



June 14, 2010

Mr. Stefan Walter
Secretary General
Secretariat of the Basel Committee
on Banking Supervision
Bank for International Settlements
CH-4002 Basel, Switzerland

Dear Mr. Walter:

I am writing on behalf of the Council of Institutional Investors (Council) to discuss the Basel Committee on Banking Supervision's draft principles for enhancing corporate governance practices at banking organizations.

The Council values the chance to share our views and recommendations on the principles from our perspective as an association of public, union and corporate pension funds with combined assets that exceed \$3 trillion.

We applaud the Basel committee for its well-thought-out and fitting proposed principles, which are aligned with sound corporate governance practices. The financial crisis ripped investors' confidence and returns to shreds, and it will take corporate accountability, independence, risk management, rigor and transparency to sew them back together. We are glad to see that the proposed principles represent strong thread.

Our specific feedback on the Basel committee's draft follows.

Risk Management

We agree that the board should approve and oversee the implementation of the bank's risk strategy, taking the firm's long-term financial interests and safety into account. A significant factor in the 2008 crash was that boards at many banks failed in their responsibility to monitor the overall level of corporate risk-taking and the bank's risk-management procedures. Robust board oversight of risk management is a prerequisite for lasting value creation.

Independent Board Leadership

Splitting the roles of board chair and CEO promotes strong, independent board leadership and operation. Separating the roles properly reflects the differences in the positions and offers a better balance of power between the chief executive and the board than combining the positions.

Therefore, Council policy states that the board should be chaired by an independent director. The CEO and chair roles should only be combined in very limited

circumstances; in these situations, the board should provide a written statement in the proxy materials discussing why the combined role is in the best interests of shareowners, and it should name a lead independent director who should have approval over information flow to the board, meeting agendas and meeting schedules to ensure a structure that provides an appropriate balance between the powers of the CEO and those of the independent directors.

Independence of Key Committees

All members of the board's audit, compensation and nominating committees should be independent. Director independence is essential to properly functioning board committees that make appropriate, impartial decisions in the best long-term interests of the company and its shareowners.

Clawbacks


The concept of “earn it or return it” is core to the philosophy of pay for performance. If executives are compensated for “hitting their numbers” but it turns out later that they fell short, they should not profit. Therefore, the board should develop and disclose a policy for reviewing unearned bonus and incentive payments that were awarded to executive officers owing to fraud, financial results that require restatement or some other cause. The policy should require recovery or cancellation of any unearned awards to the extent that it is feasible and practical to do so.

Severance Pay

Severance pay for a manager who leaves a company due to lackluster performance is worse than money for nothing—it's pay for failure. Such payouts encourage overly-risky behavior by shielding executives from the negative personal financial ramifications of their actions. Therefore, we recommend that no severance be paid at all in the event of termination for poor performance, resignation under pressure or failure to renew an employment contract.

Thank you for the opportunity to comment on the proposed principles. If you have any questions, please contact me at 202-261-7088 or justin@cii.org.

Sincerely,



Justin Levis
Senior Research Associate