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Submitted via email to rule-comments@sec.gov

April 10, 2006

Ms. Nancy M. Morris, Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-9303

RE: File Number S7-03-06 / Executive Compensation and Related Party Disclosure

Dear Ms. Morris:

I am writing on behalf of the State Board of Administration (SBA) of Florida to express our views on the SEC's proposed executive compensation disclosure requirements. The SBA manages the Florida Retirement System (FRS), the fourth largest public pension plan in the United States, with approximately 920,000 beneficiaries and retirees and assets totaling approximately $123 billion. The SBA Trustees are Governor Jeb Bush, Chief Financial Officer Tom Gallagher, and Attorney General Charlie Crist.

As a significant shareholder with a fiduciary responsibility to act in the best interest of our plan participants, we welcome the proposal and would like to make some comments and suggestions for your consideration in setting the final rules.

Executive compensation is a leading corporate governance concern for the SBA

As a major institutional investor with a long-term investment horizon, the SBA has a vested interest in reforming corporate governance practices in the United States. Long-term owners are heavily reliant upon the quality of executive compensation disclosures to make important decisions regarding the companies in which they invest, including proxy voting related to directors and various compensation proposals that require shareowner approval, as well as basic buy or sell investment decisions.

Our corporate governance program has focused not only on the amount paid to CEOs and other senior corporate executives, but also on the procedures used by boards of directors to set, disclose and structure pay with respect to a pay-for-performance philosophy. ***We believe that poorly structured pay packages may harm shareowner value by wasting owners' money, diluting ownership and creating inappropriate incentives that may damage a company's long-run performance.*** Although the SBA does not attempt to micro-manage board decision making, the individual amounts and types of executive compensation given to senior managers are very significant shareholder concerns, especially those compensation plans covering key senior executives.

Executive compensation has become a significant portion of aggregate earnings

Recent research has found that corporate assets used to compensate the top five executives at companies grew from less than five percent to more than ten percent of aggregate corporate earnings between 1993

and 2003, resulting in a substantial diminution in company and portfolio values with no associated strengthening of management incentives.[1] As well, boards of directors often fail to bargain at arms' length when setting executive pay, and compensation has become broadly disconnected from long-term performance.[2] Additionally, numerous abuses of compensation structures have been identified, highlighting the need for additional disclosure requirements and increased shareholder monitoring. In short, if shareholders can reduce outsized compensation levels while at the same time improve alignment and long-term incentives, the effect on firm value can be material.

The structure and disclosure of executive compensation deserves considerable shareholder attention

Compensation packages which are inappropriately designed may also suggest a failure in the boardroom, since a primary responsibility of the board of directors, particularly the compensation committee, is to ensure that executive compensation programs are effectively designed and linked to a company's performance. We consider the quality of compensation plans at individual companies to be an excellent indicator of the quality of the board and the governance of the company. It is a direct indication of whether a board is fulfilling its fiduciary obligation to shareholders. However, we believe better disclosure is needed to help shareholders evaluate executive compensation plans and make effective proxy voting decisions.

The SBA believes that current executive compensation disclosure requirements have serious deficiencies which limit the ability of investors to evaluate the structure and operation of executive compensation plans. Immediately following the implementation of Regulation S-K in 1992, the disclosure of executive compensation in U.S. equity markets far exceeded disclosure standards elsewhere. In the years following, however, these standards have been matched and, in some cases, significantly exceeded by disclosure requirements in place in other developed markets, such as the U.K. Many compensation researchers point to the correlation between better disclosure in foreign capital markets and relatively lower, well-designed compensation schemes.

SBA supports the SEC proposed rule

Overall, we applaud this effort, which we expect to assist shareholders in fulfilling their crucial monitoring role in corporate governance. We have several suggestions we hope will be considered by the SEC due to the significant impact they will have on the ability of shareholders to both understand and act on matters of executive compensation. The SEC has rightfully taken the position of requiring better pay disclosure, rather than making attempts at directly limiting pay levels. We believe more comprehensive disclosures will provide a powerful deterrent against outlandish pay packages and will further serve as a tool for shareholders to exercise an appropriate oversight role and to act together to eradicate poor pay practices.

The SBA strongly supports the following components of the proposed rule as we feel these specific items should lead to major improvements over existing compensation disclosure requirements:

- Collection of disclosures into a single document;
- Disclosure of a total compensation figure;
- Disclosure of the compensation of the principal financial officer;
- Total compensation figures for up to three additional non-officer employees;
- Comprehensive disclosure of post-employment/retirement benefits including deferred compensation, earnings on all non-qualified deferred compensation, severance, and change-in-control payments;
- Disclosure of any increase in actuarial value of defined benefit retirement and other severance plans;
- Disclosure of estimated annual retirement benefits;
- Estimated payouts under all severance arrangements for all termination situations;

[1] Bebchuk and Grinstein, "The Growth of Executive Pay," Harvard Law and Economics Discussion Paper No. 510 (April 2005). Total compensation paid to the top five executives added up to more than $250 billion during the 1993 to 2003 time period.
[2] Bebchuk and Fried, "Pay without Performance: The Unfulfilled Promise of Executive Compensation," Harvard University Press (2004). Current compensation arrangements dilute executives' incentives to serve shareholder interests and can create perverse incentives to destroy rather than create long-term value.

- Comprehensive director compensation table including cash, grants of stock or stock options and all other compensation for individual directors, by name;
- Provision of an equity grant table;
- Mandatory disclosure of the grant date value of stock option/stock appreciation right awards;
- Additional disclosure of the value of vested restricted stock and all other unvested equity awards;
- Enhanced disclosure of perquisites;
- Creation of a Compensation Discussion and Analysis (CD&A);
- Identification of compensation consultants;
- Differentiation between current and long-term awards; and
- Treatment of compensation disclosures as "filed" with the SEC.

Under the proposal, regulations covering compensation-related 8-K filings will be changed so that these items will be combined with 5.02 filings (those covering personnel changes for directors and officers) rather than as 1.01 or 1.02 filings (those covering material changes to definitive agreements). This change should benefit shareholders through the inclusion of all employment-related filings under one heading and will present more clearly those compensation events that are considered material.

We agree with the approach of the proposal which continues an emphasis on a tabular format for disclosure while encouraging narrative detail as support. We are pleased by the breakout of equity award and retirement tables in particular and feel that provision of an overall, all-in compensation total is of great importance to investors.

One welcomed element of the proposal is the compensation discussion and analysis section (CD&A). The context of providing this information is stated in the rules as to "call for a discussion and analysis of the material factors underlying compensation policies and decisions reflected in the data presented in the tables" (page 10). With this in mind, we would like to begin our comments by discussing why we feel that disclosure of performance targets is of utmost importance to investors. We will then discuss other aspects in the order presented by the proposal that we find to be of significant benefit or concern.

Disclosure of Performance Targets Needed

Independent compensation researchers such as Equilar and The Corporate Library have found that few companies voluntarily disclose the particular metrics or measures they use in granting performance-based awards. Smaller still is the number of companies that release the specific hurdles necessary to achieve the award. We feel that the present low level of compliance with this important disclosure indicates abuse of the safe harbor provision that was intended to protect trade secrets and confidential information. We do not subscribe to the logic that performance targets need to remain confidential, especially after the end of the performance period. We believe the exemption is currently used to obscure important and relevant compensation information from shareholders' view, and unless disclosure is required, this practice will continue unabated.

We believe that the disclosure of compensation plan metrics, performance periods and both company-intrinsic and external shareholder wealth targets are critical to investors' ability to understand and evaluate what behaviors are being encouraged and whether the company is actually using a pay for performance plan. ***We believe performance targets should not continue to be excludable under the safe harbor provision. We ask that the proposal be modified to eliminate this safe harbor and require companies to disclose not only the specific metrics used for performance-based awards, including weightings if a firm uses more than one metric, but also the explicit targets and hurdle rates that must be achieved, whether absolute or relative to peers.*** This information should be specific enough to allow shareholders to independently reproduce and verify the pay granted under performance plans.

The disclosure rules must be conducive to transparency of all compensation elements. Investors have no recourse if they are left to trust that management has set and subsequently followed stringent and prudent

pay-for-performance guidelines. ***Shareholders cannot help shape or monitor compensation practices if they have not had the preemptive opportunity to understand the drivers and potential performance payouts of plans.*** Efforts to rationalize compensation will be stifled if this information is not proactively provided, and we will be unable to properly judge and cast votes on compensation plans and committee members. This is an area of inadequate disclosure that must be remedied if the rule will truly allow shareholders to monitor and act on poorly designed compensation plans and excessive pay levels.

Other Compensation Discussion &Analysis comments

It is critical for companies to better explain the philosophy and rationale for: (1) the executive pay program as a whole; and (2) each of the key elements within the program, including how the elements fit together and support the objectives and situation of the company. We agree that this section should be principle-based, though we also favor rules-based provisions to require answers to the specific questions on page 16 through 19 of the proposal. The philosophy and rationale for why components were chosen are very important to shareholders. Any relevant formula is extremely important to investors in judging the plan practices and should be disclosed prior to awards. We ask that the list under section II.A.1. (Page 17) be required for the compensation, discussion and analysis section.

We again emphasize that the safe harbor exception for performance metrics is counterproductive to effective compensation disclosure, as it obfuscates much of the information in this list. Additionally, we consider compensation elements such as the use of consultants, comparison peer group companies, ownership requirements, policies on risk hedging, the role of executives in the process, and the accounting or tax effects of awards (such as tax gross-ups or the exceeding of tax deductibility limits) to be essential disclosure components. A greater emphasis on articulating the performance aspects of the overall compensation program, including the company's overall philosophy related to performance and how each component of the program relates to performance and the company's overall compensation objectives should be a fundamental objective of the final rule. The SEC should support the new rules with strict enforcement actions for those companies failing to meet the requirements of the CD&A.

Per the request for comment at the end of this section (page 22):

- We support some rules-based coverage in disclosure and feel the items listed on page 16 through 19 of the proposal should be included, at a minimum.
- We would like to see disclosure required on the existence and use of clawback provisions, including what conditions trigger such action.
- The consideration of accumulated wealth or internal pay equity in setting compensation should be disclosed. For instance, the committee could be required to state whether they found the total compensation awards to be fair and reasonable and consistent with its internal equity policy, as well as how they made that determination. In addition, a statement could be required about how the committee views accumulated incentive compensation wealth (i.e., the carried interest from previous equity awards) for each executive.
- The use of compensation consultants and detail of all work performed by them for the company or any officers should be disclosed. When a compensation consultant is also providing services to a company's management, the independence and impartiality of the consultant may be impacted.
- We feel that disclosure of the companies, measurement time periods and executive positions comprising the peer group being used for compensation purposes should be mandated. There should be an explanation of how compensation peer companies were selected as well as comparator positions, including how it accounted for differences in the performance of the companies selected and for differences in the executive roles between the peer group and its own company's executives.
- We prefer the CD&A to be filed, but signed by the committee members. The compensation committee members must maintain ownership of the discussion and be responsible for its contents. As proposed, the compensation discussion and analysis would not be signed by the compensation committee members. Instead, it would become the company's report, submitted by management and certified by the CEO and CFO. We believe that an important goal of the proposal is to enhance the role and

visibility of the compensation committee; therefore, we ask that the compensation committee be required to sign the compensation discussion and analysis, even if it is considered "furnished" rather than "filed" by them.

- Disclosure of instances where compensation exceeded previously disclosed or projected payments, along with an explanation of why this has occurred, should be required. This information would help to close the understanding gap between investors and boards on the most controversial aspects of compensation plan implementation.

Modify the Performance Graph

We favor retaining the performance graph, but perhaps in an alternate form. It would be helpful if the performance measure used in the graph corresponded to that used by the company for its compensation plan (or the main measure used if multiple measures exist). The performance graph should feature comparison with the same companies used in peer compensation analysis. Executive compensation should not be viewed outside the context of company's performance, and retaining the graph as part of the compensation disclosures would be of great assistance to investors. However, since most companies neither compare their performance, nor their compensation levels, to the group used in the performance graph, the graph is not explicitly linked to compensation decisions. Therefore, we suggest that the performance graph be amended to incorporate the performance metrics used within the company's incentive plans along with corresponding comparison to peer groups showing the same performance metrics. For example, a performance standard using return on invested capital could be shown for the company during the last five years, and how the company performed relative to its compensation peer group.

Compensation Tables

The SBA strongly supports the tabular approach and the SEC's proposed reorganization of the tables into the three primary categories: 1) compensation within the last fiscal year; 2) holdings of equity-based interests; and 3) retirement and other post-employment compensation. We also believe the SEC should emphasize in the final rule that companies should utilize the narrative supporting disclosure to explain what the disclosures mean. We agree that the risk of double counting due to disclosure of "potentially earned" amounts and the subsequent amounts actually realized is low and outweighed by its benefit to investors. We provide comments to questions raised in each section below.

Summary Compensation Table

The SBA strongly supports the disclosure of a 'total compensation' figure in the Summary Compensation Table. We believe the elements proposed by the SEC as comprising total compensation are reasonably structured. The summary table should disclose the decisions of the compensation committee in the applicable year.

- Please continue to require disclosure of three fiscal years. This is important for easy referencing for investors and is no hardship to reporting companies.
- We agree that compensation should be disclosed in dollars and summed in a "Total" column for comparability.
- However with respect to reporting, we would prefer to see two versions of the Summary Compensation Table that report totals by both *awarded* value (indicating target or granted amounts) and *realized* value (indicating earned values from previous awards) for the reporting year.
    - The awarded value total should include actual payments for the year in salary, bonus, perquisites, retirement benefits plus fair-value estimates of any stock or non-stock incentive plan grants made during the reporting year. Companies should disclose material assumptions used to calculate these expected values. Non-stock incentive plan grant values should be determined using probability techniques to provide estimates of achieving the goals set forth. One would expect companies should know this level of detail if plans are created to make awards based on certain performance levels.

- The realized value total should include all items for which compensation was actually received for the year: salary, bonus, perquisites, retirement benefits, incentive plan payments resulting from grants in prior years but ***received*** in the reporting year, stock options awarded in previous years but ***exercised*** in the reporting year, and stock grants awarded in previous years but ***vested*** in the reporting year.

This information is of considerable use to shareholders. It provides two totals: one includes payments from previous grants and the other provides the total compensation presently intended by the committee, which we feel is the relevant measure for a forward looking pay-for-performance analysis. It helps shareholders to judge the present packages, but also judge how well the compensation committees' past decisions have borne out. The best way to present this information may be in two summary compensation tables, labeled to discern awarded from realized payments.

Several years after the rules have taken effect, we will have a clear picture of what the executives reaped versus what the compensation committee intended to grant, and this will be a powerful measure of the committee's effectiveness.

- Regarding annual salary and bonus, the SBA supports the proposed change to Form 8-K eliminating the disclosure delay when salary or bonus cannot be calculated as of the most recent practicable date. The proposed footnote disclosure in these cases, including the date that the salary and bonus is expected to be determined, should also be included in the final rule.
- We agree with the proposal to use FAS 123R to value equity-based awards and the decision to show the total fair value as compensation in the year in which the grant is made, as this seems more consistent with the purposes of compensation disclosure.
- For stock and option awards, the SBA opposes elimination of the proposed requirement or weakening it to permit the disclosure of an alternative valuation, such as the amounts expensed under FAS 123R.
- The same term assumptions used in computing FAS 123R values for financial statement purposes should be used in executive compensation disclosures to permit efficiency and consistency. However, disclosure of the key valuation assumptions should be provided in close proximity to the equity tables, not simply referenced in the company's financial statements. This information is critical to investors in evaluating the reasonableness of the key assumptions underlying the grant date present value estimate. Several of these assumptions can have a significant impact on the estimated value of option awards.
- The SBA supports the elimination of the "potential realizable value" of option grants based on 5 percent and 10 percent increases in value. This disclosure is not as meaningful to investors as the grant date present value.
- The SBA supports the SEC's proposal to require disclosure of repriced or otherwise materially modified equity (options and stock appreciation awards) based on the total fair value of the award. Although this methodology differs from the incremental cost basis in FAS 123R, the SEC's approach for the purpose of compensation disclosure is appropriate.
- The SBA supports the SEC's proposal to eliminate the current rules giving companies the ability to report performance-based stock awards as incentive plan awards. Requiring consistent disclosure of these awards at the time they are granted is more appropriate and meaningful to investors.
- We support identification of "All Other Compensation" column items in excess of $10,000. We feel this level provides for an appropriate threshold without causing a reporting hardship on the behalf of companies.
- Given the extent of the disclosures under the All Other Compensation column, the SBA recommends the SEC require a supplemental table detailing the various components captured in the column. Tabular disclosure is a much clearer format for these items than a footnote.
- Please require, as proposed, disclosure of all earnings on non-qualified deferred compensation. Disclosure of only above-market earnings, as presently done, conceals a significant level of compensation.
- Concerning pension value, we have these comments:

  - In addition to the actuarial value increase for the year, the present-value of future payments would be useful in a footnote.
  - We would support disclosure of the increase in actuarial value in a separate column of the Summary Compensation Table.
  - We value reporting the executive's benefit rather than the cost to the company. This will help investors in judging the overall fitness of compensation to an executive, based on performance and other criteria.
- Concerning perquisites, we have these comments:
  - We support the aggregate disclosure threshold of $10,000 as a reasonable reporting balance between investors' need for complete disclosure and the burden placed on companies.
  - We support the itemization threshold of $25,000 or 10% of total perquisites.
  - We support the line the proposal draws between items of personal benefit and those of business necessity and further appreciate the narrow scope of benefits related to job performance.
  - We would rather see a retail or fair-value approach to measuring perquisites, as opposed to incremental cost, because the current methodology underreports considerable value of benefits in categories such as air travel and housing. It would be inconsistent to report other components of executive compensation at fair value (such as stock options) and not do the same with perquisites.
  - We strongly support the addition of a supplemental table for clearer format of perquisites and information in the "All Other Compensation" column. As there are so many types to disclose, we feel that a table would provide more insight to shareholders and do so in a more readable and structured manner. In addition, the SEC should require tabular disclosure of individual perquisites.
  - Narrative disclosures related to perquisites should also include a discussion of the tax implications of specific benefits, including whether the benefits are deductible.

Supplemental Annual Compensation Tables

The SBA supports the proposed requirement for narrative disclosures supporting the Supplemental Tables. We feel that detailed explanations are necessary to provide a complete picture of the individual elements of executive pay programs.

- We value the structure of these tables, including the separation for performance-based awards.
- We would find it very helpful if the rule required a checkmark or other notation that alerted investors to the existence of a filed employment agreement.
- We do support the disclosure of up to three employees who are not executive officers, but earn more in total compensation than any named executive in the narrative discussion.

Exercises and Holdings of Previously Awarded Equity

Given the size and variety of equity awards granted to executives, the SBA has long supported clear disclosure of the potential value of previously awarded equity compensation. We support the proposal's use of two individual tables for this information. The SBA supports the SEC's proposal to continue to provide disclosure of awards transferred by an executive. The requirement also should include footnote disclosure of the facts surrounding any transfer, including the identity of the transferee and the relation to the executive. This information is material to investors in evaluating the impact of such a transfer on the alignment and incentive characteristics of the overall plan.

For the Outstanding Equity Awards Table:

- We value disclosure in the footnotes of all applicable vesting and expiration dates.
- We believe the full terms of any out-of-the-money options or appreciation rights should be reported so that shareholders can assess the value of these awards themselves. These awards do have intrinsic value; however, it is not necessary to provide a dollar value as long as a footnote or narrative provides the terms of each award type.

For the Option Exercises and Stock Vesting Table:

- We find the information presented in this table very valuable. We particularly value disclosure of exercised options along with vested restricted stock. We implore you to retain this information and not dismiss it due to previous years' disclosure of grant date fair value. Shareholders should know what amounts were ultimately realized.
- We strongly support the listing of the grant date fair value previously reported. We believe this would be a clarifying disclosure, not one that will introduce confusion. Investors will gain an appreciation of how well grant date fair value tends to estimate realized values in this table, which we believe is very important.
- An explanatory footnote to the table that lists the year of each originally reported grant date fair value amount would be helpful. Dates of vesting and exercise would be helpful as well.

Post-Employment Compensation

Concerns about post-employment compensation levels have escalated in recent years as these arrangements' costs have risen dramatically. Because current disclosure rules in this area are lacking, it is impossible for shareholders to fully and clearly understand the scope and dollar value of these arrangements.

For the Retirement Plan Potential Annual Payments and Benefits Table:

- We strongly support all of the narrative disclosure elements suggested in the proposal for the Retirement Plan Potential Annual Payments and Benefits Table.
- The aggregate actuarial plan value should absolutely be disclosed. Regardless of whether the plan allows for lump-sum distribution, this value gives investors an understanding of the cost of promised future benefits in today's terms. This is a mathematically sound and universally accepted method for evaluating pension benefits and reflects important information to investors.

For the Nonqualified Defined Contribution and Other Deferred Compensation Plans Table:

- We agree with the proposal's requirements for the tabular and narrative formats.
- All earnings, not just those above market or preferential, should be included. Earnings on these awards are distinct from other compensation decisions, and investors may treat these values differently when evaluating a company's compensation structure.
- Tax implications are material and should be noted in the narrative.

For Other Potential Post-Employment Payments:

- We strongly support each of the narrative disclosure elements covered by the proposal.
- We also strongly support requirement of the company to make reasonable estimates of the values of such compensation and disclose material assumptions. It is critical for the SEC to require detailed qualitative disclosure regarding the specific mechanics of the plans, as well as the rationale and justification supporting their use—particularly the disclosure of tax gross-up payments.
- We do not support a safe harbor for disclosure of such information as it is likely to be abused. If allowed, we expect to see little quantitative disclosure in this respect, circumventing an extremely important aspect of compensation disclosure.

Officers Covered

We support the proposal's specific inclusion of the Principal Executive Officer (PEO) and Principal Financial Officer (PFO) with the three other most highly compensated executive officers constituting the Named Executive Officers (NEO). The addition of the PFO to automatic NEO status is appropriate given the role of this position under the requirements of the Sarbanes-Oxley Act in certifying the financial

statements. However, ideally, all senior executive officers of a company should be covered by compensation disclosure rules, as has been the case for most European companies for years.

- We support the revision of determining high compensation based on total compensation, rather than salary and bonus alone, and the proposed threshold of $100,000 total compensation for disclosure of NEOs appears reasonable.
- We support the proposal that "not recurring and unlikely to continue" compensation should still be considered compensation for disclosure purposes. These unusual payments will provide shareholders with additional insight into the compensation decisions made by boards of directors.
- The final rule should retain the current requirement providing disclosure for up to two additional individuals for whom disclosure would have been required, but for the fact that they were no longer serving as executive officers at the end of the year.

Compensation of Directors

As director compensation levels and structures have become more complex, it has been difficult for shareowners to determine from narrative disclosures exactly how and how much their elected representatives are paid. The SBA strongly supports the proposed tabular format for disclosure of compensation paid to each director.

- The Director Compensation Table proposes disclosure in an easy to understand format. Supplemental tables showing outstanding equity awards, as well as any exercise or vesting during the year would be appreciated. Given the significant importance of equity in director compensation plans, this type of disclosure would permit investors to evaluate overall levels of alignment better than the proposed summary table alone.
- Named executives officers also serving as directors should be indicated as such in the table, and the reader should be referred to the Summary Compensation Table for executives.
- Perquisites for directors should not be subject to the same $10,000 threshold as executives. The directors' independence is critical; therefore, all levels of perquisites should be disclosed. Separate identification and quantification should apply to director perquisites.
- Narrative disclosure regarding the company's policies and objectives for director compensation should be required and accompany this table rather than the CD&A.

Treatment of Specific Types of Issuers

The proposal would exempt small businesses from critical elements of the disclosure rule. We oppose less stringent requirements for small business issuers, particularly omission of the CD&A. While we recognize that small businesses have fewer resources available to meet the proposed executive compensation disclosure requirements, providing exemptions may result in lower quality disclosures. Special exceptions for small businesses, while well-intentioned, ultimately are a disservice to the public markets and to the businesses themselves. If the compensation structures are typically less complex than those of other companies, then the reporting requirements will naturally be less of a burden. The drivers of and rationale for executive compensation are important to be articulated by any company sizable enough to be covered by these rules.

Related Party Transactions

In the case of related party transactions, we are opposed to the increased reporting threshold in the proposal (to $120,000). Current disclosure rules are weak in this area, and as a result, details about director relationships do not have to be disclosed and cannot be easily determined. For example, we value knowing when relatives are employed by the company in the range of $60,000 to $120,000 and prefer not to lose this detail. Related party transactions reflect the level of propriety and care on the part of the board. Companies with extensive transactions with board members and executives provide clues as to whether deals and business of the board are conducted at arms' length and with fiduciary care. We ask you to please

reconsider the proposed increase due to its impact on disclosure of these transactions. We feel the threshold change is inconsistent with the policy direction contained in the rest of the release and may expand a reporting loophole.

Beneficial Ownership Disclosure

The existence of security pledges by executive officers, directors, and director nominees is of material concern to shareholders. Its use has the potential to influence behavior and should be disclosed. The SBA supports the proposed amendment to Item 403(b) to require footnote disclosure of the number of shares pledged as security by NEOs. The SBA supports the SEC's proposal that no specific category of loans be treated differently from any other because the purpose should be to provide complete disclosure of all cases in which shares have been pledged.

Corporate Governance Disclosure

The SBA supports the proposed consolidation of governance disclosures in Item 407. In particular, it will be meaningful for investors to be able to identify the criteria the company utilized for the independence determination, including a description of any transactions, relationships or arrangements not disclosed in Item 404(a) that were nonetheless considered by the board in determining that the applicable independence standards were met. In cases where companies have their own definition of independence that is used to make certifications under this section, the companies should also be required to list the material differences between their definition and that of a national securities exchange.

Plain English Disclosure

As with other disclosure items, we strongly support the use of plain English requirements for compensation reporting. We believe such a requirement will help to discourage the use of meaningless or boilerplate responses and promote more clear and accessible filings.

Summary

The proposal addresses a significant number of the most critical issues to investors, and we urge the Commission to move expeditiously to implement the new disclosure rules in time for the 2007 proxy season. We hope that our suggestions and the proposed reforms will have positive repercussions in the form of more diligent and accountable boards and better performing compensation committees.

We truly value the opportunity to express input on corporate governance reforms such as these. If you have any questions or would like further information, please contact Michael McCauley, Director of Investment Services & Communications, at (850) 413-1252, or me.

Sincerely,

Coleman Stipanovich
Executive Director

cc: Honorable Jeb Bush
Honorable Tom Gallagher
Honorable Charlie Crist
Ms. Ann Yerger, Executive Director, Council of Institutional Investors
Ms. Anne Simpson, Executive Director, International Corporate Governance Network
Mr. Kurt Schacht, Executive Director, CFA Centre for Financial Market Integrity