



Setting the global standard for investment professionals

30 May 2006

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

*Re: Executive Compensation and Related Party Disclosure (Ref. S7-03-06)*

Dear Ms. Morris:

The CFA Centre for Financial Market Integrity (the “Centre”)<sup>1</sup> requests that the Securities and Exchange Commission (the “Commission”) accept this letter (the “Letter”) to supplement its 13 April 2006 response to the Commission’s *Executive Compensation and Related Party Disclosure* (Ref. S7-03-06) (the “Compensation Disclosure Proposals”). This Letter is written in response to revelations that companies have engaged in post-dating of stock option awards (“Post-Dating”) for the benefit of named executive officers (“NEOs”) and directors. The issues involved have implications not only for the dilution of shareowner interests, but also for investor confidence. As a consequence, the Centre applauds the investigations that the Commission has undertaken to date and encourages it to adopt additional disclosures and rules that would discourage manipulation of this kind in the future.

As indicated by the Compensation Disclosure Proposals, executive compensation is an important concern for shareowners. In part, this is based on unease that many NEOs and boards of directors may have inappropriately used company —and therefore shareowner — resources to reward themselves out of proportion to the value of the services provided.

This perception of ill-gotten gains is reinforced by the appearance of the kind of insider manipulation involved in Post-Dating. The admission by some company managers that grant dates preceded board approval and that internal control reports from independent auditors are unreliable has fueled concerns that insiders have enjoyed improved share returns at the expense of all other shareowners.

---

<sup>1</sup> The CFA Centre for Financial Market Integrity is a part of CFA Institute. With headquarters in Charlottesville, Virginia, USA, and regional offices in London, Hong Kong, and New York, CFA Institute, is a global, non-profit professional association of more than 80,500 financial analysts, portfolio managers, and other investment professionals in 125 countries and territories of which nearly 68,000 are holders of the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 132 Member Societies and Chapters in 53 countries and territories.



Ms. Nancy Morris  
Re: *Executive Compensation  
and Related Party Disclosure*  
30 May 2006  
Page 2

The Centre believes that timing of option grants prior to or after an 8-k filing or other public information release to take advantage of inside information is a growing problem. Even more disconcerting is that company executives and directors may have changed the grant dates of share-based compensation awards after the original grant date. In our view, both actions amount to market manipulation. In the case of Post-Dating, senior executives (and possibly directors) used inside information or post-closing market prices to determine when to retroactively set the effective date of share-based awards in order to enhance the return of such awards. This practice also appears to have involved falsified accounting, may circumvent financial reporting requirements for “variable” option grants, may conflict with regulatory or governance requirements related to the pricing of stock options, and may ultimately lead to criminal and tax penalties against companies that engaged in these activities, thereby harming shareowner value even more.

Because of these events, the Centre supports appropriate civil sanctions against executives and directors found to have engaged in Post-Dating. The Centre also supports the referral of egregious cases of manipulation for criminal prosecution. These steps are sending a clear message to senior executives and directors that market manipulation is not acceptable.

Beyond these actions, the Centre suggests that the Commission consider enhancing its Compensation Disclosure Proposals to require companies to disclose any of the following not already included in the proposal:

- Dates for all prior-year compensation committee meetings in the proposed Compensation Discussion and Analysis;
- Dates on which compensation committees approve share-based awards on an on-going basis through 8-K filings and, by reference, in the annual proxy statement;
- Effective grant dates for all share-based awards if different than the approval dates above, on an on-going basis through 8-K filings and, by reference, in the annual proxy statement; and
- Require the compensation committee to determine and disclose if any effective grant dates were selected to take advantage of pending release of material information about the company, and whether executives are permitted to select or recommend grant dates for their options.

The intent of these disclosures is to enable shareowners to hold boards accountable for improper behavior. These additional disclosures, combined with those already required or proposed, will require senior executives to attest to the accuracy of those dates, thereby making executives subject to the penalties associated with submitting erroneous documentation to the Commission.



Ms. Nancy Morris  
Re: *Executive Compensation  
and Related Party Disclosure*  
30 May 2006  
Page 3

Finally, the Centre suggests that the Commission review the rules relating to the granting of share-based compensation awards with particular attention to the timing of such grants before or after 8-K filings. The Commission may wish to develop some mechanism for reconsidering option grants that appear to “game” the release of 8-K or other material information. The basis for this review is a concern that companies may time the granting of stock options until just before good news, or just after negative news to boost the returns of those receiving the awards.

Ultimately it is hoped that enhanced disclosure requirements for share-based compensation awards, combined with enforcement against Post-Dating or other manipulation, will prevent abuse in the future. It also will bolster both investor confidence and shareowner value.

Please feel free to contact the Centre about the views and concerns expressed in this letter. If you or your staff have questions or seek clarification of our views, please feel free to contact either Kurt Schacht, CFA, at +1.212.756.7728 or [kurt.schacht@cfainstitute.org](mailto:kurt.schacht@cfainstitute.org), or James C. Allen, CFA, at +1.434.951.5558 or [james.allen@cfainstitute.org](mailto:james.allen@cfainstitute.org).

Sincerely,

/s/ Kurt Schacht

Kurt Schacht, CFA  
Managing Director  
CFA Centre for Financial Market Integrity

/s/ James C. Allen

James C. Allen, CFA  
Senior Policy Analyst  
CFA Centre for Financial Market Integrity

cc:

Mr. Christopher Cox, Chairman, U.S. Securities and Exchange Commission

Mr. John W. White, Director, Division of Corporation Finance, U.S. Securities and Exchange Commission

Ms. Lori Richards, Director, Office of Compliance Inspections and Examinations, U.S. Securities and Exchange Commission