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United States Government Accountability Office  
Washington, DC 20548

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September 25, 2006

The Honorable Richard C. Shelby  
Chairman  
The Honorable Paul S. Sarbanes  
Ranking Minority Member  
Committee on Banking, Housing, and Urban Affairs  
United States Senate

The Honorable Michael G. Oxley  
Chairman  
The Honorable Barney Frank  
Ranking Minority Member  
Committee on Financial Services  
House of Representatives

Subject: *Securities and Exchange Commission: Executive Compensation and Related Person Disclosure*

Pursuant to section 801(a)(2)(A) of title 5, United States Code, this is our report on a major rule promulgated by the Securities and Exchange Commission (SEC), entitled “Executive Compensation and Related Person Disclosure” (RIN: 3235-AI80). We received the rule on August 11, 2006. It was published in the Federal Register as a final rule on September 8, 2006. 71 Fed. Reg. 53158.

The final rule modifies disclosure requirements for executive and director compensation, related person transactions, director independence and other corporate governance matters and security ownership of executive officers and directors.

Enclosed is our assessment of the SEC’s compliance with the procedural steps required by section 801(a)(1)(B)(i) through (iv) of title 5 with respect to the rule. Our review indicates that the SEC complied with the applicable requirements.

If you have any questions about this report, please contact James W. Vickers, Assistant General Counsel, at (202) 512-8210. The official responsible for GAO evaluation work relating to the subject matter of the rule is Richard J. Hillman,

Managing Director, Financial Markets and Community Investment. Mr. Hillman can be reached at (202) 512-8678.

signed

Kathleen E. Wannisky  
Managing Associate General Counsel

Enclosure

cc: J. Lynn Taylor  
Assistant Secretary  
Securities and Exchange Commission

ANALYSIS UNDER 5 U.S.C. § 801(a)(1)(B)(i)-(iv) OF A MAJOR RULE  
ISSUED BY THE  
SECURITIES AND EXCHANGE COMMISSION  
ENTITLED  
"EXECUTIVE COMPENSATION AND  
RELATED PERSON DISCLOSURE"  
(RIN: 3235-AI80)

(i) Cost-benefit analysis

The SEC expects the final rule will result in a total paperwork cost increase of over \$250 million.

The SEC believes the final rule will enhance the efficiency of capital formation because when investors possess more information regarding executive compensation investors are likely to be more confident allocating capital to firms in which compensation practices are well-aligned with the investors' interests.

(ii) Agency actions relevant to the Regulatory Flexibility Act, 5 U.S.C. §§ 603-605, 607, and 609

A Final Regulatory Flexibility Analysis was prepared in connection with the final rule. The analysis complies with the requirements of the Act including the steps taken to reduce the economic impact on small entities.

(iii) Agency actions relevant to sections 202-205 of the Unfunded Mandates Reform Act of 1995, 2 U.S.C. §§ 1532-1535

As an independent regulatory agency, the SEC is not subject to title II of the Unfunded Mandates Reform Act of 1995.

(iv) Other relevant information or requirements under acts and executive orders

Administrative Procedure Act, 5 U.S.C. §§ 551 *et seq.*

The final rule was issued using the notice and comment procedures found at 5 U.S.C. 553. On January 27, 2006, the SEC published a Notice of Proposed Rulemaking in the Federal Register. 71 Fed. Reg. 6542. In response, the SEC received more than 20,000 comments. The changes to the proposed rule based on these comments are discussed in the preamble to the final rule.

Paperwork Reduction Act, 44 U.S.C. §§ 3501-3520

The final rule contains information collections that are subject to review by the Office of Management and Budget (OMB) under the Paperwork Reduction Act. The SEC had submitted the required information to OMB. In addition, it has submitted revised requirements and annual burden estimates based on comments it received.

Statutory authorization for the rule

The final rule is promulgated pursuant to the authority found in sections 3(b), 6, 7, 10, and 19(a) of the Securities Act, as amended; sections 10(b), 12, 13, 14, 15(d), 16, and 23(a) of the Exchange Act, as amended; sections 8, 20(a), 24(a), 30, and 38 of the Investment Company Act of 1940, as amended; and sections 3(a) and 306(a) of the Sarbanes-Oxley Act of 2002.

Executive Order No. 12866

As the rule is promulgated by an independent regulatory agency, it is not subject to the review requirements of the order.