

5 July 2006

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

Re: **S7-03-06 on Executive Compensation and Related Party Disclosure**

Dear Ms. Morris:

Most of the undersigned were signatories to a comment letter that was submitted on April 10, 2006 regarding the proposed executive compensation disclosure rule. Recent events relating to the expanding list of companies that are suspected of back-dating executive stock option grants have caused us to submit these additional comments.

Back-dating of options is of great concern to us, not only because of the accounting, financial reporting, compensation and related market value ramifications involved, but also because it may point to the presence of an ineffective board that is dominated by management. It may also be indicative of a broader pattern of manipulative practices involving the use of inside information to back-date or time option grants and inflate the value of those awards at the expense of outside shareholders.

We ask that, at a minimum, the SEC incorporate requirements in the final executive compensation disclosure rule to ensure that investors are promptly informed of company policies and practices for the award of equity interests to executives. This should include the methods used for selecting grant dates, whether any back-dating or consideration of the pending release of material information was used in determining the dates, any differences between timing of issuance or board approval and the effective date of awards, and whether employees were permitted to select or recommend grant dates. If timing, back-dating or consideration of the future release of material information is allowed, disclosures should include whether (and how) the size of the award was adjusted to reflect any resulting increase in value accruing to recipients. Disclosures of these practices should be made on an on-going basis through 8-K filings and as part of comprehensive compensation disclosures in the annual proxy.

We must also emphasize that the apparent prevalence of manipulative compensation practices currently being discovered underscores the importance of proposals for certification of executive compensation disclosures by the CEO and

CFO and the need for signature of the new compensation discussion and analysis report by the compensation committee members. Both of those requirements were strongly supported in our April 10 comment letter.

According to a recent study by Randall A. Heron of the University of Indiana Business School and Erik Lie of the University of Iowa College of Business (which will be published in the Journal of Financial Economics), approximately one-fifth of the option grants they reviewed were not reported in a Form 4 filing within two business days of grant, as is required by law. They also found that late grant disclosures appeared to be associated with company return patterns that suggested potential back-dating of the awards. Accordingly, we believe that the SEC should prioritize enforcement of Form 4 filing deadline violations, as well as require proxy statement disclosure of the reasons for any reporting non-compliance and the status of any resulting legal or enforcement actions. In addition, we request that the SEC seek recovery of improperly awarded option grants to the fullest extent allowed by law.

We applaud the SEC for efforts it has taken to investigate back-dating and other manipulative compensation practices. We also recognize the need for adequate SEC staff resources to allow ongoing efforts in that regard. SEC budget and staffing reductions that have been proposed are viewed by us as a threat to the investor protection mission of the SEC. Please let us know if we can be of assistance to the agency in trying to secure adequate funding from Congress.

If you have questions or would like to speak with us about these issues, feel free to contact us directly or through Keith Johnson at Reinhart Institutional Investor Services (608-229-2231/kjohnson@reinhartlaw.com) or Andrew Clearfield at Investment Initiatives LLC (973-748-4505/amc@investinits.com).

Sincerely,

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William R. Atwood  
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Illinois State Board of Investment

Peter Scales  
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London Pensions Fund Authority – UK

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