

July 25, 2005

The Honorable Richard C. Shelby, Chairman
Banking, Housing, and Urban Affairs Committee
United States Senate
534 Dirksen Senate Office Building
Washington, DC 20510

Re: Investor Protection at the U.S. Securities and Exchange Commission

Dear Senator Shelby,

The Senate Banking, Housing, and Urban Affairs Committee is faced with a crucial and difficult task in the coming weeks. You are entrusted with confirming the next leader of the Securities and Exchange Commission at a time when investors continue to experience routine and persistent corporate abuses and fraud—three years after the Enron scandal and well over two years since Sarbanes-Oxley went into effect. It is vital that the Senate Banking Committee support an SEC Chairman who will put investors first.

Robust legislation like Sarbanes-Oxley, aggressive state enforcement, and criminal sentencing of corporate executives have not dissuaded numerous CEOs and Directors from participating in the fleecing of the American investor. It is up to the Securities and Exchange Commission—as the largest federal entity charged with protecting investors—to set the tone for Corporate America and Wall Street’s many players. The role of the SEC and its chairman in restoring faith in our capital markets cannot be overstated.

Poll after poll reveals that U.S. investors have lost confidence in the business ethics of both companies and executives. According to a May 2005 Gallup poll, 76 percent of Americans have only some, very little, or no confidence in Big Business. This compares with a Fox News/Opinion Dynamics Poll two years earlier that found that 89 percent of Americans had little to no confidence in major corporations. Meanwhile, 51 percent of Americans from an April 2005 Gallup poll thought that investing in the stock market was a “bad idea.”

To restore the trust of large and small investors alike, the leadership of the SEC must clearly convey that corporate misconduct will not be tolerated, and that violating *either the letter or the spirit of the law* will meet with a swift response.

We believe the Chairman must be a staunch supporter of participatory corporate governance and strengthened corporate disclosure. The Commission must support vigorous and independent regulation of our financial systems by the Public Company Accounting Oversight Board and the Financial Accounting Standards Board. The SEC also needs to continue its recent record of close coordination and information sharing with state regulators.

The SEC Chairman must also protect investors from continued corporate corruption by:

- Addressing out-of-control executive compensation, including the clear disclosure of pay packages and benefits, while supporting the transparent expensing of stock options.
- Promoting direct shareholder communication with boards and executives, and providing shareholders a meaningful ability to nominate qualified candidates for boards.
- Continuing mutual fund reform, so that investors receive adequate and comprehensible disclosure of processes, fees, and fund policies; and encouraging greater board independence and independent leadership of fund boards.
- Ensuring solid protection for corporate whistle blowers.
- Closing reporting and legal loopholes that perpetuate overly rosy corporate projections, shortsightedness, and those that shield corrupt executives from reasonable investor and consumer litigation.
- Improving the disclosure of material, business-related risks that impact investment decisions, including: ethical breaches and related party transactions; discriminatory practices; community interaction; lobbying and political spending; customer relations; and environmental, workplace, and other compliance concerns.
- Targeting pervasive abuses in broker-dealer sales practices to ensure that all those who offer personalized investment advice are subject to appropriate standards of conduct.
- Transcending partisan politics by working to develop and achieve consensus.
- Being a fierce advocate of the Commission, ensuring adequate funding, staffing, and enforcement powers, and preserving the staff's institutional memory.

We feel the Chairman must embody the SEC's core objectives of protecting investors and providing U.S. market integrity. The Chair of the Commission must lead both substantively and symbolically in all of these areas. As such, we are concerned about the record of the current nominee for SEC chairman in

fulfilling these priorities, and we represent several million participants in the U.S. market with collective investments of more than \$200 billion.

As Chairman of the Senate Banking Committee and throughout your senate career, you have acted time and again as a true advocate for investors—by prodding the SEC to respond aggressively to the mutual fund scandals, by standing up to those who would undermine the independence of FASB and overturn the stock options expensing rule, and by defending investors’ rights to redress. We look forward to working with you to ensure that all nominees to serve on the SEC demonstrate that same commitment and ability to protect shareholder rights and strengthen our corporate governance system.

Respectfully.

Joan Bavaria, Trillium Asset Management

Julie Gorte, Calvert Group

Lauren Compere, Boston Common Asset Management

Jackson Robison, Winslow Management Company

Timothy Smith, Walden Asset Management

Joanne Dowdell, Citizens Advisors

Allan Moskowitz, Progressive Wealth Management

John Harrington, Harrington Investments

Service Employees International Union

Amy Perry, Green Century Capital Management

Joyce Moore, Joyce Moore Financial Services

Rick Hausman, Clean Yield Asset Management

Fran Teplitz, Social Investment Forum Ltd.

Mercer Bullard, Fund Democracy

Barbara Roper, Consumer Federation of America

Frank Clemente, Public Citizen

James McRitchie, Corporate Governance

Susannah Goodman, Common Cause

Ed Mierzwinski, U.S. Public Interest Research Group

Charlie Cray, The Center for Corporate Policy

Sanford Lewis, Strategic Counsel on Corporate Accountability

Bruce Freed, Center for Political Accountability

Jamie Court, Foundation for Taxpayer and Consumer Rights

Scott Klinger, Responsible Wealth/United for a Fair Economy

Heather Vargas, Citizen Works

Sister Patricia Wolf, Interfaith Center on Corporate Responsibility

Sister Barbara Aires, Sisters of Charity of Saint Elizabeth, NJ

Margaret Weber, Adrian Dominican Sisters

Rev. Joseph P. La Mar, M.M., Maryknoll Fathers and Brothers

Mary Brigid Clingman, O.P., Dominican Sisters Marywood

Ruth Kuhn, S.C., Region VI Coalition for Responsible Investment

Connie Brookes, Friends Fiduciary Corporation

Sisters of St. Francis of Tiffin, OH

The Sisters of Charity of Cincinnati

Anita Whitely, O.S.U., Ursuline Academy of Cleveland

Mary Ellen Gondeck, S.S.J., Sisters of St. Joseph, Nazareth, MI

Mordechai Liebling, Shefa Fund

Conrad MacKerron and Larry Fahn, As You Sow Foundation

Tim Little, Rose Foundation for Communities and the Environment

Dan Larner, Investor, Boston, MA

Cc: Banking, Housing, and Urban Affairs Committee