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Investors speak out on Dodd's Financial Reform Bill

Offer Do's, Don'ts as Bill Reaches Critical Stage

Washington, D.C. – Institutional investors and leading corporate governance and capital market experts today offered lawmakers a list of "do's and don'ts" in five key sectors as the Senate Banking Committee takes up a bill by Chairman Christopher Dodd (D-Conn.) to plug regulatory gaps exposed by the financial crisis. Without these reforms the United States risks another crisis.

The group, led by the Council of Institutional Investors, urged lawmakers to restore confidence and integrity in the markets by supporting effective and efficient reforms that are in the best interests of business, investors and taxpayers – commenting that "it's about Main Street, not just Wall Street."

"The time to act is now," Executive Director Ann Yerger of the Council of Institutional Investors (CII) said at a news conference. "The American public and investors have…suffered trillions of dollars in investment losses. The confidence in the integrity of our markets has been undermined. It is time for our leaders to act on this long overdue bill. It's sensible and is in line with global standards."

As Dodd's bill heads to the committee next week, Joe Dear, CII Chair and Chief Investment Officer of the California Public Employees' Retirement System (CalPERS), warned that "massive lobbying threatens key provisions" aimed at reining in unregulated players and bolstering confidence in the market.

Dear was joined by five speakers who proposed the following "do's" and "don'ts" for the bill:

Ira Millstein, Senior Associate Dean for Corporate Governance at Yale and for many years corporate counsel to top US companies, commented that Dodd's corporate governance provisions were key.

- **"Do** have confidence in long-term shareholders to act like the owners of the company – to improve boards, and performance. Shareholders will only vote for candidates who will make a contribution and then, only when changing the board is necessary for valid business reasons."
- **"Don't** be fearful that the legislation will lead to an SEC proxy access proposal that would upset board cohesion and lead to 'bomb throwers' populating the board room. The job of the SEC is to monitor this process and it has demonstrated caution and reflection."

Richard Breeden, former SEC chairman who introduced reforms 20 years ago, a current investment manager and board director of several companies, on why the bill is good for business:

- **“Do** remember that a common element in the failure of Lehman Brothers, AIG, Fannie Mae, and other firms was that their boards of directors did not control excessive risk-taking, did not prevent compensation systems from encouraging a ‘bet the ranch’ mentality, and did not hold management sufficiently accountable. When boards failed to do their jobs of overseeing risk taking and encouraging sustainable performance, investors and taxpayers both suffered enormously.”
- “**Don’t** forget that accountability is critical to motivating people to do a better job in any organization or activity. An effective board can help every business understand and control its risks, thereby encouraging safety and stability in our financial system and reducing the pressure of regulators, who will never be able to find every problem.”

Anne Sheehan, Director Corporate Governance, California State Teachers’ Retirement System (CalSTRS), on giving shareowners the tools to do the job:

- **“Do** empower owners. Regulators can only do so much. They need to be supported by market mechanisms. Chief among these are tools to hold boards accountable. The Dodd bill reaffirms the authority of the SEC to introduce rules to allow shareowners access to the proxy.”
- **“Don’t** get into the weeds with the SEC – its role is to work out the rules on proxy access, with proper consultation. The job of Congress is to provide authority, or in this case, to confirm it.”

Anne Simpson, Senior Portfolio Manager, head of CalPERS Corporate Governance, on regulation of derivatives and credit rating agencies:

- “**Do** rein in the wild frontiers of the capital market…ensure that derivatives are brought in from the shadows, fully regulated and traded on exchanges. Transparency is vital, and exceptions and exemptions must be resisted at all costs.”
- “**Don’t** let credit ratings agencies and other critical intermediaries in the market evade regulation. Nail down their liability, their fiduciary duties, professional standards, disclosure and give regulators the power of proper oversight. Hold on to Dodd’s plan to give the SEC independent funding so it can enforce effectively.”

Greg Smith, General Counsel, Public Employees’ Retirement Association of Colorado, on the human cost of inadequate regulation:

- “**Do** remember where investments come from. Savings. Ordinary people around this country channel their money through their pensions, their mutual funds, their college and other family savings. Every penny lost in the financial crisis hurt a family. Colorado’s pension fund like our peers around the world lost a great deal of money in the financial crisis. As a result, our General Assembly has taken the responsible but painful action of reducing pension benefits to all of our 470,000 members and retirees. These are the American middle class, facing unemployment, home foreclosures, and also the loss of their savings for retirement. Those voters will be at the polls in November, and Congress must not be found wanting."

- "**Don't** in any way dilute, undermine, or reduce the scope and powers of the Consumer Protection agency. Ensure it has wide authority, independence and enforcement powers. Make sure these are broadly drawn, so they can play a preventive role."

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