PEARL MEYER & PARTNERS

Executive Compensation Consultants

A Clark Consulting Practice

April 10, 2006

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

Re: File No.S7-03-06
Proposed Amendments for Executive Compensation and Related Party Disclosures

Dear Ms. Morris,

We commend the Securities Exchange Commission in its efforts aimed at greater transparency with regard to executive pay. We believe the proposed rules on Executive Compensation and Related Party Disclosure will go a long way toward clarifying the true costs and rationales behind highly complex, multi-faceted executive pay programs and provide better information to investors.

The attachment to this letter is intended to provide feedback that represents our views, as well as those expressed by many of our clients, with respect to the proposed rules. We also take into consideration the practical implications and potential burdens that would be placed on public companies by certain requirements. Our comments generally follow the outline of the proposed rules.

By way of background, Pearl Meyer & Partners is one of the nation's leading compensation consulting firms, serving Board Compensation Committees as outside counsel and assisting companies in the creation and implementation of innovative, performance-oriented compensation programs to attract, retain, motivate and appropriately reward executives, employees and Board Directors. Since its founding in 1989, PM&P's compensation professionals have advised hundreds of organizations in virtually every industry here and abroad, ranging from Fortune 500 companies to smaller and private firms and not-for-profit organizations.

We appreciate the opportunity to comment and share our views. We note that PM&P is submitting this commentary on its own behalf, and not on the part of any specific client. Please contact us at 212-407-9523 if you have any questions regarding our comments.

Sincerely,

Pearl Meyer & Partners
Enclosure

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Item 402(a) - General

Determination of NEOs (other than the PEO and PFO) should not be determined with reference to proposed Total Compensation column in the Summary Compensation Table.

We agree that the principal executive officer ("PEO") and the principal financial officer ("PFO") should be included as Named Executive Officers ("NEOs") in the Summary Compensation Table. We disagree, however, with the proposed method of determining the other three NEOs. Specifically, the proposed rules require the other three NEOs to be determined based on amounts that would be reported in the Total Compensation column of the Summary Compensation Table.

However, the Total Compensation column could be too easily distorted by factors unrelated to performance or compensation policies, such as: (1) one-time hiring inducement payments and relocation payments; (2) increases in actuarial pension values (which may depend on a variety of factors, including an executive's age, years of service and compensation history); and (3) annual earnings on deferred compensation accounts (which are dependent on amounts an executive may have voluntarily deferred over a career, as well as the investment choices made by the executive in the account). The resulting Total Compensation figure may be so volatile that the other three NEOs could likely change annually, thereby making internal and external comparisons of compensation extremely difficult.

We believe the other three NEOs should continue to be determined as they are under the current rules – based on an individual's base salary and annual incentive bonus or another relatively more stable compensation measure. At a minimum, we believe the All Other Compensation Column should be excluded when determining the other three NEOs to be included in the Summary Compensation Table. If, however, the method for determining the other three NEOs is not amended, we would recommend that when an individual qualifies as an NEO for the first time, information be provided on that NEO with respect to his or her prior three years' worth of compensation so that comparable year-over-year information is available for the position.

Item 402(b) – Compensation discussion and analysis

The proposed rules should require that the Compensation Committee's role in the preparation of the CD&A be more clearly defined and disclosed.

The wording of the CD&A proposal has created confusion among many of our clients as to the proper role of the Compensation Committee members. Specifically, the proposed rules imply that the Compensation Committee would no longer be responsible for the

CD&A, and that the PFO and PEO would instead be held accountable for final compensation policies and decisions. As proposed, the PFO and PEO would certify the CD&A and it would be a “filed” rather than a “furnished” document. There is no reference (other than one peripheral citation) to the Committee’s role and the Board’s oversight in the preparation and review of the CD&A. Moreover, there is no requirement that the CD&A be followed by the names and signatures of Compensation Committee members.

The requirement that only the PEO and PFO certify the CD&A raises significant issues in that such executives lack complete access and background to the Compensation Committee’s deliberations, as many of the issues addressed in the CD&A are discussed and decided in executive session without either the PEO or PFO being present. In fact, both the NYSE and NASDAQ listing requirements prohibit the PEO and PFO from being present when their own compensation is deliberated and decided upon by the Committee and the Board. If only the signatures of the PEO and PFO are required in the CD&A, material information about compensation objectives and policies may be omitted due to a combination of lack of knowledge on the part of the PEO and PFO or a lack of communication to them. Involving the PEO and PFO in the certification process could end up compromising the independence of the Compensation Committee.

While we commend the items proposed to be discussed in the CD&A, good governance calls for the Compensation Committee, rather than or in addition to the PEO or PFO, to take responsibility for the elements of compensation discussed in the CD&A. As such, members of the Committee should sign off on the principles and practices that they utilized in creating pay programs. We believe such a responsibility fits within the role of the outside Directors as representatives and guardians of shareholder interests. Even if the Committee is not required to sign, this item should require a description of the role the Compensation Committee played in the preparation of the CD&A.

The CD&A should require more detail with respect to performance-based payouts.

The proposed CD&A prompts discussion of certain compensation policies and practices, but more detail could be required regarding the dollar amounts that will be payable under annual and long-term plans if threshold, target and maximum performance levels are achieved. In addition, while we agree that inclusion of performance metrics in advance of a performance cycle may adversely affect a company if they are proprietary, there is less of an issue with disclosure of such metrics at the end of a performance period (particularly in the case of long-term plans). The preceding pieces of information would provide investors with a context in which to assess whether or not payments are justified or warranted.

We also believe the following disclosure is important and should be included in this section: (1) whether or not there are any uncapped incentive award opportunities; (2) a description as to how actual payouts compared to target payouts over the past three fiscal years, with details on the actual outcomes versus targets; and (3) for each of the NEOs, the percentage of each of their annual bonus incentives as a percentage of the total bonus incentive payments across the board to employees of the company (which is a number similar in theory to the percentages required to be disclosed with respect to equity grants).

The stock Performance Graph should be integrated into, and supplement, the CD&A's discussion of pay for performance.

We and many of our clients agree that the stock Performance Graph is a concise, simple and easily understood disclosure item that should be maintained as a requirement. It is at the essence of "Plain English" goals of helping investors to understand how companies compare to their peers and affords simple "one-stop shopping" for such analysis. The Performance Graph is a good verification of the pay-for-performance discussion that should take place in the CD&A. Significantly, the Performance Graph also provides helpful information to investors about the stock price performance of companies that might be considered comparable to the registrant. Finally, we note that while certain stock price information is readily available on the Internet, historic total return data (including reinvested dividends) is not easily accessible to investors without a paid subscription service.

IRC Section 162(m) discussion should be included in CD&A.

The current rules require disclosure as to the Compensation Committee's policy with respect to Internal Revenue Code Section 162(m) payments. We would recommend that the proposed rules expand the current disclosure rules by also requiring information as to the actual amounts of nondeductible compensation paid in excess of the Section 162(m) one million dollar pay cap. Such amounts are similar to a tax gross-up and can represent a significant undisclosed cost to shareholders. Moreover, from a policy perspective, Section 162(m) is intended to limit non-performance-based pay. Failure to require a company to report how it deals with this limitation would result in omission of critical compensation policy making decisions that result in costly non-deductible payments. Therefore, we believe such payments should be disclosed to shareholders in the CD&A, along with the additional corporate taxes paid and an explanation as to the rationale behind the decision. The Section 162(m) discussion should also be integrated into the discussion of the annual and long-term plan designs adopted by the company.

Item 402(c) – Summary compensation table

Reporting of annual performance-based compensation payments requires additional clarity.

The proposed rules are not clear with respect to disclosure of situations where an executive receives part of his or her annual bonus in restricted stock. Currently, some companies report the value of the stock in the annual bonus column, while some report it in the restricted stock award(s) column. We note that this type of award is very similar to a restricted stock grant tied to an annual performance measure, which would clearly be reportable in the proposed Stock Awards column. Further complicating this reporting requirement is the scenario where an executive elects to receive a portion of his or her annual bonus in restricted stock, and as a result, either receives a "kicker" of additional shares or discounts on the restricted shares. Again, companies diverge as to where they report these kickers and discounts.

In order to clarify the disclosure of these types of incentive arrangements, we propose that the current Bonus column of the Summary Compensation Table be split into two columns. The first column would be entitled "Annual Performance-Based Compensation – Cash" and would include amounts paid in cash following the respective fiscal reporting year. The second would be entitled "Annual Performance-Based Compensation – Stock or other Deferred Awards" and would include the grant value of portions of the annual bonus received in shares or other instruments including deferred cash.

Reporting of all performance-based awards raises a number of issues and requires more detailed instructions.

The proposed rules raise fundamental issues in the way they group awards for purposes of the Summary Compensation Table in columns (f) (Stock Awards column) and (h) (Non-Stock Incentive Plan Compensation column).

-- The proposals mandate that performance-based stock awards be reported in column (f) using the FAS 123R grant date value and included in the year granted. However, non-stock incentive plans awards are reported in column (h) in the year when specified performance criteria are satisfied and compensation is earned, whether or not payment is actually made in that year. This provision essentially mixes and matches the values of awards granted and awards earned, and does not correlate to performance in a single fiscal year.

-- If performance-based stock awards do remain in column (f), the instructions should clarify that, consistent with accrual patterns required under FAS 123R, the target number of shares underlying such an award should be reported.

-- Further guidance is needed as to whether performance units payable in cash that are based on measures tied to stock appreciation as well as financial metrics not tied to the price of the stock, should be reported in accordance with column (f) or column (h).

-- Further guidance is needed to clarify that the amount of Non-Stock Incentive Plan Compensation that is reported in column (h) is the total amount vested or paid to the executive if the annual or long-term performance measure is met at the end of the reporting year, rather than an amount that would be "attributable" to a covered fiscal year.

-- The proposed rules recognize in footnote 92 that awards that are not based on the price of a company's stock are not covered by FAS 123R for financial reporting purposes. In fact, pages 37- 38 of the proposed rules state that "[b]ecause there is not one clearly required or accepted standard for measuring the value at grant date of these non-stock based performance-based awards that reflects the applicable performance contingencies, as there is for equity-based awards with FAS 123R, we do not propose to include such a value in the Summary Compensation Table, but instead would continue the current disclosure format of reflecting these items of compensation when earned". Thus, the rules would require a cash-based long-term incentive award based on financial goals other than company stock to be reported in column (h) at the time they are earned. However, awards of restricted stock that vest based on the same financial goals must under the proposed rules be reported at grant date in column (f), with the implication that they <u>can</u> be valued at grant. It is inconsistent to report awards based on identical goals at different times and in different columns solely because they are payable in alternative tenders.

Consider breaking out the Summary Compensation Table into two separate tables – A "Current Compensation Awarded" table and a "Compensation Realized" table.

In order to address the problem regarding differential reporting of performance-based awards, above, as well as a number of inconsistencies with respect to reporting amounts granted and realized in the same table, we would propose that the Summary Compensation be broken out into two tables.

The "Current Compensation" table would exclusively include compensation opportunity awarded during the fiscal year, and the "Compensation Realized" table would exclusively include compensation realized (i.e., paid, earned or accrued) during the fiscal year. We would recommend that footnote disclosure accompany columns in the Compensation Realized table where reconciliation is needed between the amount reported as realized versus how the same element was reported when granted.

Each of the tables would contain the following columns (which, unless otherwise noted, would disclose the same information required for such column in the proposed rules):

Current Compensation Awarded Table	**Compensation Realized Table**
(a) Name and Principal Position	(a) Name and Principal Position
(b) Year	(b) Year
(c) Total Compensation **Opportunity**	(c) Total Compensation **Realized**
(d) Base Salary	(d) Base Salary
(e) Target Annual Bonus (using "target" as defined in the annual plan or if none, good faith estimate of what would likely be paid if the company's goals are satisfied)	(e) Bonus Payout (the actual bonus paid for the fiscal year)
(f) Stock Awards Granted	(f) Stock Awards Vested (the value of stock awards when they became vested or earned)
(g) Option Awards Granted	(g) Option Awards Exercised (the value realized on stock options on the date they were exercised)
(h) Non-Stock Incentive Plan Compensation at Target (using "target" as defined in long-term incentive plan or if none, good faith estimate of what would likely be paid if the company's goals are satisfied)	(h) Non-Stock Incentive Plan Compensation Payout (the dollar amount of payouts during or immediately following the reporting year)
(i) All Other Compensation	(i) All Other Compensation (excluding unrealized earnings on deferred compensation and increases in pension plan values)

Bifurcating the Summary Compensation in this manner will provide for more consistency in year-over-year information, and will also provide for better comparability across companies.

All assumptions underlying FAS 123R calculations should be available in the proxy and not just by cross references to other filings.

The assumptions and valuation methods underlying this calculation present critical information for shareholders and do not represent an additional disclosure burden as they are already provided in other public filings. We would also advocate disclosure of such assumptions on a grant-by-grant basis as opposed to assumptions used by the company generally. Disclosure should also include any changes the registrant has made to such assumptions during the year and their impact. Finally, we request that the Commission require disclosure as to adjustments the registrant may have made to reported values that are attributable to risk of non-vesting or forfeiture.

Only above-market earnings (or earnings with respect to preferential treatment for executives) on deferred compensation should be reported in the Summary Compensation Table.

Earnings other than above-market earnings do not relate to current compensation, but instead represent returns on compensation earned and deferred in prior years. The All Other Compensation column of the Summary Compensation Table will be distorted and misleading to investors, as factors such as an executive's tenure, choice of deferral amounts, and investment choices – items unrelated to current compensation – may govern the calculation of the amount reported. In addition, it may be inferred from the proposed rules that negative amounts should also be reported in years that the account balances decrease, which would queer the Total Compensation column. Including this information, which will already be available in the Nonqualified Deferred Contribution and Other Deferred Compensation Plans tables, in the Summary Compensation Table will further distort the numbers reported in the Total Compensation column and will likely lead to counterproductive results in determining the other three NEOs. This comment applies equally to the Director Compensation table.

Reporting amounts attributable to aggregate increases in pension plan actuarial values on an individual level will be costly, burdensome and ultimately misleading.

Annual reporting of accrued values is likely to prove to be burdensome, costly, and – because benefits ultimately paid could differ substantially from the amounts reported in the proxy during an executive's tenure – potentially misleading. This is the case particularly for those companies that maintain multiple plans. In addition, year-over-year consistency may be impossible if companies change calculation methodologies. The same negative earnings issue presented above is also inherent in this item. In any event, this number should not be included in the Total Compensation column and/or have an impact on the determination of the other three NEOs. If this disclosure item is maintained, however, the proposed rules should contain more guidance on the method (e.g., FAS 87) that is to be used to calculate this figure.

Double counting provisions in the Summary Compensation Table should be eliminated or clarified.

The proposed rules contain instructions that will result in double counting of awards.

-- *Dividends*: The proposed "Stock Award" column in the Summary Compensation Table would require that both the face value of restricted stock or restricted stock units granted in the current fiscal year, as well as dividends or dividend equivalents credited during the year on unvested awards, be reported. Requiring that both the award and the dividend (other than grants of freestanding dividends or dividend equivalents) be reported will result in double counting as the value of dividends has already been taken into account in determining grant date fair market value. As such, we would prefer that this column simply include the award's face value without an additional entry for dividends (but with footnote disclosure as to such dividends), or, in the alternate, that dividends and dividend equivalents are included elsewhere (i.e., the Grants of All Other Equity Awards table, or Option Exercises and Stock Vested table).

-- *Repricings and Other Modifications:* Consistent with FAS 123R, if an award is repriced or modified, the amount that should be included in the Summary Compensation Table would be limited to the excess, if any, of the fair value of the modified award over the fair value of the original award immediately before its terms are modified. If, as proposed, the entire new fair value (e.g., of repricings) is included in the Summary Compensation Table, it will double count at least a portion of the previous grant.

Disclosing the retail cost of airline benefits would aid in comparability across companies.

In the spirit of enhancing comparability across companies, we would recommend that the value of airline perquisites be reported with respect to the retail cost to the executive – that is, the cost an individual would have incurred had he or she chartered a comparable private aircraft. We also recognize that "incremental value" has historically been an acceptable approach. If a company chooses to continue to report "incremental value", however, a good faith estimate of the retail value of the flight should also be footnoted for comparability purposes.

Item 407(f) – Narrative disclosure to summary compensation table and subsidiary tables

Requiring narrative disclosure of up to three other employees will have unintended and burdensome consequences, and will provide minimal year-over-year consistency.

While the proposed rules state the purpose of this additional disclosure item is to provide investors with information about the "use of corporate assets," we believe this requirement will have severe unintended and burdensome consequences on public companies. The Commission may be concerned that highly paid individuals will not be included in the Summary Compensation Table because they do not fall within the strict definition of "executive officer" under Item 402. Revisiting the definition of "executive officer" for proxy reporting purposes would be more beneficial than requiring ancillary information about highly paid, but non-executive, positions.

Our clients are particularly concerned that the additional disclosure will encourage "corporate voyeurism" and speculation as to the individuals earning the disclosed sums. Our clients have also expressed concern that such speculation would be especially disruptive on an internal level, as the lump-sums disclosed would include esoteric amounts, many of which may have nothing to do with current year compensation. In fact, it is very possible that certain reported individuals will not even recognize their own reported compensation, as the reportable lump sum value is so different from the tangible compensation the individual actually realized in the reporting year.

While the stated purpose of the proposed rules is to provide information earned by the PEO, PFO and highest paid executive officers, this additional disclosure would most likely capture salespeople, traders, investment bankers or commission-based positions, none of whom set company-wide strategy. The privacy issues created by this requirement may also result in a chilling effect on the ability of a smaller company (i.e., a firm with NEOs who are not very highly compensated) to attract and retain individuals in the above positions if such individuals know that their compensation will become public information. Moreover, such disclosure could provide competitors with better information to lure away key employees who are not in policy-making positions.

The tracking requirements to determine who these three individuals will be in a given year could prove to be extremely burdensome, as their inclusion will depend on many of the more variable factors that are proposed to be included in the Total Compensation column of the Summary Compensation Table. It is also likely that these three individuals may change each year depending on their total compensation figures, creating inconsistencies in year-over-year data, and may require the tracking of many individuals on an annual basis to determine if they qualify for inclusion in this narrative disclosure. This is particularly a problem in the case of a new hire who would otherwise not be reportable under this item had it not been for one-time recruiting costs attributable to sign-ons and replacement payments for amounts the new hire forfeited upon resigning from his or her previous employer. In sum, we believe the burdens and risks placed on companies to track and report this item would far outweigh the benefits of providing such inconsistent information to investors.

More specificity and detail should be required with respect to non-balance sheet opportunities in the narrative disclosure.

Although Item 404 continues to require high level information about related-party transactions, we believe further detail is required with respect to potentially lucrative opportunities offered to NEOs. For example, in the investment management, real estate and oil and gas industries, significant investment opportunity and potential may be offered to management. We recognize that such investments are made from the NEOs' personal assets, but we believe that a good faith estimate of the amount of: (1) the executive's investment; (2) the potential gain from such transactions; and (3) the actual gain realized. As many of these arrangements are highly complex in nature, we believe Plain English disclosure as to the mechanics of such investments should also be provided.

Item 402(h) – Option exercises and stock vested table

Option Exercise/Stock Vested tables should disclose link between award granted, award exercised/vested and/or shares sold.

In lieu of requiring investors to engage in burdensome Form 4 research to identify which awards were exercised/vested, we recommend the Commission mandate additional "matching" disclosures which would help the investor understand the link between an award that was granted (i.e., the grant date, exercise price, FAS 123R value); when the awards became vested and/or exercised; and the amount realized with respect to such award. It would also help an investor to recognize the extent to which "flipping" of shares (i.e., where shares are sold relatively quickly after they become vested) occurs.

Item 402(i) – Retirement plan potential annual payments and benefits

Additional guidance is needed with respect to details of calculation of retirement plan potential.

Narrative disclosure should include the definition of "compensation" used by the company to calculate retirement benefits, as well as whether such benefits are funded or unfunded. In addition, inconsistencies will result because different companies may use different ages for purposes of "Normal Retirement Age" and "Early Retirement Age" in their plans. Consideration should be given to requiring assumed Normal and Early

Retirement ages for comparability purposes, such as age 65 and 60, respectively. We note that although we believe information proposed for this item is an improvement over the current disclosure requirements, it may result in a cost intensive and burdensome exercise for those companies that have multiple plans in place.

Item 402(j) -- Nonqualified defined contribution and other deferred compensation plans

Rollovers from discontinued plans should not be reportable as a "registrant contribution or allocation" in this table.

As more companies eliminate or freeze defined benefit plans, we expect to see more rollovers into defined contribution accounts. This is particularly true with respect to the dwindling use of defined benefit plans for Directors. Since such rollover amounts will already have been reported in previous years, it would be double counting and confusing to report them again at the time of rollover. If these amounts are required to be reported, however, instructions to this item should clarify that such amounts belong in the Executive Contribution column.

Item 402(k) – Potential payments upon termination or change-in-control

More specificity is needed regarding assumptions for potential post-employment payments.

Certain assumptions should be prescribed to ensure some level of consistency and curb "methodology shopping" given that methodologies for computing post-termination payments, and in particular, change-in-control payments, can vary, with potentially significant impact on reported values. For example, there should be consistent assumptions with respect to the date of the change-in-control and change-in-control stock price (e.g., six months after the end of the fiscal year to which the proxy statement applies and a 20% premium over the end of the year stock price) and whether certain awards would vest at minimum, target or maximum (assuming the underlying plans provided for such types of vesting). Information as to whether payments are made following a single or double trigger, as well as walkaway provisions, should also be disclosed.

We also recommend that, like the other items in Item 402, this item would be better presented in a tabular format that breaks out data for voluntary and involuntary severance payments both before and after a change-in-control. Quantitative information in the table should be broken out to clearly reflect amounts attributable to: (1) cash severance payments as a multiple of base and/or annual incentive; (2) continued payment or availability of benefits and perquisites; (3) deferred compensation; (4) vesting of options, restricted stock, performance shares, other unvested equity and other long-term incentive cash payments; (5) post-retirement (including lump-sum pension payments) and consulting arrangement payments; and (6) tax gross-ups. Such a tabular approach would facilitate comparison among executives and across companies.

Item 407(e) – Compensation committee

Disclosure as to the compensation consultant's role raises important issues.

Proposed Item 407 would require disclosure of useful information about the role of the compensation consultant. While we do not dispute that most of the information proposed in this item is significant, we are troubled by several aspects of this section:

-- The proposal requires disclosure of the nature and scope of the assignment, but not the extent to which the company followed the consultant's advice and recommendations. Unlike auditors, there are no rules that require companies to follow the advice of compensation consultants. In fact, the responsibility to evaluate an executive's performance and determine awards under a plan falls completely on the Compensation Committee. As such, disclosure as to the consultant's assignment in general, but not its recommendations, could be misleading.

-- Disclosure of the nature and scope of the consultant's assignment may also be deceptive if a company requests advice with respect to a very narrow or discrete plan design issue. If a company simply names the compensation consulting firm and states that it advised on such a program, a shareholder may infer that the compensation consultant had a much more significant role in the overall compensation program for the executive officers than was actually the case. As written, the proposed rules may lead an investor to believe that the mere naming of a compensation consultant is equivalent to the consultant's seal of approval. In this vein, we recommend that similar to auditors, the compensation consultant should be required to sign-off on the disclosure if the consultancy is named in the disclosure. At the very least, the rules should require disclosure as to whether or not the compensation consultant signed off on the disclosure about the scope of its role with the company.

-- Disclosure of any executive officer contacted by the compensation consultant in carrying out its assignment may suggest to shareholders that communication between compensation consultants and management is an inherent conflict of interest that should be kept to a minimum. In fact, without data and insights from management regarding business goals, strategies, culture and other considerations, compensation consulting firms would be unable to develop effective pay programs. Because such communications are vital, we recommend this requirement be dropped.

-- For the sake of clarity and ease of use, we suggest the Commission consider relocating this discussion to the CD&A.

Item 403(b) – Security ownership of certain beneficial owners and management shares pledged as collateral

Reporting of pledged shares should not be required for a certain period of time following the effective date.

We agree that disclosure of shares pledged as collateral for any loans taken by management is important information as it may have the potential to influence management's performance and decisions (i.e., because shares that are pledged to guarantee loans can be put at risk if the loan goes sour, executives could be motivated to manipulate the share price). This requirement was clearly a reaction, at least in part, by the Commission to the WorldCom situation, which the proposed rules cite in a footnote.

However, there are many far less egregious situations, where an executive's choice to collateralize smaller loan amounts with company stock is a legitimate personal investment decision. Borrowing against company stock is not necessarily a negative event from a company perspective. In fact, in many instances, such collateralization may have been an alternative to an executive's selling large amounts of shares at once (an event which may be even more detrimental to the company) for liquidity. By borrowing against the shares, the executive maintains the incentive to see the stock appreciate and also avoids incurring the taxes attributable to such a sale. We are also aware of many situations where banks request that executives hold company shares in collateral accounts (thereby rendering them in essence "pledged" shares), but the executive has borrowed, or borrows less than the full amount, or none, of the value of the pledged shares.

At the very least, we recommend that there be more clarity about the types of events that would trigger reporting under this item (i.e., safe harbor amounts, whether or not a loan was taken against the pledge, etc.) Moreover, delaying the effective date of this proposal by some period of time (e.g., six months to a year) would allow management to either restructure or otherwise terminate loans using such shares pledged as collateral.