



STATE BOARD OF ADMINISTRATION
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July 19, 2011

Elizabeth M. Murphy, Secretary
Securities and Exchange Commission (SEC)
100 F Street, NE
Washington, DC 20549-1090

Re: Rulemaking for Dodd-Frank Act Section 984
Loan or Borrowing of Securities/Securities Lending Activities

Dear Secretary Murphy:

The State Board of Administration of Florida (the SBA) welcomes the opportunity to provide comments to the Securities and Exchange Commission's (the Commission) regarding securities lending activities. The SBA manages the assets of the Florida Retirement System (FRS), the fourth largest public pension plan in the United States with 1.1 million beneficiaries and retirees. The SBA's governance philosophy encourages companies to adhere to responsible and transparent practices that correspond with increasing shareowner value.

The following comments address the issue of Lender-Directed Voting (LDV) as proposed by Edmon W. Blount, Executive Director of the Center for the Study of Financial Market Evolution (CSFME), in his July 5, 2011 letter to the Commission.

Voting Rights versus Lending Income

As set forth in the SBA's Corporate Governance Principles & Proxy Voting Guidelines (Guidelines), the SBA participates in securities lending in order to enhance the return on its investment portfolios. In the process of lending securities, the legal rights attached to those shares are transferred to the borrower of the securities during the period that the securities are on loan. As a result, the SBA's right to exercise proxy voting on loaned securities is forfeited unless those affected shares have been recalled from the borrower in a timely manner (i.e. on, or prior to, the share's record date). The SBA has a fiduciary duty to exercise its right to vote proxies and to recall shares on loan when it is in the best interest of our beneficiaries. The ability to vote in corporate meetings is an asset of the fund which needs to be weighed against the incremental returns of the securities lending program¹.

Even with early scrutiny of meetings of interest, many proxy votes cannot be anticipated and shares recalled in advance of the record date. The window between the notice of a record date and the occurrence of that date is typically very narrow. In addition, the significance of many ballot items are not made apparent until after the record date has passed.

SBA staff believes that LDV has the potential to address these and other inefficiencies associated with the securities lending process. As LDV is described, institutional lenders would be able to vote otherwise uninstructed securities held by broker-dealers in an amount corresponding to their lent securities. The implementation of LDV would address the issue of investors, with insufficient information as of the record date, having to identify

¹ Corporate Governance Principles & Proxy Guidelines- Florida State Board of Administration, January 1, 2011, <http://www.sbafla.com/fsb/LinkClick.aspx?fileticket=XtY-54fidU%3d&tabid=732&mid=1883>

situations where the value of voting a particularly important ballot item outweighs the potential income from lending a security. LDV would assist the SBA, and other beneficial owners, in fulfilling both fiduciary duties of promoting long-term value through voting for corporate governance best practices and maximizing investment income from securities lending.

Aligning Votes with Beneficial Ownership

In 2007, the SBA provided commentary to the Commission regarding the issue of securities lending and its impact on the effectiveness of proxy voting.² After reviewing our own lending volume over record dates of meetings with significant voting items, evidence was found that the volume of shares on loan was abnormally high around 'contested' or important meetings. More recently, the SBA has observed that an issuer may choose to publish their record date immediately before the set date, as short as 24 hours, in order to minimize the time that lenders have to recall shares on loan. The SBA views an attempt by any entity to deliberately distort the voting outcome at a shareowners' meeting to be detrimental to the proper functioning of equity capital markets.

With the implementation of LDV, true beneficial owners would be given more opportunities to exercise their voting rights and, in turn, vote outcomes would be more representative of the views of long-term shareowners. Additionally, LDV framework may thwart entities that borrow securities over the record date or that try to prevent shares from being recalled in order to influence voting outcomes.

SBA staff fully supports the ongoing implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the promulgation of new rules designed to increase the transparency of information available to all stakeholders involved in securities lending activities. We view the CSFME's LDV framework as a viable solution for investors to maximize their lending income while simultaneously exercising their shareowner rights.

Thank you for your consideration and for the Commission's ongoing efforts. If you have any questions, please contact Michael McCauley, Senior Officer—Investment Programs and Governance, at (850) 413-1252, or governance@sbafla.com.

Sincerely,



Ashbel C. Williams
Executive Director & CIO

cc: Governor Rick Scott, as Chairman of the SBA
Chief Financial Officer Jeff Atwater, as Treasurer of the SBA
Attorney General Pam Bondi, as Secretary of the SBA

² SBA letter to the SEC Division of Corporate Finance dated February 5, 2007.