

July 17, 2009

Hon. Barney Frank, Chairman  
House Committee on Financial Services  
2129 Rayburn House Office Building  
Washington, DC 20515

Dear Mr. Chairman:

We applaud your continuing leadership in developing comprehensive legislation to reform the regulation of the U.S. financial system. It will take the combination of strengthened oversight by both regulators and investors to restore and maintain the integrity and effectiveness of our capital markets and the accountability of its participants. Accordingly, we are writing to strongly urge that the financial regulatory reform legislation your Committee is drafting include key corporate governance reforms to provide investors with the necessary tools to achieve appropriate transparency, accountability, and management of risk at the corporate level.

The undersigned State and local government pension funds and plan sponsors from across the country represent more than 6.8 million active and retired employees with combined assets of \$772 billion and annual benefit payments to retirees and their families totaling more than \$47 billion. Public plans as a whole distribute more than \$160 billion annually in retirement and disability benefits. To discharge that responsibility, we are inherently long-term investors in the capital markets, providing patient capital with a decades-long investment horizon. Because of the sheer size of our plans and the need to diversify to provide sound investment returns, we are broadly invested throughout the capital markets in most asset classes. Accordingly, the public plan community has a particularly strong and continuing interest in the overall health and integrity of the U.S. financial markets. In addition, as significant, long-term shareholders owning millions of shares in a broad range of publicly-traded companies, we have a strong interest in ensuring that these companies operate with transparency through the board of directors, financial reports, and methods of communication with investors, have a board and a management that are clearly accountable for properly serving the interests of the business and its owners, and appropriately manage risk to promote the long-term health of the business.

The financial crisis at its heart reflects a failure of oversight – at the regulator level and at the individual corporate level. We have been heartened by your active support for reinvigorating and enhancing the role of the Securities and Exchange Commission (SEC) to serve as a strong and independent regulator overseeing the interests of investor protection. Robust, effective oversight also requires that investors have the necessary tools to hold management and boards accountable in order to protect our interests as the owners of the company. From a broader perspective, as the shareholders we are the first line of defense against mismanagement of risk by the company. Thus, our efforts as significant, long-term shareholders acting within the corporations in which we hold ownership interests to achieve transparency, accountability, and proper management of risk are complementary to the external regulatory efforts of the SEC.

To achieve meaningful shareholder oversight of management and boards, in addition to the shareholder advisory vote on executive compensation which the Administration has proposed and the Committee has adopted in past legislation, several key corporate governance reforms would be crucial components of financial regulatory reform legislation:

- ***Shareholder Access to the Proxy*** – Candidates for a company’s board of directors almost always are nominated by the very management which the board is elected to oversee. This is due in significant part to the high cost of the independent proxy solicitation effort necessary for shareholders to nominate board candidates under the current rules. As a result, shareholders historically have had no real voice in the board nomination process, little choice in voting their shares, and no effective means of holding the members of the board accountable. Proxy access is necessary for shareholders to have a meaningful choice in exercising their right to vote for board members, and in turn to pursue effective board accountability. The SEC recently proposed rules under which a long-term investor or group of long-term investors holding a meaningful interest in the company would have access to management proxy materials to nominate directors and communicate such nominations to fellow shareholders. It is crucial that the financial regulatory reform legislation reaffirm the SEC’s authority to take action on proxy access, to enable shareholders to exercise meaningful board oversight. Such a reaffirmation of SEC authority by Congress would be key to ensuring a strong SEC.
- ***Majority Voting for Election of Directors*** – Under the current rules, shareholders facing a slate of board candidates nominated by management can only “withhold” their votes to express opposition to a board candidate for an uncontested seat, who can be easily elected with only minimal votes. Accordingly, to promote effective board accountability, the SEC should be authorized to direct as a listing requirement that directors in uncontested elections must be elected by a majority of the votes cast.
- ***Independent Board Chair*** – Key roles of the chair of the board are to direct the flow of information to the board, appoint committee members, and to set the board’s agenda. Where the chair is also the chief executive officer of the company, who is supposed to be overseen by the board, transparency regarding information critical of the CEO’s activities and performance, independent oversight by the board, and ultimately accountability to shareholders can be compromised. Accordingly, the SEC should be authorized to direct as a listing requirement that the board be chaired by an independent director.
- ***Annual Election of Board*** – Experience has shown that the use of classified boards in which only a portion of the directors face election each year serves to entrench and insulate the board as well as management from accountability. Accordingly, the SEC should be authorized to direct as a listing requirement that each member of the board be subject to annual election by its shareholders.

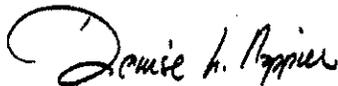
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In summary, it will take the combination of strengthened oversight by both regulators and investors to restore and maintain the integrity and effectiveness of our capital markets and the accountability of its participants. Therefore, we strongly urge that the financial regulatory reform legislation include the key corporate governance reforms that we have outlined, to provide investors with the necessary tools to ensure appropriate transparency, accountability, and management of risk at the corporate level.

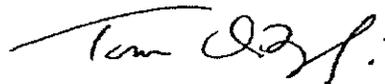
We appreciate very much your consideration of the perspective of the public pension plan community on these issues. As long-term institutional investors with a uniquely strong interest in the overall health and integrity of the U.S. financial markets, we will work actively with you and your Committee in support of comprehensive financial regulatory reform legislation.

cc: Hon. Spencer Bachus,  
Ranking Minority Member

Sincerely,



Denise L. Nappier  
Connecticut State Treasurer  
Connecticut Retirement Plans and Trust Funds



Thomas P. DiNapoli  
New York State Comptroller  
New York State Common Retirement Fund



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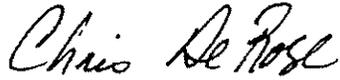


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Chief Executive Officer  
California Public Employees' Retirement System



Jack Ehnes  
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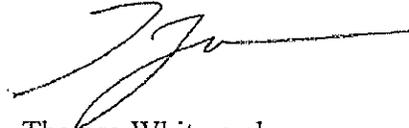
Chris De Rose  
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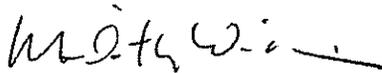
Ben Westlund  
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