The Office Of
State Treasurer
Denise L. Nappier

News

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Shareholders Support Treasurer Nappier's Call for Greater Transparency of Compensation Consultant Relationships at Citigroup Inc.

CRPTF also votes against pay package and six members of the board Audit Committee for poor risk oversight and the executive pay package

Hartford, Conn. - Today at the Citigroup annual meeting in New York City, Connecticut State Treasurer Denise L. Nappier called on the company's board of directors to adopt a policy to disclose any and all fees paid to consulting firms for services provided to the board's compensation committee and to Citigroup's management. The resolution was backed by major proxy voting agencies RiskMetrics and Glass Lewis, and received 48 percent of shareholder support, the highest vote tally for any shareholder resolution appearing in the proxy this year.

"Shareholders are entitled to robust disclosure of executive pay-setting practices at the companies in which we invest," Nappier said. "It is clear that inappropriate and ineffective compensation policies and procedures at public companies encouraged executives to play fast and loose with shareholder dollars and contributed to a culture of greed that precipitated the meltdown of the U.S. capital markets. It is high time companies treated shareholders as owners and kept them abreast of how these pay packages are assembled. Today, Citigroup shareholders signaled to the board that they no longer want to be left out in the cold."

Treasurer Nappier, principal fiduciary of the $20 billion state pension fund, is a leading advocate of corporate executive pay packages that reflect company performance. The CRPTF was the primary filer on the proposal.

"It has become abundantly clear that executive compensation at many U.S. companies is on an unsustainable trajectory and has become separated from company performance," Nappier said. "Citigroup has a real opportunity to take the lead on reforming its compensation practices for the benefit of all shareholders and the company's bottom line."

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Citigroup's 2009 proxy states that the Citigroup board currently engages three compensation consulting firms: Mercer Human Resource Consulting, Towers Perrin and Independent Compensation Committee Adviser, referred to as ICCA. The 2009 proxy statement notes that both Mercer and Towers Perrin provide a variety of services to the company in addition to "data, evaluations and advice regarding executive compensation." Mercer provides services including, but not limited to, health care plan administration, consulting on broad-based medical plans offered to U.S. active and retired employees, and COBRA administration; Towers Perrin provides actuarial consulting services to the company's U.S. pension plan. While the Citigroup proxy statement discloses independent consulting firm ICCA was paid $11,000 for services performed on behalf of the board compensation committee, it fails to disclose fees paid to Mercer or Towers Perrin for services provided to the compensation committee or to management.

Investors have petitioned the SEC to require companies to disclose in the annual proxy information on the independence of the compensation consultants engaged by board compensation committees. In recent congressional testimony, Securities and Exchange Commission Chairman Mary Schapiro stated that the Commission will take up this issue as part of its 2009 reform agenda.

Other large U.S. companies, such as MetLife and Caterpillar Inc., have disclosed the fees paid to compensation consultants engaged by their board compensation committees. In fact, the Caterpillar disclosure was based on a settlement brokered with the CRPTF during last year's proxy season.

"It is in the best interest of Citigroup and its shareholders for compensation consultants to provide unbiased advice regarding executive pay," Nappier said. "Investors are simply seeking more information in the proxy statement to better evaluate the independence of the compensation consultant engaged by the board compensation committee. These disclosures are achievable and shareholders have every right as Citigroup owners to insist upon them as a window into the credibility of company leadership in promoting a compensation system that better aligns the interests of the company with its shareholders."

The CRPTF also voted against the executive pay package by exercising "Say on Pay," an annual advisory vote of its shareholders on executive compensation, which can send a message to the board that it needs to re-examine its pay practices and open channels for communication on this and other important corporate governance issues. "Say on Pay" is now required by Congress for companies recently accepting money under TARP.

In addition to "Say on Pay," the CRPTF also voted against six members of the board for their role in the audit committee's failure to recognize the strategic and oversight shortcomings that contributed to the company's lagging performance, prompting multiple equity infusions from the federal government. The six directors are: C. Michael Armstrong, Alain Belda, John Deutch, Andrew Liveris, Anne Mulcahy and Judith Rodin.

"Today, shareholders signaled to Citigroup that it needs to change its focus and direction with respect to a host of issues, including executive compensation and risk management," Nappier said. "Hopefully, the board of directors will take heed of shareholders' concerns and work to reestablish Citigroup as one of the premier financial institutions in the U.S."

Background

Treasurer Nappier has long called attention to the relationship between compensation consultants and their clients and its implications for executive pay. Compensation methods and practices have become more complex, and board compensation committees are increasingly turning to compensation consultants to craft executive pay packages. It is critical, therefore, that a compensation consultant be free of any conflict of interest, perceived or actual. Multiple business relationships within a company may appear to compromise the independence of a consultant's recommendation to the compensation committee. Any potential conflict of interest in the company-consultant relationship may bring into question the process used to assemble the pay package and, in turn, jeopardize shareholder confidence in the company.

The CRPTF and other major institutional investors have sought more information about the relationships between compensation consultants engaged by the board of directors of Citigroup and other companies. In 2006, the CRPTF joined a coalition of institutional investors representing $849.5 billion in calling on board compensation committees of the 25 largest U.S. companies—including Citigroup—to provide information on policies and practices that would mitigate conflicts of interest between the compensation consultant and the client company.

Last year, a second coalition led by Treasurer Nappier of 21 institutional investors representing $1.4 trillion in assets under management broadened its focus by petitioning the SEC to require companies to disclose both the fees paid to the compensation consultant for consulting and management-based work, such as actuarial work or benefit plan administration, and whether the compensation consultants hold an equity interest in the parent consulting firm.

The CRPTF owns 2.4 million shares of Citigroup, with a current market value of $8.79 million and unrealized losses of $59 million as of April 20, 2009.

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