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AFSCME®

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April 7, 2006

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Nancy Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: File Number S7-03-06

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Dear Ms. Morris:

I am writing on behalf of the American Federation of State, County and Municipal Employees ("AFSCME") to comment on the Securities and Exchange Commission's ("SEC") proposed executive compensation and related party disclosure rule. We applaud the SEC for its efforts to improve compensation disclosure, and offer comment on ways we believe the rule can be improved.

AFSCME is the nation's largest public service employees union representing more than 1.4 million members. Most of our members participate in over 150 public pension systems whose assets total more than $1 trillion. In addition, the AFSCME Employees Pension Plan (the "Plan") is a long-term shareholder that manages $800 million in assets for its participants, who are staff members of AFSCME.

Advisory Shareholder Vote on Compensation Reports

We urge the SEC to require the annual shareholder approval of all issuers' compensation committee reports. Similar rules are in place in the United Kingdom and Australia. While such a rule would not override compensation decisions, a non-binding vote would immeasurably improve compensation standards.

While the votes are non-binding, the shareholder message behind the votes could have a profound influence on compensation practices. A study in Britain found the growth of executive pay to be declining, and that communication between companies and shareholders over compensation had improved because of the rule.[1] This system has also been recently introduced in Australia under the Corporate Law Economic Reform Program

[1] "Trends in Executive Remuneration in 2005," Research, Recommendations and Electronic Voting, 2005 (found at https://www.rrev.co.uk).

Act 2004 (CLERP 9). Australian executives appear to have responded positively. In a recent survey, 40 percent of corporate officers stated that directors should take notice of shareholder concerns if a pay report receives a ten percent negative vote, while another 48 percent stated there should be a response if a pay report received a 20 percent negative vote.[2] What these studies show is that advisory shareholder votes on compensation reports help to focus directors' attention upon improving executive pay practices.

Overwhelmingly, shareholders believe the current system results in excessive pay. In an April 2005 survey by Pearl Meyer & Partners, 75 percent of major institutional investors surveyed said that CEO pay at large companies was excessive.[3] A December 2005 survey by Watson Wyatt put this figure higher, finding that 90 percent of institutional investors think the current executive compensation system has overpaid executives.[4]

Academic studies support the notion that shareholder voting can be effective in curbing executive compensation. One study of shareholder proposals in the mid 1990s found that executive pay at firms where shareholder proposals on executive compensation had been approved declined by an average of $2.7 million during the two-year period after the proposal was passed, despite the fact that such proposals are not binding on the company.[5] Another study found that higher levels of "against" votes on management compensation proposals were followed by lower rates of increase in CEO pay.[6] Logic would dictate that giving shareholders a direct, albeit advisory, say in compensation would have a similarly causal effect.

The AFSCME Plan is a strong advocate of this approach, having submitted shareholder proposals asking for advisory votes on the compensation report.[7] Transparency is a core expectation of institutional shareholders, especially when it comes to executive compensation. Further, legislation proposed by Congressman Barney Frank makes the same recommendation to allow shareholders an advisory vote on executive compensation (see H.R. 4291).

This concept was brought to Chairman Cox's attention at the Spring 2006 Council of Institutional Investors conference. Chairman Cox stated that an up or down advisory proxy vote on executive compensation packages is "the logical next step" for corporations to empower shareholders.[8]

Related Party Transactions and Perquisites

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[2] Yates, Robert, "Focus on Pay Marks Australian Proxy Season," ISS Governance Weekly, 2/10/06.
[3] "Major Investors Critical of CEO Pay Disclosure," Pearl Meyer & Partners, 4/29/05. 88 institutional investors with median assets of $36 billion were surveyed.
[4] "Institutional Investors Dissatisfied with U.S. Executive Pay System, Watson Wyatt Study Finds," Watson Wyatt, 12/13/05. 55 institutions managing $800 billion in assets were surveyed.
[5] Randall S. Thomas & Kenneth J. Martin, "The Effect of Shareholder Proposals on Executive Compensation" (Mar. 12, 1999) (available on www.ssrn.com).
[6] Kenneth J. Martin & Randall S. Thomas, "When is Enough, Enough? Market Reaction to Highly Dilutive Stock Option Plans and the Subsequent Impact on CEO Compensation" (Feb. 2003) (available on www.ssrn.com).
[7] Proposals for 2006 annual meetings have been submitted at US Bancorp, Merrill Lynch, Home Depot and Countrywide Financial.
[8] "Advisory Proxy Vote 'Logical Next Step,' Says Cox," Pensions & Investments Online, March 30, 2006.

We urge the commission to empower investors with the right to determine for themselves whether any and all related party transactions are material. We believe sunlight is the best disinfectant. We oppose raising the dollar threshold for related party transactions from $60,000 to $120,000. To do so would represent a step backward for sunlight and transparency.

The proposed new rules strengthen disclosure of perquisites by lowering the threshold for required reporting from $50,000 to $10,000. We believe this is a step in the right direction. Given that perks do not benefit shareholders in any way, we urge the Commission to remove any dollar limit and report all perks. Conversely, raising the threshold of related party transaction disclosure from the current level of $60,000 to $120,000 is a step in the wrong direction. We urge disclosure of all related-person transactions with no minimum threshold. This approach would allow shareholders to view all related party transactions and executive perks in order to make their own judgments on the significance of the amounts involved.

Chairman Cox recently addressed the Council of Institutional Investors, stating "[i]t's because of these potential, and often real, conflicts of interest that a good deal of sunlight needs to be focused on the entire process by which executive compensation is determined." We agree, and believe related party transactions fall within this overall process, presenting a clear and obvious potential for conflicts of interest. Chairman Cox also stated that $50,000 was "what many of a company's shareholders make all year," and was "far above the median household income of $44,400." Using that standard, the proposed new related party rule would allow related party transactions nearly triple the median household income to go unreported.

Given that the proposed rules are designed to give investors more information, we oppose raising the limit of related party transactions. To give a recent example of why the proposed increased limit is bad for shareholders and transparency, under the proposed new limit, Disney would not have been required to disclose that children of its directors were employed at the company.[9]

Performance Targets

We believe that the currently proposed rule allows for an overly broad exception under which companies may continue to avoid pertinent disclosure. In the proposed rule, companies are not required to disclose specific performance benchmarks. We understand there is some hesitancy among companies regarding proprietary information that could be contained within this disclosure.

To address the concerns over any confidential matters, we suggest a two-pronged approach for companies, whereby they can either disclose the targets at the time the awards are granted, or after the fact when a target is met and/or the award granted. For after the fact disclosure, a company would need to provide an explanation as to why they were unable to disclose the targets at the date established. In the absence of this two-pronged approach, we urge that, at a minimum, disclosure of all targets should be required retroactive after the conclusion of the performance period.

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[9] On December 20, 2004, Disney and the SEC reached a settlement over the fact that Disney had failed to disclose that the company employed three children of its directors, who received annual compensation ranging from slightly above $60,000 to more than $150,000.

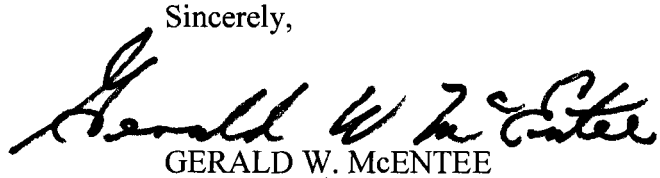
Filed versus Furnished

We strongly support the proposal to deem disclosure "filed" with the SEC as opposed to the current "furnished" status. Increased scrutiny and the specter of potential liability should lead to increased accuracy and better disclosure. Greater responsibility would be placed upon the compensation committee to report truthful and factual information. Better and more accurate disclosure would further be in keeping with the Commission's stated desire for "plain English" standards.

We applaud the SEC's efforts to improve compensation disclosure, and reiterate our belief that the SEC should improve the current requirements for detailing the components of executive compensation. Again, we urge the Commission to require shareholder approval of compensation committee reports or the new CD&A as a method for allowing shareholders to respond to pay disclosure, which will now be required.

Thank you for your attention to this critical issue. We appreciate the opportunity to provide the Commission with our comments on an issue of major importance to shareholders.

Sincerely,



GERALD W. McENTEE
International President