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July 6, 2015

Transmitted via Email: rule-comments@sec.gov

Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: File Number S7-07-15, Pay Versus Performance, Proposed Rule

Dear Mr. Fields:

The State Board of Administration (SBA) of Florida is pleased to provide comments on the Proposed Rule for Pay Versus Performance, developed in accordance with Section 953(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The SBA manages approximately \$185 billion in pension and non-pension assets on behalf of the Florida Retirement System (FRS), one of the largest public pension plans in the United States with 1.1 million beneficiaries and retirees, and other state mandates. The SBA's governance philosophy encourages companies to adhere to responsible, transparent practices that correspond with increasing shareowner value and to appropriately consider the input of their shareowners.

We are in support of the Congressional intent of the Dodd-Frank Act in this matter, which was to inform and "empower shareholders"¹ to have greater voice in executive compensation, and of the Commission's interpretation of this as intending to help shareowners objectively assess compensation and performance, particularly in regard to casting advisory "say-on-pay" votes. However, while the proposed rule reflects Section 953(a) which specifically points toward the use of cumulative total shareholder return (TSR) in assessing performance², we are concerned that the rule continues to overlook the main deficit that shareowners face in making informed advisory votes, which is a lack of disclosure of metrics and thresholds in executive compensation. This presents a problem to investors in voting both on compensation plan approvals and on advisory say-on-pay votes.

The proposed rule would require certain filers to include, among several features, discussion of the relationship between pay and performance, which will be of marginal use to investors for several reasons. One is that TSR and peer group comparisons are already broadly available to shareowners and used extensively as one individual factor of consideration by most voting shareowners. Second, TSR, even when compared to peers, is subject to fluctuation based on a host of circumstances and information that is outside of the control of the individual companies and industries. Further, though TSR is used as a significant factor in many compensation

¹ The Proposed Rule, <http://www.gpo.gov/fdsys/pkg/FR-2015-05-07/pdf/2015-10429.pdf>

² The Dodd-Frank Act, <http://www.treasury.gov/about/organizational-structure/offices/Documents/Dodd%20Frank%20Act.pdf>, states in part "including information that shows the relationship between executive compensation actually paid and the financial performance of the issuer, taking into account any change in the value of the shares of stock and dividends of the issuer and any distributions."

plans, it is not a universal factor, and the majority of compensation plans use other metrics in their analysis.³ For many companies, a discussion about pay and performance may not be useful to investors at all unless it clearly describes the metrics used and thresholds—information that is not required to be disclosed under the proposed rule. In short, the comparison of pay and TSR may often be helpful, but it is only part of the story.

SBA votes more than 3,000 U.S. company proxies each year, and we do a substantial amount of analysis on compensation plans and advisory votes. The companies that disclose complete metrics and targets tend to also have more reasonable plans in our view, and the objective nature of their implementation is clear. At the other end of the spectrum, we commonly see troubling disclosures that lack basic information about the structure and implementation of plans. We frequently observe what we call laundry list disclosure of so-called performance metrics from companies that list every accounting term from the balance sheet and income statement as potential metrics, with no substantive disclosure. Unfortunately, this leaves us unable to perform a detailed assessment of the plan. This is the core feature lacking in compensation disclosures still today, and we join with the Council of Institutional Investors in asking the Commission again to mandate this disclosure.^{4,5}

In response to the questions posed by the Commission in the proposed rule, we offer the following targeted comments:

- “Compensation actually paid” is appropriate as defined. There is still the problem of comparing an annual performance metric such as TSR to the compensation for the year that contains and may be heavily driven by the value of newly vested share awards which typically reflect grants from prior years. However in context with the other information of the CD&A, the problematic temporal features of this metric are somewhat minimized. With mandated disclosure of the actual metrics and thresholds used for the current year, this relationship would be made clear.
- We frequently observe poor peer group choices at certain companies in the current disclosures. Some companies use peers from very different industries or many times larger in market capitalization than themselves. Further comparison for the purposes of TSR may lead some companies to routinely change peer group composition to enhance their own pay and performance appearance. The proposed rule should consider disclosure of the rationale for peer group changes and separately report TSR for any discontinued peer on a continued basis for peers that remain public entities.
- We frequently see compensation plans that list eligible recipients as “employees, executives, directors, consultants, and advisors”. This is boilerplate language in many plans without a commensurate explanation of who these non-employee consultants and advisors are and why it is in the best interests of shareowners to incentivize them with cash or equity via the plans. Please consider requiring this disclosure in the final rules.
- XBRL is an important tool that is not living up to its potential, somewhat due to the piecemeal nature required in disclosures and in part due to poor implementation of the data-tagging taxonomies by certain issuers. This had led to its under-usage by stakeholders in the financial markets and contributed to a dearth of tools developed for its application. The Commission should look closely at this issue and give it the deserved wide implementation necessary for its use and adoption in the market and should continue to monitor its proper implementation by issuers. The Commission should examine more

³Of the top 200 companies of the S&P500, 55% used TSR in their long-term incentive plans, according to a survey that examined 2013 and early 2014 compensation. 53% used at least one measure of income such as EPS, and 44% used a measure of capital efficiency. 18% used revenue measures. <http://poseidon01.ssrn.com/delivery.php?ID=290121104103076031114007097096086117096008010047067082026005087077002107127022101126114002127017056025028075109069127095099106112010070053028099118090114103127008099068008004093112126070066028067126105114116105012112107122117124127009027122066100064&EXT=pdf&TYPE=2>

⁴ See page 7, CII comments on the proposal: http://www.cii.org/files/issues_and_advocacy/correspondence/2015/06_25_15_letter_sec_953%28a%29.pdf

⁵ <http://www.sec.gov/rules/proposed/s70306/cstipanovich041006.pdf>

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broadly how to allow investors easier access to data contained in a multitude of filings, including non-issuer filings such as N-PX reports, so that this data can be more easily turned into useful information.

- We oppose exempting or requiring disclosing fewer years for smaller reporting companies.

The SBA appreciates the opportunity to weigh in on these substantive issues. Thank you for your consideration, and if you have any questions, please feel free to contact me at [REDACTED], or at governance@sbafla.com.

Sincerely,



Michael P. McCauley
Senior Officer, Investment Programs and Governance

cc: SBA Corporate Governance & Proxy Voting Oversight Group