October 2, 2007

Via U.S. Mail & Email: rule-comments@sec.gov

The Hon. Christopher Cox
Chairman
U.S. Securities & Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Re: Files S7-16-07 and S7-17-07

Dear Commissioner Cox:

I write on behalf of KLD Research & Analytics, Inc. (KLD), to urge the U.S. Securities and Exchange Commission (SEC) to increase shareholders’ access to the director nomination process while preserving the rights of shareholders to file non-binding proposals under Rule 14a(8). KLD supports regulatory approaches that increase investors’ ability to communicate with the directors of their companies and that enhance the accountability of these directors to shareholders.

Since 1988, KLD has closely watched the evolution of corporate governance in developed markets. KLD provides institutional investors with social research on corporations, benchmark and strategy indexes, and compliance services. The firm has over 450 clients. It is safe to say of all of KLD’s clients, that if they themselves would not be adversely affected by the proposed rules, have clients who would be.

Summary

KLD finds it difficult to respond to on S7-16-07 and S7-17-07 as the proposed changes to the current process are unclear – both individually and when read together. KLD trusts that the series of questions contained in these files will lead to a subsequent formal rule-making process rather than an attempt to issue final regulations in the current proceeding which would be challenged owing to their failure to comply with the Administrative Procedures Act (APA).

As advisers to institutional investors, KLD and its clients must have the more specific proposals the APA requires on which they can bring to bear their experience and practice. Nonetheless, we have some observations on the ideas in the current filings.

• The Commission should not adopt S7-17-07 as it would continue the practice of limiting shareholders’ access to the board nomination policies and processes.
• The Commission should not adopt a 5% threshold for amending the board nomination process or nominating candidates because it is too high for the US market and would provide mere symbolic relief to the problem of limited access. It would also disadvantage medium and long-term investors and provide additional leverage to hedge funds.
• The proposed schedule 13G process is overly demanding and unworkable.
• The Commission should eliminate the one-year holding requirements for filing binding bylaw revisions. It creates two classes of shareholders with different rights.

• The requirement of majority support from shareholders to change director nomination procedures will provide sufficient protection against “special interest” groups.
• Electronic communications are not an adequate substitute for the annual meeting or for the non-binding shareholder proposals process.
• High levels of voting support for non-binding proposals demonstrate their utility and importance to shareholders.
• Companies should not be permitted to individualize the shareholder proposal filing process by means of by-law changes.
• Raising ownership minimums for filing non-binding proposals is sensible.
• The Commission should not double re-submission thresholds as it would prevent the re-filing of valuable corporate governance and risk management proposals.

Proxy Access

The SEC should take steps to enhance shareholder access to the board election process in an effort to address the fundamental lack of board accountability currently embedded in US board election regulations.

Shareholders must have an accessible mechanism for ensuring that their interests are more fully represented on boards, a mechanism that does not require aggressive and expensive take-over attempts. In fact, shareholders have an obligation to nominate directors when there are failures in running the company – and they need a practical process to do so. KLD objects to mechanisms to protect board members from criticism, much less replacement. A board’s best protection is to run the company well on behalf of its shareholders – and stakeholders.

For these reasons we cannot support proposal S7-17-07 because it allows corporations to exclude proposals that would establish procedures for shareholders to nominate directors directly to the proxy ballot.

As for proposal S7-16-07, in theory, it allows greater access for shareholders, but, in practice, it would not actually provide shareholders with a reasonable ability to alter the nomination processes or propose directors.

A 5% threshold for action is far too high for the US market where corporate ownership lacks concentration. While a similar threshold works well in a market such as the UK, it would prove a virtual bar in the US. According to research by the Council of Institutional Investors even if the ten largest pension funds in the US were to combine their holdings they would be unable to clear the 5% ownership threshold at most US corporations. If even the very largest investors will have trouble mustering such a position, the 5% rule would give greater leverage – and disproportionate influence – to hedge funds and would disadvantage medium and long-term investors.

In addition, the Commission’s suggested requirements for filing a Schedule 13G are overly detailed and would make compliance extremely difficult, particularly for the large groups of shareholders that would be required under a 5% threshold. The complexity of the disclosure is unnecessary and serves only to discourage investors from participating in the nomination and election process.
A more constructive alternative would be for the Commission to adopt a model that allows for either a stated number of shareholders to nominate a Board member or a single shareholder or small group with a large ownership position. The Commission should consider the UK standard of an ownership threshold or 100 shareholders with a common ownership position of at least £10,000 nominal. However, the currently proposed Schedule 13G would render such an approach unduly burdensome and impractical. The Commission should substantially simplify the data investors would disclose in a 13G filing.

As for the proposed holding requirements for participating in proxy access actions, we strongly oppose a one-year ownership requirement. Differentiating between owners based on their length of holding, the size of their holding or the size of their institutions would be extremely problematic. It violates the one-share/one-vote principle that is the basis of sound corporate governance by creating different classes of shareholders with the ability to take different actions.

KLD rejects arguments that improving proxy access is a tool to allow special interest groups unfair advantage over boards. Such arguments – invariably offered without proof – are an insult to the intelligence of the public – and the Commission.

The current requirement for a majority vote on any by-law revision to the board nomination process affords sufficient protection for companies and directors. Shareholder proponents would have to secure majority support from voting shareholders in order to either amend by-laws to allow for shareholder-generated director nominations or to actually elect an alternate candidate following a by-law revision.

The hurdle of achieving majority support for a by-law revision or a candidate opposed by management will certainly prevent groups from exercising undue influence on boards. However, were a majority of shareholders to agree that a new, more open, process or a different director were needed then making changes at a particular company would surely be appropriate and desirable.

**Electronic Forums**

KLD supports the Commission’s desire to update standards of company, board and shareholder practice to take greater advantage of the opportunities offered by electronic tools.

Electronic forums, chat rooms and email boxes for questions and compliance concerns are reasonable and necessary. We view electronic discussions as a new opportunity for accountability and communication, but not as a substitute for a rigorous, formalized, corporate governance process.

However, there is substantial value in shareholders having at least one opportunity each year to address their directors in person and to petition the entire shareholder base with proposals related to corporate governance and strategy.

An electronic discussion never can substitute for the structured process of voting on management and shareholder proposals at the annual meeting.

**Shareholder Proposals**

Advisory resolutions provide an opportunity for shareholders to communicate their priorities for corporate governance reforms or risk management and should not be curtailed.
In the absence of the ability to nominate directors to the proxy or to elect directors by a binding majority in the US, shareholder proposals have proved a useful vehicle for shareholders to communicate with boards. In fact, the growing number of shareholders that vote in favor of non-binding proposals indicate their widespread utility to shareholders.

Opponents of shareholder access cite what they call “special interest groups” that file non-binding proposals. Their concern is rooted in the fact that these proposals often gain broad-based investor support and, increasingly, win majority support. So, they are not “special interest” proposals at all, but rather ones to which they object.

Non-binding proposals have also proven themselves useful in bringing emerging business issues to the attention of directors, management and fellow shareholders. For example, they have played an important role in alerting corporations to the need to measure and reduce their own carbon emissions and develop a strategy for operating in carbon-constrained markets. US companies are better prepared to meet the coming carbon controls thanks to strategic actions encouraged by non-binding proposals and other shareholder engagement.

While the volume of shareholder proposals does require substantial time for investors that engage in thoughtful, company-specific voting, on balance, the results of such proposals have lead to better governed corporations. Therefore, we urge the SEC to avoid fundamental changes that would prevent shareowners from accessing the proxy via advisory proposals. In particular:

- KLD opposes suggestions that boards be allow to individualize the shareholder resolution filing process via bylaw changes. Put differently, KLD opposes the ability of one group of shareholders to vote away the filing rights of future shareholders. In states that allow boards to amend bylaws without shareholder approval this would result in the unilateral ability of directors to revoke this important right for shareholders.

- The current filing system may be time-consuming, difficult and overly formalistic, and it probably could be simplified and streamlined. However allowing each company to establish different and varied standards or to prohibit shareholder proposals entirely would not achieve that goal.

- KLD supports the idea of raising the ownership minimum for filing shareholder proposals. This seems like a sensible amendment of current provisions to bring the ownership levels in line with inflation. However, we strongly oppose dramatic increases that would prohibit smaller investors in US companies from having access to the proxy ballot for their non-binding resolutions.

- Resubmission thresholds have proven to be an effective method for preventing repeat nuisance proposals and for allowing shareholders an opportunity to persuade fellow investors without burdening them with the same unpopular proposals. The proposal to more than double the resubmissions thresholds is not justified by experience over the past 35 years. And it would bar a number of non-binding resolutions that have developed investor support over time.

In particular, corporate governance reforms or proposals related to emerging good practice in corporate governance or in social and environmental risk management may take some time to be properly understood and supported by the investment market. For example, as described above, climate change issues have become increasingly material to
businesses operating in our global markets, and shareholders have been sensible to raise issues related to climate management for some years.

Were resubmission rates substantially altered upwards, it will undercut the very purpose of the shareholder proposal process: for shareholders to communicate with directors on emerging or pressing issues of concern. KLD believes that the fact that these resolutions are advisory is sufficient protection for boards that would prefer not to implement the strategies exactly as they are proposed.

The non-binding shareholder resolution process plays an important role in facilitating communication between owners and companies. KLD opposes any rule that curtails it.

Very truly yours,

Peter D. Kinder
President
KLD Research & Analytics, Inc.
CC: KLD Board of Directors
    US Social Investment Forum

Cynthia A. Walker
Executive Assistant to Peter D. Kinder, President
KLD Research & Analytics, Inc.
250 Summer Street, 4th Floor
Boston, MA 02210
617-426-5270 Ext. 202
Fax: 617-426-5299