CBIS

Christian Brothers Investment Services, Inc.

August 31, 2007

Ms. Nancy Morris, Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: Comment on Release No. 34-56160; IC-27913; File No. S7-16-07 and Release No. 34-56161; IC-27914; File No. S7-17-07

Dear Secretary Morris:

Christian Brothers Investment Services, Inc. ("CBIS"), a registered investment adviser under the Investment Advisers Act of 1940, would like to submit comments pursuant to the Securities and Exchange Commission's ("the SEC" or "the Commission") July 27, 2007 releases: "Proposed Rule: Shareholder Proposals" (Release No. 34-56160; IC-27913; File No. S7-16-07) and Proposed Rule: Shareholder Proposals Relating to the Election of Directors (Release No. 34-56161; IC-27914; File No. S7-17-07), (collectively "Proposed Rules" or "Proposed Releases"). We appreciate the opportunity to provide our comments on this proposed rulemaking.

CBIS manages over $4 billion for Catholic organizations seeking to combine faith and finance through the responsible stewardship of Catholic assets. CBIS is an active shareholder, working with companies on a number of issues we believe are critical to the long-term value of the investments we make on behalf of our clients.

CBIS supports proxy access in principle, but cannot support either proposed rule because neither would meaningfully improve management and board accountability to shareholders, and may weaken it. We oppose both S7-17-07 and S7-16-07 and believe the SEC should take no action on the current proposals.

We cannot support S7-17-07 because it explicitly prohibits proxy access proposals.

We cannot support S7-16-07 because of our concerns about three elements of the Proposed Rule:

- First, the proposal tests the idea of weakening the rights of shareholders to file non-binding shareholder proposals under rule 14a-8, a time-tested approach to initiating productive dialogue between management and shareholders regarding matters of strategic importance. Moreover, since no changes to advisory resolutions are actually proposed, the Proposed Release does the Commission's intentions on this issue sufficiently clear to allow for informed public comment.

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- Second, it provides proxy access in a manner which is so restrictive that it rarely if ever would be possible to replace a director even in the most underperforming companies.
- Third, it recommends the adoption of "Electronic Shareholder Forums" that would likely be of little benefit to shareholders or companies, especially if used as a substitute for existing mechanisms of shareholder enfranchisement.

Non-Binding Shareholder Proposals

Neither Proposed Release makes any specific proposals regarding the use of non-binding resolutions. S7-16-07 instead asks questions regarding these resolutions, apparently to test the concept of weakening shareholder rights to file them. CBIS believes that, as a matter of process, no changes to rule 14a-8 (other than those relating to the specific proposals on proxy access) would be appropriate without a separate rulemaking that incorporates public comment on specific proposed rule changes.

As a matter of substance, CBIS strongly supports the rights of owners of companies to file advisory resolutions on matters of corporate governance and social policy. As a proponent of hundreds of resolutions over two decades, it has been our experience that non-binding shareholder proposals are a particularly effective tool to improve corporate governance and protect long term shareholder value. We believe the rules are fair and have proven effective over three decades. We do not believe that any substantive changes in the rules are necessary.

We find it deeply troubling that the Commission may be considering weakening this important right, particularly in light of the Chairman's expressed objective of improving the dialogue between shareholders and management. If these test concepts are developed into proposed rules, the result could be a significant defeat for shareholder rights and corporate governance.

Shareholders have a universally recognized right and responsibility to hold management accountable through voting at annual meetings or by proxy. Shareholder resolutions allow owners of companies at least some say over what appears on proxy ballots.
The existing constraints on length and subject matter ensure that only issues that are appropriate for shareholders will appear on ballots. And the role of the Commission in enforcing its rules usually ensures that all parties are treated fairly.

While shareholders and companies have other means of communicating with each other, none provide the level of information about the perspective of all shareholders, and none guarantee shareholders a platform with management. Proposals that achieve a critical mass of support signal managers that their requests should be taken seriously; sustained low votes may weed out issues that do not enjoy broad support.

Shareholder resolutions, by themselves, do not effect change in company behavior. Advisory resolutions do not require companies to act, but only to listen. They promote collaborative dialogue between shareholders and management aimed at resolving disagreements about policy issues. It is also our experience that companies increasingly recognize the value of shareholder dialogue to their own success, and are more willing over time to collaborate with shareholders to resolve concerns regarding governance or social issues. These companies understand that shareholders can serve as “early warning systems” regarding potential problems of which they may not yet be aware. We are finding that, increasingly, we are able to withdraw our resolutions prior to their appearance on the ballot because of companies’ willingness to reach agreements on the issues.

These dialogues have produced tangible results. Many best governance practices, such as annual election of directors and submitting poison pills to shareholder votes, were originally introduced by shareholders in the form of advisory resolutions, and gradually were adopted by companies. Emerging issues such as “say on pay” and majority voting standards have consistently received substantial voting support and positive response from some companies.

Most advisory shareholder proposals concern traditional issues of corporate governance, but resolutions relating to social and environmental sustainability are receiving increasing levels of support. It is becoming clearer that many social issues are important to the long term financial performance of companies. In fact, investors are increasingly integrating into portfolio management environmental, social, and governance (ESG) issues of the sort that appear on resolutions. The UK law firm Freshfields Bruckhaus Deringer issued a report concluding that fiduciary duty may require institutions to consider ESG issues if those factors may impact the long term value of the company. For years, CBIS has considered active engagement with management to be part of its fiduciary duty to shareholders.

For example, for several years beginning in the mid-1990s, shareholders including CBIS filed resolutions with banks and mortgage companies regarding aggressive marketing tactics in their subprime mortgage lending business. While these products were highly profitable in the short term, we questioned the quality of the banks’ portfolios and raised concerns about the potential impact on borrowers. In light of recent turmoil in the financial markets linked in part to securitized subprime loans, we believe that these resolutions clearly raised issues of fiduciary and strategic importance.

Regarding specific questions posed in Section C of the Proposed Release on the subject of non-binding shareholder proposals:

We oppose any effort by the Commission to delegate authority for developing or enforcing shareholder rights to file non-binding proposals at companies, including the "opt-out" provision suggested in the proposed rule. The current system treats all companies and shareholders equally; the opt-out procedure would likely result in a confusion of standards across companies and states. Moreover, it would exacerbate existing disparities in the quality of corporate governance, since companies with the weakest governance would be most likely to impose the harshest restrictions on shareholders.

Our experience in non-US markets that allow companies broad discretion in how to handle shareholder proposals is that companies can rarely be counted on to respect ownership rights in this area. The absence of a formal, impartial means of resolving conflicts can result in more aggressive tactics by shareholders and other stakeholders, public disputes that become distractions for management, and management that is out of sync with shareholder wishes. By contrast, the US system of shareholder resolutions ensures a level playing field where disputes can be resolved in a manner that all accept.

Second, we do not support the raising of thresholds for resubmission. Most resolutions begin with low favorable vote totals, but support for many issues rises as investors become more familiar with the issues that are raised. For example, religious and social investors have filed resolutions on climate change for at least ten years. For several years, these resolutions received minimal levels of support. This year, some of these resolutions received votes of over 30%, a vote that many CEOs take notice of, because of the heightening public awareness of this issue. Early efforts of shareholders to advocate for attending to the growing risks of global warming contributed its emergence as a prominent public issue.

We do not support increased disclosure requirements for shareholder proponents. It is not clear how this would aid investors in evaluating the merits of the proposals. Additionally, the costs of compliance may deter shareholders, particularly smaller shareholders, from exercising their rights to file. Moreover, it may discourage shareholders from engaging in productive informal dialogues with management.

We could support the increase in the minimum ownership threshold, say to $10,000, to account for inflation. The Commission should avoid disenfranchising many shareholders by adopting a percent of ownership standard. Small investors with long-term investment horizons have a significant stake in companies' success, and decades of experience demonstrates that they have good ideas to share. Though possessing far less than 1% of the shares of any company in our portfolio, CBIS has twice persuaded company boards to support shareholder resolutions that we filed and on dozens of occasions we have withdrawn resolutions after reaching substantive agreements with companies. Clearly, management at these companies considered our ideas worthwhile, regardless of our size.

In general, we do not see a compelling case for substantial changes to rule 14a-8, which has effectively regulated shareholder rights to the proxy for over three decades. There have been no indication that these proposals impose undue hardship on companies, and we believe that they benefits to the competitiveness of U.S. corporations outweighs any costs they might impose.

Advisory shareholder resolutions serve as the foundation of productive and collaborative dialogue between shareholders and management. In their absence, we are concerned about the possibility of deteriorating relationships between companies, shareholders and stakeholders, with the potential to result in increased conflict and more adversarial tactics being adopted by some.

We urge the Commission to drop the matter or non-binding resolutions and maintain the current system, or else engage in dialogue with investors about how to strengthen this important means of management and board accountability.

Proxy Access

Boards of directors represent shareholders and should be accountable to them. Yet, owners of companies currently have no practical say in who is nominated to serve. A moral hazard exists for the directors of most companies, who may have a fiduciary duty to shareholders but limited direct accountability to them.

In general we believe that the board, including its nominating committee, is the appropriate entity to ensure that director nominees are well-qualified and able to serve the best interests of shareholders. Shareholders' primary function should normally be to approve or reject these nominees. It should only be in the unusual circumstances of unresponsive and ineffective boards that shareholders should take action to nominate dissident directors.

Short of a takeover bid, shareholders may nominate directors only by launching a proxy contest at great cost, which few shareholders are able or willing to bear, even in the case of seriously underperforming companies.

Proxy access limits the financial burden but imposes a more relevant one: obtaining a majority vote of shareholders, first to approve by-laws allowing shareholder nominees, then in support of individual director nominees in a subsequent year. This double burden ensures that these contests will not succeed without the sustained support of a majority of shareholders. For this reason, we do not believe that there is danger of directors being elected to serve the interests of specific shareholders at the expense of other owners.

We are concerned that the current proposal for proxy access would enfranchise only a tiny minority of the largest shareholders, while making proxy access virtually impossible to achieve for any shareholder at companies with sufficiently broad ownership. We believe that the 5% threshold creates an unreasonable barrier to shareholder nominations, since most widely-held large companies do not have owners of that size. We note that the top ten shareholders of Exxon Mobil, for example, could not collectively file an access proposal if the proposed rule was adopted.

For this reason, we cannot support the approach to proxy access outlined in the Proposed Release.

Electronic Shareholder Forums

We do not anticipate that promoting Electronic Shareholder Forums will prove to be an effective tool of corporate governance. We are deeply concerned that Commission may view these Forums as an appropriate substitute for current mechanisms of shareholder engagement. In fact, the limited information about these Forums provided in the proposed rule suggests that they would lack many of the attributes that make the current proxy system effective.

To be appropriate for the conduct of company business, Electronic Shareholder Forums would need to be moderated and their membership limited to shareholders. If moderated by companies these Forums would not be credible with shareholders, and the Commission does not seem well-equipped to play this role. By contrast, the credibility of the current proxy process rests in part on the effectiveness of the Commission's role as arbiter.

Second, under current annual meeting rules, company management and, usually, boards of directors, present themselves to shareholders once per year, answer their questions and submit themselves to a vote of all shareholders on key issues. These rules encourage (but do not require) managers to at least listen and take seriously the concerns of shareholders. Electronic Shareholder Forums do not appear to require the presence of managers or directors, and provide no assurance to shareholders that views expressed will be heard or taken seriously.

Finally, one of the strengths of the current proxy process is that many institutional investors consider proxy voting to be a fiduciary duty. The annual meeting provides a once-per-year opportunity for investors to focus on the governance of each company in their portfolio. Though voting proxies is time consuming, it is a manageable responsibility and ensures that the vote of each shareholder will count along with those of all other shareholders.

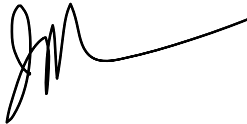
By contrast, it does not appear that the electronic shareholder forums would entail any fiduciary duty, and therefore would likely not attract a critical mass of shareholders.

Since they would probably be running continuously, participation in them would require frequent monitoring, which would be prohibitive for investors who own hundreds or thousands of companies. There would be no reason to believe that any votes, statements, or petitions emerging from the Electronic Shareholder Forums would represent the views of the entire shareholder population.

It is possible that well-governed companies, who already seek out the perspectives of shareholders, would find these chat rooms useful as one more method of reaching out to their shareholders to engage in informal dialogue. However, as a method of management accountability, their usefulness is limited, and should not be seen as a substitute for the existing system.

Once again, we appreciate the opportunity to provide our comments on these proposals.

Sincerely,



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