, they will be disadvantaged in this competition for talent in at least two ways. First, the total compensation paid to their most highly-compensated employees will be known to their private company competitors, but they will not have comparable information regarding the compensation paid to their competitor's employees. Their private company competitors will therefore have a competitive advantage in honing compensation offers that target talented employees. Second, employees who are not executive officers may prefer, and ultimately decide, to work in an environment in which their compensation is not readily discernible from a public filing. Their preference for a private-company environment could be based on simple privacy concerns or on concerns about their personal security or that of their families. To the extent that this were to occur, a provision that required the disclosure of compensation paid to employees who are not executive officers would have the perverse effect of harming shareholders by contributing to a talent exodus to the private sector.

Disruption of Internal Pay Scales. Disclosure of the compensation paid to employees who are not executive officers is likely to have a disruptive effect on the internal pay structures at many public companies. If the compensation paid to certain employees who are not executive officers is disclosed, that compensation will inevitably become a benchmark that is used in negotiations regarding the compensation to be paid to other highly-compensated employees who are not executive officers. This, in turn, could lead in many instances to an increase in an issuer's total compensation costs, which would ultimately harm shareholders.

Finally, the practical difficulties of implementing the proposed provision relating to employees who are not executive officers could be severe. In many public companies, development of the systems necessary to track and calculate 'total compensation' (as defined by the proposal) for all employees who are not executive officers in order to determine whose total compensation would need to be disclosed will pose an enormous administrative cost and burden. Given that this effort would result in little or no corresponding benefit to investors, the Commission should not adopt this provision.

For the reasons described above, the Committee believes that the Commission should not impose any requirement that issuers disclose information regarding the compensation paid to employees who are not executive officers. If the Commission continues to believe that disclosure regarding non-executive officer compensation is appropriate, the Committee suggests that the Commission instead consider adopting a provision that is less burdensome than what has been proposed.

Conclusion

We thank the Commission for the opportunity to present our views. If you have any questions or would like to discuss these issues further, please contact the undersigned or Eileen Ryan, Vice President and Associate General Counsel of SIA, at 212-618-0508 or eryan@sia.com.

Very truly yours,

/s/ John Faulkner
John Faulkner
Chairman
Capital Markets Committee

cc: The Hon. Christopher Cox, Chairman
The Hon. Cynthia Glassman, Commissioner
The Hon. Paul Atkins, Commissioner
The Hon. Roel Campos, Commissioner
The Hon. Annette Nazareth, Commissioner
John W. White, Director, Division of Corporation Finance
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