

MEMO# 19951

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ICI Comment Letter on SEC's Executive Compensation Proposal

©2006 Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice. [19951] April 11, 2006 TO: BOARD OF GOVERNORS No. 15-06 CLOSED-END INVESTMENT COMPANY MEMBERS No. 14-06 SEC RULES MEMBERS No. 35-06 SMALL FUNDS MEMBERS No. 30-06 RE: ICI COMMENT LETTER ON SEC'S EXECUTIVE COMPENSATION PROPOSAL The Institute has filed a comment letter with the Securities and Exchange Commission on its proposal to require more extensive disclosure by public companies about the compensation they pay to their executives and directors.* The letter, which is attached, is briefly summarized below. The letter states that investment companies, as significant investors in securities, welcome greater and more meaningful disclosure about the complex and varied executive pay packages that are common in today's corporate environment. It emphasizes that this information is important to investors because it focuses on the compensation paid to the individuals who are the company's decision makers. In particular, the letter states that the proposed disclosure will significantly improve the ability of funds and other investors to evaluate whether the interests of these decision makers are aligned with those of the company's shareholders and whether these individuals are properly incentivized to maximize value for shareholders. The Institute responded to the Commission's request for comment on whether the proposed disclosures could be provided in a form that permits interactive capability in proxy statements made available on the Internet. The letter expresses the Institute's strong support for the Commission's efforts to explore how the Internet can transform the delivery of information to investors and to the marketplace at large. It also offers the Institute's assistance in helping the Commission to determine how the Internet can be used to improve the accessibility, utility, and quality of the disclosures made by all issuers, including investment companies. * For a summary of the proposal, see Institute Memorandum to Closed-End Investment Company Members No. 5-06, SEC Rules Members No. 15-06, and Small Funds Members No. 12-06 [19740], dated Feb. 13, 2006. 2 The Institute also responded to the Commission's request for comment on the proposed requirement for disclosing the total compensation paid to up to three non-executive employees. The letter states that this information is not meaningful to funds and other investors because these employees do not perform policy making functions for the company. It expresses the Institute's belief that there are potentially significant drawbacks to this provision and recommends, in particular, that the Commission evaluate whether the proposed disclosure would harm public companies by making it easier for competitors to identify and hire away a company's top creative or other talent. Rachel H. Graham Associate Counsel Attachment (in .pdf format) Note: Not all recipients receive the attachment. To obtain a copy of the attachment, please visit our members website

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