

Fact Sheet
Providing Compensation Committees With New Independence

We will propose legislation that will give compensation committees greater independence, just as Sarbanes-Oxley did for audit committees. The legislation will direct the SEC to promulgate rules requiring companies listed on national securities exchanges to meet exacting standards for independence. Under these rules, not only would compensation committee members be truly independent from management, but the committee's compensation consultants and legal counsel would be answerable only to the committee. This legislation will direct the SEC to:

1. **Issue rules requiring that compensation committee members meet independence standards similar to audit committee members under Sarbanes-Oxley:** The new requirements will mandate that each member of the compensation committee meet, in addition to the current independence standards of the major exchanges, independence requirements similar to those for audit committee members under Sarbanes-Oxley. This high standard will ensure that compensation committee members will be truly independent when setting executive pay on behalf of shareholders.
2. **Issue rules giving compensation committees the authority and tools they need to be truly independent:** Just as Sarbanes-Oxley gave audit committees the power to retain and dismiss outside auditors, the new requirements would enable compensation committees to use outside advisers in the process of setting executive pay:
 - i. *Authority over compensation consultants.* The compensation committee will be directly responsible for the appointment, compensation, retention and oversight of the work of any compensation consultants that it retains, and these compensation consultants must report directly to the compensation committee.
 - ii. *Authority to engage legal counsel.* The compensation committee must have the authority to engage counsel and other advisers, as it determines necessary to carry out its duties.
 - iii. *Funding.* Each company must provide for appropriate funding, as determined by the compensation committee, to enable the committee to engage and adequately compensate compensation consultants, outside counsel and any other advisers employed by the compensation committee.
3. **Provide standards for the independence of compensation consultants and outside counsel:** Shareholders should have confidence that the compensation committee has the benefit of objective, expert advice. Studies have shown that the use of consultants with conflicts of interest may lead to an increase in the compensation paid to top managers. The new requirements will direct the SEC to establish standards for ensuring the independence of compensation consultants and outside counsel used by the compensation committee.