Social Investment Forum

October 19, 2010

Elizabeth M. Murphy
Secretary
**U.S. Securities and Exchange Commission (SEC)**
100 F Street, NE
Washington, DC 20549-1090
**RE: Concept Release on the U.S. Proxy System**
**Release Nos. 34-62495, IA-3052, IC-29340; File No. S7-14-10**

Dear Ms. Murphy:

The members of the Social Investment Forum (SIF), the U.S. membership association of organizations, firms and professionals engaged in the field of socially responsible and sustainable investing, commend the Securities and Exchange Commission (SEC) for taking on the complex task of improving the mechanics and oversight of the U.S. proxy voting system or "proxy plumbing." We were encouraged by the unanimous consensus among the Commissioners, as reflected in their comments and votes on the concept release, that the task is an imperative.

SIF and its investor members are keenly interested in the proxy voting process, as we are active owners, voters of proxies, and filers of shareholder resolutions. Furthermore, SIF's members also include proxy advisory and research firms. We acknowledge that these actors, at times, have differing viewpoints, so we embarked on an internal process of assessing our members' opinions to come to a consensus on the best advice we could offer the SEC and its staff. Our comments appear below. We also want to underscore that we are happy to explain further our positions or offer additional advice.

**The chain of custody:** SIF and its members support any efforts to clarify and define roles within the voting chain to ensure accurate tabulation and transparent reporting of the vote count. We agree with the Commission's thinking on p. 40 of the concept release that record owners and beneficial owners should be "able to confirm that the votes they cast have been timely received and accurately recorded and included in the tabulation of votes." We would welcome greater accountability and transparency from tabulators and transfer agents in this regard—realizing that this would necessitate establishing a sufficient audit trail from the beneficial owner to the tabulators and transfer agents.

**Verification of holdings:** A troubling development for our members is that proxy service providers have varied their requirements for issuing legal proxies in recent years. In one instance a custodian unveiled a new policy in 2010 whereby, for the purpose of attending shareholder meetings, it will issue only a single legal proxy for a given holding per investment manager, regardless of the number of clients who hold individual positions and are beneficial owners. This deprives individual stockholders of their right to be represented at the stockholder meeting, and the Commission should instruct brokers and custodians to require securities intermediaries to cooperate fully in beneficial owner requests for letters substantiating the size and chronology of their holdings. This information is essential for filing shareholder proposals. Therefore, a lack of cooperation from securities intermediaries can deny beneficial owners important recourse and diminish issuer accountability.

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In numerous instances, SIF members and other shareholders have experienced confusion and inconsistency on the part of securities intermediaries, particularly proxy service providers, as well as brokers and custodians, as to documentation of ownership for the purpose of filing shareholder proposals and the designation by beneficial owners.

One case is particularly illustrative of how the lack of clarity has caused harm. At the spring 2010 Chevron shareholder meeting, 18 proxy holders were turned away—some of whom had traveled from abroad to attend and interact with management and the board of directors. Several were informed by a Chevron attorney that the sole reason they could not be admitted was the absence of the phrase "with power of substitution" in the legal proxy, although in previous years Chevron had accepted proxies without the phrase. Another reason given for denying two proxy holders admission was that the beneficial owners had already voted their shares, a circumstance which had not been cause to deny proxy holders admission in previous years and which can be easily controlled for in any event. A third element of confusion introduced by Chevron was the question of whose name should appear on the proxy. Before the meeting, a Chevron attorney instructed one party that the legal proxy should name the shareholder, and told another party that the proxies should specify the name of the attendee.

Therefore, the Commission should provide guidance for securities intermediaries that would facilitate beneficial owners' participation in the shareholder meetings and the filing of shareholder proposals. The Commission's account on p.20 is accurate: beneficial owners rely on securities intermediaries to document their holdings, thus enabling them to successfully attend shareholder meetings. The Commission should set clear expectations that securities intermediaries are to cooperate fully with beneficial owners—and proxy service providers, who are often involved in the process—to ensure effective and timely documentation.

**Investor-to-investor communications:** SIF also applauds the Commission's efforts to enhance investor-to-investor communications and agrees with the SEC's premise that "there tends to be higher voting participation in situations that involve increased communications and high investor interest, such as well publicized proxy contests." We back the notion that additional forums for shareholder-to-shareholder communications would be helpful to boost interest and voting rates on items beyond the most contentious of issues. Moreover, to the extent the Commission now provides for distribution of proxy materials through a "notice and access model," it would be helpful if the Commission would also provide a link to an interactive investor-to-investor website where investors could both communicate with other investors and the issuer, regarding matters to be voted on through the proxy process. Furthermore, it would be helpful too if issuers publicized the forum discussion link in their paper proxy materials.

**Retail investor participation:** SIF believes that the Commission should make all reasonable efforts to increase voting participation by retail investors. These efforts would be enhanced by the additional promotion of the http://www.investor.gov/proxy-matters web site and the use of plain English in the Commission's communications to retail investors. Brokers should be instructed to inform retail investors (upon the opening of accounts, and periodically as well) of their voting rights and default positions, and be required to link to the aforementioned Commission site as well (as should issuers). The costs of these requirements would be *de minimus*. Increased retail investor participation would benefit both the private and public spheres by providing a more accurate read of the wishes and intentions of shareholders, enhancing the efficiency of the market and providing a more accurate reading of the preferences of shareholders with respect to company conduct on environmental, social and governance matters.

**Empty voting and decoupling:** We understand the desire to match economic interests with voting interests and agree that aligning the two should be the commission's goal. One area where we feel that the SEC can be most effective is in giving institutional investors additional time to recall shares for key votes and by examining further the prevalence and impact of empty voting and other types of decoupling of voting and economic interests and whether greater transparency in the form of new or revised disclosure requirements is an appropriate response.

**Data tagging:** SIF supports the SEC adopting an XBRL data-tagging taxonomy for proxy materials to enable investors and their service providers to easily export and analyze information, particularly voting items, director qualifications and executive compensation data, from the proxy statement. Our members are happy to assist in the development of this taxonomy.

**Proxy advisors and service providers:** The concept release offers the perspective that proxy advisory services exert control over the proxy voting process without appropriate oversight, suffer from undisclosed conflicts of interest, and avoid accountability for recommendations based on inaccurate information. This description mischaracterizes the role of proxy advisors, understates the diversity in voting patterns and ignores the market-based pressures on proxy advisory firms. We believe that proxy advisory firms serve an important function, especially for the vast majority of extremely diversified investors or so-called universal owners, of assembling company-specific research, analyzing ballot items and recommending how clients should vote on those ballot items.

**Voting power:** Contrary to the impression given in the concept release, proxy advisory firms do not have a single set of guidelines they use to produce a single set of recommendations. Instead, the vast majority of proxy advisory firms' clients contract proxy advisors to offer custom solutions that apply the investors' own set of guidelines tailored to the best interests of their beneficiaries. Furthermore, advisory firms' recommendations are considered carefully by their clients and are not always followed. Institutional investors regularly review the reasoning provided for the recommendation, collect input internally and then make their voting decision.

Far from being hostile to management, in fact, the three main advisory services regularly vote for managements' proposals, and they are seldom "kingmakers" in proxy votes. When investors vote against a management proposal, it is usually because they believe the management is unresponsive, and in general they don't need a proxy service provider to tell them that. However, investors do rely on the services to provide helpful background analyses to assist them in arriving at their proxy voting decisions.

**Research quality:** In addition, we are not convinced that proxy advisory firms' recommendations are frequently tainted by factual inaccuracies. The examples cited in the concept release point to differences over characterizations, interpretations and conclusions rather than actual inaccuracies. Furthermore, as there are several proxy advisory firms in the U.S. market with comprehensive coverage, shareholders who are unhappy with their proxy advisory firms' performance are able to change firms with little in the way of associated costs.

**Conflicts:** However, SIF endorses the full disclosure of conflicts of interest on the part of proxy advisory firms. In many ways, proxy advisors have no choice but to do so today. Many of our members' funds already inquire into the existence of conflicts and procedures for managing them when they engage proxy advisory firms. The concept release suggests, however, that market participants may not be aware of the full range of relationships the Commission would consider to be conflicts under the

Investment Advisers Act. Therefore, we believe it would be useful for the Commission to produce interpretive guidance on that question.

As the Commission proceeds with its next steps, SIF and its members would be pleased to discuss any questions the Commission or its staff might have about this letter or issues related to proxy plumbing. I can be reached at 202-872-5358.

Sincerely,

Lisa N. Woll

Lisa N. Woll, CEO
Social Investment Forum