

April 19, 2010

Senator Christopher Dodd, Chair
Senate Committee on Banking, Housing and Urban Affairs
448 Russell Senate Office Building
Washington DC 20510-0702
Fax: 202-224-1083

**Re: Global Institutional Investor Support for Corporate Governance Provisions
in Financial Reform Legislation**

SENT VIA FAX

Dear Senator Dodd:

We write to express our strong support for legislation to create the Restoring American Financial Stability Act of 2010 (the "Act"), which was favorably reported out of the Senate Committee on Banking, Housing and Urban Affairs.

Among the primary causes of the economic crisis were massive failures of oversight on both the regulatory and corporate governance levels. The damage that was done to the real economy, and to the participants in our fund, was staggering. Much of that damage can never be repaired. All eyes are now on Congress. Only Congress has the power to address many of the underlying causes of this global economic catastrophe.

As an institutional investor acting on behalf of individual beneficiaries, we have billions of dollars invested in United States companies and have a keen interest in both the integrity and success of United States markets. As corporate governance rights have improved in other developed markets, the United States has been falling behind. Governance Metrics International currently ranks the United States behind Australia, Canada, Britain and Ireland on quality of corporate governance. Investors in many emerging markets even have fundamental corporate governance rights that are not available in the United States. It is critical that Congress and the President act promptly to reverse this trend before additional damage is done to the United States investment climate.

The Act contains corporate governance reforms that have been sought by investors for years. We urge the Senate to pass the Act, without dilutive amendments. Although there are many important reforms in the legislation which merit enactment, we would like to highlight the following provisions which we strongly support:

- **Majority Voting:** The plurality vote standard, which is still used for election of unopposed director candidates at 75 percent of companies in the Russell 3000, is widely viewed as one of the most undemocratic electoral processes ever used. During the 2009 proxy season, 91 director candidates at 49 United States public companies failed to receive a majority of shareholder votes. Nonetheless, all of those directors retained their seats, including two who submitted resignations but were reappointed by the board. The Act would restore accountability to directors and rationality to the electoral process.
- **Proxy Access:** Shareowners at United States public companies rarely have the right to call a shareholder meeting to remove ineffective directors. Consequently, the only practical way for them to put forth alternate director candidates when a board has become ineffective is through an expensive proxy fight. This is both inefficient and serves to insulate incompetent boards and management from accountability. From our experience in Britain, Australia, the Netherlands, Italy and other markets where directors may be removed or alternative candidates put on the proxy by shareowners, we have found that proxy access improves the quality of dialogue between shareholders and directors, without being disruptive to companies or broadly generating election contests. It has also resulted in boards putting forth higher quality and less conflicted candidates.
- **Golden Parachute Approvals:** In addition to say on pay, we would like to see the legislation strengthened by incorporating provisions from legislation passed in the House of Representatives to require shareholder approval of golden parachutes (payments made to executives when their company is acquired). Australia recently adopted a shareholder approval requirement for golden parachute payments in excess of one year's salary. Use of a similar provision here would help to change the 'pay for failure' culture that has become such a problem in the United States.
- **Executive Compensation Practices:** From hearings held in 2007 by the House Committee on Oversight and Government Reform, it is clear that much of the misalignment in executive compensation incentive structures has been encouraged by lack of independence on the part of compensation advisors and compensation committee members. The Act would mandate development of independence criteria for compensation committee consideration when retaining advisors. It would also require that all members of compensation committees be independent directors, mandate the clawback of incentive compensation inappropriately paid based on results that are later restated, and require that companies report the relationship between executive compensation and company performance. We see these provisions as critical to restoring investor trust in integrity of the executive compensation process.
- **Independent Board Chair:** The Act would direct the SEC to develop rules requiring that companies disclose why they have adopted their board leadership structure. While this is a move in the right direction, we note that use of an independent board chair is a firmly established practice Britain, Canada and Europe. The absence of a strong independent board chair is viewed by most investors as a structural impediment to

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effective board oversight of management that presents unnecessary shareholder risk. We urge Congress to strengthen this provision by adopting a presumption that boards have an independent chair, with ability to depart from this governance structure if a full explanation is provided.

We hope these comments will be helpful during Congressional deliberations. These are critically important reforms, both for future stability of the global economy and the ability of United States companies to attract capital from investors at favorable rates.

Please contact us if you have any questions or would like additional information.

Yours sincerely,

Wayne Kozun
Senior Vice President, Public Equities

cc: President Barack Obama
Senate Banking Committee Members (c/o Dean V. Shahinian)
Senator Harry Reid, Senate Majority Leader
Senator Mitch McConnell, Senate Minority Leader
Representative Barney Frank, Chair, House Committee on Financial Services