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Securities and Exchange Commission

The current financial crisis has underscored the urgent need for comprehensive re-regulation of the financial markets. As the agency responsible for protecting investors and maintaining the integrity of the securities markets, a reinvigorated SEC must play a critical role in this process. This memo outlines what we believe are the SEC's objectives and priorities as part of the new regulatory regime. In a separate memo that we will also share with the SEC and other Transition Teams, we define key objectives and propose specific features of comprehensive financial re-regulation.

Overall Agency Objectives

1. Reinvigorate the SEC's role as the investor's advocate through comprehensive regulation (including of the shadow financial system) and vigorous enforcement.
2. Require transparency and accountability throughout the financial system.
3. Empower long-term investors with tools to hold corporate boards and executives accountable.

Expectations for new Chairman

1. Highly qualified with capital markets regulatory experience and strong credibility with investors
2. Committed to reinvigorating SEC and restoring its investor advocacy culture.
3. Will effectively use SEC's existing powers and secure the additional resources and powers necessary to fulfill mission.
4. Will effectively advocate for a strong SEC as the investor protection regulator within a modernized system of financial regulation that also includes a financial products regulator.
5. Will ensure that any reforms (e.g. financial market regulation, international accounting standards) enhance, rather than weaken, investor protections.

Regulation and Enforcement Priorities

6. Regulate and make transparent the "shadow financial system" of hedge funds, private equity funds, sovereign-wealth funds, etc. as well as credit rating agencies
7. Substantially increase enforcement activities and budget.
8. Implement a financial transactions tax to discourage short-term, speculative trading and provide an independent funding stream that would strengthen the SEC's independence and provide needed resources for expanded oversight and enforcement.

Corporate Governance and Disclosure Priorities

1. Empower long-term investors with tools to hold managers and boards accountable.
    - Grant long-term shareholders access to the proxy to nominate a short slate of directors. Must be usable by shareholders/groups with at least 1% of shares held for at least one year.
    - Approve proposed amendment to NYSE Rule 452 to prohibit brokers from voting their shares in director elections without instructions from their clients.
    - Eliminate the ordinary business rule, which has been interpreted to allow companies to exclude resolutions on issues that are properly the concerns of shareholders (e.g. director independence, risk management and human resource practices).
2. Enhance transparency to address executive compensation abuses and major risk factors.
    - Rein in executive pay abuses by requiring disclosure of compensation consultants' conflicts of interest and enhancing disclosure of equity-based executive compensation.
    - Modernize Regulation S-K, which governs corporate disclosures, to address deficiencies in areas such as financial market related risks, carbon emissions and other environmental risks, worker safety and employment (e.g.. number of management and non-management employees, their average pay, employee turnover, training costs).
3. Examine steps that could be taken to encourage a long-term focus in the capital markets and US businesses (e.g. increased rights for shareholders based on length of ownership).