THE OFFICE OF
STATE TREASURER
DENISE L. NAPPIER

NEWS

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Nappier Submits Comments to U.S. Treasury on Executive Compensation

Connecticut State Treasurer Denise L. Nappier, principal fiduciary of the $26 billion[1] Connecticut Retirement Plans and Trust Funds (CRPTF), called on the U.S. Treasury to commit to enforcement when it finalizes regulations concerning executive compensation for companies availing themselves of the Troubled Assets Relief Program (TARP).

In a comment **letter submitted to the U.S. Treasury today (click to view)**, Treasurer Nappier criticized existing interim rules as being vague and weak on enforcement. The interim regulations were promulgated under the Emergency Economic Stabilization ACT (EESA), which authorized the U.S. Treasury to set guidelines -- including executive compensation standards -- for troubled financial institutions that applied for financial assistance from the TARP's Capital Purchase Program (CCP). The program, which allows the U.S. Treasury to purchase securities in troubled financial firms, was established under interim regulations that were not subject to public comment because of the need to respond immediately to market conditions.

Comments submitted today represent the first public opportunity to weigh in on how the U.S. Treasury has proposed treating the pay of executives whose decisions led their companies into financial failure. With more industries than just the financial sector lining up for bailout dollars, these rules could have a much bigger impact than initially expected and, perhaps, set a precedent even for those companies not applying for bailout dollars.
Treasurer Nappier said, "These rules should be the ceiling and not the floor for corporate conduct."

[1] As of the fiscal year ending June 30, 2008.

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The Treasury proposed interim regulations that require compensation committees to self-certify that the company's compensation practices do not encourage unnecessary and excessive risks. The proposed rules also require that under certain circumstances, executives must give back financial awards (clawbacks), and it prohibits exit packages often referred to as golden parachutes.

In the comment letter submitted to the U.S. Treasury, Treasurer Nappier recommended several changes that clarify key terms and provisions and implement a more rational and stronger enforcement mechanism than currently exists. Specifically, Nappier called for the Treasury to take the following actions:

- Define "incentive compensation arrangements" to eliminate uncertainty over which kinds of plans and programs are covered;

- Establish meaningful enforcement to ensure that companies do not take on unnecessary and excessive risk;

- Eliminate ambiguity concerning the clawback provision and what constitutes "materially inaccurate" financial statements and performance metrics; and

- Impose a substantial excise tax on income of covered executives that exceeds a $500,000 threshold.

Nappier also noted that the proposed enforcement mechanism results in a clear conflict of interest when the regulations direct the same board members who approved the pay package in the first place to then self-certify that the pay package is free from overly-risky financial incentives. "Without significant changes to both the Rule's substantive standards and the mechanisms used to monitor and enforce compliance with those standards, the compensation provisions will have little or no impact on company behavior," Nappier stated.

Even more troubling is the U.S. Treasury's failure to spell out exactly what types of incentive pay lead to unnecessary risk-taking. In her comment letter, Nappier offers some concrete examples of criteria the U.S. Treasury could use to identify "risky" incentive pay, and also requests that it provide more guidance on its limits on clawbacks and golden parachutes.

Since taking office in 1999, Nappier has been an active proponent of sound corporate governance practices, including executive compensation packages that align the long-term interests of companies and their shareholders. Recently, Nappier spearheaded a shareholder vote regarding "Say on Pay" at Sun Microsystems, which garnered 67 percent support of shareholders, the highest ever on such a resolution

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