DENISE L. NAPPIER
TREASURER

State of Connecticut
Office of the Treasurer

October 18, 2010

Via Electronic Mail

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: *Comment Release on the US Proxy System* (S7-14-10)

Dear Ms. Murphy:

I write to provide comment on the Commission's concept release on the U.S. proxy system (hereinafter referred to as the "Concept Release"). As principal fiduciary of the $23 billion Connecticut Retirement Plans and Trust Funds ("CRPTF"), I have a strong interest in the efficiency, reliability and integrity of the shareholder voting and communications processes. During the 2010 fiscal year, the CRPTF cast votes on over 16,000 ballot items at over 2,000 shareholder meetings. The CRPTF also communicates with fellow shareholders regarding specific votes, including votes on shareholder initiatives sponsored by the CRPTF. I therefore applaud the Commission for taking up these issues and soliciting feedback from market participants.

Attached are my comments which include feedback on questions raised by the Commission. I have focused my comments on the four areas of the release that most directly impact the CRPTF:

- Accuracy, transparency, and efficiency of the voting process, focusing on vote confirmation, and disclosure;
- Issuer communication with shareholders;
- Securities lending and timely recall; and
- Proxy advisory firms.

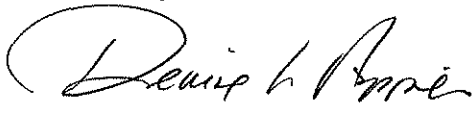
A summary of my comments as discussed more fully in the attached are as follow:

- I believe that there is a need for Commission action to assure accuracy of proxy voting. I fully support transparency – our proxy votes are posted on the Connecticut Treasury website, and have been since 2002.
- I support efforts to improve and streamline the voting and communication processes. Given the multiple interests at stake, however, I urge the Commission to take care that reforms do not excessively concentrate information in the hands of issuers or make inaccessible to shareholders information they need to communicate with other shareholders.
- I support the proposal to require issuers to provide notice 10 days before the record date of matters to be voted on at the meeting to facilitate recall of shares on loan in a timely manner.
- As a client of a proxy advisory firm (ISS), I believe that concerns raised by issuers about the influence of these firms are grossly overstated. I urge the Commission to carefully differentiate between the influence of shareholders – who own the companies – and their vendors who assist them in executing their own proxy voting preferences. And while I would support initiatives to clarify disclosure obligations around actual or potential conflicts of interest on the part of proxy advisory firms, I believe that existing market mechanisms provide sufficient incentives for proxy advisors to base their recommendations on accurate information and to draw well-supported conclusions.

Beyond these comments, please also know that I support the perspective of the Council of Institutional Investors in its separate comment letter to the SEC on the Concept Release.

Thank you for the opportunity to express my views to the Commission on this matter. Should you have any questions or need further clarification concerning my comments, please feel free to contact Donald Kirshbaum, Investment Officer at (860) 702-3164 or Donald.Kirshbaum@ct.gov.

Sincerely,



Denise L. Nappier
State Treasurer

Attachment

Comments of Connecticut State Treasurer Denise L. Nappier
Concerning Concept Release on the US Proxy System (S7-14-10)

The Efficiency, Reliability and Transparency of the Voting Process and Communication Issues

Several subjects raised in the Concept Release relate to the mechanics of shareholder voting and communication and the need to bring additional transparency and accountability to those processes. I concur that the Commission should consider measures it could take to bring about such improvements.

In many cases, multiple intermediaries are involved in these processes. For example, concerning the Connecticut Retirement Plan and Trust Funds (CRPTF), our custodian transmits holding data to our proxy advisor, who then transmits proxy votes through Broadridge to each company's vote tabulator. With the entire system dependent on computer software and electronic transfer of data, there are a number of steps in the process where errors could occur. The number of intermediaries involved prevents shareholders from using market pressure to bring about change and points toward a regulatory solution. Each of the many intermediaries that play a part in the shareholder voting process has a piece of the information necessary to confirm that a beneficial owner's shares were voted properly and tabulated, but incentives do not exist for these entities to share information to the extent required to provide end-to-end confirmation to beneficial owners. I believe there is a role for the Commission in assuring this process protects the accuracy of the data through both transparency and auditing processes.

Several key principles should guide the Commission's work in this area. First, I believe it is important in ensuring the integrity of the voting system not to concentrate information in the hands of a party with an interest in the outcome. A number of the reforms suggested in the Concept Release would give issuers substantially more information regarding beneficial owners' votes and identities than they now have. An advantage of the current system that should not be overlooked is that the voting and communication processes are not controlled by issuers, which gives shareholders more confidence in the system.

Second, shareholders must continue to have access to information about their fellow shareholders and the ability to communicate with other shareholders on matters of common concern. Fostering competition in the proxy distribution function might lower fees, but if the cost is significant fragmentation and a set of intermediaries who are unwilling to distribute materials for shareholders on the same terms as they distribute materials for issuers, a net loss for shareholders could result. Similarly, if the data aggregator proposed in the Concept Release were required to provide beneficial owner information only to an agent designated by an issuer, the playing field could become tilted toward issuers.

Finally, enthusiasm for issuers' ability to communicate more freely and inexpensively with beneficial owners should not obscure the fact that beneficial owners have legitimate reasons for keeping their identities private. (Because the CRPTF is subject to open government laws, its holdings are in the public domain.) Some shareholders worry about data being used to track their investment strategies. Others do not wish to receive communications from issuers. Reforms to the shareholder communication process should preserve the option of anonymity and should not impose excessive costs for doing so.

Securities Lending and Timely Recall

The CRPTF, like many institutional investors, engages in securities lending. Accordingly, I am pleased that the Concept Release took up the question of how to facilitate timely recall of loaned shares in connection with important shareholder votes. Because proxy statements are generally not filed until after the record date, it is not currently possible to identify all companies where important shareholder votes will take place in time to effectuate a recall.

I support the proposal advanced in the Concept Release to require issuers to provide notice 10 days before the record date of matters to be voted on at the meeting. Such a requirement should apply to all companies subject to the SEC's rules. The ideal form for such disclosure would be in an 8-K filing and press release, so that beneficial owners using different methods to collect data about portfolio companies will receive the notice.

I recognize that agendas may be subject to change, especially when an issuer has sought no-action relief with respect to one or more shareholder proposals submitted pursuant to Rule 14a-8. In my experience, determinations on such requests may be issued shortly before a company files its definitive proxy materials and mails them to shareholders. In such cases, I would support allowing issuers to provide notice of an agenda that is subject to change.

Earlier notice of meeting agendas will not result in shareholders recalling securities in excessive numbers, which could disrupt the securities lending market. Institutions with securities lending programs will have a financial interest in avoiding such disruption and will recall shares only for key shareholder votes.

Proxy Advisory Services

In my view, much of the discussion in the section of the Concept Release addressing the role and regulation of proxy advisory services rests on two inaccurate assumptions. First, the Concept Release refers several times to proxy advisors "controlling or significantly influencing" shareholder voting. Indeed, the discussion of proxy advisors is part of a larger section of the Concept Release on the decoupling of control rights from economic exposure, implying that proxy advisors have complete dominion over shares held by their clients.

In my experience, proxy advisory firms are one of a number of inputs into shareholder voting decisions. The CRPTF is a customer of a proxy advisory firm; we take its recommendations into account, but in no way does it "control" the CRPTF's voting decisions.

My interactions with other institutional investors indicate that they, like the CRPTF, consider proxy advisors' recommendations but that the recommendations are not dispositive. The fact that some institutions are clients of more than one proxy advisor reinforces the notion that the institutions are not controlled by a single advisor. It is not unusual for proxy advisors to issue different recommendations on the same ballot item. For example, in the recent proxy contest at Barnes & Noble, Institutional Shareholder Services (ISS) supported the dissident slate while Glass Lewis, Egan-Jones and Proxy Governance supported the incumbent nominees. (The incumbents prevailed.)

Data supplied by ISS undermine the idea that its recommendations are outcome-determinative. For example, of 136 management say on pay proposals in 2010, ISS recommended that clients vote against 28; yet only three were not approved by shareholders. Likewise, while ISS recommended that clients vote against or withhold support from 13 percent of director nominees in 2010, fewer than five percent were not supported by holders of a majority of shares voted.

A second erroneous assumption holds that a proxy advisor promulgates a single set of ostensibly "one-size-fits-all" voting guidelines and then issues recommendations accordingly. In fact, much of the work proxy advisors do involves applying a client's own proxy voting guidelines (so-called "custom" work) to recommend votes on ballot items. While ISS executes the CRPTF proxy votes, they do so using our own custom proxy voting guidelines (which can be found on our website at http://www.state.ct.us/ott/proxyvotingpolicies.htm).

It is my understanding that only 39% of ISS's clients use its standard voting policies. Moreover, ISS's Taft-Hartley division has a separate set of voting guidelines and issues its own recommendations, and they have a third division for socially responsible investors with its own guidelines and recommendations. These three sets of guidelines developed to serve different clients often make different vote recommendations.

Even the core voting guidelines of a proxy advisor like ISS are not a set of unilateral dictates. Rather, they reflect preferences of the clients of the proxy voting service, as well as best practices promoted by various constituencies in the course of each service's policy updating process. There is a dynamic give-and-take, not a one-way domination of shareholder voting by proxy advisors. Commentators who point to particular ballot items that did not pass after ISS recommended that clients vote against them as evidence of ISS's control ignore this fact and mistakenly assign causation to the ISS recommendation when the same votes could well have been cast in the absence of such a recommendation.

I urge the Commission to carefully differentiate between the influence of shareholders – who own the companies – and their vendors who assist them in executing their own proxy voting preferences.

The Concept Release lists conflicts of interest that proxy advisory firms may have, including consulting to a shareholder proponent on a ballot item on which the firm is issuing a recommendation to clients. Although it is the case that sponsors of shareholder initiatives may be clients of proxy advisory firms,[1] I am not aware of any proxy advisor having provided consulting services on such an initiative.

On the other hand, proxy advisors do provide consulting services to issuers – and on items that subsequently appear on the issuers' proxies.

It should go without saying that proxy advisory firms' clients deserve to know about conflicts of interest that may impair the firms' objectivity. The CRPTF engages in a thorough review of such conflicts at the time it contracts with vendors, including proxy advisory firms, and I understand that other public pension funds have similar processes. To ensure that the full range of potential conflicts are disclosed, I support the Commission's issuance of interpretive guidance regarding what constitutes "any significant relationship" with an issuer, affiliate or other person within the meaning of Rule 14a-2(b)(3)(ii).

I do not believe it would be useful, however, to follow the example set by NRSRO (ratings agency) regulation and prohibit specific conflicts of interest. Ratings agencies play a very different role in our capital markets than proxy advisors—some investors' ability to purchase securities depends on the rating they or their issuer has been assigned by an NRSRO, and ratings can directly affect the cost of capital for companies. Moreover, unlike the NRSROs' issuer-pays business model, proxy advisory services are paid for by those who use them, which allow proxy advisors' customers to exert more direct leverage on the firms.

Finally, I do not believe that the Commission should regulate the substantive bases for proxy advisors' decisions. Just as institutional investors are capable of assessing the quality and accuracy of a company's presentation in the proxy supporting or opposing an issue on the proxy ballot, they are also capable of assessing research and recommendations from proxy advisory firms and can terminate a relationship with a firm if necessary. Although the Concept Release raises the specter of a recommendation based on inaccurate information, it is my experience that issuers do not hesitate to respond vigorously to correct any such inaccuracies from proxy voting firms, shareholder advocates, and other interested parties. This is of particular concern in contested matters including mergers and acquisitions and contested board elections, where information is

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[1] On this point, it is worth noting that the sponsors of approximately half of all shareholder proposals voted on in recent years have been individuals, who are not likely to be clients of proxy advisory firms. See Georgeson Annual Corporate Governance Review 2010, at 19; Georgeson Annual Corporate Governance Review 2009, at 15.

received from all sides. In some cases, such as the Target recommendation referenced in the Concept Release, what issuers call factual inaccuracies may fairly be characterized as different conclusions drawn from the same facts.