

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

File No. S7-03-06

Dear Ms. Morris:

On behalf of the members of the National Association of Manufacturers (NAM), I would like to submit the following comments to the Securities and Exchange Commission (“the Commission”) on the **Proposed Amendments to Executive Compensation and Related Party Disclosure Release No. 33-8655, 34-53185**.

Overview

The NAM is the nation’s largest industrial trade association, representing small and large manufacturers in every industrial sector and all 50 states. The mission of the NAM is to enhance the competitiveness of manufacturers and to improve American living standards by shaping a legislative and regulatory environment conducive to U.S. economic growth. A significant number of our members are public companies who are concerned with the increasing costs and burdens of compliance with government regulations as they strive to remain globally competitive.

We support the Commission’s goal of providing shareholders with clear, accurate, uniform and comprehensive disclosures of executive compensation. At the same time, we are concerned that some of the rules, as drafted, could result in duplicative reporting and confusion on the part of shareholders and other readers of proxy statements. Outlined below are suggested changes to address these potential problems as well as our thoughts on several other issues including the need to align the timing of disclosure and the valuation of elements of compensation in a more consistent and logical fashion, the determination of the named executive officers, the reporting of compensation information in the proxy tables and the structure of the proposed new Compensation Discussion and Analysis section (“CD&A”).

Compensation Disclosure

The NAM is concerned that, to the extent elements of compensation are included in the tables more than once and at various times in their lifecycles, a shareholder could mistakenly believe that each disclosure represents additional remuneration.

For example, under the proposed rules, equity compensation would be reported in five separate tables: the summary compensation table (the “Summary Table”), the two supplemental equity award tables, the year-end outstanding equity award table, and the option exercise and stock vesting table. The Summary Table valuation of stock-based compensation would be calculated under FAS 123(R), based on date of grant valuation relating to a company’s expense calculations. However, the grant could ultimately be worth less than that or even zero if performance or other vesting measures are not met or the stock price does not rise above the option exercise price after vesting. Conversely, the option exercise and stock vesting table, using a different methodology, would value the same stock grant at the time of exercise or vesting when income is actually earned. This valuation method reflects actual realized income and is a more accurate and appropriate report of actual compensation.

We also are concerned that deferred compensation earnings would be double-counted since these earnings would be reported in the Summary Table and in the Nonqualified Defined Contribution and Other Deferred Compensation Plans table in the year accrued as well as each subsequent year in the Aggregate Balances column. Defined benefit plan actuarial benefits also could be double-counted. In addition, these benefits would reflect age and longevity of service and often would have been earned before the individual held an executive position. This distinction could be lost to many shareholders since it would be included in tabular form alongside current compensation.

Disclosure of Investment Returns on Deferred Compensation

Under the current rules, companies are not required to disclose market-rate returns on voluntary deferrals of compensation or market-rate dividends or dividend units paid on issuer restricted and deferred stock. We believe that the proposed changes requiring companies to include these amounts in the Summary Table would unfairly penalize executives who hold restricted/deferred stock or choose to defer compensation. The more senior an employee is and the more that the deferred compensation retirement savings vehicle is utilized, the larger the amount that will appear as current compensation. We urge the Commission to retain current rules that exclude market-rate dividends and investment returns while continuing to require disclosure of any preferential above-market rates set by the compensation committee.

Compensation Discussion and Analysis Report

The proposed new rules on the CD&A report—which replace the compensation committee report and performance graph with the CD&A, require the report be filed not furnished, and no longer would be provided under the names of the compensation committee members—appear to be inconsistent with both best practices and requirements of the New York Stock Exchange and the Nasdaq on the role of the independent board compensation committee. We believe that the quality of disclosures in the CD&A will not be enhanced by removing attribution of the report away from the compensation committee.

Further, under Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, this change would require the certification of the CD&A text by the CEO and CFO if it is included in the company's 10-K. In order to be able to competently certify the CD&A, the CEO and CFO would need sufficient knowledge of the compensation committee's deliberations and the process used to determine compensation to satisfy disclosure control requirements. The certification requirement would require greater participation by the CEO and CFO in the compensation process, which could conflict with sound governance practices and compensation committee independence.

In addition, the requirement that the report be filed could increase the litigation risk. We believe that companies should be required to furnish CD&A in the same manner as companies currently are required to furnish the audit committee report in the proxy statement. We agree that the performance graph should be eliminated since that information is readily accessible to the shareholders from multiple sources.

Determination of Total Compensation

The NAM recognizes the SEC's desire to provide shareholders with a single comprehensive total number that encompasses all compensation provided to each named executive officer during the past year. We believe however, that the proposed approach is

fundamentally flawed and does not fully recognize the differences in distinct forms of compensation. The rules would combine salary and bonus amounts that are known and fixed with at-risk compensation, such as long-term incentives, that are contingent on achieving performance measures or meet other vesting requirements. Grant-date valuation of at-risk compensation does not appropriately reflect these contingencies. Moreover, the inclusion of additional clarifying tables would not negate the impact of including grant-date valuation in the Summary Table and its Total column.

Determination of Named Executive Officers

Under current rules, the named executive officers are determined on the basis of salary and bonus. This system has worked well in identifying the proper group of top executives subject to compensation disclosure, in ensuring appropriate continuity for comparison purposes, and in providing administrative predictability so that compensation committees can include the correct group of executives in their decision-making during the year prior to disclosure. The specific inclusion of the CFO in this group would not significantly change this situation. However, we believe that, for some companies, determining the named executive officer group on the basis of total compensation from the Summary Table could change the makeup of the group and on a more frequent basis. For example, one-time payments to executives like relocation expenses, expatriate payments related to foreign assignments, retention or hiring bonuses, special stock awards and lump sum pension payments could temporarily push an individual into the top management group.

Payments on Change of Control or Termination

The calculation of possible payments triggered by change of control or termination requires a wide range of assumptions since the likelihood or timing of these contingent payments is unknown. Quantifying the hypothetical applicable stock price, individual compensation levels, individual tax rates, company valuation and similar factors for some uncertain point in the future could easily mislead shareholders and result in double-counting of compensation. We believe a narrative description of the terms of change of control and termination provisions will provide the desired transparency with less likelihood of confusion.

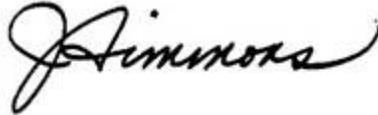
Identification of Perquisites

We also are concerned about the broad description of perquisites in the proposed rules. The interpretive guidance describes perquisites as not being “integrally and directly related to the performance of an executive’s duties” and conferring “a direct or indirect benefit that has a personal aspect, without regard to whether it may be provided for some business reason or for the convenience of the company.” Many standard company-provided items that provide a primary significant business benefit come within the ambit of “direct or indirect benefit that has a personal aspect” such as preferential parking, security measures, home office equipment, business entertainment that includes spouses, and the like. Recognizing the sensitivity of the issues and the relevance of disclosure of items of significance, we believe this approach is overly inclusive and that the \$10,000 aggregate threshold for disclosure is too low and immaterial.

As noted above, we support the Commission’s efforts to provide shareholders with clear, accurate, uniform and comprehensive disclosures of executive compensation. At the same time, we are concerned that some of the proposed disclosure rules could result in double-counting of compensation, confusing information to shareholders and unnecessary legal and administrative burdens on companies. Consequently, we urge you to consider our concerns outlined above

before you finalize the rules. Thank you in advance for considering our request. If you have any questions, please contact Tina Van Dam, NAM's senior counsel, corporate governance and finance at (202) 637-3493.

Sincerely,

A handwritten signature in black ink that reads "J Timmons". The signature is fluid and cursive, with the first letter "J" being particularly large and stylized.

Jay Timmons
Senior Vice President for Policy and
Government Relations
National Association of Manufacturers

cc: Christopher Cox, Chairman
Paul S. Atkins, Commissioner
Roel C. Campos, Commissioner
Cynthia A. Glassman, Commissioner
Annette L. Nazareth, Commissioner
John W. White, Director, Division of Corporation Finance

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