THE FINANCIAL SERVICES ROUNDTABLE

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April 10, 2006

Nancy M. Morris
Secretary
U.S. Securities and Exchange Commission
Station Place
100 F Street, N.E.
Washington, DC 20549-9303

RE: File Number S7-03-06 Executive Compensation and Related Party Disclosures Proposed Rule

Dear Ms. Morris:

Thank you for providing the opportunity to comment on the SEC's Proposed Rule on Executive Compensation and Related Party Disclosure ("Proposed rule" or "Rule"). The Financial Services Roundtable ("the Roundtable") represents 100 of the largest integrated financial services companies providing banking, insurance, and investment products and services to the American consumer. Member companies participate through the Chief Executive Officer and other senior executives nominated by the CEO. Roundtable member companies provide fuel for America's economic engine, accounting directly for $50.5 trillion in managed assets, $1.1 trillion in revenue, and 2.4 million jobs.

The Roundtable and its member companies strongly support the Commission's goal to improve disclosure of the elements of executive compensation; however, we have serious reservations that several of the proposed changes will not improve disclosure but may, in fact, cause confusion. By way of general example, the proposed requirements to disclose compensation calculations in different tables at different times could lead the investing public to believe that these amounts have been paid more than once. Certain other proposed required disclosures could be inconsistent with federal and state banking privacy provisions. Specifically, however, the Roundtable wishes to focus attention on the following:

- Disclosure of Related Party Transactions (pp. 115-137 of the Release)
- Disclosure of Director Independence (Proposed Item 407,pp. 137 - 145 of the Release)
- Expansion of Definition of "immediate family member" (p. 125 of the Release)

- Disclosure of Shares Pledged as Collateral (Proposed Item 403(b))
- Possible Requirement to Disclose Salaries of Highly Compensated, Non-Policy Makers, e.g., Traders, Investment Bankers or Portfolio Managers (Text at footnote 136)

DISCUSSION

Related Party Transactions (Proposed Item 404, pp. 115-137 of the Release)

The proposed rule seeks to make significant revisions to Item 404 of Regulation S-K on "Certain Relationships and Related Transactions." Our assumption is that the new Rule, although broadly written, would not require disclosure of every related party transaction by name, amount, etc. as such a requirement would be highly burdensome to financial institutions whose business (unlike most other corporations) is to engage in multiple financial transactions. Due to the sheer volume of such transactions, the required disclosures would be of no value to investors and would be highly invasive of the financial privacy of the directors and their families.

To the extent that the SEC does expect such disclosure, there should be a special rule for banks, saving associations, brokerages, and other financial services firms as it is inevitable that their directors, executive officers, and their families will have multiple relationships in the ordinary course of business. Our member firms comply with the current S-K provisions by disclosing that: (1) directors and executive officers and their families have transactions with the corporation and its subsidiaries, including loans, deposits, fiduciary obligations, in the ordinary course of business; (2) all loans are on a non-preferential basis and do not present more than a normal risk of collection; (3) they comply with Sarbanes-Oxley; and (4) collectively, they did not result in fees that were material to gross revenues.

Our member firms seek to attract directors who develop multiple relationships with their firms, particularly in the fiduciary and investment management areas, and these relationships enable directors to understand and provide advice to management on customer service, new product development and other aspects of our companies' businesses that make them more valuable as directors. We believe that these relationships **enhance** rather than undermine director oversight.

There is also a question as to the relevance and materiality for the average shareholder as the sheer volume of proposed related party transaction disclosure would likely not provide useful or easily discernible information for most investors.

Roundtable Recommendation: We strongly request that the SEC make clear that Item 404 does not require disclosure of specific transactions in the ordinary course of business. If the SEC does intend such disclosure, the SEC should adopt special rules for registrants that own or control financial institutions that recognize the nature of normal banking relationships with directors, executive officers, and family members and that acknowledge protections provided by existing financial services regulations. We propose that Item 404 contain a provision for transactions between directors, executive officers, their family members, and financial institutions owned by registrants that will continue to permit general rather than specific disclosure of transactions under the following circumstances: (1) the transactions are in the ordinary course of business; (2) do not present undue risk of loss; (3) are not, in the aggregate, material to the gross revenues of the registrant; and (4) are made in compliance with applicable regulations issued by financial services regulatory bodies.

Director Independence (pp. 137 - 145 of the Release)

Item 407 of the proposed new rule would impose new standards for disclosure regarding director independence as set out in proposed item 407. Our presumption is that the new Rule would not require disclosure of every transaction that might be considered in determining director independence, but rather will accept disclosure of the **types** of transactions that were considered.

It is a routine business practice for member companies' board committees to consider all relevant information pertaining to transactions, firm affiliations and relationships with directors and family members when they determine director independence. A great deal of this information is highly specific and confidential. To the extent that the proposed new provision requires a general statement of the types of transactions and arrangements that the board considered in determining independence, the Roundtable supports this provision. However, to the extent that it requires specific disclosure of transactions and arrangements by name and amount, it will be highly damaging for the reasons set forth above. Moreover, since the rule requires the registrants' board of directors to make determinations of director independence based on all the information that is "relevant," disclosure of specific transactional, fiduciary or other information will lead to second guessing by rating agencies, institutional shareholders, proxy organizations and others that will be very disruptive to the process and may undermine the board of directors' ability to make these determinations.

***Roundtable Recommendation*:** We suggest, therefore, that this section be clarified to require disclosure of the **types** of transactions and arrangements that the board considered in making its determinations, but not require disclosure of specific transactions or arrangements that meet the standards set out above.

Expansion of definition of "immediate family member" (p. 125 of the Release)

The proposed expansion of the definition of "immediate family member" is too broad and may in fact be misleading. Our members' experience is that families are increasingly complex, particularly with respect to financial matters, and this new definition may include in-laws, step-parents and others who may constitute "immediate family" within the disclosure requirements. It is not unusual, for example, that in-laws may in fact be estranged from or have little contact with a director. Finally, broadening the definition of "immediate family member" also creates reporting and tracking burdens for financial institutions and raises financial privacy concerns similar to those noted above.

***Roundtable Recommendation*:** The proposed expanded definition of "immediate family members" will not only present significant compliance and information gathering problems, it may also be very inaccurate in describing material exposures. We therefore recommend that the original definition of "immediate family member" be retained.

Disclosure of Shares Pledged as Collateral (Proposed Item 403(b)**)**

The Rule proposes to require companies to disclose the number of shares pledged as collateral for any loans taken by a corporation's directors and its five highest-paid officers. While Roundtable members support improved disclosure, they have concerns with the proposed provision. Specifically:

- Pledging shares for **ordinary course transactions** (e.g., purchase of a house) is not information that is material to shareholders or that puts the company at risk.

- Similarly, pledging stock for tax considerations (to monetize stock without selling it) is also an ordinary course transaction, since selling stock may trigger a capital gains tax. Again, this is not information that is material to shareholders or that puts the company at risk.

- A better way to provide meaningful protection to investors might be to eliminate from the disclosure requirement collateral arrangements whereby

the OFFICERS(s) remains financially obligated to pay, regardless of what happens to the value of the collateral.

Roundtable Recommendation: We strongly request that the SEC consider amendments to this provision that recognize the nature of these transactions as tax and financial planning strategies for directors and their families based on amount, percentage of ownership and the like. Recognition of these routine events, together with maintaining the obligation to pay regardless of diminution of share price, would improve disclosure and distinguish routine transactions from the wholesale pledging of shares.

Possible Requirement to Disclose Salaries of Highly Compensated, Non-Policy Makers, e.g., Traders, Investment Bankers or Portfolio Managers
(Text at footnote 136)

Disclosing the compensation of three individuals who are non-executive officers gives anecdotal information to investors, but does not inform them in any analytically meaningful way. These individuals are not "policymakers" who direct payment of their own salaries, so self-dealing is not at issue. The compensation of these individuals: depends on market forces; is usually short term focused (*e.g.* percentage of revenues in business); can fluctuate dramatically from year-to-year; and this lack of continuous and consistent disclosure further dilutes the need for such information.

The highly variable and questionably valuable information required of the three unnamed employees is in marked contrast to **executive** compensation, which is highly valuable as it is more strategically focused and depends on the profitability of the company as a whole. Since these non-executive individuals are not part of policy management, they are more comparable to vendors or raw material contracts that are simply part of providing operational capital and resources to the business. Similarly, exclusion of such individuals would be comparable to their exclusion from the historic prohibition on interlocking directorates under Section 32 of the Glass-Steagall Act.

Disclosure of such information will be of little or no use to investors but is likely to cause real competitive harm. Although compensation must be market-based, information within the market is usually obtained through surveys that mask the identity of individuals. Under the current proposal, the identity of the three unnamed individuals will not be disclosed in the proxy statement, but it is highly likely that other employees within the firm and competitors will be able to "pick off" key employees. This is apt to increase demands for higher compensation

within the firm by similarly-situated employees who are not as highly compensated. It also will provide an open opportunity for competitors to bid highly productive employees away from the company, leading to an overall higher compensation cost. Finally, many key employees maintain strong, personal relationships with their clients based on the clients' trust in the employee, and the departure of these key employees could cause the loss of clients, which could have an adverse effect on the company.

Roundtable Recommendation: This proposed provision does not further the goal of disclosing the compensation of a firm's policy makers and its unintended consequence is to increase the costs to attract and retain key employees over time. We therefore recommend that the three non-executive individuals be removed from the list of those required to disclose compensation.

CONCLUSION

As discussed above, the Roundtable urges the Commission to consider amending, narrowly, the proposed rules relating to:

- Disclosure of Related Party Transactions (adopt special rules or create an exemption for banks and savings associations)
- Disclosure of Director Independence (limit disclosure to the types of transactions considered)
- Expansion of Definition of "immediate family member" (leave it "as is")
- Disclosure of Shares Pledged as Collateral (exclude "ordinary course transactions")
- Possible Requirement to Disclose Salaries of Highly Compensated, Non-Policy Makers, e.g., Traders, Investment Bankers or Portfolio Managers (eliminate requirement to publish compensation of non-executive employees).

The Roundtable looks forward to working with the Commission on these important matters to improve shareholder disclosure. If you have any questions concerning these comments, or would like to discuss these issues further, please contact me at rich@fsround.org or 202-589-2413, or Mitzi Moore, at mitzi@fsround.org or 202-589-2424.

Sincerely,

Richard M. Whiting

Richard M. Whiting
Executive Director and General Counsel

cc (w. attachments):
Chairman Christopher Cox
Commissioner Paul S. Atkins
Commissioner Roel C. Campos
Commissioner Cynthia A. Glassman
Commissioner Annette L. Nazareth
Director of Corporation Finance, John W. White

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