



**OFFICE OF
STATE TREASURER
DENISE L. NAPPIER**

NEWS

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Nappier Urges SEC to Split Banking, Analyst Areas of Wall Street Firms; Move in Line with Treasurer's Next Level of Corporate Reforms

CT Treasurer Had Previously Urged Separation to Build Back Consumer Confidence

Connecticut State Treasurer Denise L. Nappier said today that a proposal reported to be under consideration by the Securities and Exchange Commission (SEC) that would require Wall Street firms to separate their investment-banking and research operations could be an important step in restoring investor confidence in the investment industry.

Nappier, who previously called for such a step as part of what she dubbed a "second tier" of corporate governance reforms, said the plan, reported in *The Wall Street Journal*, would help to "eliminate conflicts of interest in investment management firms and restore integrity to the financial markets."

The Connecticut Treasurer, principal fiduciary of the Connecticut Retirement Plans and Trust Funds, said the reforms approved by Congress, the Securities and Exchange Commission and the New York Stock Exchange in recent months form the "first tier" of regulatory and industry response to the string of corporate scandals.

"We can't afford to stop building confidence. We need to go on to the next level of corporate responsibility reforms," Nappier said. "This type of proposal, if fully adopted, could begin to accomplish that important objective."

Institutional investors from around the country – including Nappier -- have been working together for some time to eliminate conflicts of interest in investment management firms and restore integrity to the financial markets by implementing the principles developed, in part, by New York State Attorney General Eliot Spitzer in a settlement with Merrill Lynch last May.

Nappier is in the process of putting these principles in place for Connecticut's investment and debt managers, and has been urging other public pension funds, including state and municipal funds, to do the same. She welcomed SEC involvement to accomplish the important reform.

INDEX FUNDS

Nappier also reiterated her call for Wall Street's major index providers to consider the corporate governance policies of companies that are included in leading investment indexes, a centerpiece of her "second tier" plan.

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Nappier said the very nature of index funds – in which investors are virtually locked-in to individual stocks as long as the stocks remain included in the index – make consideration of corporate governance policies essential. As part of her second-tier of reforms, she is asking firms that establish the indexes – stock portfolios designed to match the performance of the market as a whole -- to take corporate governance into account when determining which stocks to include. The indexes are created by firms such as Standard and Poors (S&P) and the Frank Russell Company (Russell 1000, 2000, and 3000).

"This is an important issue not only for major institutional investors, but for tens of thousands of individual investors who hold mutual funds, many of which have investments that mirror index funds and include many of the same companies," Nappier said.

Among the corporate governance issues that should be considered, Nappier said, are: the composition, selection process and operating procedures for boards of directors and key board committees; executive compensation policy (including policy on expensing and re-pricing of stock options), corporate structure that affects shareholder rights, and strength of financial oversight.

Nappier said there have been initial discussions between her office and representatives of Standard and Poors on the issue.

Nappier's "second-tier" plan includes: expensing of stock options, more closely linking executive compensation plans to long term financial performance of company, strengthening auditor independence, audit committee oversight and training for audit committee members.

"As an industry, we're on our way but we're not there yet. We must do more if we are to fully restore public and investor confidence," Nappier said. "There is a tremendous opportunity for the SEC to advance the reform agenda. I'm hopeful that they will follow through."

Treasurer Nappier has long been a proponent of high standards for corporate governance and corporate accountability. When she took office she developed and proposed a comprehensive series of proxy voting policies, which were endorsed by the state's Investment Advisory Council.

*For more information on Treasurer Nappier's "second-tier" proposal, www.state.ct.us/ott
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