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**Congress of the United States
House of Representatives
Committee on Oversight and Government Reform
Hearing on Executive Compensation Consultants' Independence**

**Testimony of George B. Paulin
Chairman & CEO
Frederic W. Cook & Co., Inc.
December 5, 2007**

Background of Our Firm

Currently, we are independent advisors on executive compensation to the board compensation committees at 27 of the *Fortune* 100 companies. We also have many other clients with which we work either directly for their compensation committees or, separately, for management. Our services include analyzing and recommending compensation levels and compensation program design, i.e., how much to pay and how to pay.

We provide no services except executive compensation consulting. We are owned 100% by our senior consultants and have no outside equity or reciprocal financial relationships. Furthermore, we do not sell or represent any products. This has been our model since we were founded in 1973, with the specific purpose of avoiding business conflicts that could potentially compromise our objectivity in advising on sensitive executive compensation matters.

Why Independence Is Important

There are two overriding reasons why board compensation committees need their own source of independent expert counsel on executive compensation.

The first is a legal reason. I am not a lawyer, but my understanding of Delaware law is that outside directors are bound by a "duty of care." The duty of care includes the exercise of due diligence where the use of expert advisors is encouraged, as recently demonstrated by the decision in the Disney case. If the advisors are not independent or are deemed to have a conflicting interest, then directors could be at risk for not fulfilling their responsibility to shareholders.

The second is a practical reason. It is the need to balance resources available to and beholden to management, which are not only vast but inherently less than objective. Compensation committees have no staffs. They meet three-or-four times a year to make complex and often contentious decisions. As a matter of routine, they should have credible unbiased professional support that they can trust in the same way that audit committees rely on outside accountants.

Future Safeguards

Basic economics inevitably creates business conflict with regard to advising compensation committees and providing other services to the same corporations, especially when the other services are financially more lucrative. (Revenues from actuarial consulting, insurance commissions, human resources outsourcing, and pay survey databases can be tens of times executive compensation consulting revenues.) To avoid such conflict, we believe that consultants chosen to be “independent” advisors to board compensation committees should be, in fact, independent from management. They should not be allowed to conduct other business with or provide other services to those corporations. A simple solution taken right from the New York Stock Exchange rules (NYSE Rule 303A.02 Independence Tests) is to apply the same definition of independence to the compensation consulting firms that is already applied to directors who serve on the compensation committees.

Assuming a definition of independence for compensation committee advisors similar to the one for directors in the NYSE rules were adopted, then what is the appropriate relationship between the independent consultant and management? Should the independent consultant merely serve in an audit capacity reviewing analyses and recommendations prepared by management (and its advisors), or work cooperatively with management in developing these analyses and recommendations? Based on experience, we believe the latter approach provides a better-informed and more-effective process. Any potential conflict can be controlled by simply having the compensation committee: (1) hire and fire the independent consultant; (2) make clear that the consultant’s sole responsibility is to the committee, and that any interaction with management is on behalf of the committee and as its agent; (3) approve the scope of the consultant’s involvement that does not go beyond direct support for the committee; (4) act directly with the consultant in identifying peer companies for competitive benchmarking, defining the pay philosophy, and setting CEO pay; (5) meet regularly with the consultant in executive session without management; and (6) fully disclose the relationship and fees to shareholders in the proxy statement.

Thank you for the opportunity to make these comments and for your concern with improving the fairness and effectiveness of executive compensation practices, which are an important element of the overall American economy.

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