NAST

National Association of State Treasurers

April 10, 2006

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

Re: File Number S7-03-06

Dear Ms. Morris:

This letter is sent to register the support of the National Association of State Treasurers for the Commission's proposed rule change regarding the disclosure rules for executive and director compensation. The National Association of State Treasurers (NAST) is a non-partisan membership organization composed of all state treasurers, or state finance officials, from the United States, its commonwealths, territories, and the District of Columbia. As the elected chief financial officers of the states, the state treasurers directly manage trillions of dollars in state funds. The treasurers are important daily participants in the domestic securities markets, investing state funds in U.S. corporations and small businesses. They have a direct stake in the health of the nation's economy and diligently share their expertise in fiscal and investment matters with other government officials and the general public. Based on this role, the state treasurers are in the forefront in addressing concerns about corporate business practices and governance, leading efforts to ensure investor confidence in the stock markets and to increase shareholder value.

The great majority of the investment funds of the states is invested in the domestic equity markets. Earnings from investments are an important source of revenue for state governments. These earnings are used to fund vital public services, cover public employee retirement obligations, and fund beneficial economic development programs, among other uses. In contemporary financial markets, maximizing this source of revenue is a complex and time-consuming undertaking. To make the best use of investible public funds, investors like the state treasurers must attempt to earn the best returns possible without sacrificing the safety of their funds or subjecting their portfolios to undue risks. State treasurers and other public investors must achieve this goal within the constraints of applicable state and federal laws and make their decisions under the over-arching principles of safety, liquidity and yields.

The long-term nature of state investments has made us keenly interested in the Commission's efforts to restore investor confidence in the capital markets. Accurate and reliable financial reporting lies at the heart of our financial market system, so it is vital that investors have confidence in corporate financial information. Based on this, the state treasurers believe executive compensation should be performance-based and linked to the achievement of a company's financial and programmatic goals.

Compensation not directly linked actual corporate performance can have negative effects, both financially and in the public eye. Because of the current corporate governance climate, executive compensation that is inconsistent with a company's financial performance severely threatens the credibility of leadership at a company and has the potential to damage shareholder and public trust in that company.

The current requirements governing the reporting of executive compensation are out of step with the growing complexities in executive pay packages. Shareholders' frustration with the lack of disclosure on retirement plans, change-in-control arrangements, and many forms of compensation has grown in recent years. The increase in shareholder concerns over compensation arrangements necessitates changes to the current disclosure system. Overall, the Commission's proposed rules are a positive step to mandate improved disclosure, create clarity for shareholders, and underscore the accountability of directors to ensure that shareholders' assets are used wisely. The spirit of the proposed rules is consistent with the philosophy embodied in the corporate governance policies of the National Association of State Treasurers – to enhance shareholder value, promote shareholder rights, and ensure corporate accountability. We commend the SEC staff for their efforts to ensure that shareholders obtain a clearer picture of executive compensation.

The state treasurers fully support enhanced financial disclosure because of its importance to the fair operation of the capital markets. Full and transparent financial disclosure ensures that investors have enough information about a company's financial condition so that they can make informed investment decisions. The United States security law system is designed to maintain market transparency. It allows market forces rather than regulatory controls to determine what securities transactions occur and at what prices a company's securities will trade. Without full and fair disclosure, markets cannot assign an appropriate value for the securities of public companies, whether they are large or small companies, or financially-stable or financially-troubled. The proposed rule change relating to executive and director compensation align with these goals and with the strong financial accounting and reporting system that is a core strength of the U.S. capital markets.

Thank you for the opportunity to comment on this matter. If you would like to discuss this letter, please feel free to contact me directly. You may reach me at (503) 378-4329.

Sincerely,

Randall Edwards

Randall Edwards
NAST President
Oregon State Treasurer