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Nancy Morris, Secretary
Securities & Exchange Commission ("**SEC**")
100 F Street NE
Washington, DC
20549-1090
USA

18 October 2006

RE: File Number S7-03-06

Dear Ms Morris,

We are writing in regard to the SEC's Final Rule regarding Executive Compensation and Related Person Disclosure (the "**Final Rule**"). In particular, we are commenting on the new section entitled Options Dislcosure.

Hermes is one of the largest pension fund managers in the United Kingdom and is the principal manager of the BT Pension Scheme and the Royal Mail Pension Plan. We also respond on behalf of our clients the BBC Pension Trust and the British Coal Staff Superannuation Scheme. These are four of the largest pension funds in the UK. Hermes has approximately $105 billion under management, of which around $11.5 billion is invested in North American companies.

We commend the SEC for addressing the issue of stock option backdating and springloading by requiring issuers to include additional columns in the Plan-Based Awards Table in these cases. Such additional disclosure is helpful to investors if there are discrepancies between either the exercise price of the options and the closing market price on the date of the grant or if the grant date is different from the date the compensation committee or full board of directors took action or is deemed to have taken action to grant an option.

We also approve of the requirement that issuers explain to shareholders in the Compensation Discussion and Analysis (the "**CD&A**") the reasons and methodology for granting options at discounts to market value or in coordination with the release of material non-public information ("**favourably-timed grants**").

However, we are concerned that the SEC has not entirely disallowed favourably-timed grants. We consider granting options in coordination with the release of material non-public information to be insider trading and as options are intended to align the interests of management with those of shareholders, it is impossible, in our view, to justify this. Shareholders do not have the ability to coordinate their trades with such information; executives should not be entitled to do so either.

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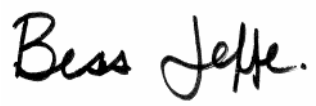
We believe that clear rules prohibiting favourably-timed grants, set out in the compensation plans prior to their approval, should be mandated by the SEC. In our view, the terms of the plan under which options are granted should prescribe when grants are to be made – this may be on an annual, bi-annual or quarterly basis – and this information should be disclosed to shareholders annually in the DEF 14A. We point out that it is common practice for UK firms to have the timing of grants as a term in the plan. The DEF 14A should also disclose to shareholders who on the board and/or executive team is responsible for recommending and then approving grants to executives.

We therefore feel that the additional disclosure requirements, while helping to prevent surreptitious backdating and/or favourably-timed grants are in our view insufficient. We believe, as stated above, that the discretion currently enjoyed by boards, compensation committees and executives should be curbed.

Yours truly,



Bess Joffe