August 3, 2009

Via Email: rule-comments@sec.gov

Ms. Elizabeth M. Murphy, Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Facilitating Director Nominations,
Release Nos. 33-9046; 34-60089; IC-28765;
File No. S7-10-09 (June 10, 2009)

Dear Ms. Murphy:

Eaton Corporation welcomes the opportunity to comment on the referenced release on facilitating shareholder director nominations (the “Access Proposal”) issued by the Securities and Exchange Commission (the “Commission” or “SEC”). Eaton is a diversified power management company with 2008 sales of $15.4 billion. We have approximately 70,000 employees and sell products to customers in more than 150 countries.

At Eaton, we believe our success depends in large part on effective corporate governance principles and practices. Among these, our stockholders use a majority vote for the election of directors in uncontested meetings and are able to choose cumulative voting in director elections. Other Eaton governance practices include the adoption of sound board governance policies and meaningful executive and director stock retention policies. Eleven of the twelve members of Eaton’s board are independent directors.

We oppose the proxy access right in proposed Rule 14a-11 and ask that the Commission focus instead on amendments to Rule 14a-8(i)(8) to allow shareholder proposals regarding the director nomination process in appropriate circumstances.

Flaws in Proposed Rule 14a-11

Proposed Rule 14a-11 would establish a “one size fits all” approach for shareholder access to company proxy materials that does not reflect the variety of companies’ unique circumstances. We believe that a proxy access system imposed by a Commission rule deprives shareholders and corporations of the state law flexibility to establish or reject an access system and to tailor such system to the needs of the corporation. The proposal unnecessarily infringes on an area of corporate affairs that has traditionally been in the domain of state law. To our knowledge, no state laws currently prohibit stockholders from nominating director candidates. Earlier this year, the State of Delaware acted quickly in adopting new Sections 112 and 113 of the Delaware General Corporation Law to enable shareholders to adopt bylaws that enable proxy access for director nominations. History shows that other states will follow Delaware’s lead.
In discussions with company management, stockholders may wish to establish criteria for shareholder nominations of directors that differ from the criteria in the Access Proposal. They may choose a higher minimum ownership requirement or to limit the allowable size of the sponsoring group. They may wish to choose a minimum share holding period longer than the periods in the Access Proposal. They may determine that it is not appropriate for the “first in” to be able to nominate director candidates and may instead opt to enable the stockholder with the most shares, or longest length of ownership, to have priority when nominating candidates.

We believe that a federal proxy access right is unnecessary. There has been tremendous change in corporate governance practices over the past several years, largely owing to the willingness of companies to engage with their shareholders on issues such as majority voting in uncontested director elections, enacting cumulative voting rights, and similar matters. Recent activity in states like Delaware and North Dakota demonstrate that if corporate shareholders (or directors) determine that a proxy access system may be beneficial, amendments to state corporate law can and will be enacted.

The overall effectiveness of boards of directors may suffer if shareholder nominees defeat board nominees with particular expertise or experience needed by the board and company. Individual shareholders are often not representative of the broad interests of a company. They may represent short term financial interests or narrow agendas and constituencies that may conflict with the long term best interests of the corporation. The Access Proposal could have serious consequences, such as promoting a focus on short term financial gain, opening the door to special interest directors, and eroding board focus on the long term health and vitality of the company and its entire shareholder base. The Access Proposal could have a devastating impact on a company with determined special interest shareholders focused on short term gains. Further, a federal proxy access right has the potential to turn director elections into contentious proxy contests along with the concomitant expense and disruption.

The best process by which to recruit effective directors is an independent and objective one, managed by the board’s governance committee. The governance committee is intimately familiar with the functioning, strengths, and needs of the company and the board. They continually assess areas of strength and ability, and areas of need, and proactively recruit director candidates with the experience and expertise to help the board effectively oversee company management and strategy. Shareholders should be included in the recruitment process. The governance committee should consider shareholder advice on director candidate criteria and apply the same consideration to shareholder director nominees as they do to board nominees.
If the Commission decides that federal action is needed at this time, we ask that you consider adopting revised amendments to Rule 14a-8(i)(8) instead of a federal proxy access right. Amending Rule 14a-8(i)(8) to allow proxy access shareholder proposals would further the state law interest addressed above and would enable companies and their shareholders to tailor an access system to the unique needs of the individual company. However, we feel that the current ownership and holding period thresholds of Rule 14a-8 are ineffective in the context of a proxy access proposal. Amendments to Rule 14a-8(i)(8) should include: a higher ownership threshold such as five percent for a single shareholder or ten percent for a coordinated group of shareholders; a longer minimum share holding period such as three years; and a requirement that nominating shareholders pledge to retain their shares through at least the first term of their director nominee(s).

If the Commission decides to adopt a federal proxy access right, we ask that significant amendments be made to the current Access Proposal. The proposal would inappropriately preempt state law with a “one size fits all” approach that eliminates the ability of boards and shareholders to tailor an access approach to the particular needs of the company. A revised Rule 14a-11 should allow for shareholder proposals with different conditions (e.g. ownership thresholds, triggering events) than currently proposed.

The proposal should be revised to require that shareholders wishing to nominate proxy access directors own a meaningful percentage of a company’s shares and for a significant period of time. We suggest a minimum ownership level of 5% for individuals and 10% for multiple shareholders acting together. Nominating shareholders should be required to have owned their shares for at least two years.

A revised Rule 14a-11 should limit the number of proxy access nominees to one director each annual meeting season. Simultaneously adding multiple directors with little or no experience with their new company could greatly disrupt board function and place an unnecessary strain on company resources. Larger shareholders should be given priority over smaller shareholders when nominating directors rather than establishing a race to be first.

Shareholders should not be permitted to nominate proxy access directors for some period of time (e.g., three years) if their prior proxy access director nominee fails to obtain a significant percentage of votes cast such as 25%.
The rules should prohibit proxy access nominees from being affiliated with the nominating shareholder or shareholder group. This requirement is essential to help ensure that director candidates are not chosen based on their allegiance to the narrow interests of a particular shareholder to the possible detriment of others. Further, proxy access nominees should satisfy the director independence and qualification requirements adopted by the board of directors and disclosed in the proxy statement.

The application of proposed Rule 14a-11 should be limited to companies and proxy seasons where a specific triggering event has occurred that calls into question the judgment of the board. Such events could include not accepting the resignation of a director who received less than a majority of votes cast or not acting on a shareholder proposal that received a majority shareholder vote. Triggering events should not include items like poor financial performance, earnings restatements, or other events with tenuous ties to board action.

Finally, there are sound reasons why the effective date of proposed Rule 14a-11 should be delayed until the 2011 proxy season, including: allowing time for companies to amend their bylaws, educate their shareholders and take other preparatory actions; and allowing time for the SEC to prepare for the enormous burden that will be placed on its resources.

We appreciate the Commission’s invitation to submit these comments on the proposed Proxy Access rules.

Respectfully submitted,

Alexander M. Cutler