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Via E-Mail: RegComments@fhfa.gov

June 2, 2011

John Walsh, Acting Comptroller
Office of the Comptroller of the Currency
Independence Square
250 E Street, SW
Washington, DC 20219

Jennifer J. Johnson, Secretary
Federal Reserve System
20th and C Streets, NW
Washington, DC 20551

Robert E. Feldman, Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Deborah Dakin, Acting Chief Counsel
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552

Mary Rupp, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Alfred M. Pollard, General Counsel
Federal Housing Finance Agency
1700 G Street, NW, 4th Floor
Washington, DC 20552

Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100 F Street, SE
Washington, DC 20549

RE: INCENTIVE-BASED COMPENSATION ARRANGEMENTS

Dear Ladies and Gentlemen:

I am writing on behalf of the California Public Employees' Retirement System (CalPERS), the largest public pension fund in the United States, with approximately $237 billion in global assets and equity holdings in approximately 11,000 publicly traded companies. CalPERS provides retirement benefits to more than 1.6 million public workers, retirees, and their families and beneficiaries.

Risk assessment and its relation to incentive-based compensation is an issue of vital importance to investors. Excessive compensation can lead to inappropriate risk taking and we agree contributed to the financial crisis. As a significant, long-term shareowner in the U.S. public equity markets, CalPERS supports Section 956 of the Dodd-Frank Wall Street Reform and Consumer Protection Act requiring Agencies to prohibit incentive-based compensation arrangements that either: (1) encourage inappropriate risks by providing excessive compensation; or (2) could lead to a material financial loss.

CalPERS appreciates the opportunity to provide comments to each of the Agencies addressed in this letter. We agree that the Agencies should adopt a collaborative approach to facilitate joint interagency rulemaking on incentive-based compensation arrangements. This approach should provide enhanced, robust dialogue and overall requirements that support the intent of the Dodd-Frank Act: greater consumer and investor protection.

Compensation programs provide one of the most powerful tools for financial institutions to attract, retain and motivate key employees and to optimize operating performance, profitability and sustainable, long-term shareowner return. CalPERS *Principles of Accountable Corporate Governance*[1] on executive compensation support the practice of performance-based compensation with at-risk components. We concur that some compensation structures misalign incentives and induce imprudent risk-taking within financial organizations. We believe that poorly designed compensation structures can reward employees based on short-term results without full consideration of the longer-term risks to the firm. In so doing, they fail to align individual incentives with those of the company's other stakeholders, including shareowners.

We agree that excessive, imprudent risk-taking remains a contributing factor in financial institution failures and, to some extent, that these losses can be attributed to the incentives provided by poorly designed compensation programs. The proposed rules must help ensure that policies and procedures at financial institutions are robust and fully transparent. Along with this viewpoint, CalPERS would like to make the following comments and recommendations:

Need for Consistent Rules and Application

CalPERS supports having the proposed rules take effect in a timely fashion, while ensuring consistent application across the different types of covered financial institutions. A six month timeline for implementation is acceptable. In keeping with the principles of good governance and sound business practices, we do not support any exemptions for financial institutions including offshore operations in developing, maintaining and disclosing their incentive-based compensation policies and procedures.

Required Reporting

CalPERS agrees that the structure of the company's incentive-based compensation arrangements and exposure to excessive risks should be disclosed. This reporting should be provided not only to federal regulators, but also woven into existing regulatory disclosure requirements such as those already provided to shareowners through the annual proxy statement. Shareowners should have the right to hold boards

[1] CalPERS Principles of Accountable Corporate Governance: http://www.calpers-governance.org/docs-sof/principles/2010-5-2-global-principles-of-accountable-corp-gov.pdf, updated

of directors accountable for inappropriate compensation practices. Therefore, CalPERS is a strong proponent of the Dodd-Frank provision requiring the use of advisory votes on executive compensation.

Advisory votes on executive compensation increase focus on individual company circumstances and sustainable strategic goals in the development and evaluation of compensation plans. Advisory votes improve accountability to shareowners by compelling corporate boards of directors to reexamine and act accordingly in cases where compensation packages may be excessive or where executives have failed to produce value for shareowners.

We agree that required reporting should include:

- A clear narrative description, outlining the specific individuals covered, along with their roles and ability to expose the institutions to possible losses
- A succinct description of the financial institution's policies and procedures governing its incentive-based compensation arrangements
- Any material changes to incentive-based compensation arrangements and policies and procedures since the last report submitted
- The level of risk assumed and how it is monitored and reported, using selected risk metrics as required in an entity's Risk Management Policy
- An explanation of all specific reasons supporting the financial institution's belief that its incentive-based compensation plans do not encourage excessive risk which will cause material financial losses

Pay-for-Performance

CalPERS recommends that companies consider, review and disclose to regulators pay-for-performance/ incentive-based compensation arrangements on the following:

- Disclosure of compensation philosophy and policy (i.e. how pay is determined, disclosure of metrics and weights, mix of cash and equity)
- Performance metrics should be set before the start of a compensation period while the previous years' metrics which triggered incentive payouts should be disclosed
- Performance hurdles that align the interests of management with long-term shareowners should be established with incentive compensation being directly tied to the attainment and/or out-performance of such hurdles – provisions by which compensation will not be paid if performance hurdles are not obtained should be disclosed
- Peer relative analysis
- Relative pay to relative performance - what was the increase/decrease in performance relative to the increase/decrease in pay
- Focus on long-term performance – 3 years is a minimum time frame for holding management accountable for creating long-term shareowner value
- Overall parameters of the use of severance/change in control arrangements

- Disclosure of stock ownership requirements and retention requirements for both executives and directors
- Distribution of equity-based compensation throughout the company's employee base
- Provisions for addressing the issue of equity dilution, the intended life of an equity plan, and the expected yearly run rate of the equity plan
- Design of incentive plans to ensure alignment with the company's risk tolerances
- Sustainability performance results should be a component of compensation packages and incentive plans – environmental, social and governance objectives that trigger payouts should be clearly disclosed
- Limits on the use of derivatives or other structures to hedge director or executive share ownership that diminish the effectiveness of a financial institution's policies and procedures and
- Guidelines by which the company will use alternative forms of compensation - perquisites.

Balance of Risks and Rewards – Effective Corporate Governance

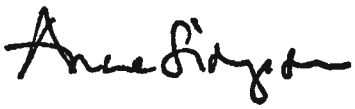
To ensure the alignment of interest with long-term shareowners, executive compensation programs are to be designed, implemented, and disclosed to shareowners by the board, through an independent compensation committee. CalPERS agrees that boards of directors: (1) should actively oversee incentive-based compensation arrangements; and (2) are ultimately responsible for ensuring balance and appropriate alignment of incentive-based compensation with the risks and rewards involved. Executive compensation programs should not restrict the company's ability to attract and retain competent executives.

CalPERS agrees with the proposed rule that an incentive-based compensation arrangement be supported by effective corporate governance. Shareowner rights are critical to ensuring accountability, hence CalPERS support for effective corporate governance standards such as proxy access, majority voting standards in director elections, and annual elections for all directors. It is through this effective corporate governance framework that shareowners are allowed to act upon the information which improved compensation disclosure can provide.

In response to the turmoil in the financial markets, CalPERS has elevated the importance of risk oversight and management. The primary goal is to ensure companies under the oversight of the board of directors adopt policies, operating procedures, reporting, and decision protocols to effectively manage, evaluate, and mitigate risk. The ultimate outcome is to ensure that companies function as risk intelligent organizations. Incentive-based compensation practices should be evaluated to ensure alignment with the company's risk tolerances and that compensation structures do not encourage excessive risk taking.

We wish to thank all of the Agencies for their efforts and ongoing consideration of updating their rules to ensure that incentive-based compensation is aligned with appropriate risk-taking and long-term shareowner interests. If you would like to discuss any of these points, please do not hesitate to contact me at (916) 795-9672, or call my colleague, Bill McGrew, at (916) 795-2431.

Sincerely,



ANNE SIMPSON
Senior Portfolio Manager
Investment Office – Global Equity

cc: Joseph A. Dear, Chief Investment Officer – CalPERS
Eric Baggesen, Senior Investment Officer – CalPERS