The Honorable Jeb Hensarling
Chairman, House Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Patrick T. McHenry
Vice Chairman, House Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member, House Committee on Financial Services
4340 Thomas P. O'Neill Jr. Federal Office Building
Washington, DC 20515

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Sent via email for PRI Managing Director Fiona Reynolds (nathan.fabian@unpri.org)

Dear Mr Chairman Hensarling, Mr Vice Chairman McHenry and Ranking Member Waters,

I'm writing on behalf of the Principles for Responsible Investment (PRI), the world's leading responsible investment initiative, in advance of the April 26 hearing of the Financial Choice Act.

The PRI was launched in New York in 2006, and now supports more than 1,700 investors globally with over US$$62 trillion in assets under management. The United States is the PRI's largest market with almost 300 signatories.

The PRI has strong concerns that multiple aspects of the Financial Choice Act would significantly weaken the role institutional investors play in the corporate governance of US companies, jeopardise long-term value-creation. In particular, we strongly recommend opposing any attempt to modify or limit the Securities and Exchange Commission's shareholder proposal rule, SEC Rule 14a-8.

In December 2016, the Department of Labor clarified its Interpretive Bulletin from October 2008 (29 CFR 2509.08-1) applicable to ERISA fiduciaries (the "Shareholder Rights Bulletin")[1]. On shareholder activism, the clarification stated:

[1] https://www.dol.gov/sites/default/files/ebsa/2016-31515.pdf

"… where the responsible fiduciary concludes that there is a reasonable expectation that such monitoring or communication with [company] management, by the plan alone or together with other shareholders, will enhance the economic value of the plan's investment in the corporation, after taking into account the costs involved."

"Such a reasonable expectation may exist … where plan investments in corporate stock are held as long-term investments …"

The PRI welcomed the clarification, which is consistent with other peer markets.

In January 2017, the Investor Stewardship Group[2] launched an initiative focused on investor stewardship and corporate governance. Signatories include JPMorgan Asset Management, Blackrock and Vanguard, as well as international investors such as HSBC asset management and Legal & General investment management[3]. This follows the UK, Japan and Hong Kong, among others, which have formalised stewardship codes. The UK's Financial Reporting Council recently introduced "tiering" to enable stewardship to be a tool of competitive differentiation among asset managers. A number of US investors are Tier 1 signatories, including State Street Global Advisors and Goldman Sachs Asset Management[4].

Shareholders play a critical role in corporate governance. Enhanced shareholder engagement has led to changes in board election practices, executive compensation and, in some instances, corporate strategy. To be an effective shareholder, this includes the ability to file resolutions, as well as exercise voting rights.

Engagement helps shareholders to make informed voting decisions about investee companies. It has moved from the margins to the mainstream and is now a year-round activity, not one simply precipitated by an AGM or corporate crisis. Engagement is an instrument for creating long-term value and is central to the prudent oversight of investee companies.

The effect of the proposed legislation, would be to significantly weaken the ability of shareholders, including our signatories, to engage with companies and fellow investors on corporate governance and risk management.

The proposed legislation would:

- Alter the threshold for filing proposals to 1% of shares over a three-year period. Depending on the size of the company, the holdings required by the proposed threshold would be millions, or even billions of dollars, excluding all but the largest shareholders.

- Alter the resubmission threshold for proposals. For emerging issues and risks, the existing thresholds represent a significant growth in investor interest to merit continued discussion and disclosure on an issue.

[2] https://www.isgframework.org/stewardship-principles/
[3] https://www.isgframework.org/signatories-and-endorsers/
[4] https://www.frc.org.uk/Our-Work/Corporate-Governance-Reporting/Corporate-governance/UK-Stewardship-Code/UK-Stewardship-Code-statements/Asset-Managers.aspx

- Prohibit filing on behalf of another person. Currently it is common practice and effective for investment advisors to file proposals on behalf of their clients.

The proposed changes are inconsistent with peer markets. For example:

In Canada:

- The federal statute Canada Business Corporations Act (2001), requires shareholders to individually or collectively account for the lesser of 1% of the total number of voting shares or CAD$2,000-worth of voting shares for a minimum of six months prior to the date of submission to file a resolution. These thresholds are consistent with provincial legislation in British Columbia, Alberta, and Quebec. In other provinces, the only requirement is for shareholders to have voting rights.

- There are also efforts to improve proxy access, specifically around the influence on director nomination process. However, this is counter to the Financial Choice Act's intention to curb proxy access by prohibiting filing by proxy.

- Consistent with the current wording of Rule 14a-8, proposals may be resubmitted if they receive a 3% vote in year one, 6% in year two, and 10% in year three, in line with the current US rules. Raising them to the proposed thresholds is therefore out of line with international standards.

In UK:

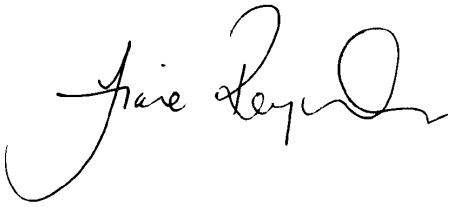
- In the UK, shareholders of a public company can require it to circulate a resolution to be voted on at its AGM where such a request is made by either shareholders representing at least 5% of the total voting rights or 100 shareholders who have a right to vote on the resolution and hold shares of at least GB£100 per shareholder.

- Prime Minister Theresa May recently published a corporate governance green paper which encourages companies to engage with their shareholders. As mentioned earlier, regulators in the UK, Japan and Hong Kong have also introduced stewardship codes. The UK guidance recommends investors consider: "submitting resolutions and speaking at General Meetings".[5]

The PRI recommends the act is withdrawn.

Sincerely,

[5] https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Stewardship-Code-September-2012.pdf



Fiona Reynolds
Managing Director
Principles for Responsible Investment