



Via Facsimile

April 22, 2010

The Honorable Robert Menendez
United States Senate
Washington, DC 20510

Dear Senator Menendez:

I am writing on behalf of the Council of Institutional Investors ("Council"), a non profit association of public, union and corporate pension funds with combined assets that exceed \$3 trillion. Member funds are major long-term investors with a duty to protect the retirement savings of millions of American workers across the country. Significantly affected by the financial crisis, Council members have a deep, abiding interest in strong regulatory reform.

The purpose of this letter is to respond to your inquiry regarding the Council's position on your proposed amendment to the *Restoring American Financial Stability Act of 2010* on executive stock hedging. It is our understanding that the proposed amendment would place a ban on stock hedging by executives and highly-compensated employees (those making more than \$1 million per year), preventing them from betting against their own company.

The Council shares your concern that the ability of executives to hedge against their own company's stock may take the incentive out of their incentive-based compensation. That concern and others led the Council board and membership to adopt the following policy:

Hedging: Compensation committees should prohibit executives and directors from hedging (by buying puts and selling calls or employing other risk-minimizing techniques) equity-based awards granted as long-term incentive compensation or other stock holdings in the company. And they should strongly discourage other employees from hedging their holdings in company stock.¹

We appreciate your interest in the Council's views on this matter. Please feel to contact me at (202) 261-7081 or jeff@cii.org should you or your staff have any questions or comments regarding our policies or this letter.

Sincerely,

Jeff Mahoney
General Counsel

¹ Council of Institutional Investors, *Corporate Governance Policies*, § 5.8d Hedging (updated Apr. 13, 2010), <http://www.cii.org/UserFiles/file/council%20policies/CII%20Corp%20Gov%20Policies%20Full%20and%20Current%204-13-10.pdf>.

April 22, 2010

Page 2 of 2

cc: The Honorable Christopher J. Dodd, Chairman, Committee on Banking, Housing,
and Urban Affairs
The Honorable Richard C. Shelby, Ranking Member, Committee on Banking,
Housing, and Urban Affairs