LEGG MASON
CAPITAL MANAGEMENT

April 13, 2006

VIA E-MAIL

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,

We are writing on behalf of Legg Mason Capital Management, an investment adviser that manages more than $60 billion for domestic and international mutual funds and separate accounts.

We thank the Commission for giving us the opportunity to comment on the proposed rules regarding the disclosure of executive and director compensation and related party transactions. As a general matter, we strongly support initiatives that will provide investors with more useful and complete information about compensation practices and emphasize director accountability for compensation decisions.

The proposed compensation rules would provide us with information that falls into one of two categories:

- Information that would help us to evaluate the probability of potential future conduct and awards;
- Information about past awards.

Of these, the first is by far the most important to us as investors. We spend the majority of our time and energy assessing the probability of future events. Information about past events is helpful in making these determinations but alone is not sufficient.

The following are some suggestions to improve disclosure of information that will help us to better understand the kinds of behavior that compensation plans are intended to reward and, therefore, are most likely to produce.

Compensation Discussion & Analysis

We view the proposed new Compensation Discussion & Analysis (CD&A), which will set forth the material elements of a company's compensation for named executive officers, to be the most important aspect of the proposed rules. We are concerned, however, that its potential usefulness may be significantly diminished if the Commission permits a company to omit disclosure of performance targets if it unilaterally concludes that doing so may have an adverse effect (i.e., cause "competitive harm"). We strongly believe that companies should be required to disclose performance targets, whether or not quantitative.

Based on our experience, disclosure of performance targets would rarely, if ever, result in competitive harm. (If we thought disclosure of performance targets would have adverse consequences, we would not recommend it. We are owners of the companies that would be required to make the disclosures!) For many years, companies have publicly forecast a broad range of performance measures, such as return on equity, earnings per share, and margins with no apparent concern for competitive harm. If companies have been comfortable regularly disclosing performance targets as part of their financial forecasts, why would disclosure of the same information cause competitive harm if made in the context of compensation disclosures?

We also observe that in the United Kingdom, it is accepted practice to disclose and quantify proposed performance hurdles for the issuance of share-based awards, and there are no indications of competitive harm resulting from this normative behavior. This disclosure is normally made in two contexts: (i) when a proposed share-based award scheme is submitted to shareholders for approval and (ii) when the company issues its Remuneration Report, included in its annual report. The following disclosure is an excerpt from a Remuneration Report issued in 2004:

> All options granted under the Approved and Unapproved Share Options Schemes as well as the Performance Share Plan since 22 June 2004 are to be granted in accordance with the revised terms and conditions as follows:

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(ii) The targets for these grants under both the Option Schemes and Performance Share Plan are as follows:

(a) the participants will receive 100% of their share grants if the Group's Return on Equity ("ROE") average is 10% over the three year performance period (the "maximum target");

(b) no grants will vest unless the Group's ROE average over the period equals or exceeds 8% at which point 40% of the grant will vest (the "minimum target"); and

(c) a grant will vest on a straight line basis if the Group's ROE average is between the base target and the maximum target.

We believe that disclosure of this kind should be the norm in the U.S., as well, but expect that, if allowed, companies will regularly rely on the competitive harm exemption to omit the very information that is most important to us: the targets that drive behavior.

We recently reviewed the disclosure of a United States company regarding its incentive compensation plan. The disclosure includes target rates for return on capital that dictate the size of awards under the plan. Here's what the disclosure looks like:

ROIC Performance	Percentage Payout of ROIC Percentage
___% or greater	200%
___% - ___%	150% - 199.9%
___% - ___%	100% - 149.9%
___% - ___%	50% - 99.9%
Below ___%	0%

This company's disclosure is helpful (and more complete than the disclosure of many companies) in that it identifies the measure that drives management's behavior and bonuses. The disclosure would be even more useful if the company took the extra step of disclosing the specific targets, which would enable us to evaluate the reasonableness of the plan. We are unable to make this determination without the ROIC targets.

We endorse the concept of a CD&A that would be deemed "filed" with the Commission, and we support a requirement that the principal executive officer and principal financial officer take responsibility for the accuracy and completeness of the disclosure; however, we believe strongly that the members of the Compensation Committee should also be required to indicate that they have reviewed and approved the accuracy of the CD&A. The Board of Directors and the Compensation Committee are responsible to the company's owners for the philosophy and design of the company's compensation plans. Given past history on matters of compensation, this responsibility should be reinforced at every turn.

The following are suggestions for improving the quality and context of historical information that is required by the proposed rules:

Percentage of Allowable Awards

In many instances under the proposed rules, companies are required to disclose in dollars and/or numbers the size of an award made under an existing plan or arrangement. We believe that in each of these instances, companies should also be required to disclose the corresponding percentage of the maximum allowable reward under the plan or arrangement. For example, columns should be added to the Summary Compensation Table, the Option Exercises and Stock Vested Table, and Grants of All Other Equity Awards Table.

Awards Granted Versus Paid

We believe that there should be separate disclosure regarding the compensation awards that were paid during the reporting year under an existing plan or arrangement and the estimated present value of awards that were granted during the reporting year, the precise amount of which may be uncertain because they are subject to future performance conditions or the passage of time. For example, the proposed rules require in column (h) of the Summary Compensation Table the disclosure only of non-stock awards actually paid in the reporting year. It would be beneficial if companies were also required to disclose the estimated present value of awards granted during the year, using estimates of the probability of achieving the award (which would also be interesting) as necessary.

Non-Executive Employees

We do not believe that disclosure of the job descriptions and total compensation paid to non-executive employees is meaningful to investors. We are interested in the incentives established for the executive officers who make capital allocation decisions and affect a company's strategic direction. Disclosure of this information should not be required in the final rules.

Related Party Transactions

The Commission should not increase the current threshold for reporting related party transactions from $60,000 to $120,000. This proposal struck us as particularly odd juxtaposed against the proposal to decrease the reporting threshold for perquisites from $50,000 to $10,000. We believe the same principle is applicable in both instances: transactions with low dollar values may highlight potential conflicts of interest or impact an investor's analysis of independence or other governance matters.

We hope these comments are helpful and would be happy to discuss our views in greater detail.

Very truly yours,

The Legg Mason Capital Management Governance Team

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