July 28, 2006
Release Numbers 33-8655; 34-53185; IC-27218

Mr. Chairman and Honorable Commissioners:
You have solicited comments on the proposed rule "Executive Compensation and Related Party Disclosure." Your stated objective for the rule (amendments) is to "provide investors with a clearer and more complete picture of the compensation earned by a company's principal executive officer, principal financial officer and highest paid executive officers and members of its board of directors." The SEC is commended for extending the window of opportunity to comment on the comments.

Now that the unprecedented stakeholder poll has been taken, there can be no doubt concerning the voltage the investing community assigns to the matter of head shed remuneration. The lesson learned from stakeholders is that regulator business as usual, *parens patriae* and all, can fail to recognize high voltage settings in their midst over extended periods of time. This correlates well with the regulatory inability to detect rampant fraud and scandal permeating the institutions "regulated." One has to wonder what other hugely important issues to the stakeholders remain out there dwelling within the great *parens patriae* blindspots. You are following the regulatory path, exactly, blazed by the US Sentencing Guidelines project. You can see for yourself that it does not lead to Oz.

You need to run another poll, equally comprehensive to the one you accidentally ran on pay, to learn what remains of trust in authorized watchdogs and gatekeepers. The level of trust in the residuum of constantly damaged stakeholders is a significant factor shaping viable options for the SEC. It is increasingly clear that regulatory agencies are going to get no return to peace and stability until the incessant torrent of fraud and scandal is attenuated. Responding to rebuild trust lost, like restoring N.O. after Katrina, is a slow expensive process – requiring resources far greater than husbanding trust already in your account.

Watchdog agencies can only obtain mercy for safeguard incompetence when the crimes at the top are one-off and infrequent. When the sponsors of regulatory agencies routinely have to bear both the cost of the regulator and the howls about the damage it was created to prevent, sooner or later comes the dawn – one of the two has to go. There are already signs of reaction to ease the chronic pain in Congress. The ongoing US Army Corps of Engineers overhaul by Congress is one precedent to heed. It does not take much imagination to foresee Senators doing to the SEC what Feingold and McCain are doing to the Corps. The motivating conditions are nearly identical.

The responses to this SEC initiative comprise the most comprehensive survey of the stakeholder landscape ever assembled. Collectively, it forms a superb encyclopedia of perspectives and rationales about corporate governance and enforcement. It presents the various ingenious, quasi-legal labyrinthine pathways used by the head shed to differentially reward itself – oblivious to performance - up to present times. The SEC survey is greatly appreciated and quite illuminating.

It makes obvious the contention that the options available to management for enriching itself exceptionally greatly exceed, in variety and speed, the options available to regulators. Paying respect to Ashby's Law of Requisite Variety, a natural law, assures the SEC that no matter what rules and amendments are established, they will be no bar to the outcome intended by management. Strong evidence is gathering that the venerable drive to maximize executive pay operates on the inverse rule. The more management feels a threat to reaching its true purpose, the more rabid it reveals what that purpose is. At some threat level, management jettisons all concern of public image. Your survey shows that the public had already figured it out by itself.

Relevant scenario
As you know from prior commentary, I am a professional engineer laboring in the traditional internal control domain. This is a seamless discipline amalgam as transactional analysis and design uses the same core technology whether the systems are of metal, money or flesh. One of my 2006 engagements involved

working in a factory of a division of a large conglomerate. In typical conglomerate oversight practice, division management was tasked to meet short-term financial goals. A few months ago, conglomerate headquarters, finding out the books were cooked after leaving the factory to meet those goals, orchestrated a commando raid on the division, removing all senior management from duty. Down in the boiler room, we had no clues that our work product was being processed further on its way to headquarters. Once the significance of the debacle became apparent to us in internal control, we assumed headquarters would come clean and restate the conglomerate financials.

The actions actually taken, however, do not include restatement – yet. Conglomerate management has decided instead to take the loot and run. The several principals are, in full compliance with the law, publicly cashing out during 2006 as coherent with their recently announced "retirements" in 2007. Having this insider information, the conditions of my PE license required that I withdraw from the engagement. Powerless to prevent the impending stakeholder train wreck, I am happy to oblige. After the restatement dust has settled in 2007, the details of the measurable damage to investors will be provided to the SEC.

The lesson brought home by my painful experience is that having solid knowledge about the tsunami that formed from the witnessed earthquake, there is no viable means to warn the stakeholders in harm's way. My due diligence protects me, but it finished far short of protecting the stakeholders. The whistleblower route remains a suicide mission. The SEC has plenty for crisis response, after the stakeholder money is gone, but naught for a stakeholder early warning system. Just like the Indonesian tsunami on July 17, 2006 where the warning that got to the exposed nation's Establishment in time (buildings swayed in Jakarta) never reached the coastal villages where the waves were to hit. Some system.

While I am not surprised that management would enrich itself at the expense of whomever it may concern, I am disappointed with the scope limits of internal audit and internal control, which I accepted during my career without question. It's one thing to read about headquarters scandal in the daily paper. It's another matter when you are in the chorus line at the corporate opera house misleading the audience. If you are thinking about internal control as the only logical home for effective scandal prevention, which it is, be sure to insist upon a scope of authority that includes the stakeholders. I forgot that obedience to authority is not a goal-seeking strategy.

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