



OFFICE OF THE ILLINOIS STATE TREASURER
MICHAEL W. FRERICHS

June 5, 2017

Via Email and Regular Mail

Honorable Mike Bost
United States House of Representatives
1440 Longworth House Office Building
Washington, DC 20515

Re: The Financial CHOICE Act of 2017

Dear Representative Bost,

I am writing to voice my concerns with House Resolution 10, the Financial CHOICE Act of 2017, and emphasize the devastating impact it would have on shareholder rights, corporate accountability, and ultimately, the long-term interests of families and businesses in Illinois.

As the Treasurer of the great state of Illinois, I am responsible for safeguarding and investing \$25 billion on behalf of Illinois residents, state agencies, and local governments. I look for institutions that offer good value to taxpayers, are good community partners, and demonstrate stability, transparency, and sound corporate governance. These attributes provide us – and more importantly, the public – with confidence that investments are well-managed, low-risk, and high-performing.

As such, the State of Illinois and other public investors have a clear financial interest and fiduciary responsibility to communicate concerns, flag issues, and propose reforms designed to serve the mutual interests of shareowners and corporate managers. We want businesses to succeed, and success is achieved and sustained when companies operate with excellent corporate governance, clear transparency and accountability systems, and unwavering shareholder confidence.

The shareholder proposal process, as currently structured and administered under SEC Rule 14a-8, serves this exact purpose. Not only is it a fundamental shareholder right, but it

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has proven its value time and time again as essential to maintaining corporate accountability and fostering trust between investors and managers.

The recent events at Wells Fargo provide a clear example of the value and utility of the shareholder proposal process. When I learned about the abuses, I immediately suspended investment activities with the company and collaborated with fellow investors to file a shareholder proposal calling for separation of the chair and CEO roles. Wells Fargo's Board of Directors acted swiftly and embraced the proposal. They agreed that implementing this change to their corporate governance structure would ensure greater accountability and stronger oversight that would ultimately benefit their employees, shareholders, and customers.

The Financial Choice Act as currently written would devastate the shareholder proposal process and seriously undermine shareholder rights. Among other troubling provisions, the legislation drastically increases the financial threshold whereby shareholders can file proposals; restricts shareholder voting rights for directors in contested elections; reduces the frequency of shareholder advisory votes on executive pay; and eliminates disclosures on corporate governance structures.

Enclosed is a Joint Statement on Defending Fundamental Shareholder Rights signed by State Treasurers and Comptrollers from across the nation, all of whom share my concerns. We stand together in staunch opposition to this attempt to undermine shareholder rights and eliminate well-established processes that have proven their worth in advancing U.S. corporate governance practices, enhancing risk management, and fostering value-added investor-manager relations.

I am confident that you share our belief that it is not prudent to slash shareholder rights and undermine corporate accountability, transparency, and risk management practices.

I urge you to take decisive action to address our concerns with the Financial CHOICE Act, and I stand ready to work with you and your colleagues to ensure that U.S. businesses are successful, safe, and fair for all investors and all Americans.

Sincerely,



Michael Frerichs
Illinois State Treasurer

Enclosure:

Joint Statement on Defending Fundamental Shareholder Rights

Joint Statement on Defending Fundamental Shareowner Rights

The ability of shareowners to file shareholder proposals is a fundamental investor right first established by the federal government in 1942 for reasons that remain vital today.

We have a keen interest in maintaining a federal regulatory framework that protects investors – including by providing shareowners the tools needed to ensure transparency of and accountability for actions taken, and risks managed, by corporate management and boards of directors.

State laws provide certain shareowner rights – including to receive certain information about company performance, to vote up or down on certain fundamental actions initiated by company management and the board of directors, and to assert claims in the aftermath of perceived wrongdoing. Nonetheless, they do not provide a tool similar to shareholder proposals by which shareowners – under federal rules – can timely and efficiently raise issues impacting investments with management, the board of directors and other shareowners.

In the aftermath of the Great Depression, the federal government stepped in to protect shareowners with the passage of the federal securities laws in the 1930s and, thereby, the creation of the Securities and Exchange Commission (SEC). The SEC adopted the first shareholder proposal rules in 1942, which made the filing of such proposals a fundamental federal shareowner right.

The SEC has since fine-tuned the rules to ensure they remain fair, efficient and effective, as validated by the essential reforms prompted by shareholder proposals in the wake of more recent corporate crises, including the Enron-era accounting scandals and the global financial crisis. These reforms have been especially beneficial to pension systems and other large, long-term investors that now represent a large share of the market and that invest through low-cost, diversified index strategies and thus cannot readily sell shares in underperforming companies.

The robust shareholder proposal process, as currently structured and administered under SEC Rule 14a-8, works well for investors, public companies and capital markets.

It is fair, efficient and effective:

- The rule permits shareowners who have owned \$2,000 worth of company stock for at least one year to file a proposal;
- A shareowner may refile a proposal only if it has received at least 3 percent of the vote on its first submission, 6 percent on the second and 10 percent on the third; and

- The SEC has a well-earned reputation for fairness in overseeing an administrative process that allows companies to exclude proposals from their proxy cards that do not meet the procedural and/or substantive hurdles contained in Rule 14a-8.

Shareholder proposals provide an orderly means to mediate differences between a company's management, board of directors and shareowners. The proposals allow shareowners to signal issues of concern in the interest of enhancing long-term company value and provide a framework for the company to respond with information about its strategy, governance and risk management approaches to the issues raised.

Advancements in U.S. corporate governance practices and regulation that we believe would not have occurred without the robust shareholder proposal process currently in place include:

- *Independent Directors* – Independent boards and fully independent audit, compensation, nominating/governance committees help to ensure that board decision-making is free of actual or perceived conflicts of interest that could compromise directors' judgment. Shareholder proposals were the impetus behind the now standard practice – currently mandated by major U.S. stock exchanges' listing standards – that independent directors constitute at least a majority of the board, and that all the members of the aforementioned board committees are independent.

- *Annual Election of Directors* – Experience has shown that classified boards – whereby only a portion of the directors face election each year – serve to entrench and insulate the board and management from accountability.

In 1987, an average of 16% of shareowners voted in favor of shareholder proposals to declassify boards of directors so that directors stand for election each year. In 2012, these proposals enjoyed an 81% level of support on average. Ten years ago, less than 40% of S&P 500 companies held annual elections for all directors, compared to more than two-thirds of these companies today.

- *Majority Voting for Election of Directors* – Board accountability is promoted by requiring majority votes for directors in uncontested elections. There should be meaningful director elections.

Electing directors in uncontested elections by majority (rather than plurality) vote was considered a radical idea a decade ago when shareowners pressed for it in proposals they filed with numerous companies. Today, 90% of large-cap U.S. companies elect directors by majority vote, largely as a result of shareowner support for majority vote proposals.

- *Shareowner Access to the Proxy* – Candidates for a company's board of directors almost always are nominated by the boards themselves – often with significant say from the very management which the board is elected to oversee. As a result, shareowners historically have had no real voice in the board nomination process and little choice in voting their shares. Proxy access provides the framework by which shareowners who meet specified eligibility requirements can nominate directors on the company's ballot.

Shareholder proposals urging companies to implement proxy access in recent years quickly received large votes, even achieving majority votes at numerous companies. As a result, the marketplace standard is now moving towards companies adopting proxy access. More than 400 companies have now adopted proxy access bylaws.

- *Advisory Vote on Executive Compensation* – Shareowners use the advisory vote on executive compensation to communicate their views on how well the board is handling its responsibility in setting compensation for senior management. Boards of directors use this feedback to refine pay practices as they find appropriate. Shareholder proposals built the momentum behind “say-on-pay” – the now required advisory vote on executive compensation.

U.S. corporate governance must continue to evolve and advance. Filing shareholder proposals is one particularly effective tool – provided to investors at the federal level – to voice concerns and to propose reforms, in order to protect our long-term investments and encourage sustainable, robust corporate practices at publicly-traded companies. On an ongoing basis, shareholder proposals address current and emerging issues that have the potential to impact our investments.

We believe that shareholder proposals are an essential tool to maintain corporate transparency and accountability and that their administrative rules must be protected in their current form.

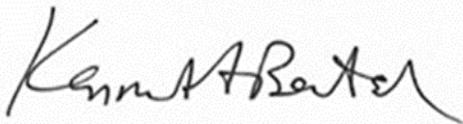
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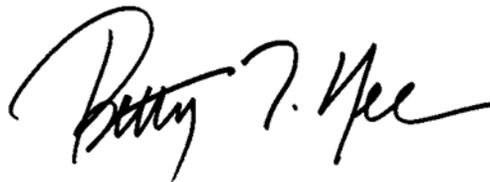
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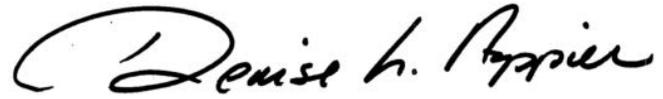
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