

**STATEMENT OF CHARLIE SCOTT, PRESIDENT OF MERCER'S HUMAN  
CAPITAL CONSULTING BUSINESS**

**BEFORE THE  
UNITED STATES HOUSE OF REPRESENTATIVES  
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM**

**DECEMBER 5, 2007**

Mr. Chairman, Ranking Member Davis and Members of the Committee. My name is Charlie Scott and I am President of Mercer's human capital consulting business. I appreciate the opportunity to appear before the Committee today to discuss the executive compensation services Mercer (US) Inc. ("Mercer"), through its human capital line of business, provides to many of America's leading companies. We welcome this opportunity to describe for you:

- The nature of our working relationship with executive compensation clients;
- How our consulting framework promotes consideration of responsible executive pay;  
and
- The steps we take to give our clients objective, unbiased advice and help them discharge their responsibilities.

The Compensation Committee of a company's board of directors has the responsibility to determine the appropriate level and types of compensation for the company's senior executives. Mercer executive compensation consultants provide advice on the design and implementation of executive compensation programs in support of aligning executive performance with shareholder interests and the company's business strategy. Depending upon the company's need, the consultant may provide these services to a company's management or to a company's Compensation Committee. The primary roles of a compensation consultant to a Compensation

Committee are (i) to help the Committee establish a philosophy regarding executive pay that provides the backdrop for specific program design, and (ii) to provide a context of objective and expert analysis, advice, and information to assist the Compensation Committee in its decision-making role. Generally, the consultant is responsible for providing the Compensation Committee with the information it requests for use in its decision-making process. Inherent in that responsibility is working with the Compensation Committee to help it understand the choices available to it as well as the tax, accounting, disclosure, regulatory, and human resource implications of those choices.

In addition to providing executive compensation consulting services like those described above, Mercer and its affiliates provide a wide variety of products and services in the consulting, outsourcing and investments arenas to companies, their benefit plans, and employees. For example, among other things, Mercer provides (i) plan design, actuarial valuation, investment consulting, investment management and administration services to defined benefit pension plans; (ii) consulting, insurance brokerage and administration for health and welfare plans; and (iii) human resource consulting to HR departments and senior management.

Mercer is aware that some have raised concerns that providing executive compensation services as part of a diversified business model could present a potential conflict of interest. The critical issue, which the Committee has identified, is whether potential conflicts of interest are prudently and effectively managed and disclosed. Mercer has recognized this and other potential stresses on executive compensation decision making, and elected to take a market leading position on the need for a more responsible approach to the process.

## **Mercer's Global Business Standards**

In 2005, Mercer developed and implemented Global Business Standards for managing our business and the potential conflicts of interest that may be present in advising boards of directors on executive compensation issues. These Global Business Standards – which are revised periodically – are the central governing document for our executive compensation consulting business. We believe that these standards -- which are provided to all of our clients -- enhance transparency and establish a framework for the effective management of these issues by Mercer and our clients and allow Mercer executive compensation consultants to provide high-quality, unbiased advice to a Compensation Committee.

Mercer's Global Business Standards address how we (i) manage the executive compensation consulting relationship, (ii) ensure the quality of executive compensation consulting services, and (iii) structure our business to manage potential conflicts of interest.

### **Clear and Transparent Relationship with Clients**

A clearly defined client relationship provides the foundation for ensuring the objectivity and integrity of our advice. At the beginning of each engagement, our consultants establish with clients a clear mutual understanding of our role and client reporting relationship, premised on our commitment to providing objective advice.

An Engagement Letter documents the key elements of the assignment and relationship: roles, responsibilities, scope of services, fees, timeframe and client reporting relationships, including how and to whom information and recommendations are communicated. For example, Engagement Letters with a Compensation Committee include disclosure of Mercer's other

financial relationships with the company, if any. In addition, where we work with management to develop a compensation proposal, our Engagement Letter also specifies that management cannot attribute findings or recommendations to Mercer in meetings with the Compensation Committee unless Mercer is present in those meetings.

### **Ensuring the Quality of our Advice**

Mercer is committed to providing advice that is both objective and of the highest quality. To carry out our professional standards, executive compensation consulting services are performed only under the direction of a human capital business principal. These individuals comprise our most senior consultants and each possesses extensive experience in the executive compensation field. Mercer's professional standards require that all consulting advice be peer reviewed before it is rendered. Mercer has also developed a framework for working with clients in the four critical areas of executive compensation (remuneration, performance, regulations, and governance) to help clients avoid focusing too much on pay competitiveness at the expense of performance against peers and prudent governance of the programs.

### **Structuring our Business**

The structure of our business not only facilitates the exchange of our best thinking, but also demonstrates to employees and clients the integrity of our advice. Our human capital business leaders -- not client relationship managers or other sales-focused employees -- evaluate performance and determine compensation for all executive compensation consultants. Our executive compensation consultants report through the human capital line of business and are ultimately accountable to me, as the business president, for their performance. Executive

compensation consultants are not compensated based upon client revenue from other Mercer lines of business.

Our Global Business Standards require our consultants to seek guidance from the human capital business leadership whenever there is any question that our objectivity or integrity is at risk of being compromised. Consultants may discontinue executive compensation consulting relationships where apparent or actual conflicts that would impact the quality or objectivity of our advice cannot be resolved to both our clients' and our satisfaction.

### **A Solution for Independence – Independent Oversight Model**

Some Compensation Committees need the breadth and depth of resources that Mercer can provide, but desire to take additional steps to demonstrate the independence of the executive compensation advice that they receive. To address this issue, we are recommending to these clients that their Compensation Committees retain a separate “independent advisor” who can consult with the Compensation Committee on matters of compensation policy, review compensation plan proposals, and support the Compensation Committee as it discharges its review and approval responsibilities. The independent advisor performs no other work for the company, including no design or implementation work pertaining to the compensation programs it is reviewing and on which it is advising the committee. Management or the Compensation Committee retains whatever additional resources they need, including a company such as Mercer, to design and implement the company's compensation programs. We believe this Independent Oversight Model gives the Compensation Committee the freedom and flexibility to engage other advisors to perform other aspects of executive compensation work and still fulfill any need that they be able to demonstrate the “independence” of advice received.

## **Conclusion**

Mercer is committed to providing objective and unbiased executive compensation advice to our corporate clients. Accordingly, we have taken proactive steps to build industry standards through our Global Business Standards, and through our Independent Oversight Model. We have also taken prudent and appropriate steps to protect the integrity of our advice and recommendations. We also will continue to review our Global Business Standards to meet the challenges of an ever-changing marketplace for our services. The obligation to provide uncompromised advice in this area so that corporate boards may make executive compensation decisions that are consistent with their fiduciary duties to shareholders is one that all executive compensation firms should share. Thank you for inviting us to participate in today's hearing. I look forward to answering any questions the Committee has in pursuit of this important goal.