**STATE BOARD OF ADMINISTRATION
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April 22, 2015

Brent J. Fields, Secretary
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

RE: Disclosure of Hedging by Employees, Officers and Directors; Proposed Rule

The Florida State Board of Administration (the "SBA") manages approximately $180 billion in assets on behalf of the Florida Retirement System (FRS) and other mandates. The FRS is one of the largest public pension plans in the United States, with greater than one million beneficiaries and retirees. The SBA's governance philosophy encourages companies to adhere to responsible, transparent practices that correspond with increasing shareowner value. The SEC's consideration of enhanced disclosure of hedging policies aligns well with this policy of transparency and we appreciate the opportunity to provide comments.

The SBA *Corporate Governance Principles and Proxy Voting Guidelines* support the principle that "stock-based compensation or open-market purchases of company stock should serve to align executives' or directors' interests with shareowners. Hedging of company stock through a covered call, 'cashless' collar, forward sale, equity swap, or other derivative transactions can sever the alignment with shareowners' interests."[1]

Should smaller reporting companies or emerging growth companies be exempted from proposed Item 407(i) or subject to a delayed implementation schedule?

While smaller reporting companies and emerging growth companies may not be SBA portfolio holdings at inception, many will grow into such a role, ideally with strong governance practices intact. Considering the relatively low obligation of disclosure, it seems logical to require beneficial, transparent compensation practices of all companies considered in the proposed rule. Alternatively, an early stage exemption could allow for poor hedging policies at early growth stages that would eventually need to be corrected.

We echo comments provided by the Council of Institutional Investors "that the proposed disclosure might be of greater value to investors of smaller reporting companies (SRC) and emerging growth companies (EGC) than investors of other public companies because: (1) SRCs and EGCs are currently exempt from disclosing any policies regarding hedging by named executive officers; (2) SRCs and

[1] SBA 2015 Corporate Governance Principles & Proxy Voting Guidelines (page 71). http://www.sbafla.com/fsb/Portals/Internet/CorpGov/ProxyVoting/2015_SBACorporateGovernancePrinciplesProxyVotingGuidelines.pdf

EGCs are generally subject to greater market risk than other public companies; and (3) the breadth of usage of hedging transactions by those companies."[2]

Employees and Directors Subject to the Proposed Disclosure Requirement

The proposed definition of "employees" subject to hedging disclosure policies should provide clarification for investors. As noted in the SEC's Discussion of Proposed Amendments, the definition of employees should include officers, to avoid confusion with Exchange Act Rule 12b-2, where the definition of "employee" does not include a director, trustee, or officer.

It is important for shareowners of the company to be clear of the hedging status of all incentive-based compensation, whether it is provided to officers, directors, executives, or employees of the company. While issuers have the important task of deciding which employees are eligible for incentive-based compensation, and determining appropriate thresholds that will motivate long-term value creation, it is also necessary for shareowners to have knowledge of hedging policies that may allow employees to dilute the original intention of the incentives.

Specifying the Term "Equity Securities"

Another beneficial contribution to transparency for investors would be adoption of the proposed definition for "equity securities" to include the associated corporate structure. Relevant disclosure from the investor's viewpoint would include "disclosure about whether employees and directors are permitted to hedge equity securities issued by the company, its parents, subsidiaries or subsidiaries of the company's parents that are registered under Exchange Act Section 12," as described in the Proposed Rules.

In their *Joint Statement on the Commission's Proposed Rule*, Commissioner Gallagher and Commissioner Piwowar note concerns that this broader scope of corporate structure could require "registrants to engage in a complex, facts-and-circumstances control analysis to determine who is covered by the proposed disclosure requirement."[3] While this is an important consideration, the level of complexity of disclosure would mainly reflect the level of complexity of the hedging policy of the company in question. In the case of a company with no hedging policy in place, or none disclosed to this point, the simplicity from the company's perspective is offset by a higher corresponding level of uncertainty for investors with regards to the incentive structure effectiveness.

Implementation (Relationship to Existing CD&A Obligations)

One concern regarding new hedging disclosure requirements is the proposal to amend Item 402(b) of Regulation S-K to allow companies subject to CD&A obligation to disclose material policies on hedging by named executive officers by cross referencing the information disclosed pursuant to proposed Item

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[2] Jeff Mahoney, General Counsel, Council of Institutional Investors. Comments on Proposed Rule: Disclosure of Hedging by Employees, Officers and Directors. April 16, 2015. http://www.sec.gov/comments/s7-01-15/s70115-5.pdf
[3] Commissioners Daniel M. Gallagher and Michael S. Piwowar. Joint Statement on the Commission's Proposed Rule on Hedging Disclosures. February 9, 2015. http://www.sec.gov/news/statement/020912ps-cdmg-cmsp.html

407(i). We appreciate the Commission's desire to keep redundant filings to a minimum, but also note the importance of hedging policy disclosure, as well as its direct relevance to the CD&A. It would be helpful to maintain a direct link between the two disclosures, especially for companies of the size and impact characteristic of those required to fulfil the CD&A obligation.

The SBA looks forward to the enhanced transparency provided by this proposed rule on hedging disclosures. Thank you for your consideration of this matter, and if you have any questions, please feel free to contact Michael P. McCauley at [redacted], or governance@sbafla.com.

Sincerely,

Michael P. McCauley
Senior Officer, Investment Programs and Governance