



March 19, 2010

The Honorable Christopher J. Dodd
Chairman
Committee on Banking, Housing
and Urban Affairs
U.S. Senate
Washington, D.C. 20510

The Honorable Richard C. Shelby
Ranking Member
Committee on Banking, Housing
and Urban Affairs
U.S. Senate
Washington, D.C. 20510

Re: "Restoring American Financial Stability Act of 2010" Committee Print

Dear Chairman Dodd, Ranking Member Shelby and Members of the Committee:

I am writing to you on behalf of the Social Investment Forum (SIF), the U.S. membership association for professionals, firms, institutions and organizations engaged in socially responsible and sustainable investing. SIF members advance investment practices that consider environmental, social and corporate governance criteria to generate long-term competitive financial returns and positive societal impact.

SIF has been on record as strongly supporting three key areas of financial reform: meaningful corporate governance enhancements (including proxy access, majority voting and "say on pay"); self-funding of the Securities and Exchange Commission (SEC); and an independent Consumer Financial Protection Agency (CFPA). We welcome the progress reflected in the present version of the Committee Print on the major fronts of corporate governance reform and SEC self-funding, as well as on portions of the bill addressing systemic risk, credit rating agencies, hedge funds and over-the-counter derivatives, but we have concerns about provisions in the bill that could compromise the functional independence of the proposed consumer protection entity.

The Social Investment Forum and its members are convinced that balanced corporate governance reforms are essential to preventing another financial crisis and must be an integral part of comprehensive financial reform. Just last week, the court-appointed examiner made public a 2,200 page report on the Lehman Brothers bankruptcy, which found Lehman Brothers executives "at least grossly negligent" and others engaged in "actionable balance sheet manipulation." It is more evidence of why better governance practices and greater accountability are needed in America's boardrooms.

Two of the key reforms included in the Committee Print—"Say on Pay" and Majority Voting—are already mainstream practices that will go a long way to instilling greater accountability. Shareholders overwhelmingly have voiced their support for these governance reforms. Moreover, a growing number of corporations are adopting these provisions voluntarily.

Say on Pay: First, shareholder support for "Say on Pay" resolutions is strong and continues to grow. In 2009 alone, 76 proposals came to votes and averaged 46.1 percent support, with 24 majority votes recorded. Furthermore, a growing tide of companies is voluntarily adopting "Say on Pay" policies. Aflac was the first U.S. company to do so in 2008, and since then it has been joined by more than 50 other companies, including some of America's largest and most venerated firms—Colgate-Palmolive, Intel, Ingersoll-Rand, Motorola and Microsoft.

Majority voting: According to the California Public Employees' Retirement System (CalPERS), about 71 percent of S&P 500 companies and 50 percent of Russell 1000 companies already have adopted some form of policy for director resignations or majority vote standards for director elections. Shareholder proposals on majority voting have a long history of strong support, and CalPERS is filing 58 resolutions this year alone at U.S. companies.

Proxy access: The Securities and Exchange Commission (SEC) needs clear authority to require companies to include director nominees from shareholders in their proxy statements, as long as the

shareholders meet certain ownership thresholds and other requirements. This “proxy access” will give shareholders a much needed tool to hold corporate boards and managements accountable. Again, we applaud the committee’s leadership for including this provision in its draft and urge that this provision be retained during committee mark-up.

We realize that this reform faces stiff opposition from many corporations, who assert that proxy access will give “special interests” inordinate power over board elections and otherwise distract management in ways that will detract from long-term shareholder value. However, these arguments ignore the broad and deep base of investor support for access and the fact that access represents a need for accountability to all types of investors, not just union pension funds. In 2007 and 2009, when the SEC invited comments on proxy access, a record number of individual and institutional investors submitted comments in an overwhelming indication of support for this reform. Furthermore, a shareholder nomination would only succeed if a majority of the shares held were to vote for the new director, requiring a very broad coalition of many different types of shareholders.

SEC self funding: If the SEC is going to be an effective regulator, especially in the face of additional responsibilities in the years ahead, it needs adequate, reliable funding. Self funding from the fees it already collects from issuers’ filings and enforcement actions is the right choice, and we support this component of the financial reform bill.

“Clawback” provisions: Shareholders should be able to take compensation back from executives if the compensation was based on inaccurate financial statements or other fraudulent acts, and many U.S. companies already have acknowledged that this is a good governance practice. According to CalPERS, about 40 percent of S&P 500 companies have “clawback” provisions, as do about 30 percent of Russell 1000 companies. Again, we are supportive of this reform in the Committee Print.

Stronger compensation committees: Only permitting independent directors to serve on companies’ compensation committees and giving directors on these committees authority to hire independent compensation consultants in weighing executive compensation packages are good practices that most U.S. publicly traded companies have adopted. Therefore, we see these as beneficial additions to financial reform legislation.

Consumer protection: The latest Committee Print calls for the creation of a “Consumer Financial Protection Bureau” within the Federal Reserve with Presidentially appointed leadership and rulemaking authority. However, it also gives the proposed new “Financial Stability Oversight Council” authority to overrule the Bureau’s rules. We will be watching closely to see how debate unfolds on this front and encourage you to push for greater independence for the entity. Consumers need protection from predatory and other unfair lending practices and we believe a strong, independent authority is the best mechanism to achieve this goal.

Risk regulator: SIF backs the establishment of a new Office of Credit Rating Agencies at the SEC to strengthen government oversight of credit rating agencies. SIF believes the legislation is heading in the right direction with the creation of a Financial Stability Oversight Council charged with identifying and addressing systemic risks posed by large, complex companies, products and activities before they threaten the stability of financial markets, as well as other steps to prevent having to bail out financial firms deemed “too big to fail.”

Oversight of credit rating agencies: SIF supports provisions to ensure that investors can trust credit ratings. We agree that the SEC should have oversight of credit ratings agencies, evaluate them regularly and de-register those that repeatedly violate regulations. We appreciate seeing these provisions in the Committee Print and hope they remain in final legislation.

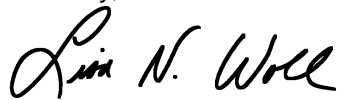
Hedge funds: SIF urges the Senate Banking committee to move forward with the strongest possible regulation of hedge funds. We endorse the concept that hedge funds that manage more than \$100

million must register with the SEC as investment advisers and must disclose financial data needed to monitor systemic risk and protect investors.

Derivatives: In addition, SIF approves of moves to bring greater regulation and transparency to over-the-counter derivatives markets by granting greater authority to the Commodity Futures Trading Commission and the Securities Exchange Commission to oversee swaps and security-based swaps, over-the-counter market participants and market activity. In particular, SIF welcomes provisions in the bill to impose capital and margin requirements to participate in the over-the-counter derivatives markets.

The Social Investment Forum urges members of the Senate to pass the strongest possible financial reform bill, making it clear to the American people that the harsh lessons of the financial crisis have been learned.

Sincerely,

A handwritten signature in black ink that reads "Lisa N. Woll". The signature is written in a cursive style with a large initial "L" and "W".

Lisa Woll, CEO
Social Investment Forum