



Via Facsimile

December 8, 2009

The Honorable Barney Frank
Chairman, House Committee on Financial
Services
United States House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Spencer Bachus
Ranking Member, House Committee on
Financial Services
United States House of Representatives
B371a Rayburn House Office Building
Washington, DC 20515

The Honorable Paul E. Kanjorski
Chairman, Subcommittee on Capital
Markets, Insurance, and Government
Sponsored Enterprises
United States House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Scott Garrett
Ranking Member, Subcommittee on
Capital Markets, Insurance, and
Government Sponsored Enterprises
United States House of Representatives
B371a Rayburn House Office Building
Washington, DC 20515

Dear Chairman Frank, Subcommittee Chairman Kanjorski, Ranking Member Bachus and
Subcommittee Ranking Member Garrett:

I am writing on behalf of the Council of Institutional Investors (“Council”), a nonprofit association of public, union and corporate pension funds with combined assets that exceed \$3 trillion. Member funds are major shareowners with a duty to protect the retirement assets of millions of American workers.

As a leading voice for long-term, patient capital, the Council strongly supports your efforts to reform the regulation of the U.S. financial system. As indicated in our letter of December 4, 2009, regarding *The Wall Street Reform and Consumer Protection Act of 2009*, we generally support the provisions of the Act designed to enhance SEC oversight of Nationally Recognized Statistical Rating Organizations (NRSROs), strengthen their governance and internal controls, improve the transparency of rating methodologies and assumptions and make rating agencies truly accountable to the investors that depend on them.¹

¹ Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors, to The Honorable Barney Frank, Chairman, Committee on Financial Services, United States House of Representatives et al. 3 (Dec. 4, 2009), available at [http://www.cii.org/UserFiles/file/resource%20center/correspondence/2009/Dec%203%20Letter%20to%20Committee%20on%20Financial%20Services%20\(final\).pdf](http://www.cii.org/UserFiles/file/resource%20center/correspondence/2009/Dec%203%20Letter%20to%20Committee%20on%20Financial%20Services%20(final).pdf).

It has recently come to our attention that Representative Mary Jo Kilroy plans to offer the following amendment:

SEC. 6002. ENHANCED REGULATION OF NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATIONS.

Page 1042, strike lines 5 through 21 and insert the following:

(B) INDEPENDENT DIRECTORS — At least a majority of such board shall be independent directors. For purposes of this subsection, an independent director is a person who has no material relationship with the nationally recognized statistical rating organization or any affiliated company thereof, aside from his or her directorship. The Commission shall adopt such rules, regulations, and orders necessary to implement this subsection no later than 270 days after the date of enactment of this Act.”

Consistent with the Council’s general statement on financial gatekeepers² and the relevant recommendations of the Investors’ Working Group (IWG) in its July 2009 report, *U.S. Financial Regulatory Reform: The Investors’ Perspective*,³ the Council believes that any legislation reforming NRSROs should include measures to strengthen internal controls and governance.⁴ Therefore, the Council welcomes Representative Kilroy’s amendment building on the legislation’s independence standards for the boards of NRSROs. We believe Representative Kilroy’s proposed amendment to increase the proposed one-third board independence requirement to a majority standard is an important step in the right direction. However, we encourage the Committee to consider strengthening the provision further.

The Council has long maintained that independence is critical to properly functioning boards. In that respect, the Council’s corporate governance policies hold that all public corporations should have a board consisting of at least two-thirds independent directors.⁵ As indicated in our letter

² Council of Institutional Investors, Statement on Financial Gatekeepers (adopted May 16, 2008), <http://www.cii.org/UserFiles/file/council%20policies/Statement%20on%20Financial%20Gatekeepers%205-7-09.pdf>.

³ Investors’ Working Group, U.S. Financial Reform: The Investors’ Perspective 21 (July 2009), [http://www.cii.org/UserFiles/file/resource%20center/investment%20issues/Investors%20Working%20Group%20Report%20\(July%202009\).pdf](http://www.cii.org/UserFiles/file/resource%20center/investment%20issues/Investors%20Working%20Group%20Report%20(July%202009).pdf) [hereinafter IWG Report].

⁴ Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors, to The Honorable Barney Frank, Chairman, Committee on Financial Services, United States House of Representatives et al. 1 (Oct. 22, 2009), available at <http://www.cii.org/UserFiles/file/resource%20center/correspondence/2009/10-22-09%20Council%20letter%20on%20Kanjorski%20discussion%20draft.pdf>.

⁵ Council of Institutional Investors, Corporate Governance Policies, § 2.3 (updated May 1, 2009), <http://www.cii.org/UserFiles/file/council%20policies/CII%20Full%20Corp%20Gov%20Policies%205-7-09.pdf>.

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dated October 26, 2009, we continue to support an amendment to raise board independence standards to two-thirds.⁶

We again very much appreciate your leadership in pursuing this legislation and offer our general support for its prompt passage. If you have any questions, please feel free to contact me at (202) 261-7081 or jeff@cii.org, or Council senior analyst Laurel Leitner at (202) 261-7086 or laurel@cii.org.

Sincerely,

A handwritten signature in black ink that reads "Jeff Mahoney". The signature is written in a cursive, flowing style.

Jeff Mahoney
General Counsel

CC: The Honorable Mary Jo Kilroy

⁶ Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors, to The Honorable Barney Frank, Chairman, Committee on Financial Services, United States House of Representatives et al. 3 (Oct. 26, 2009), available at http://www.cii.org/UserFiles/file/resource%20center/correspondence/2009/10-26-09%20Council%20letter%20on%20Rep_%20Kilroy%20amendments.pdf.