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

2 October 2007

PMON/vs

Dear Ms Morris

Re: Shareholder Proposals (File Number S7-16-07) and Shareholder Proposals Relating to the Election of Directors (File Number S7-17-07)

I am writing on behalf of members of the Association of British Insurers who are institutional investors controlling some $2,600bn in funds including substantial holdings of US equities. We are grateful for the opportunity to comment on these proposals.

We believe strongly in the principle that boards should be accountable to shareholders to whom they have a fiduciary responsibility. We also consider that the SEC has an important role in facilitating the realisation of this principle. However, we do not believe that the current proposals will be effective in achieving this and would urge that they be withdrawn to allow time for further consideration. Such a step would not only be perceived as a responsible approach by the SEC. It would also demonstrate its resolve to implement solutions, which enjoy broad support and will stand the test of time.

In our experience, the US is rare if not unique among major developed country markets in denying shareholders the right to appoint and dismiss directors. This right is available to shareholders in the UK, where directors must submit themselves for election by simple majority vote, and is the cornerstone of our system of corporate governance. The right has made for generally positive and non-confrontational relations between companies because on the one hand it encourages boards to take account of the wishes of shareholders, while on the other it is a safeguard which makes shareholders comfortable in generally allowing boards to organise their own renewal. In practice shareholders approach the right to appoint and dismiss directors responsibly because they have no interest in damaging the company, which they own. The right to nominate and remove directors is used very rarely and the UK approach tends to produce boards that function well as a unit in collective strategic decisions and managing risk. Nor has it conferred undue influence on special interest groups.

The current SEC proposals would leave the US far short of this ideal. The inability of shareholders in the US to remove directors can lead to entrenchment and complacency on boards and is a particular inhibition to addressing underperformance. The current

proposals do not fully address the issues. The limitations on shareholder access to the company's proxy materials set out in S7-17-07 are a step backwards. The ability to propose directors for appointment set out in S7-16-07 is hedged about with qualifications that would seriously impair its effectiveness. In particular we have concerns about the following requirements:

- While we understand the desire to avoid short-termism, the limitation of this right to holders that have held the shares for a full year introduces a serious element of discrimination. A key principle for market confidence and integrity is that all holders of a particular class of shares should be treated equally.
- The burden of detailed disclosure requirements imposed on those wishing to launch such proposals is such as to act as a serious deterrent while going far beyond the level of transparency which would be useful to the market. Importantly the requirements would act as a disincentive to long-term investors from having a constructive and compliant dialogue with companies, which is an important element of governance.
- We acknowledge the need for a holding threshold as a qualification for the launch of resolutions to remove directors or appoint new ones in order to prevent frivolous or malicious initiatives. However, the question of where to set this threshold depends on market-specific factors. We are confident that the UK threshold of 10 per cent strikes the right balance of permissiveness, because institutional ownership in the UK is relatively concentrated and shareholders have a definitive right to dismiss directors, thereby usually obviating the need for shareholder resolutions.

  In the US case, by contrast, we have grave reservations about the 5 per cent threshold, both because institutional holdings are lower and more dispersed and because the inability of shareholders to dismiss directors makes shareholder resolutions the only viable level of shareholder intervention. Were the SEC to proceed with a threshold as high as 5 per cent, we believe it would be virtually impossible for a reasonable number of investors to meet it. Shareholders would effectively become disenfranchised.

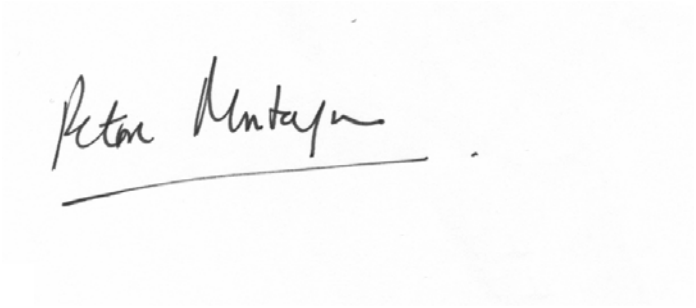
Our members believe that the ability of shareholders in the UK to remove and appoint directors by simple majority vote has helped them develop a productive level of engagement with companies. The SEC's proposed introduction of electronic shareholder forums is not a substitute for such engagement and may be difficult to operate in practice.

As with the other proposals under discussion here, we are concerned that electronic shareholder forums are a halfway house solution, which, if adopted, will reduce the incentives to adopt measures that would effectively address the shortcomings in US corporate governance and make companies properly accountable to their owners. Some US companies have adopted changes to their bylaws to allow majority voting in one form or other, but in the vast majority of these cases the board still retains the ability to reject the resignation of a director who did not receive majority shareholder support, leaving the final decision still in the hands of the board. We hope that the trend towards majority voting will continue, but many companies have not made this initial step, particularly those that have the most need of improved governance. The SEC therefore needs to address this problem, but it should be done in a way that provides a fully effective solution.

Finally we do not support the SEC's proposal to allow companies to introduce bylaws on non-binding or precatory resolutions. Given the limited governance rights available to shareholders at present, shareholders need to retain recourse to this approach. We believe, however that precatory resolutions would naturally tend to become less common – as indeed would shareholder litigation – if boards knew that they faced a real sanction from ignoring the wishes of shareholders and reacted accordingly. All of this suggests that more time is needed to develop a framework for proxy access, which will deliver meaningful results.

Please do not hesitate to contact me if we can be of further help in your deliberations.

Yours sincerely



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