Bogle Financial Markets
Research Center

April 10, 2006

The Vanguard Group
100 Vanguard Boulevard
Malvern, PA 19355

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

Re: File Number S7-03-06 Executive Compensation and Related Party Disclosure

Dear Ms. Morris

I write as a concerned citizen, a person who has been engaged in the mutual fund industry for his entire 55-year career, and a person who has deep concern with the developments in our system of American capitalism that have taken place over the past decade. These developments are evaluated in my recent book *The Battle for the Soul of Capitalism* (Yale University Press, 2005), focused on the decline of business and ethical standards in corporate America, in investment America, and in mutual fund America.

I congratulate the Commission on its proposal to enhance the disclosure of executive compensation paid by issuers of securities, but recommend that two additional areas of disclosure be added to the Commission's proposed rule. The first recommendation is that issuers of shares of open-end and closed-end investment companies disclose the compensation paid to their highest-paid officers and to the highest-paid officers of the management companies who provide them with substantially all of the services they require for their operations and existence. The second recommendation is that all public companies disclose both the deferred compensation plans provided to senior executives and the interest rates that are used to accrue the earnings of their plans.

* I served as chief executive of Wellington Management Company from 1967 until 1974, when I founded the Vanguard Group, serving as chief executive and senior chairman of The Vanguard Group until 2000. The views expressed in this letter do not necessarily represent the views of Vanguard's present management.

1. Compensation Disclosure for Issuers of Investment Company Shares

When the Securities Acts of the early 1930s were drafted, investment companies (now generally referred to as "mutual funds") were but a tiny part of our nation's securities markets, and by 1938, when the Commission promulgated its first proxy rules for executive compensation disclosure, they were scarcely any larger. Given their relative unimportance, it is easy to see why no rules were set forth relating to the disclosure of compensation of their executives and of the executives of companies that managed them. Even when SEC release 33-6962 was promulgated in 1992, mutual fund assets were only about $1.5 billion.

But today, with assets reaching nearly $10 trillion, mutual funds are our nation's largest financial institution and by far the largest owner of America's public corporations (holding some 28 percent of all shares). As the preamble to the Investment Company Act of 1940 reminds us, investment companies were even then affected with a public interest and the interest of investors. Far more so today, when mutual fund owners number some 95,000,000 individual owners, more than double the number of owners of the stocks of public corporations.

The Commission's new proposals for compensation disclosure provide a timely opportunity to rectify the previous omission of compensation data for mutual fund executives. Perhaps the reason this compensation has been ignored for so long is that nearly all mutual funds are operated by separate management companies, and disclosure was limited to the aggregate amount of the contracted payments made by the funds to those management companies.

Yet it must be apparent that there is no way for fund shareholders to appraise the compensation paid to the executives who serve them through the vehicle of the management company, even though they often serve at the same time as officers of the funds themselves (usually receiving no compensation directly from the fund). *It is high time that this corporate veil be pierced.*

Presently, the only significant disclosure regarding mutual fund executive compensation comes in the proxies of those management companies that are themselves publicly held. Even there, however, there is no way for the *fund* owners to conveniently avail themselves of this information. (It is not provided to shareholders in fund proxies or prospectuses). So I recommend (as I did in my Congressional testimony before the Subcommittee on Government Efficiency in 2004[*]) *that mutual funds be required to disclose the aggregate dollar amount of direct and indirect compensation paid to the five highest-paid executives of their manager and distributor.*

Ms. Nancy M. Morris
April 10, 2006

[*]U.S. House of Representatives, April 20, 2004.

Given the clear abuses that we have witnessed in executive compensation by regular corporations and the many instances in which disclosure is weak and “fringe benefits” and “perquisites” are often hidden, it is high time that the compensation of executives of fund management companies be disclosed to fund owners. That compensation should include not only all salary, bonus, and other compensation and perquisites, but also awards of equity participation in the manager’s stock and each executive’s share of the management company’s earnings (i.e., if the management company’s profits were $100,000,000 in a given year and an executive held a 10 percent ownership portion, that would constitute an additional $10 million of compensation).

Among the 50 largest management companies today, only eight are publicly-held, making compensation disclosure through their own proxies; eight are privately-held, making essentially no compensation disclosure; and 34 are held by (usually) large U.S. and international financial conglomerates (i.e., Marsh & McLennan, Bank of America, Sun Life of Canada, ING, Deutsche Bank, etc.) where only spotty disclosure of compensation to fund and management company executives is available to their own shareholders. Shareholders in the mutual funds run by these institutions receive no significant information about the compensation of their executives (whether fund officers or not).

There is no longer any way to rationalize the exclusion of mutual fund executives from the compensation disclosure requirements applicable to the executives of *all* other publicly-held corporations. The Commission’s new proposals present an important opportunity to eliminate this information gap, and I therefore urge the Commission to require that publicly-held mutual funds be subject to the same rules for disclosure of executive compensation that are applicable to *all* other publicly-held enterprises.

2. Disclosure of Earnings on Executive Deferred Compensation Accounts

While the Commission has cast a broad net to capture the many (sometimes seemingly infinite!) forms of direct and indirect compensation and perquisites offered by corporations to their senior executives, my research for *The Battle for the Soul of Capitalism* persuaded me that one area has been left largely either disguised or invisible: the annual rate of interest credited to deferred compensation balances accrued for executives. Disclosure of these rates is essential for shareholder understanding of the total amounts paid to executives.

To my surprise, for example, I learned that even as generally upstanding a corporation as General Electric was accruing these extra benefits at rates ranging from 9 ¼ percent to 13 percent per year, far higher than going rates in the fixed income markets. If “sunlight is the best remedy,” these accrual rates (which can result in the accumulation of truly staggering amounts over time) must be disclosed. I urge the Commission to add that requirement to its new disclosure standards.

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I believe profoundly that full and fair disclosure must continue to be the hallmark of our nation's commitment to shareholder protection, not only because it informs the investing public, but because such disclosure will ultimately modify egregious behavior by corporate and mutual fund managers. Thank you for your consideration of these proposed additions to the compensation disclosure requirements.

Sincerely,

/s/ John C. Bogle

John C. Bogle
President

JCB/eas