



**STATE OF CONNECTICUT  
OFFICE OF THE STATE TREASURY**

April 10, 2006

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

Re: Executive Compensation and Related Party Disclosure File Number S7-03-06

Dear Ms. Morris:

As principal fiduciary of the \$22 billion Connecticut Retirement Plans and Trust Funds (CRPTF), I am writing to comment on the Security and Exchange Commission's (SEC) proposed rule on executive compensation disclosure and related party disclosure. I strongly support this proposed rule with modifications and urge the Commission to act promptly on this fundamental and significant issue for shareholders.

Executive compensation reform has been, and continues to be, among my highest priorities in corporate governance. In my view, board level decisions regarding executive compensation provide shareholders with a "window" into how well a company is managed and how well it is strategically positioned to provide long-term shareholder value. Without improved disclosure, along the lines of the SEC proposal, shareholder efforts to seek Board policies that align investor interests with executive compensation are weakened.

My comments address what I consider to be the most significant issues of the proposed rule for investors such as the CRPTF. Most critical are the SEC's retention of provisions that require the disclosure of a total compensation amount for executive pay and that the document be 'filed'. I recommend that the SEC require that the Compensation Committee sign the new disclosure document and clarify that the Board retains responsibility for approving compensation policy and decisions as recommended by the Committee.

I also believe that the proposed rule would be strengthened if issues of compensation consultant independence were addressed by requiring the disclosure of other work by the consultant for the company. Finally, I would like to express my concurrence with the more detailed comments of the Council of Institutional Investors, of which the CRPTF is a long-standing member.

I commend the Commission for developing this comprehensive proposal and I urge adoption prior to the proxy 2007 season. If you have any further questions, please contact Meredith Miller, Assistant Treasurer for Policy at (860) 702-3294.

Sincerely,

A handwritten signature in black ink that reads "Denise L. Nappier". The signature is written in a cursive style with a large initial 'D'.

Denise L. Nappier  
State Treasurer

Attachment

**Comments of Connecticut State Treasurer Denise L. Nappier  
SEC Proposed Rule: Executive Compensation and  
Related Party Disclosure**

**April 10, 2006**

Compensation Discussion and Analysis (CDA): The CDA would replace the annual Compensation Committee Report, and provide a discussion and analysis of the material factors underlying compensation policies and decisions. Principle-based standards should be utilized for this discussion, supplemented with rules-based requirements to help ensure complete disclosures.

The SEC should give sufficient direction and guidance to ensure that companies meet this new standard for disclosure. This is necessary if the disclosure requirements are to lead to a detailed discussion of the rationale behind the components of the compensation plan and the links to performance. The SEC should also stipulate that it will take appropriate enforcement action when a company's disclosure does not meet this standard.

'Filed' vs. 'Furnished' Status: The SEC's proposal to deem the new disclosures 'filed' rather than 'furnished' has significant merit. As 'filed', this report will be covered by CEO and CFO certification requirements of the Sarbanes-Oxley Act. The rule should make clear that the responsibility for this report should go beyond the CEO and CFO and include the Compensation Committee and the full Board. While non-management board members should not have to certify the accuracy of the disclosed numbers – it should be clear that they are fully responsible for the disclosed policies and the compensation plan itself.

Disclosure of Independence of Compensation Consultant: In addition to the SEC proposed requirement that compensation consultants should be disclosed, the CDA should note whether the consultant is performing any other work for the company.

Performance Targets and Thresholds: Pay for performance should be a standard foundation for compensation. The basis of this concept is the performance target set by the Board for the CEO and other managers. This information needs to be disclosed to enable shareholders to evaluate whether the performance targets are appropriate, whether the pay tied to performance is set at the appropriate level and how compensation is awarded based on meeting the targets.

Reporting of some performance targets can be sensitive, particularly to the business strategy of the company, and disclosure may create a competitive disadvantage. The "safe harbor" language that addresses this issue in the proposed rule provides too large an exemption for companies, ultimately leading to lower quality disclosures.

The compromise proposal of the Council of Institutional Investors (CII) suggests that the SEC require companies to disclose performance targets at the time they are established, making such disclosure items consistent with the disclosure of the awards (such as grant date for equity instruments). In cases where companies believe that this information is competitively sensitive, however, firms would be permitted to postpone the disclosure of the targets until a future date, such as when the performance related to the award is measured. In these cases, the company should be required to disclose that it is taking advantage of this

exemption and the basis for taking this action, which would presumably be subject to SEC review.

Summary Compensation Table: The enhanced Summary Compensation Table, particularly the disclosure of “total compensation and the inclusion of the annual increase in actuarial value of pension benefits,” should be embraced. The fair value basis for reporting option grants is especially favorable.

The Summary Compensation Table should present all the decisions of the Compensation Committee during the applicable year, and most of the proposed disclosure data are consistent with this perspective. Non-Stock Incentive Plan Awards are also annual compensation decisions and should be included in this table.

To facilitate this disclosure, CII proposes that companies be given direction to calculate these values using a probability estimate of achieving the award, discounted to a present value. Disclosure of the methodology and assumptions used by companies to estimate the awards should be required in a footnote.

Perquisites: The current methodology of valuing perquisites and other benefits, based on their incremental cost, may significantly understate the true economic cost to the company and the true value of the benefit to the employee. The SEC should require that the disclosure of the value of perquisites be based on the actual cost to the company and its shareholders, and actual value to the employee. While different methodologies for valuing perquisites may be appropriate for other purposes (e.g. tax payments), the true economic valuation of perks for disclosure of compensation paid by the company provides a more accurate disclosure.

Related Party Transactions: Raising the dollar threshold from \$60,000 to \$120,000, below which related party transactions would not be disclosed, should not be included in the final regulations. The provision as drafted would also eliminate the disclosure of related party transactions involving the employment of relatives, which should continue to be disclosed.

Post-Employment Compensation: Annual compensation decisions can have a significant impact on retirement benefits. There is robust justification for the proposed post-employment compensation disclosures, which should include the potential payments from retirement plans, nonqualified deferred compensation, and other potential post employment payments. This proposed rule will assure that the full financial impact of all compensation decisions are evaluated and disclosed.

There are complexities concerning disclosures in this area, and an understanding that some disclosures will be based on estimates. Therefore, the basis for these estimates should be disclosed, including all material factors related to each plan.

Performance Graph: The new disclosures should retain the performance graph. This data is readily available and easy to produce. While some may view this graph as outdated, it is not controversial. It is a useful reference point for shareholders, and its inclusion does not detract from the other disclosures.