

The Council of Institutional Investors

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About CII

- U.S. based nonprofit, nonpartisan association of institutional investors
- Founded in 1985
- Leading voice for effective corporate governance standards and strong shareholder rights
- Voting members: 100+ employee benefit funds and endowments, \$3 trillion in assets
- Nonvoting members include leading global asset managers
- Largest U.S. investors are CII members



What CII Does



Education

E-newsletter, guides and reports,
webinars, training courses



Networking

Spring and fall conferences, roundtables



Advocacy

Member-approved best practices, comment
letters, meetings with legislators,
regulators and companies

Recent Examples

- Education
 - Teleconference: Cybersecurity - confronting challenge from an investor's perspective
 - Master class: Engaging effectively
 - Pension fund trustee training
 - Webinar: IEX and future of trading
 - Teleconference: Proxy advisory firm bill & other legislative developments

 - Networking
 - Fall 2016 conference, Chicago, IL
 - Spring 2016 conference, Washington, DC
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Recent Examples (cont.)

- Advocacy
 - Member-approved best practices
 - Long-termism
 - Shareholders' voting rights
 - Comment letters
 - Letter to U.S. Securities and Exchange Commission on disclosure effectiveness project
 - Letter to Members of U.S. Congress on corporate governance hearing
 - Letter to Members of U.S. Congress on proposed financial regulatory reform legislation
 - Letter to Members of U.S. Congress on proposed legislation relating to private equity oversight and transparency

Recent Examples (cont.)

- Advocacy (cont.)
 - Comment letters (cont.)
 - Letter to Members of U.S. Congress on proposed legislation to regulate proxy advisory firms
 - Meetings with legislators, regulators, and companies
 - Meetings with Congressional staff on proposed legislation relating to activist investors
 - Meetings with Commissioners and staff of SEC on issues relating to corporate governance and shareowner rights
 - Meeting with Congressional staff on issues relating to short-termism
 - Meeting with representatives of Bank of America on issues relating to corporate governance and shareowner rights

Some Current CII Issues

- Majority voting for directors & “zombie” directors
 - More than half of companies in Russell 3000 have not adopted a majority vote standard for election of directors and 40 directors that failed to receive majority support in 2016 remain on company boards

- Proxy access
 - In 2016, more than 60 proxy access proposals were approved by public company shareowners potentially making it easier for shareowners to nominate their own candidates for director

Some Current CII Issues (cont.)

- Universal proxy
 - More than a dozen proxy contests are held annually, but outdated regulations generally prevent shareowners from voting on a mix of management and dissident board nominees

 - Independent board chair
 - Only 36% of Russell 3000 boards are chaired by an independent director

 - Majority-supported shareowner proposals
 - In 2016, 89% of majority-supported shareowner proposals have yet to be implemented by public company boards
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CII Committees

- Activism
 - Open to all CII members
 - Purpose is to encourage members to discuss and recommend current and future member initiatives and CII activities that promote effective corporate governance and increase participation of CII members in advocating good corporate governance

- International Governance
 - Open to all CII members
 - Purpose is to educate members on topical international governance issues and identify and recommend potential areas for CII involvement in non-U.S. corporate governance arena

CII Committees (cont.)

- Policies
 - Comprised of non-officer members of CII's board
 - Purpose is to review, maintain, and update CII policies on corporate governance and other issues

CII Policies

- Foundation for advocacy on issues
- Approved by vote of general members
- Corporate governance best practices (Attachment # 1)
- Other investment related issues

Corporate Governance Best Practices

➤ Examples

➤ Executive compensation

- “The Council endorses reasonable, appropriately structured pay-for-performance programs that reward executives for sustainable, superior performance over the long-term, consistent with a company’s investment horizon”

➤ CEO succession

- “The board should approve and maintain a detailed CEO succession plan and publicly disclose the essential features in the proxy statement”

➤ Board diversity

- “Nominating committee charters, or equivalent, ought to reflect that boards should be diverse, including such considerations as background, experience, age, race, gender, ethnicity, and culture”

Other Investment Related Issues

- Examples
 - Financial gatekeepers
 - Credit rating agencies
 - Independence of accounting and auditing standard setters (Attachment # 2)

Independence of accounting and auditing standard setters

- Background
 - How accounting and auditing standards are “made”
 - Following the stock market crash of 1929, U.S. Congress created SEC and provided it with authority to prescribe accounting rules for those financial statements that enterprises must include in their public filings and to establish rules that require independent accountants to audit those financial statements
 - Historically, SEC relied on accounting profession to establish accounting and auditing standards
 - In 1973, SEC recognized Financial Accounting Standards Board, and its parent organization, Financial Accounting Foundation, as designated accounting standard setter for purposes of the federal securities laws

Independence of accounting and auditing standard setters (cont.)

- Background (cont.)
 - How accounting and auditing standards are “made” (cont.)
 - In 2002, U.S. Congress established Public Company Accounting Oversight Board and gave PCAOB, subject to SEC approval, authority to establish auditing standards that registered public accounting firms use to prepare and issue audit reports for companies subject to SEC’s jurisdiction
 - CII members and staff participate on advisory groups to the SEC, FASB, and PCAOB

Independence of accounting and auditing standard setters (cont.)

- CII policy
 - Approved in 2007
 - To formalize support for independent accounting and auditing standard setting
 - Updated in 2008
 - To support goal of convergence to a single set of high quality accounting and auditing standards
 - To establish criteria for potential replacement of U.S. standards or standard setters with international standards or standard setters

2008 Criteria

- #1 Quality of information resulting from standards
- #2 Rigorous application and enforcement
- #3 Sufficiency of resources
- #4 Existence of independence and technical expertise
- #5 Recognition that investors are key customer
- #6 Thoroughness of public due process

2008 Criteria (cont.)

- #7 Adequacy of protections from government overrides

2011 CII White Paper

- Provided views of Professor Donna L. Street, University Dayton, on IASB, IFRS, and the 2008 criteria (Attachment # 3)
- Contained findings that three of 2008 criteria had been met
 - #1 Quality of information resulting from standards
 - #5 Recognition that investors are key customer
 - #6 Thoroughness of public due process

2012 SEC Final Staff Report

- Results of SEC staff analysis of issues relating to incorporating IFRS into U.S. financial reporting system (Attachment # 4)
 - Referenced 2008 criteria and related white paper
 - Did not contain a recommendation
 - Concluded further analysis and consideration of issue was necessary

- No further analysis has been issued

2015 SEC Chief Accountant Views

- SEC Chief Accountant indicated staff were developing a proposal for public comment (Attachment # 5)
 - To permit U.S. companies to provide IFRS-based information as a supplement to U.S. GAAP financial statements
 - Would not permit or require replacement of U.S. GAAP financial statements with IFRS financial statements

- Currently unclear when proposal might be issued (Attachment # 6)

2016 CII Policy Review and Update

- In September, CII policy committee approved staff review and potential update of 2008 policy on Independence of Accounting and Auditing Standard Setters
- Will consider potential changes to policy
 - Regarding goal of convergence
 - To reflect lack of any near term SEC action to replace U.S. accounting or auditing standards or standard setters
- October marked working draft of policy (Attachment # 7)
- CII staff welcomes input on marked working draft

2016 CII Policy Review and Update (cont.)

- Please contact CII General Counsel Jeff Mahoney at jeff@cii.org

Some Current U.S. Accounting & Auditing Related Projects

- SEC disclosure effectiveness project
 - Reviewing disclosure requirements in Regulation S-K and Regulation S-X, which provides requirements for financial statements (in addition to U.S GAAP), and is considering ways to improve disclosure regime for benefit of both companies and investors
- PCAOB project to improve auditor's report
- FASB project assessing whether disclosures are material

CII Contact Information

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