January 25, 2007

The Honorable Christopher Cox
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Global Investor Support for Advisory Shareholder Votes on Executive Compensation

Dear Chairman Cox:

This letter is being submitted by global institutional investors that have an aggregate $1.5 trillion under management to share with you our experiences with companies in markets that currently require shareholder votes on executive compensation. Based on that experience, we believe that use of advisory votes on executive compensation at US companies would:

- Improve communications between shareholders and directors;
- Encourage pay-for-performance practices that better align the interests of executives and shareholders;
- Increase focus on individual company circumstances and strategic goals in the development and evaluation of executive compensation plans; and
- Provide a counter-weight to upward pressure on executive compensation from enhanced disclosure requirements.

As institutional investors, we commend the SEC for taking a major step forward by enacting improved disclosure requirements for executive compensation at companies in the US. The increased transparency will be of great assistance to shareholders and other investors when evaluating the effectiveness of directors in implementing pay-for-performance practices.

However, results of the SEC's 1992 executive compensation reporting enhancements demonstrate that additional disclosure, by itself, is not likely to encourage pay-for-performance. Our experience with companies in other markets is that advisory shareholder votes on executive compensation can help leverage increased transparency into better pay practices.

Advisory shareholder votes on executive compensation reports were first required in the UK beginning in 2003. In Australia, they began with the 2005 proxy season. The Netherlands started requiring submission of the executive compensation policy to a mandatory shareholder vote on adoption in 2004. Swedish companies started using advisory votes on executive compensation last year.

There has been sufficient experience with advisory shareholder votes on executive compensation, particularly in the UK and Australia, to provide you with relevant input from similar economic systems. We believe that advisory shareholder votes, if properly used, could produce a number of benefits for US companies and investors without disrupting board control over compensation decisions. The following developments have been seen in markets where advisory votes are already in place:

- Companies are consulting with major shareholders and investors on executive compensation matters prior to making substantive changes to compensation policies or practices. The Head of European Executive Remuneration at Mercer Human Resource Consulting estimates that this has occurred at perhaps as many as 90 percent of British companies. The ensuing dialogue between compensation committees and major investors has been valuable for both sides. Generally, companies have been responsive to concerns shared by a substantial block of shareholders.
- Companies are becoming more likely to use longer-term performance targets in incentive compensation plans and to customize them to company-specific circumstances and strategic plans.
- Shareholders and proxy voting consultants are also focusing more on how compensation is linked to long-term performance goals and the company's strategic plan, as companies better explain the ties between them. The amount of compensation itself has not been the main focus of investor concern, so long as compensation reflects performance appropriately and is not gratuitous.
- Disclosure quality has improved over time as domestic and international investors raise specific questions and better lines of communication develop. Investors are focusing more on the quality of communication rather than quantity. The compensation committee chair has typically played a key role in company interaction with major investors.

- A study of Britain's 100 largest companies by New Bridge Street Consulting found that the 2006 rate of increase in executive salaries was five to six percent. While this still exceeds salary increases for other employees, it is down from about 14 percent five years ago. Many companies are moving compensation from salary into performance-based pay. We attribute this, in large part, to advisory votes giving shareholders the ability to voice their concerns.
- Shareholders can respond to compensation plan concerns through their vote on the compensation report instead of lodging protest votes against directors. This has allowed issues relating to board membership and executive compensation to be considered separately.
- Directors and management learn the opinion of all shareholders on a company's executive compensation, rather than hearing from only the most activist or vocal owners.
- Majority negative advisory votes have been very rare, and we believe that concerns that they could be disruptive are misplaced. Out of thousands of votes, there have only been several instances where a majority of shares were voted against an executive compensation report.

There are numerous examples of instances where advisory votes or pre-emptive dialogue between companies and shareholders have affected board decisions on executive compensation. For example, when GlaxoSmithKline received a 51 percent vote against its remuneration plan in 2003, the company undertook a consultation with its shareholders to identify their areas of concern, and it responded with plan adjustments. In Australia, after determining that a substantial negative shareholder vote was likely, Amcor increased incentive plan performance hurdles and lengthened vesting schedules. Tabcorp also withdrew an options package it planned to offer its CEO when it found during consultations that a substantial number of shareholders objected to the plan's low performance hurdles.

Even major American institutional investors have been included in dialogues with portfolio companies located in countries where shareholder votes on compensation are required. Those companies often call upon major US investors to discuss new company compensation proposals and identify any objections.

The Netherlands has gone one step beyond the advisory shareholder vote on executive compensation. Companies there are required to obtain shareholder approval of the compensation policy. While application of the compensation policy provisions to specific executives is left to the supervisory board, the company's owners must approve the structure and parameters within which the supervisory board may operate. Many investors prefer this approach as a more accurate reflection of company ownership structure. We would like to emphasize that even the mandatory shareholder approval of the executive compensation policy that is used in the Netherlands has not produced the dire consequences feared by US advisory shareholder vote opponents.

The undersigned enthusiastically support giving shareholders of US public companies an advisory vote on executive compensation. It is a simple process that can improve communications between shareholders and directors, promote shareholder understanding of compensation policies, and encourage alignment of compensation with company-specific performance goals and strategic plans.

We hope this letter will be helpful and that the SEC will take steps to establish an advisory shareholder vote on executive compensation, whether through direct regulatory action or stock exchange listing standard changes. If needed, we would support legislation that gives shareholders the ability to provide regular input to directors through an advisory vote on executive compensation issues.

Please feel free to contact us if you need any additional information or assistance.

Sincerely,

Eugene Rebers
Senior Counsel
ABP Investments - Netherlands

Denise L. Nappier
Connecticut State Treasurer
Connecticut Retirement Plans & Trust Funds

Ian Jones
Head of Responsible Investment
Co-operative Insurance Society - UK

Karina Litvack
Head of Governance & Sustainable Investment
F&C Asset Management - UK

Paul Munn
Director
Hermes Equity Ownership Services Ltd. - UK

Councillor Darrell Pulk
Chair of the Forum
Local Authority Pension Fund Forum - UK

Anita Skipper
Head of Corporate Governance
Morley Fund Management - UK

Marcel Jeucken
Head of Responsible Investment
PGGM - Netherlands

Frank Curtiss
Head of Corporate Governance
RAILPEN Investments - UK

Giles Craven
Managing Director
Shell Pensions Management Services Ltd. - UK

Guy Jubb
Investment Director
Head of Corporate Governance
Standard Life Investments Ltd. - UK

David C. St. John
Chief Investment Officer
UniSuper Management Pty. Ltd. - Australia

Peter Moon
Chief Investment Officer
Universities Superannuation Scheme - UK

cc: SEC Commissioners
United States Representative Barney Frank, Chairman, House Financial Services Committee
United States Senator Christopher Dodd, Chairman, Senate Banking Committee
John A. Thain, CEO, New York Stock Exchange
Robert Greifeld, President and CEO, NASDAQ