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October 16, 2006

The Honorable Christopher Cox
Chairman
The Securities and Exchange Commission
100 F Street NE
Washington DC 20549-9303
Email: chairmanoffice@sec.gov

Re: **SEC Review of *AFSCME Pension Plan v. American International Group, Inc.***

Dear Chairman Cox:

We write on behalf of some of the largest institutional investment organizations in the world, representing aggregate invested assets of more than $3.4 trillion. A substantial portion of those assets are invested in the United States. We would like to weigh in on the current debate regarding the role of shareholders in the corporate director election process.

Although the meeting has recently been postponed, we are very concerned about implications of the SEC's original announcement that, in light of the decision of the Second Circuit in *AFSCME Pension Plan v. AIG* (no. 05-2825, Sept. 5, 2006), clarification of Rule 14a-8(i)(8) is necessary. We believe that the court's interpretation breaks a significant logjam in the evolution of procedures to encourage more responsive and responsible boards in the United States. We urge the SEC to allow shareholders access to the proxy for resolutions relating to the director election process.

At present, board election procedures in the United States are such that there is little incentive for directors to pay attention to the concerns of their shareholders except insofar as the board feels that such concerns may manifest themselves in a weaker near-term share price. Thus, the broad dialogue between shareholders and directors which is so useful to both and which is commonplace in those countries where shareholders have the power to change the composition of the board, need not take place at all in the U.S.

Many shareholders are effectively discouraged by the current system from putting any effort into providing guidance or direction to the companies they own. Given the enormous cost and uncertainty of a proxy fight, the primary corrective mechanism in the US has become the market for corporate control, in which predatory bidders have an advantage over long-term shareholders who are more likely to be interested in the long-term survival and health of the corporation.

Discouraging effective company dialogue with shareholders also promotes more frequent litigation. Shareholders that have been rebuffed in attempts to curb questionable corporate practices are more likely to pursue legal remedies for their economic disappointments, sometimes at the expense of other shareholders. Not only is this expensive and inefficient, it also discourages open public disclosure from managements engaged in lawsuits and diverts corporate resources from being used as productive capital at times when they may be most needed.

Experience in the UK, Australia and the Netherlands has shown that boards whose members may be removed by shareholders are much more sensitive to shareholder opinion and are much more likely to engage in a meaningful dialogue with the institutions that hold their shares. Moreover, experience in those markets has been that the rights of shareholders to reject nominees, to propose

a nominee to the board, and to call an extraordinary general meeting to vote upon changes in board composition do not destabilize companies, nor do they lead to contested elections. On the contrary, they help to stabilize potentially volatile situations because directors and managements are more likely to take their shareholders' concerns seriously.

Shareholders in the United States have had to deal with a dismaying number of corporate scandals and board-level derelictions of duty in recent years. Many of these would have been prevented had the board members been listening to shareholders as well as management. It cannot be emphasized enough how difficult if is for investors based outside the US to come to grips with the fact that shareholders of US companies lack basic rights which they take for granted in other developed markets. Both in principle and in practice, the American board election procedure is outdated and detrimental to the maximization of long-term shareholder value.

What is worse is that the recent practice of the SEC staff has made it more difficult for a better method to evolve. Under Rule 14a-8(i)(8), shareholders have been denied the right to vote on attempts to address the situation. It is remarkable that this use of the rule, granting companies no-action letters in the face of evolving standards elsewhere as to what comprises an appropriate 'shareholder democracy,' has been used more consistently since 1990 than it had been before. The Court of Appeals recognized that an appropriate distinction exists between using a shareholder resolution as a back-door device to contest a specific election and using a shareholder resolution in order to change the rules for elections so as to further the long-term interests of shareholders. The SEC staff's abandonment of the more favorable treatment accorded shareholder resolutions under 14a-8(i)(8) before 1990 was a step backwards that should be reversed.

We urge the Commissioners to use this opportunity to acknowledge the important distinction suggested by the Court of Appeals and let shareholders play a role in the difficult task of reforming failed business practices. This is a crucial juncture in the history of American business, and an historic opportunity. We urge the Commission to return to the pre-1990 interpretation of Rule 14a-8(i)(8) and grant shareholders access to the proxy for resolutions relating to the process for director elections.

Feel free to contact any of us if we can be of further assistance in addressing concerns relating to implementation of this change.

Sincerely,

Peter Montagnon
Director of Investment Affairs
Association of British Insurers

Steve Gibbs
Chief Executive Officer
Australian Reward Investment Alliance

Jack Ehnes
Chief Executive Officer
California State Teachers' Retirement System

Ian Jones
Head of Responsible Investment
Co-operative Insurance Society - UK

Karina Litvack
Director, Head of Governance & Socially Responsible Investment
F&C Asset Management – UK

William R. Atwood
Executive Director
Illinois State Board of Investment

Peter Scales
Chief Executive
London Pensions Fund Authority – UK

Keith Jones
Chief Executive Officer
Morley Fund Management – UK

Claude Lamoureux
President & Chief Executive Officer
Ontario Teachers' Pension Plan

Marcel Jeucken
Head of Responsible Investment
PGGM - Netherlands

Giles Craven
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Shell Pensions Management Services Ltd. – UK

Guy Jubb
Head of Corporate Governance
Standard Life Investments - Scotland

Roderick Munsters
Chief Investment Officer
Stichting Pensioenfonds ABP – Netherlands

Pernilla Klein
Head of Corporate Governance
The Third Swedish National Pension Fund

Ann Byrne
Chief Executive Officer
UniSuper Ltd. - Australia

Peter Moon
Chief Investment Officer
Universities Superannuation Scheme - UK

cc: The Hon. Paul S. Atkins, Commissioner
The Hon. Roel C. Campos, Commissioner
The Hon. Kathleen L. Casey, Commissioner
The Hon. Annette L. Nazareth, Commissioner
John White, Director, Division of Corporate Finance
Nancy M. Morris, Secretary, Securities and Exchange Commission