

# American Federation of Labor and Congress of Industrial Organizations



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January 29, 2007

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

Re: File Number S7-03-06

Dear Ms. Morris:

I am writing to express our opposition to the Commission's December 29, 2006 amendments to Item 402 of Regulations S-K and S-B to the disclosure requirements for executive and director compensation (the "Interim Final Rules"). As adopted, the Interim Final Rules will allow companies to effectively pro-rate the disclosure of equity awards to their senior executives and directors over time. By spreading out the disclosure of the value of equity awards over a number of years, the total impact of executive compensation decisions will be concealed from shareholders and the public.

The Interim Final Rules revise the Commission's previously adopted executive compensation disclosure rules effective on November 7, 2006. Under the previously adopted rules and the Interim Final Rules, companies are required to calculate a total dollar amount of compensation received by each named executive in the Summary Compensation Table. Under the November 7, 2006 rules, this total compensation figure included the aggregate grant date fair value of equity awards in the year that they were granted as computed in accordance with FAS 123R.

Under the Interim Final Rules, companies will report the compensation cost of equity awards over the requisite service period. While this approach is consistent with the principles underlying the financial statement disclosure of equity awards, it does not reflect the total impact of compensation decisions made by a company in a particular reporting period. The November 7, 2006 adopted rules would have provided investors with a total compensation figure that accurately estimated the cost of equity awards to the company and the benefit to the named executive officer or director on the grant date.

Under the Interim Final Rules, the total compensation figure in the Summary Compensation Table will include the proportional cost of awards over the requisite service period for vesting, not the full grant date fair value. In effect, the disclosed value

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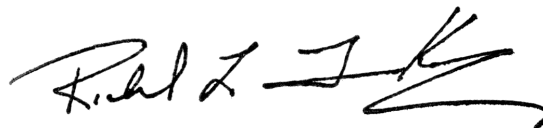
of equity awards will be pro-rated over an executive's employment instead of disclosed when granted. This approach will conceal from investors the full impact of compensation committee decisions for the most recent fiscal year. Disclosure of the grant date fair value in a separate table as proposed by the Interim Final Rules is inconsistent and confusing.

The methodology used to calculate total compensation in the Summary Compensation Table is extremely important to shaping behavior by compensation committees and investors. Shareholders will evaluate the disclosed total compensation figure when voting in director elections and when asked to ratify equity award plans. Directors will shape their executive compensation decisions to reflect these shareholder views. For this reason, the total compensation figure should represent the current decisions made regarding executive compensation in the most recent fiscal year.

Our final concern is the way in which the Interim Final Rules were adopted. While others may disagree on this matter, we feel that the manner in which the situation was handled has not been helpful. The Commission's previous executive compensation disclosure rules as adopted on November 7, 2006 reflected an extensive comment process by corporate issuers, institutional investors, and individual shareholders. In contrast, the Commission's Interim Final Rules effective December 29, 2006 represent an eleventh hour change that "renders moot the agency's plans to provide a 30-day public comment period." (*The Wall Street Journal*, December 28, 2006).

For these reasons, the AFL-CIO urges the Commission to reject the Interim Final Rules and to reinstate the November 7, 2006 rules for executive compensation disclosure. Runaway executive pay has undermined accountability to shareholders and diminished returns for the retirement savings of America's working families including the \$400 billion in union-sponsored pension plans. We appreciate the opportunity to share our views on this important topic, and we commend the Commission's recent efforts to update and improve executive compensation disclosure.

Sincerely,



Richard L. Trumka

RLT/me  
opeiu #2, afl-cio

cc: Chairman Christopher Cox  
Commissioner Paul S. Atkins  
Commissioner Roel C. Campos  
Commissioner Kathleen L. Casey  
Commissioner Annette L. Nazareth