

COUNCIL OF INSTITUTIONAL INVESTORS

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December 2, 2008

The Honorable Nancy Pelosi
Speaker of the House
235 Cannon House Office Building
Washington, DC 20515

Re: Financial Markets Regulatory Reform Legislation

Dear Madam Speaker:

On behalf of the Council of Institutional Investors and the undersigned member funds, I am writing to urge you to consider a number of key corporate governance improvements for inclusion in any financial markets regulatory reform legislation that may be pursued by the 111th Congress.

The Council is a nonprofit association of public, union and corporate pension funds with combined assets that exceed \$3 trillion. Member funds are major long-term shareowners with a duty to protect the retirement assets of millions of American workers. The Council strives to educate its members and the public about good corporate governance, shareowner rights and related investment issues, and to advocate on our members' behalf.

As significant long-term investors, Council member funds have a deep, abiding interest in ensuring that the capital markets are on a sound footing. The global financial crisis has unmasked weaknesses in US regulation of the capital markets and has badly shaken trust in those markets. Simply put, the current crisis represents a massive failure of oversight. In order to restore trust and ensure that such a crisis never happens again, regulators and investors must be given the tools necessary to guarantee robust oversight and meaningful accountability of corporate managers and directors.

As Congress evaluates potential reforms, certain principles should be paramount: Oversight must include an independent and reliable regulator with a mandate of investor protection; and required disclosures of the issuers of securities must be robust, timely and meaningful. Above all, investor protection and enforcement of the rules must be vigorous.

Vigorous regulation focusing on investor protection cannot alone solve many of the issues that led to the current crisis, however. While crucial, such regulatory oversight is no replacement for shareowner driven market discipline. Only through the combination of effective regulation and strong investor oversight will trust be restored and future crises avoided. Investors need stronger tools to hold managers and boards accountable.

December 2, 2008

Page 2 of 7

In our view, a number of key corporate governance reforms are essential to providing meaningful investor oversight of management and boards. Such measures would address many of the problems that led to the current crisis, and more importantly, empower shareowners to anticipate and address unforeseen future risks. Governance reforms must thus be part of any broader legislative effort to improve the effectiveness of the regulation of our financial markets.

More specifically, the governance improvements that the Council believes would have the greatest impact and, therefore, should be contained in any financial markets regulatory reform legislation include:

- 1. Majority Voting for Directors:** Directors in uncontested elections should be elected by a majority of the votes cast.
- 2. Shareowner Access to the Proxy:** A long-term investor or group of long-term investors should have access to management proxy materials to nominate directors.
- 3. Broker Voting Restrictions:** Broker non-votes and abstentions should be counted only for purposes of a quorum.
- 4. Independent Board Chair:** The board should be chaired by an independent director.
- 5. Independent Compensation Advisers:** Compensation advisers and their firms should be independent of the client company, its executives and directors, and should report solely to the compensation committee.
- 6. Advisory Shareowner Vote on Executive Pay:** All companies should provide annually for advisory shareowner votes on the compensation of senior executives.
- 7. Stronger Clawback Provisions:** At a minimum, senior executives should be required to return unearned bonus and incentive payments that were awarded due to fraudulent activity or incorrectly stated financial results.
- 8. Severance Pay Limitations:** Executives should not be entitled to severance payments in the event of termination for poor performance.

We look forward to working with you on this critical issue of reforming the regulation of the financial markets. To continue the dialogue, we plan on contacting your office in the near future to arrange for a mutually convenient date and time to meet with you and your staff in person to share views and discuss these matters in more detail. In the meantime, if you have any questions, please feel free to contact me at (202) 261-7081 or jeff@cii.org, or Council analyst Jonathan Urick at (202) 261-7096 or jonathan@cii.org.

Sincerely,



Jeff Mahoney
General Counsel
Council of Institutional Investors



Daniel F. Pedrotty
Director, Office of Investment
AFL-CIO Pension Plan



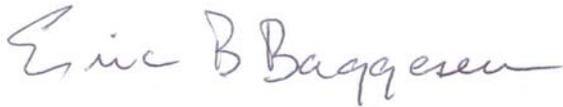
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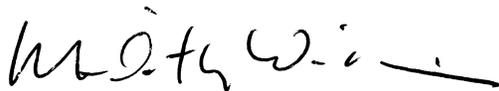
John Chiang
California State Controller



Jack Ehnes
Chief Executive Officer
California State Teachers' Retirement System



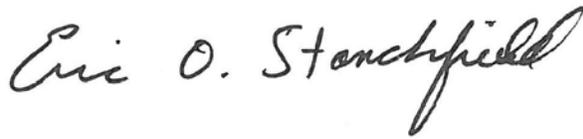
Bill Lockyer
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Meredith Williams
Executive Director
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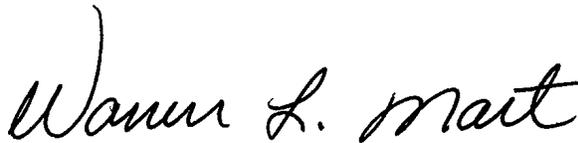
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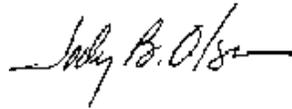
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Warren L. Mart
Board Co-Chair, Union Trustee
IAM National Pension Fund



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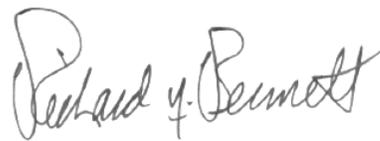
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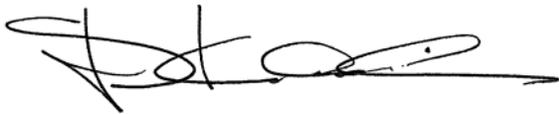
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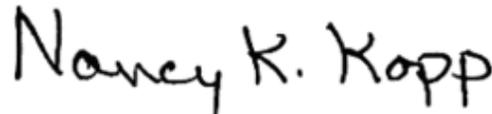
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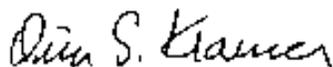
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New Jersey Division of Investment



Orin S. Kramer
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New Jersey State Investment Council



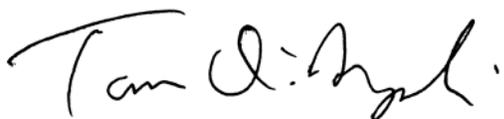
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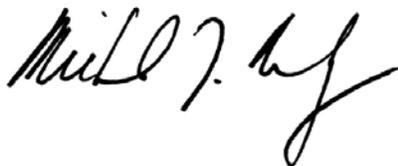
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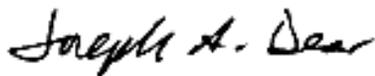
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