April 10, 2006

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

Dear Ms. Morris:

RE: FILE NO. S7-03-06
PROPOSED RULE - EXECUTIVE COMPENSATION
AND RELATED PARTY DISCLOSURE

Towers Perrin appreciates the opportunity to provide our comments to the Securities and Exchange Commission on its proposed amendments to the disclosure requirements for executive and director compensation. Towers Perrin is a global professional services organization whose HR Services business provides global human resource consulting in areas including executive compensation and the valuation and design of retirement benefits programs.

We support the Commission's objective of providing a meaningful, holistic and assessable view of total compensation. However, we offer the following comments for your consideration.

Summary Compensation Table

Identification of Named Executive Officers

The proposed rule would require companies to disclose compensation for each of the past three years for the PEO, PFO and the next three most highly paid executive officers, based on total compensation for the most recent fiscal year. Since pay rankings would be based on total compensation (as defined for the Summary Compensation Table), rather than salary plus bonus, the rankings could be affected by an unusual, one-time pay element, such as a mega grant of stock options or restricted stock; an unusual cash payout under a long-term incentive plan; a termination benefit or signing bonus; an unusual annual accrual for a pension or defined contribution retirement plan; or a change in the approach to making long-term incentive awards. As a consequence, there could be more year-to-year volatility in the group of named executive officers who are subject to disclosure than has previously been the case, which could impede internal and external comparisons.

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We also observe that a perhaps unintended consequence of the proposed ranking would be the application of IRC section 162(m). Currently, the tax rules incorporate by reference the SEC's rule defining the pay used to rank executive officers. The proposed change in identifying NEOs could alter which officers would be subject to the deduction limit of IRC section 162(m) in a given year.

To improve comparisons among companies, and to lessen disruptions associated with IRC section 162(m), we suggest that "salary plus bonus" continue as the basis for ranking the pay of executive officers for determining which officers would be included in the proxy statement (in addition to the PEO and PFO).

Scope of Bonus Disclosure

The proposed Summary Compensation Table has separate columns for bonus compensation and for other non-stock incentive plan compensation. It is unclear how to distinguish between these two types of compensation.

The current rules provide a definition of a long-term incentive plan that helps clarify that such plans are meant to provide an incentive for performance over a period of more than one fiscal year. This creates an implication that a bonus is intended to compensate for performance over a single fiscal year.

The proposed rules do not contain a definition of long-term incentive plan. They do provide a definition of the term "incentive plan," but define this in a manner that does not help clarify the distinction that is intended between a bonus on the one hand and non-stock incentive plan compensation on the other. More specifically, the definition simply provides that this latter type of plan is intended to serve as an incentive for performance over a specified period without regard to the duration of the period.

We recommend the proposed rules clarify the difference between bonus compensation and other types of compensation; in particular, non-stock incentive compensation. We suggest doing so on the basis of the duration of the performance period covered by the compensation, with bonus compensation limited to arrangements providing an incentive for performance over a single year..

Stock Awards and Option Awards

The proposed disclosure would contain two new columns for stock-settled elements: 'Stock Awards' and 'Option Awards,' in which companies would report the awards' total grant-date fair value (measured in accordance with FAS 123(R)) in the year granted. Companies also would report all dividends or dividend equivalents paid or accrued on such awards during the current fiscal year.

We are concerned that the proposed requirement to report dividends and dividend equivalents could result in double-counting the dividends on restricted stock, since the

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value of the dividend stream is presumably already reflected in the stock's price and, hence, its fair value. We would observe that the FASB reached that conclusion in FAS 123(R), which requires companies to expense dividends and dividend equivalents on equity instruments only if the instruments themselves don't vest. We also note that the requirement to disclose the full fair value of repriced awards also differs from FAS 123(R), which requires companies to recognize additional expense only for the incremental increase in fair value as a result of a repricing or modification. In both cases, we believe the FASB treatment provides a more appropriate measure of the compensation to the executive.

Non-Stock Incentive Compensation
The proposed rule would require companies to report stock-based performance arrangements in the year of grant, but performance cash arrangements would be reported in the year in which they are paid (unless payment is deferred, in which case the compensation would be reported when earned).

We agree that it is reasonable to report non-stock incentive compensation when the amount earned is determined, due to the uncertainty of the amount (if any) that will be paid. However, we find it confusing to include these payments in the summary compensation table because they often represent the culmination of a multi-year earnings cycle, and generally do not relate strictly to the current year's compensation decisions *or* the current year's performance.

We recommend the Commission consider splitting the summary compensation table into two tables – for example, one table focusing on compensation granted in the current year and the other compensation realized during the year. Other tables reporting similar information – such as the table for Option Exercises and Stock Vested could be scaled back or eliminated, as appropriate.

All Other Compensation
Earnings on deferred compensation
The proposed rule would require that all earnings on compensation that is deferred on a basis that is not tax-qualified must be disclosed in the all other compensation column. We question viewing market-based earnings on an executive's previously deferred compensation – which are more akin to investment income – as a component of current compensation. We believe that the existing rule, which requires inclusion of only *above market earnings* in all other compensation, is more appropriate and should not be changed.

Market-based earnings are economically neutral to the company and the executive – the company has the use of the funds and can avoid borrowing at the same or higher rate; the executive is earning a return equivalent to what the market would pay.

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We also believe that including market-based earnings on deferred compensation in a measure of total compensation for a year distorts comparisons of current compensation between executives as it is affected by past actions – that is, whether an executive chose to defer compensation and if so, how much. It is also inconsistent with the treatment of equity instruments, such as stock options, where compensation is reported at grant date fair value and future changes in that value are not reported as current compensation.

We believe that above market earnings do represent compensation and should continue to be reported as such.

Increase in pension actuarial value

The aggregate increase in actuarial value of all defined benefit and actuarial pension plans (including supplemental plans) accrued during the year would be disclosed in the all other compensation column of the Summary Compensation Table.

The present value of a pension benefit is subject to significant changes, either increases or decreases, from year to year due to, among other factors, changes to the assumptions used to determine the present value. Such assumptions include the interest rate and the date at and form in which the benefit is assumed to be paid. The fact that the present values of pension benefits can change substantially from year to year and are often subject to substantial uncertainties until an executive actually retires calls into question the whole idea of including a present value of the pension benefit as compensation during active employment.

If the Commission chooses to require the present value of pension benefits be included in the all other compensation column of the Summary Compensation Table, we suggest the amount included be the present value of the additional benefit earned for service in the current year, as opposed to the change in the present value of the total benefit. The additional benefit earned for service in the current year would equal the difference between the benefit payable to the executive under the plan's formula measured at the end of the fiscal year less the same amount measured as of the beginning of the fiscal year.

The present value of the total benefit will change each year due to interest, assumption changes and additional benefits earned. Only the latter seems appropriate to include as current compensation. Present value changes due to interest and assumption changes are attributable to benefits earned in prior years; the present values of those benefits would have been reported as compensation in those earlier years. Including them as current year compensation would distort the current year figure. We believe that including the present value of only the benefit earned in the current year would most faithfully report the value of the executive's compensation under these plan awarded for service in the current year.

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Determining the present value of a pension benefit is a complex task requiring many assumptions. We recommend the Commission provide more guidance with respect to the manner in which this determination is to be made and the assumptions to be used. Four assumptions will have the greatest impact on this determination: (1) the interest rate used to determine present value, (2) the date the benefit is assumed to be paid, (3) the form in which the benefit is paid, and (4) the number of years of service used to determine the amount of and eligibility for benefits. A fifth assumption – the level of compensation used to determine the benefit – is also important. However we believe the Commission intends that the pension value be based on current and past compensation, rendering a salary growth assumption irrelevant for this purpose.

Companies already have to address these issues when determining the cost to charge against earnings for these plans under FAS 87 . One possibility would be to require that the determination of the amount to be included as other compensation use the same assumptions as are used for financial reporting. When combined with our suggestion above to use the benefit earned in the current year, use of financial reporting assumptions would result in an amount being included in other compensation that closely resembles “service cost” as determined under FAS 87 or FAS 106, with the primary difference being that service cost includes the effect of future compensation increases and this calculation would not. The advantage of this approach is that it ensures consistency across various sources of information provided to investors and leverages from computations already performed. The downside of this approach is that it allows for substantial variation across companies and also would involve a rather complex set of assumptions that would be cumbersome to summarize in the narrative following the table. For example, companies will typically assume different rates of termination and retirement at every age as opposed to using a single retirement age. This would make the calculation more complex and less transparent. Another downside is that while these assumptions represent a best estimate for the broad population covered by the plans in question, they might not represent the best estimate for the individual named executives.

As an alternative, the Commission could require that companies use a reasonable interest rate and a single retirement age, and that each assumption be disclosed. In this case, guidance should be provided around what would be considered reasonable. The single retirement age could be the company’s best estimate for each executive or it could be a uniform date, such as normal retirement date. The advantage of normal retirement date is that it would provide comparable information for different executives, even across companies, as normal retirement dates in defined benefit plans are heavily concentrated at a few ages, primarily age 65. The disadvantage of using normal retirement date is that it would not capture the value of early retirement subsidies.

If the value of early retirement subsidies is included by virtue of using a different retirement age assumption, compensation over the course of an executive's career would invariably be overstated or understated, as the ultimate value of an early retirement subsidy cannot be known until retirement. This would be the case with the service cost approach as well. As with the substantial movement in the present value of the benefits from year to year, this uncertainty calls into question the very idea of including the value of defined benefits in other compensation.

Another issue related to early retirement subsidies is the amount of future service to assume. Many plans provide a greater level of subsidy to employees reaching a certain level of service and/or attained age. If an executive has not reached that level as of the determination date, but would reach it by the assumed retirement date, should the current year calculation include the value of the higher subsidy on the current year accrual? Or should the calculation be done assuming the executive terminated employment as of the calculation date? Using normal retirement date as the basis for the calculation makes this issue moot.

Total compensation
The proposed Summary Compensation Table would include a figure for total compensation.

The figures included in the Summary Compensation Table would involve different timing and degrees of dependence on assumptions about future events and other factors. For example, salary and bonus figures would represent concrete amounts, while other figures (such as those related to retirement benefits) would be 'estimated' and include amounts not related to current year compensation — and might never actually be received by the executive. Stock awards and stock options would also be valued at grant (with the options' value also dependent upon estimates of future events), but other incentives would not be shown until payout. Because these figures would be presented alongside each other in the table — and added together to form a total compensation figure — we are concerned that readers might get the mistaken impression that all of the payments have the same degree of certainty and bear the same relationship to current year compensation decisions as the salary and bonus amounts. As described above, we recommend two compensation tables be presented – one for compensation awarded and the other for compensation realized, with any totals limited to amounts of a similar nature or probability of payment.

Notes to Summary Compensation Table
Companies would have to report the total earnings of up to three non-executive officers "whose total compensation for the last completed fiscal year was greater than that of any of the named executive officers."

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There are several circumstances in which non-executives could have greater compensation than named executives. Examples include highly-paid business unit leaders who are not considered named executives because they are not policy-making officers of the parent company, and highly-paid income "producers" (e.g., sales people, traders, entertainment or sports talent, etc.).

The relevance of including these individuals is not clear since they generally would not be in a position of such influence over the affairs of the company that shareholders should need to independently judge the propriety of their pay rather than relying on market forces. Including them in the disclosures seems to be inconsistent with the intent of the proposal — i.e., "to provide investors with a clearer and more complete picture of the compensation earned by a company's principal …and highest paid executive officers…."

Grants of All Other Equity Awards

The proposal will require tabular disclosure of non-performance based equity awards. For options and SARs, additional disclosure is required if the exercise or base price is less than the market price of the underlying shares on the grant date. The instructions mandate that the closing price must be used to determine market value for this purpose as to shares traded on an established market.

There is some variation in practice among companies as to precisely how they establish the exercise price of options (or the base price of SARs) even when they intend for the price to equal the market value of the shares on the date of grant. For example, some companies use the mean between the highest and lowest prices on the grant date rather than the closing price. Approaches such as this have been fostered to some extent by Internal Revenue Service rules that permit a number of reasonable practices. (See, e.g., IRS Reg. section 1.422-2(e).)

We believe the Commission's rules should accommodate some reasonable variation in practices relating to the determination of the market value of stock on the grant date, without requiring additional disclosure of the closing stock price on the grant date when the closing price is less than the price established on another reasonable basis.

Retirement and Post-Employment Compensation

Retirement Plan Potential Payments and Benefits Table
The proposed rule introduces a new table that would provide information with respect to each plan that provides for payments or other benefits at, following, or in connection with retirement (excluding qualified and nonqualified defined contribution plans).

The requirement to show each plan separately and to show the potential payment from each plan based on the form of payment elected by the executive will substantially

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increase the effort needed to complete the table. However, this detailed disclosure requirement may not produce more useful information concerning the overall level of pension benefits and has the potential to result in information that is difficult for a reader to understand.

For example, many pension arrangements are integrated in the sense that the benefits under one arrangement are used as an offset of the benefits under another arrangement. One common situation is an employer that maintains a nonqualified “restoration” plan that is designed to exactly replicate benefits under a separate qualified plan, ignoring applicable IRS limits, and under which benefits are reduced (offset) by the limited benefits payable under the qualified plan. In this case, it seems to serve no useful purpose to require separate disclosure for each plan.

Also, under most qualified plans, executives will not have elected forms of payment prior to retirement due to the requirements of ERISA and the Internal Revenue Code with respect to the timing of such elections. This issue also may arise with respect to nonqualified plans, at least as to benefits that are not subject to the restrictions of Internal Revenue Code section 409A (e.g., benefits earned and vested prior to January 1, 2005).

Some nonqualified plans will have multiple payment elections applicable to different portions of the total benefit due to the recent Internal Revenue Code section 409A rules. To add further complexity, executives will often participate in multiple plans that have different distribution options. As a result, the table would show multiple forms of payment from multiple plans and it would be difficult for the reader to make a reasoned assessment of the retirement benefits payable to the executive.

Instead, we suggest that all plans be aggregated and/or that all benefits be shown in a common form – either a lump sum or a life annuity. (This is similar to the aggregation provided for the nonqualified defined contribution and other deferred compensation plans table.) If a life annuity is chosen as the form to be shown, we suggest that the table also include the present value of the benefit determined using the same assumptions employed to determine the amount included as other compensation.

If the Commission decides to base the amount to be included in all other compensation for defined benefit plans on a benefit using a single retirement date, we believe that calculation should be included in this table. Depending on the date chosen, this could be in addition to the benefit payable at early and normal retirement date proposed to be disclosed, or in place of one of them. If the service cost approach for determining the increase in actuarial value (included other compensation) is employed, inclusion of a single benefit calculation in this table consistent with that determination would not be feasible since the other compensation amount would be based on a multitude of

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calculations reflecting the probability of retirement at various dates. In any case, we recommend the Commission consider including a calculation of a benefit assuming immediate termination in this table as opposed to requiring it in the other post-employment payments section.

Other Potential Post-Employment Payments

The proposal calls for a narrative disclosure about potential termination payments. We have two key suggestions with respect to this proposed disclosure.

First, we recommend this disclosure focus on the "incremental" pay and benefits elements the executive officer would receive solely as a result of the particular form of termination (e.g., severance, 280G tax gross-up, enhanced pension benefits, etc.), rather than settlements of already-earned elements. Reporting these already-earned elements would create the potential for double-counting since they would be reported elsewhere in current or prior proxy statements – for example as stock option or restricted stock grants, or in tables showing retirement benefits or deferred compensation.

Second, to assure better consistency across companies, we suggest that more guidance be provided about the methods and assumptions to be used in quantifying potential payments, including hypothetical date of termination; valuation assumptions (e.g., company cost or benefit to executive, pre- or post-tax); and termination scenarios (e.g., cause, voluntary, retirement, death, disability, involuntary, change-of-control).

If it is the SEC intent that the various potential payments be quantified, we believe a formal tabular structure would provide the most comprehensible disclosure and recommend the Commission set forth a prescribed format.

Transition

We agree with the proposed transition approach, which would not require companies to restate prior years on the new basis; restatement would be burdensome and we believe the cost would outweigh the benefits. However, we also believe it would be confusing to present both the historical and current summary compensation information, prepared under different sets of rules. To mitigate potential confusion, we recommend the Summary Compensation Table include only information prepared in accordance with the new rule. Information for prior years is readily available to interested parties through EDGAR and other sources.

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The proposed rule is a good first step toward improving the comprehensiveness and readability of proxy disclosures. However, although transparency is laudable, we believe there are risks to providing too much information, including a potential for double

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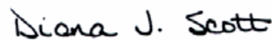
counting (e.g., grants versus exercises) and other misinterpretations. In addition, although the Commission's desire that companies provide a single "total compensation" figure is understandable, the proposed development of that "total" encompasses varying types of compensation — actual payments, estimates of future compensation, grant-date fair values, — and includes some elements (e.g., market rate earnings on nonqualified deferred compensation) that do not constitute current compensation. Therefore, we have concerns with the meaningfulness of some of the disclosures for year-to-year or company-to-company comparisons.

We would be happy to further discuss our views or answer any questions you may have.

Sincerely yours,



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