



# Social Investment Forum

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*Information, contacts and resources on socially responsible investing*

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Chairman Barney Frank  
Representative Spencer Bachus  
House Committee on Financial Services  
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Dear Chairman Frank and Representative Bachus:

We write to comment on HR 1257, the Shareholder Vote on Executive Compensation Act, in particular the section of the bill proposing an annual shareholder advisory vote on executive compensation.

The Social Investment Forum is the national nonprofit membership association dedicated to advancing the concept, practice and growth of socially and environmentally responsible investing. Our nearly 500 members are made up of social investment practitioners and institutions, including financial professional, analysts, portfolio managers, banks, mutual funds, researchers, foundations, community development organizations and public educators. We believe that environmental, social and governance issues (ESG) have a distinct impact on long term shareowner value. Moreover, our members engage with companies as active shareowners encouraging leadership on environmental, social and governance issues. We believe it is part of our fiduciary duty to engage companies on these issues.

Strong corporate governance is increasingly understood as essential in protecting shareholder interests. Accordingly, the governance records of companies are carefully scrutinized by many investors. Certainly disclosure of executive compensation philosophy and package is a central part of good governance. We are pleased that the new SEC compensation disclosure requirements are in place. This will help investors enormously.

However, as SEC Chairman Cox clearly declared, the SEC's role is to insure that investors have clear and accurate information on compensation. The SEC is not planning to intervene further on executive pay but expects the markets to play that role.

At present, investors have few real tools to address concerns related to executive pay packages that are inadequately aligned with shareowner value or that include perks that are questionable.

Investors can write a letter of opinion to the Compensation Committee of the Board, or if sufficiently opposed, can withhold votes for Directors who serve on the Compensation Committee. These are rather blunt instruments.

We believe additional checks and balances are desperately needed if shareowners wish to register concerns with, opposition to, or even approval of a specific compensation package.

The investor community is already actively encouraging companies to adopt an advisory vote practice providing shareholders direct communication to corporate boards. As you may know, this year over 40 institutional and individual investors filed shareholder resolutions with approximately 60 companies requesting that they set up an advisory vote process. The sponsors included the pension funds CALPERS, NYCERS and the State of Connecticut, 6 trade union pension funds including AFSCME, SEIU, AFL-CIO, along with 25 religious investors and a number of investment firms and mutual funds concerned about good governance.

AFLAC was the first company to respond positively by committing to adopt this practice. Approximately a dozen other companies have also responded constructively stating that the concept of an Advisory Vote has merit and that they would work with investors to study how such a practice could be put into effect in the U.S. markets. Companies involved in this study process include Pfizer, Schering Plough, Prudential, EMC and Intel among others.

This constructive solution approach is a positive response by a number of leading companies to this relatively new concept. Other companies, however, are not comfortable with this request and will have a vote at their spring stockholder meetings allowing an assessment of investor support for this proposal.

We expect that like majority voting for directors, this issue will quickly gain credibility with investors. Thus bill HR 1257 may well mirror the desire of an increasing number of investors.

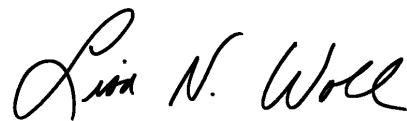
While some companies have indicated an interest in working constructively with investors on this issue, we have not seen a widespread embrace of this important shareholder rights initiative by corporate America. The current trend will likely result in a few leaders adopting this emerging governance best practice, with too many other companies failing to do so. It is our view that it is better to have a common practice followed by all companies, thus providing a level playing field.

The proposal to have an advisory vote provides an important vehicle for investors. We support HR 1257 and urge that the House Financial Services Committee vote it out of Committee, without weakening amendments, for a full House vote.

Sincerely,



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