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CII Publishes White Paper on Client Directed Voting

Washington, D.C., Aug. 31, 2010 — The Council of Institutional Investors today published an independent assessment of client directed voting, a topic that is under consideration by the Securities and Exchange Commission (SEC) as part of its wide-ranging review of the U.S. proxy system.

The paper was written by Alan Beller, Janet Fisher and Rebecca Tabb of the law firm Cleary Gottlieb Steen & Hamilton. While the paper will inform the comment letter that the Council plans to submit to the SEC on its concept release on the proxy system, it is an independent study and does not necessarily reflect the views of the Council or its members. The white paper on client directed voting is posted [here](#) on the Publications page of the Council's Web site, www.cii.org.

CDV refers to a process that lets individual investors provide advance, standing proxy voting instructions to their brokers or bank custodians. Some investor relations and corporate governance specialists have promoted CDV, in various formulations, as a way to increase and inform proxy voting by retail investors. Since the SEC adopted the "notice-only" method for delivery of corporate proxy materials (e-proxy) in 2007, voting by individual investors has declined.

CDV has potentially important ramifications for institutional investors, too. If adopted, it could influence the outcome of proxy votes on some matters. And different models of CDV could have varying impacts on voting outcomes. It could also require advance disclosure of institutional voting decisions and institutional investors might bear some of the implementation costs.

The report is a careful, balanced assessment of the pros and cons of a CDV system. It was based on extensive research and interviews with representatives of a broad range interests-- investors, public companies, lawyers, broker-dealers and other intermediaries.

The paper recommends continued evaluation of CDV but does not endorse the concept. "The complexity of CDV and the policy and regulatory issues it entails suggest to us that a robust CDV model is likely to have a long gestation period," the authors conclude. Any configuration of CDV is likely to require rulemaking by the SEC, they believe.

In particular, CDV would require a rethink of longstanding SEC policy that investors should have an opportunity to understand the matters on which they are asked to vote. CDV would let individual investors decide how they will vote before the matters in question are disclosed. While institutional investors often set advance voting instructions through use of proxy advisory firms, they are required as fiduciaries to review their voting practices annually and they have input into the recommendations of proxy advisers.

The Council of Institutional Investors (CII) is a nonprofit association of public, union and corporate pension funds with combined assets that exceed \$3 trillion. Member funds are major long-term shareowners with a duty to protect the retirement assets of millions of American workers. The Council strives to educate its members, policymakers and the public about good corporate governance, shareowner rights and related investment issues, and to advocate on members' behalf.