



Business Roundtable™

**Testimony for the Record**

**Of**

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**On**

***SEC Proxy Access Proposals: Implications for Investors***

**Before the U.S. House of Representatives  
Committee on Financial Services**

**On**

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Mr. Chairman and members of the Committee, thank you for inviting me to be here. We appreciate the opportunity to provide our views on the issue of proxy access, and for the hearing record we will also submit our detailed comment letter to the SEC.

Business Roundtable has long been a strong supporter of corporate governance reforms. We supported Sarbanes Oxley, the enhanced listing standards of the exchanges, additional disclosures on executive compensation, and majority voting for directors. As these reforms demonstrate, we are committed to the highest standards of transparency and governance.

Similarly, we remain committed to promoting the accountability and responsiveness of boards; enhancing transparency so investors can make informed decisions; facilitating communications between companies and shareholders; and creating certainty and predictability for companies and their shareholders.

As you know, the issue of proxy access has been debated over the years, and previous Commissions have concluded that changing the current system is inconsistent with state law and unworkable from a practical standpoint. Currently, the SEC is once again receiving comments about two proposed rules, whose issuance followed a lengthy process of testimony by experts from the legal, academic, corporate, and shareholder communities.

The heart of the issue involves how corporate director elections are governed and how a company proxy is used.

Director elections are governed by state law where the company is incorporated, and the proxy is a management mechanism for shareholders to vote when not attending shareholder meetings. Shareholders do have the right to nominate

directors and run campaigns, but not on the company proxy. The SEC has consistently recognized this and excluded director election proposals from the company proxy.

Proponents of Proxy Access want to turn the system on its head by creating federal rules allowing virtually any board candidate to be placed directly on the proxy.

As you might expect, we are concerned with this for several reasons. First and foremost, it would represent a fundamental change to the successful corporate model that has produced enormous returns for shareholders.

Nominating Committees exist for a specific reason - to identify qualified candidates with expertise and judgment who will serve to represent **all** shareholders, not one particular group.

We believe proxy access will result in special interest board candidates, and will politicize the director election process. In this day and age of short term holdings, hedge funds, and foreign government investment in US corporations, the last thing shareholders need are fractured boards representing divergent constituencies, or "single issue" board members.

Furthermore, we believe such a process will discourage qualified, independent directors from serving. And finally, as some proponents have suggested, we do not want the cost of special interest nominees to shift to companies and, ultimately, to shareholders.

Today's corporations have millions of shareholders, often represented by thousands of institutional investor groups. Imagine a proxy card with hundreds of board candidates, each with their own agenda. This is not a formula for stability and long-term growth in shareholder value.

Proponents of proxy access often cite the need for additional reforms in the boardroom. The fact is, however, that our companies have dramatically changed during the past few years. Indeed, we have seen more governance changes in the past 5 years than during the previous 50.

Each year we survey our members on governance practices, and the results this year speak for themselves:

- 91% of our Boards are made up of at least 80 % Independent Directors.
- 72 % of our Boards meet in executive session at every meeting.
- 75 % of our CEO serve on no more than 1 other Board.
- 84 % of our Boards have adopted Majority Voting for Directors in just two years.
- The average tenure of a CEO is down to 4 years.

These numbers demonstrate that company boards and executives have transformed themselves, and are demanding greater accountability and exercising more oversight, as they should.

Shareholders now have a true "yes" or "no" vote on board candidates. These votes provide a meaningful voice in the director election process.

And now there is enhanced dialog - board members regularly meet with shareholders, answering questions and discussing everything from compensation to mergers to capital expenditures. Companies desire to attract and retain shareholders because it is in their best interest to do so.

In light of these reforms, the challenge now is to ensure that boards can attract and retain qualified directors and leaders who are able to innovate, increase revenues and profits, and increase shareholder value.

Given the strong record of reforms and our belief that politics and narrow agendas have no place in the boardroom, we believe that the SEC is correct in reaffirming its exclusion of director election proposals from the proxy. Simply put, proxy access is a bad idea whose time has passed.

Preserving the current balance between shareholders, boards, and management will allow corporate directors to continue to focus on what they are there to do: provide judgment and oversight, and help create long term value for **all** shareholders.

Thank you and I'd be happy to answer any questions.