CalPERS

**Board of Administration**
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April 7, 2006

The Honorable Christopher Cox
Chairman
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-9303

**RE: Executive Compensation and Related Party Disclosure, File No. S7-03-06**

Dear Chairman Cox:

The California Public Employees' Retirement System (CalPERS) is the largest U.S. public pension fund with over $200 billion in total assets. CalPERS is a long-term shareowner and believes that compensation programs are one of the most powerful tools available to companies to attract, retain and motivate key employees, as well as align their interests with those of shareowners. To pursue and advance this alignment of interest, CalPERS adopted an Executive Compensation Strategic Plan in November 2004 with a goal to strengthen the disclosure and transparency of executive compensation in the marketplace.

<u>Endorsement</u>
CalPERS endorses the SEC's proposal on executive compensation and related party disclosure. Specifically, CalPERS supports the proposal to incorporate Compensation, Discussion and Analysis into a company compensation report. This disclosure requirement provides material information about the compensation objectives and policies for the named executive and is a considerable improvement over current practice. Second, CalPERS supports the proposal pertaining to the disclosure of the fair value of options. Such an improvement in disclosure will enable shareowners to measure total compensation more accurately. Third, we endorse the proposed disclosure for perquisites, which should allow shareowners to evaluate compensation expense outside the range of cash compensation and equity grants. Lastly, CalPERS

endorses the SEC's proposal for disclosure pertaining to change in control. The proposed disclosure for change in control provides shareowners with the necessary information to calculate the total cost tied to a change in control transaction.

<u>Additional Recommendations</u>
CalPERS has two recommendations for inclusion in the SEC's current proposal. First, CalPERS recommends the disclosure of specific performance metrics used to support the payment of incentive compensation to executives. The disclosure of specific performance metrics provides greater transparency into a company's compensation policy and practices. Second, we recommended that option values be included in Supplemental Tables to allow investors to differentiate between the values of equity grants that are time based versus performance based. This additional disclosure would help with the reconciliation of the Summary Compensation Table to the new Supplemental Tables.

<u>Modifications</u>
CalPERS has recommendations for modifying two of the SEC's specific proposals. First, dividend equivalents should be disclosed in the Other Compensation column versus the proposed Non-Stock Incentive column of the Summary Compensation Table. The Non-Stock Incentive column is designated for long-term awards, making the disclosure of annual dividends received in this column, incomparable. This disclosure itemizes the value of dividend equivalents reported on the Perquisites Supplemental Table, thus providing shareowners the transparency to monitor this form of compensation paid on equity awards that have not vested. Our recommendation to disclose dividend equivalents would assist with the reconciliation of the Supplemental Tables to the Summary Compensation Table.

Second, CalPERS recommends the disclosure of the vesting schedule versus the proposed expiration date in the All Other Equity Awards Table. This modification to disclosure would provide consistency with the disclosure requirements for other forms of equity compensation. Recognizing that expiration dates are generally ten years from the initial issuance date and our internal research which suggests the average tenure for a Chief Executive Officer is seven years, indicates that the vesting schedule reflects a more accurate time period over which investors should assess the value of stock options.

<u>Clawback Provision</u>
While CalPERS is very supportive of the SEC's proposal on executive compensation and disclosure, we believe this should be the first of several steps for the Commission to take on this topic. CalPERS respectfully suggest that the SEC adopt rules to increase the use of clawback provisions at corporations. Clawback provisions enable shareowners to take back merit-based

compensation awarded on the basis of misstated or fraudulent company performance. They provide needed accountability to ensure executives are compensated according to actual performance. CalPERS recently amended its Executive Compensation Strategic Plan and Corporate Governance Core Principles and Guidelines to incorporate a market reform initiative pertaining to the adoption of clawback provisions. Clawback provisions provide needed management accountability in situations involving fraudulent behavior.

We hope the Commission will give serious consideration to our recommendations. Please contact Dennis Johnson, Senior Portfolio Manager-Corporate Governance at (916) 795-2731, if there are questions.

Sincerely,

Rob Feckner
President

Cc: CalPERS Board of Administration
CalPERS Executive Staff
Christianna Wood, Senior Investment Officer, Global Equity
Dennis Johnson, Senior Portfolio Manager, Corporate Governance