CalPERS

CalPERS Priorities for the U.S. Securities and Exchange Commission

Five years removed from the most significant financial crisis since the Great Depression, markets have rebounded but economic growth is fragile and regulators face severe pressure to ease the regulatory requirements in lieu of enhancing shareowner rights and investor protections. In that regard, the last Congress enacted the Jumpstart Our Business Start-ups (JOBS) Act which reduced long-standing investor protections and relaxed critical financial disclosures under the auspices of improving capital formation. We oppose the erosion of investor protections and believe providing investors fewer rights and less information is more likely to discourage the allocation of capital by institutional investors.

As a long-term shareowner with $265 billion in assets held in trust for 1.6 million California workers, retirees and their families, we strongly support the work of the U.S. Securities and Exchange (SEC or Commission) to implement meaningful reform in the wake of the financial crisis.

Three years after the enactment of the Dodd-Frank Wall Street Reform and Consumer Protections Act (Dodd-Frank), there is unfinished business that is critical to protecting and strengthening shareowner rights and investor confidence in the financial markets.

The Challenge

Without comprehensive and effective financial market reform, we run the risk that systemic risk goes unchecked, and pension fund assets are again made vulnerable. Another financial downturn would erode those assets and undermine the retirement security of the beneficiaries we represent. We also recognize that the Commission's work can't be achieved without the resources it needs to be effective. The SEC needs to be given the tools to do the job: full and independent funding.

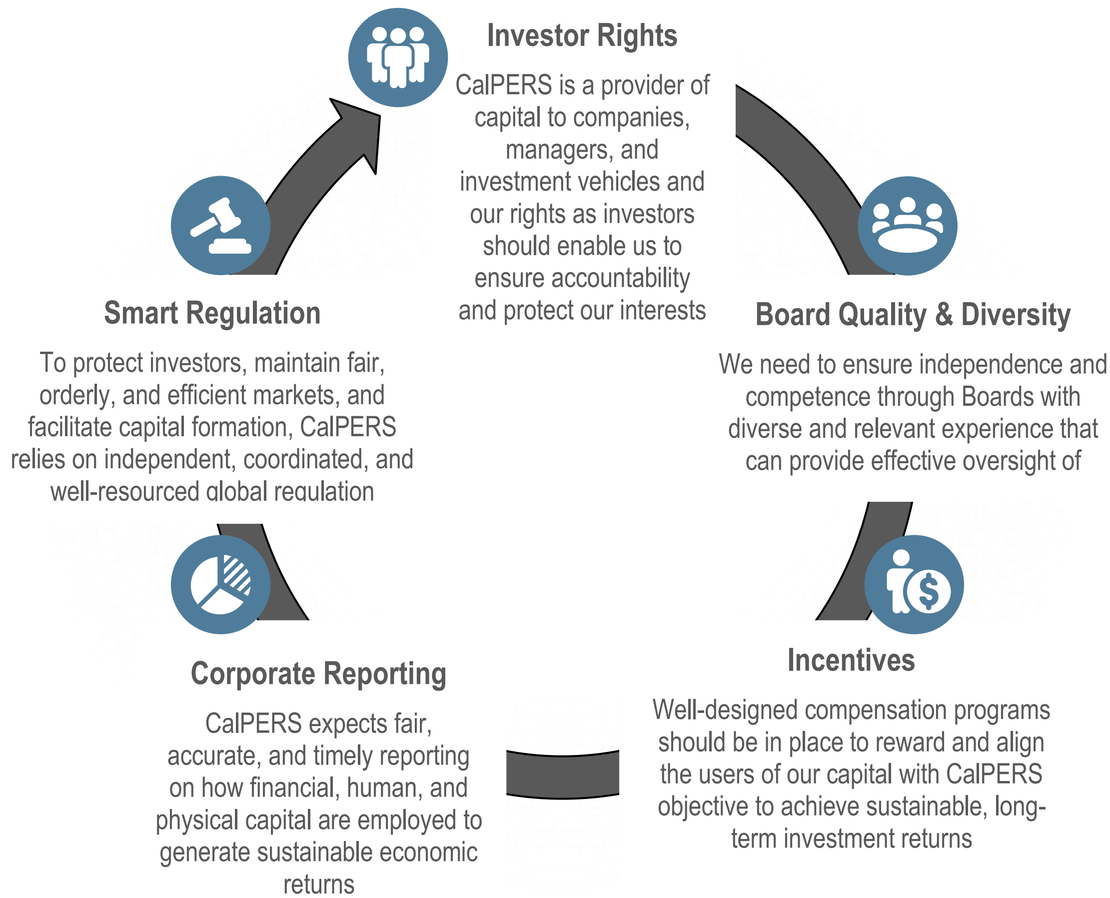
The SEC's Vital Role

As a long-term investor in U.S. and global financial markets, we rely on the SEC to regulate the public markets to protect investors and enhance the markets' operations. The Commission plays a vital role in bolstering investor confidence in the public markets by ensuring transparency for investors, shareowner rights, enforcing director independence, and enhancing governance.

The Priorities

We urge the Commission to establish a proactive agenda to advance the mission of protecting investors, maintaining fair, orderly, and efficient markets, and to facilitate capital formation. We recommend the Commission reinforce its strong investor protection focus by addressing the following near-term financial market reform priorities. This includes critical rulemaking and oversight that helps reinforce what we consider core issues for long-term value creation.

Core Issues for Long-term Value Creation



INVESTOR RIGHTS

- **Investor Advocate –** While we are pleased that the SEC has reconstituted the Investor Advisory Committee (IAC), and CalPERS CIO is honored to serve as chair, the position of Investor Advocate remains unfilled. The Investor Advocate will provide investors with a seat at the table, ensuring that the investor voice is heard during rulemaking.

- **Universal Proxy Access –** Renew rulemaking for universal proxy access by addressing the issues raised in the DC Circuit Court decision. Proxy access is a fundamental shareowner right to nominate director candidates who can be considered on a level playing field with board or management candidates.

- **Private Ordering –** Historically, the SEC's has provided issuers with no-action relief on shareowner proposals relating to the acceptance and retention of auditors. In light of the recent widespread public debate on the issue of mandatory auditor rotation, we would ask the Commission to voice its support for private ordering in this area. CalPERS supports independent, high quality audit and sees rotation as an important element. *(Note – CalPERS supports the work of the PCAOB as a member of the Investor Advisory Group.)*

- **Proxy Plumbing –** According to some securities experts, the SEC has not conducted an in-depth review of its proxy voting rules since 1976. Clearly, there have been technological advancements and a wealth of proxy voting experience since that time. We believe the Commission should modernize the current proxy rules to reflect these developments and consider other rules that would improve transparency, efficiency and accountability in proxy voting.

BOARD QUALITY & DIVERSITY

- **SEC Enhanced Disclosure for Board Quality and Diversity –** CalPERS applauds the SEC for developing the enhanced disclosure requirements on diversity, moving companies to greater transparency around the directors and nominees qualifications. We would urge the Commission to closely monitor the adequacy of those disclosures.

- **Majority Voting –** CalPERS considers that Board members should step down if they do not win a majority of the votes cast in uncontested elections. We have engaged over 200 major companies to negotiate reform through private ordering, and are supporting the call for this requirement to be included in NYSE and NASDAQ listing rules.

INCENTIVES

- **Executive Compensation –** We await final rules on the remaining executive compensation provisions under Dodd-Frank. CalPERS has engaged over 200 companies following our vote against advisory proposals on compensation ("say on pay"), with over half agreeing to make significant improvements to align with long term owners. We support long term performance targets, with risk hurdles, and strategic goals, factoring in relevant sustainability factors such as environmental, regulatory and health/safety provisions.

CORPORATE REPORTING

- **Climate Risk Disclosure –** CalPERS commends the Commission for issuing interpretive guidance on climate risk (issued in 2010). This was an important first step and we recommend that the Commission expand its work in this area beyond climate change to underscore the importance of material sustainability risk disclosure. CalPERS supports the Sustainability Accounting Standards Board (SASB) and we encourage the Commission to continue its dialogue with SASB as they develop industry-specific sustainability accounting standards for publicly listed companies. We urge the Commission to use the SASB standards in review of sector filings, to continue to issue comment letters addressing inadequate disclosure of material climate change issues, and collaborate with other federal agencies to analyze the material sustainability risks and opportunities.

- **Global Accounting and Audit –** CalPERS is a global investor and has an interest in high quality, international financial reporting and audit. We have supported the work of the IASB and SEC to develop plans for bringing US and international standards into alignment. It is important that the work plan be completed.

- **Corporate Charitable and Political Expenditures –** In the wake of the Supreme Court's *Citizens United* case, CalPERS adopted a policy calling on corporate boards to disclose policies for decision making on charitable and political expenditures.

SMART REGULATION

- **Credit Rating Agencies –** Provide for an accountable and transparent ratings system with full disclosure on data and models used to develop securities ratings. Develop an independent mechanism to track the accuracy and effectiveness of the ratings process and complete the study of financing alternatives for credit rating agencies.

- **Volcker Rule –** Finalize the rulemaking regarding imposing prohibitions and restrictions on proprietary trading. We believe the so-called Volcker Rule will help reduce the risks brokerage operations pose to their financial holding companies and, if effectively implemented, will mitigate the risks systemically important financial institutions pose to the overall financial system.

- **Swaps Regulation –** We believe it is imperative that US swaps regulators harmonize their regulations to the greatest extent possible. We believe the SEC should finish implementing Title VII of Dodd-Frank with particular attention paid to centralized clearing and increased market transparency and disclosure. Moreover, in light of the CFTC adoption of a final rule relating to the cross-border application of its swaps regulations, we would ask that the SEC finalize a rule that conforms with the CFTC's rule.

For more information –

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