



Executive Office
P.O. Box 942701
Sacramento, CA 94229-2701
Telecommunications Device for the Deaf - (916) 326-3240
(916) 326-3829

w/c

August 31, 1993

Arthur Levitt, Jr.
Chairman
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Dear Chairman Levitt:

On behalf of the California Public Employees' Retirement System ("CalPERS"), I am writing to request that the Commission undertake a comprehensive review of the role of unregulated firms that serve as both agents for banks and brokerage firms in distributing proxy materials for public companies, and as agents for custodians in returning proxies voted by the beneficial share owners of these companies. Recently, this matter has been brought to the attention of the Commission's Division of Corporation Finance by a special committee of the Council of Institutional Investors (see enclosed letter dated August 12, 1993 from Roland M. Machold, Director of the New Jersey Division of Investment). Questions in this area cross a number of divisional lines, however, and we strongly urge you to organize a Commission-wide review.

This is not a new topic of concern. In November of 1989, when CalPERS first made a lengthy submission to the Division of Corporation Finance requesting a review of the proxy system, we recommended, among other things, that the Commission explore the role of proxy intermediaries. The text of that recommendation deserves repetition:

"Currently, it appears that the foremost intermediary is Independent Election Corporation of America ("IECA"). This organization distributes substantial volumes of proxy materials to beneficial owners for banks and brokers and handles the voting of a significant amount of street name shares. There is currently little review or oversight of the role of the IECA or the manner in which it is performing its service. This is troubling given the importance of IECA's role in the proxy solicitation process and given the fact that the two parties with the greatest interest

in IECA's performance -- the registrant and the beneficial owners -- are in the weakest position to hold IECA accountable for its actions. IECA is retained by the record owner. The Commission should review the role of IECA in the proxy solicitation process, IECA's fee structure, the level of competition that currently exists for IECA's services, and the effectiveness of its performance. It would appear that, at a minimum, IECA and other similar intermediaries should be subject to the Commission's proxy jurisdiction, inasmuch as nonperformance by an intermediary presumably results in a violation by the relevant broker or bank. In addition or alternatively, IECA and other such intermediaries should be monitored or audited by self-regulatory organizations."

IECA was acquired, in late 1992, by Automatic Data Processing, Inc. ("ADP"). Given Mr. Machold's letter and given our own experiences in the 1993 proxy season (see also certain enclosed news articles), we are confident that our 1989 concerns regarding IECA remain equally valid today with respect to ADP.

Because of the complexity of this issue and the already crowded agenda of the Commission, I can understand why a wait-and-see attitude might be appealing. We urge you, however, to resist this temptation. Thus far, the marketplace has not solved or prevented the problems that worried us in 1989. These issues affect registrants (including investment companies), intermediaries (including banks, brokers, investment advisers and solicitors), and shareholders (including institutions and individuals). Moreover, it is anomalous that in a regulatory chain that supports so many aspects of the proxy process, there should exist such a critical link that is wholly unregulated and exhibiting real signs of weakness. Given the enormity of the Commission's recent efforts to ensure that shareholders have an effective means of exercising their proxy vote, can we tolerate a system that permits an intermediary to destroy this right simply by failing to process paperwork in a timely manner?

On a number of occasions in the past, the Commission has had great success in addressing complex issues, such as shareholder communications, with the assistance of advisory committees. More limited, but equally successful, results have been

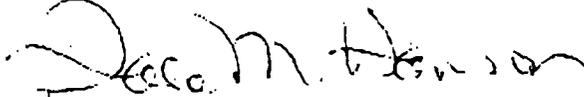
Arthur Levitt, Jr.
August 31, 1993

Page 3

achieved by the use of roundtable symposia. We strongly urge you to consider the questions raised by our letter and that of Mr. Machold and to organize a comprehensive review of this area.

As always, we are eager to assist in any way. Thank you for your attention to this matter.

Sincerely,



DALE M. HANSON
Chief Executive Officer

Enclosures

cc: Commissioner Mary L. Shapiro
Commissioner Richard Y. Roberts
Commissioner J. Carter Beese, Jr.
Linda C. Quinn, Director, Division of Corporation Finance
Elisse B. Walter, Deputy Director, Division of Corporation Finance