10 April 2006

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

Re: **Executive Compensation and Related Party Disclosure - File Number S7-03-06**

Dear Ms. Morris:

These comments are submitted by 16 institutional investors from the United States, Canada, Australia and Europe. In the aggregate, we manage nearly US $1.5 trillion, much of which is invested in the United States.

Many of the undersigned previously submitted comments to the SEC in November 2005 asking for enhanced transparency on executive compensation. We are pleased that the SEC has proposed a comprehensive expansion to the US reporting scheme. The SEC's proposal recognizes the importance of executive compensation plan design and disclosure to the markets, and that is very much appreciated by investors. It will surely help shareholders make better-informed decisions when voting on director candidates and other proxy issues.

We wholeheartedly support the proposal and urge the Commission to make our recommended adjustments in the final version. That said, we would like to first highlight some aspects of the proposal as being among its most critical provisions. Though not a comprehensive list, we believe the following items are particularly important to investors and must be retained:

- Collection of disclosures into a single document that is written in plain English rather than legal boilerplate;
- Disclosure of total compensation numbers that reflect the fair value of options;
- Comprehensive disclosure of post-employment and retirement benefits specific to individual executives;
- Use of total compensation to identify the most highly compensated executive officers;
- Full disclosure of deferred compensation, severance and change-in-control payment provisions;
- Inclusion of a comprehensive director compensation table including narrative disclosures;
- Provision of an equity grant table with narrative descriptions that will facilitate following equity grants through their life;
- Enhanced disclosure of perquisites with lower reporting thresholds and broader coverage;

- Creation of a Compensation Discussion and Analysis that uses a principles-based approach to describe how performance is taken into consideration in setting compensation policies and in making awards;
- Identification of compensation consultants and the companies used by them for benchmarking;
- Differentiation between current and long-term awards;
- Expanded coverage for related party transaction disclosures; and
- Treatment of compensation disclosures as "filed" with the SEC, to ensure that investors can rely on their accuracy.

However, we also believe the following modifications should be made to the proposal before it is finalized:

- **Allow shareholder resolutions seeking an advisory vote on compensation** – The SEC staff has recently allowed shareholders to include in proxies non-binding resolutions that ask for an advisory shareholder vote on the compensation report. Some of the undersigned are from jurisdictions that require a non-binding shareholder vote on the compensation report as a matter of course. We have found this process to be a valuable tool that facilitates productive communication between shareholders and directors and has helped to strengthen the role of the compensation committee.

  We recommend that the SEC include a provision in the proposal that would set forth the staff's current no action letter position as a permanent SEC regulation. Alternatively, the SEC could seek amendment of exchange listing requirements to require such advisory votes on executive compensation practices as a matter of course. Regular advisory votes would provide feedback to boards from all shareholders and encourage debate on the appropriate balance for sharing of corporate profits between company owners and management. We believe that failure to have this debate could undermine the future competitive position of US companies.

- **Retain the performance graph –** Executive compensation should not be viewed outside the context of company performance. Total shareholder return and relative performance are particularly important to investors. Although information contained in the currently-provided five-year performance graph is available elsewhere, retaining the graph as part of the compensation disclosures would be of great assistance to investors. We ask that you keep it and specify that the graph include a comparison to returns of the companies used for compensation benchmarking.

- **Separately identify current and target compensation –** While we strongly support creation of the Summary Compensation Table, it would be less likely to confuse readers if the information in it were split into two sections: earned compensation and future compensation valued at target levels and then discounted to present value. Narrative accompanying the table could describe the

methodology and assumptions used in making the related calculations. This would also provide better insight into the information and decision-making process used by the compensation committee during the current year.

- **Clarify forward-looking performance criteria disclosure requirements** – This point is critical. There will be disputes over interaction between the requirement that specific performance factors used in setting compensation be disclosed and the exemption allowing targets to be withheld where disclosure would compromise the company's competitive position. 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. Disclosures should extend to the longest performance time period being used by a company, to assist investors in evaluating the extent of linkages between compensation and company strategic planning.

  Accordingly, a stronger delineation of the compensation discussion and analysis disclosure requirements is merited, as well as clarification that forward-looking disclosures are mandated. Without these clarifications, it is likely that some companies will use ambiguity in the proposal to avoid the intended transparency.

  Many of the undersigned have direct experience with compensation disclosure requirements in the UK, Australia and the Netherlands, where detailed forward-looking disclosure of compensation plan performance criteria is required. These disclosures have not compromised companies' competitive positions and have resulted in both better understanding and higher quality dialogue between investors and companies about compensation issues. The Corporate Library reports that some US companies already provide these disclosures. Given the regularity with which companies disclose quarterly performance targets to Wall Street, it is hard to take objections to similar compensation disclosures seriously.

  At a minimum, companies should be required to describe the types of forward-looking goals, performance periods and metrics being used, whenever specifics are being withheld as confidential. In addition, any information being withheld should be listed in the board's minutes and disclosed after it becomes the basis for compensation that has been awarded. If confidential performance goals, time periods or metrics are changed, then the fact that a change was made should also be disclosed to investors, with specifics of the change noted in the board's minutes.

- **Describe implementation of the plan** – While a stated purpose of the new compensation discussion and analysis is to provide insight into the compensation committee's approach to compensation, the proposal is unlikely to provide insight into how the committee views company performance data. The addition of a few implementation disclosures would remedy this problem. 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 as affecting the need for and size of additional incentive awards, severance or post-employment compensation. Disclosure of instances where compensation exceeded previously disclosed or projected payments, along with an explanation why, should be mandated. This information would help to close the understanding gap between investors and boards on the most controversial aspects of compensation plan implementation.

- **Exemptions for smaller companies should be limited** – While we do not object to providing smaller public companies with flexibility in meeting additional disclosure requirements, we believe they should file some form of a basic compensation discussion and analysis. The compensation discussion and analysis will be a critical vehicle for conveying information to investors and will go a long way toward helping them understand the company's compensation policy and its application. Companies that are not able to articulate their compensation objectives and policies are probably not ready for the rigors of life as a public company. We ask that you not completely exempt smaller companies from the requirement to file a compensation discussion and analysis.

- **Specify policy on clawbacks –** Many companies have adopted policies to require forfeiture of executive compensation awards that are based on performance criteria which are subsequently restated in a way to nullify the basis for the award. We recommend inclusion of a provision requiring specific disclosure in the compensation discussion and analysis of the company's policy on clawbacks in executive compensation contracts. This will provide investors with insight on the board's sensitivity to manipulation of performance and corresponding investor risks.

- **The related party transaction reporting threshold should not be raised** – The proposal to raise the related party reporting threshold from $60,000 to $120,000 is inconsistent with the policy direction contained in the rest of the release. While the stated intent of the proposal is to enhance transparency of compensation received by executives, this provision would diminish transparency and expand a compensation reporting loophole. We believe this provision is inconsistent with and undermines the rest of the release and should be deleted.

- **Report perquisites at retail value** – We see no reason to use anything other than fair value reporting for perks. Investors should be able to evaluate executive compensation on the basis of its value to the executive, not on the basis of the company's incremental cost. It would be inconsistent to report other components of executive compensation at fair value (such as stock options) and not do the same with perks.

- **Include job descriptions to facilitate meaningful benchmark comparisons** – While disclosure of compensation benchmarks would be required under the release, investors would only be given job descriptions of three employees (if any) who earned more than any of the named executives. The proposal assumes that the jobs of named executives are self-apparent and need no description. This may be true at some companies, but it is undoubtedly not the case at others. Without knowing what duties the board has assigned to executives, it is impossible to evaluate whether reported compensation benchmark positions provide an "apples to apples" comparison.

  For example, executive jobs that sound similar may be substantially different in complexity or required skill levels and may merit adjustment to reflect variations in performance. One executive may have primarily operational duties with a limited span of responsibility, while another with the same title may oversee a complex range of activities and have strategic planning duties that are central to the company's future success. Investors would also not be able to evaluate disclosures about internal pay equity or identify redundant layers of management and duplicated compensation for the same duties without job descriptions for the named executives.

  We ask that summary job descriptions be included for the executives whose compensation is reported. While descriptions may not be required for every CEO and CFO, the board should at least be explicit about the primary strategic and operational responsibilities for which those positions are being held accountable. This would provide important context to the compensation benchmarks and discourage after-the-fact shifting of responsibility or recognition.

- **Require that compensation committee members sign the compensation discussion and analysis** – Currently, the compensation committee report is submitted under the signatures of the compensation committee members. Audit committee members also currently sign off on the audit committee report. However, 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 release is to enhance the role and visibility of the compensation committee. However, this change works at cross purposes to that intent. At a minimum, 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 – provided the compensation discussion and analysis is still considered "filed" as to the company. This would balance concerns about maintaining reliability of the compensation discussion and analysis while retaining the compensation committee's ownership of it.

- **Report other work done by the compensation consultant for the company** – The proposal requires disclosure of the compensation consultant and whether the

consultant was retained by the compensation committee However, it is not clear that retention of the consultant to perform other work for the company would be disclosed. We believe that other retentions by company management could impact the consultant's impartiality and should be disclosed.

We appreciate the work that has been done by the SEC on this proposal and hope these comments will be helpful. Feel free to contact any of us if we can be of further assistance.

Sincerely,

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California Public Employees' Retirement System

Jack Ehnes
Chief Executive Officer
California State Teachers' Retirement System

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