



Aug. 31, 2010

José Manuel Barroso
President
European Commission
1049 Brussels, Belgium

Dear Mr. Barroso:

I am writing on behalf of the Council of Institutional Investors (Council) to offer feedback on the European Commission's (EC) green paper, "Corporate Governance in Financial Institutions and Remuneration Policies." The Council is a nonprofit association of public, union and corporate pension funds with combined assets that exceed \$3 trillion. As a leading voice for long-term shareowners, the Council welcomes the opportunity to offer its views and recommendations on the green paper.

We applaud the EC for its thoughtful and thorough paper, which raises important points about how banks' governance shortcomings contributed to the financial crisis, as well as critical questions about how best to improve governance to avert the next debacle. We agree with EC National Expert Elizabeth Tijssen, who told Council members in an August 18 teleconference that, "good corporate governance could have prevented some of the worst effects" of the financial crisis.

Below are several recommendations designed to enhance decision making, independence, accountability and risk oversight at financial institutions, and thereby help build a better future for banks, capital markets and shareowners.

Overboarding

Directors who serve on too many boards are stretched too thin, hampering their ability to adequately contribute, oversee management and make informed decisions. Absent unusual, specified circumstances, the Council believes that directors with full-time jobs should not serve on more than two other boards. Currently serving CEOs should not serve as a director of more than one other company, and then only if the CEO's own company is performing in the top half of its peer group. No other director should serve on more than five for-profit company boards.

Independent Board Chair

The Council strongly believes that the board chair should be independent. Forceful CEOs who serve also as chair can dominate the board and its agenda and thus weaken the board's oversight of management. Splitting the chair/CEO positions properly reflects the differences in the roles of each position. Most importantly, an independent board chair provides a better balance of power between the CEO and the board, and facilitates strong, independent board leadership and functioning. The financial crisis represented an enormous failure of board oversight of management—independent

chairs are a key component of robust boards that monitor and, where necessary, rein in management.

Board Diversity

The Council agrees with the EC that greater diversity can contribute to the quality of the board's work, especially given the increasingly global nature of business today. On the quantitative side, recent studies have found that board diversity corresponds with better economic performance. Therefore, the Council believes boards should be diverse in terms of a range of variables, including background, experience, age, race, gender, ethnicity and culture.

Board's Role in Risk Oversight

Effective oversight of risk management is fundamental to creating and protecting shareowner value. The objective of risk oversight and risk management is not to restrict reasonable risk taking and innovation or to eliminate risk altogether, but to establish and maintain a sound system of internal controls that will protect long-term shareowner value in accordance with the company's risk profile.

Therefore, according to draft policy language approved by the Council's board and expected to be adopted by the Council's General Members this September, corporate boards should (1) establish a company's risk management philosophy and risk appetite; (2) understand and ensure risk management practices for the company; (3) regularly review risks in relation to the risk appetite; and (4) evaluate how management responds to the most significant risks.

In determining the risk profile, the board should consider the dynamics of the company, its industry and any systemic risks. Effective risk oversight requires regular, meaningful communication about the company's material risks and risk management processes—between the board and management, among board members and committees and between the board and any outside advisers it consults. The board should disclose to shareowners, at least annually, sufficient information to enable them to assess whether the board is carrying out its oversight responsibilities effectively.

Best Disclosure Practices for Institutional Investors

A recent survey revealed that most Council members publicly disclose written investment and proxy voting guidelines, the names of board members and annual statements containing information on holdings and performance. It also found that many members disclose the proxy votes they cast. In the interest of improving transparency, accountability, trust, understanding of risk and the overall stability of financial markets, all institutional investors should disclose this information.

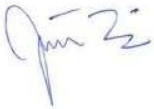
Such disclosure can help protect institutional investors by increasing the number of guards at the institution's vault. And institutional investors are vulnerable to charges of hypocrisy if they are not as vigilant about their own transparency as they are about ensuring the transparency of public companies in their portfolios.

Advisory Vote on Executive Pay

The Council believes investors should have an annual, nonbinding vote on senior executives' pay. This mechanism allows shareowners meaningful, regular input to the board on the appropriateness of executive compensation. Say-on-pay votes permit shareowners to communicate displeasure on remuneration through a targeted warning, without necessarily resorting to the "nuclear option" of voting against or withholding votes for compensation committee members. Pay votes have significant value as a catalyst for conversations between shareowners and directors about inordinate or poorly structured executive compensation. Also, the prospect of a majority "against" vote might discourage compensation committees from approving incentive plans that are overly lucrative or that encourage excessive risk-taking.

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

Sincerely,

A handwritten signature in blue ink, appearing to read "Justin Levis".

Justin Levis
Senior Research Associate