

SANTA BARBARA COUNTY
EMPLOYEES' RETIREMENT SYSTEM

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April 12, 2006

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



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

Dear Ms Morris:

I am writing on behalf of the Board of Retirement of Santa Barbara County Employees' Retirement System ("the Board") and the 7,000 members it represents. The Board as administrator of a defined benefit plan is a long term investor and has not previously taken an active stance on governance issues.

However, the impact of executive compensation on shareholder value has risen to a level where we believe it can not be ignored. Concerns have centered not simply on the amount paid to CEOs and other top executives, but also the board processes for setting pay, the disclosure of pay, the structure of pay and the pay-for-performance metrics. Poorly structured pay packages may harm shareowner value by wasting owners' money, diluting ownership and creating inappropriate incentives that may damage a company's long-run performance. Inappropriate pay packages may also suggest a failure in the boardroom, since it is the job of the board of directors and the compensation committee to ensure that executive compensation programs are effective, reasonable and rational with respect to critical factors such as company performance and industry considerations.

Full and clear disclosure of executive pay is of significant interest to the Board because it enables shareowners to evaluate the performance of the compensation committee and board in setting executive pay and the pay-for-performance links.

The Board thanks the Commission and the staff for preparing this comprehensive proposed rule. The proposal addresses a significant number of the most critical issues to investors, and we urge the Commission to move expeditiously to implement the new disclosure rules in time for the 2007 proxy season.

The Board supports the proposed new format, including the concept of a Compensation Discussion and Analysis, the three primary categories of tables and the supplemental narrative disclosures. The Board recommends strengthening these key elements by modifying certain elements of the proposal.

Compensation Discussion and Analysis (CDA). The qualitative aspects of the disclosure rules are vitally important, but we recognize they are perhaps the most difficult to define as well as enforce. The Board supports the proposal's concept of the CDA and its integration of principle-based and rules-based approaches.

To strengthen this integrated approach, the Board recommends the SEC expand the list of topics to be discussed "at a minimum" to include: detailed discussions of the rationale behind key components of the executive pay program as a whole and specific to each key element of the program; and disclosure of key pay-related policies, such as "clawback" provisions, ownership/holding requirements, and hedging prohibitions.

We also believe it is essential for the SEC to support this integrated approach by providing detailed guidance (particularly in the first few years) and taking enforcement actions when appropriate.

'Filed' vs. 'Furnished' Status. The Board supports the SEC's proposal to deem the new disclosures "filed" in hopes that the potential for increased scrutiny and potential liability will result in higher quality, more comprehensive disclosures. While the filed status will imply some ownership of the document by the full board and top management, the Board recommends the SEC also make it clear in the final rule that the compensation committee retains ultimate ownership of the disclosures.

Performance Targets and Thresholds. The Board recognizes the sensitive nature of the disclosures of performance targets. Similar to the current disclosure rules, the proposed rule maintains a "safe harbor" under which companies may exclude key information regarding performance targets and thresholds if disclosure may be competitively harmful to the company. The Board believes this approach provides too large an exemption for companies, ultimately leading to lower quality disclosures.

Summary Compensation Table. The Board strongly supports the disclosure of "total compensation" in the Summary Compensation Table. We believe the elements proposed by the SEC as comprising total compensation are appropriate. In particular, we support the inclusion of the annual increase in actuarial value of pension benefits and the disclosure of the grant date, full fair value of option awards—not the amount expensed under FAS 123. Such disclosures are essential to give investors a full and fair snapshot of executive pay.

Perquisites. The Board believes the current methodology of using incremental cost to value perquisites and other benefits may significantly understate the value of the benefits. To ensure more accurate disclosures, we recommend changing the current approach to require valuations of perks based on a commercially available equivalent.

The Board supports the proposed thresholds applicable to perks, which we believe strike the appropriate balance between investors' need for complete disclosures and the burden on companies to track minor benefits. To enhance and clarify the presentation of the detailed information, the Board recommends that the SEC require tabular format disclosure of individual perks.

Post-Employment Compensation. The Board strongly supports the proposed post-employment compensation disclosures, including the potential payments from retirement plans, nonqualified deferred compensation, and other potential post-employment payments. Post-employment

compensation can represent significant value and have a material impact on the overall profile of a compensation program. Disclosures for each named executive officer permit investors to understand the unique nature of the post-employment compensation at any particular company.

We recognize the complexities of disclosures in this area, and we accept that some disclosures will be based on estimates. Therefore, in each of the key areas of post-employment compensation, we support the SEC's proposed rules requiring companies to disclose all material factors related to each plan, particularly the key assumptions and methodologies used for the disclosures.

Performance Graph. The Board believes the new disclosures should retain the performance graph. We do not agree that the information communicated by the graph or its role in the overall compensation disclosure regime is outdated. To the contrary, the graph provides a quick performance comparison in close proximity to the compensation disclosures and is valuable to investors. Further, we believe removing the graph would eliminate a readily accessible and non-controversial source for performance comparisons that shareowners often use in their proposals and other correspondence.

The Board thanks the Commission and its staff for this comprehensive proposal. We believe it is a major step forward in providing the tools for good governance.

Sincerely,

A handwritten signature in cursive script that reads "Bernice James". The signature is written in black ink and is positioned below the word "Sincerely,".

Bernice James, Chair
Santa Barbara County Employees' Retirement System