



SECURITIES AND EXCHANGE COMMISSION

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COMMISSION ISSUES FIRST PROPOSALS FOR CHANGES AS RESULT OF RE-EXAMINATION OF PROXY RULES

The Commission proposed today a series of changes in its proxy rules designed to provide shareholders with increased information about the quality and effectiveness of corporate boards of directors.

The proposals are the first to result from a comprehensive re-examination of the proxy rules, and corporate governance issues generally, which the Commission undertook more than a year ago. They would be among the most significant changes in the proxy rules since they were established some 40 years ago. The Commission invited interested parties to submit comments on the proposals by September 18, 1978.

In brief the proposals would require, in connection with proxy solicitation materials sent to shareholders, that publicly-held corporations:

-- apprise shareholders of the degree of independence of nominees for the board of directors by identifying each as either a "management director," an "affiliated nonmanagement director," or an "independent director;"

-- include in proxy materials information regarding the existence (or lack) of audit, nominating and compensation committees, and whether a nominating committee will consider nominations submitted by shareholders;

-- report how often the board of directors has met, and the identity of any director who has missed a substantial percentage of board or committee meetings;

-- disclose publicly whenever a member of the board of directors resigns because of a disagreement with management, including a description of the disagreement;

-- provide to the proponents of shareholder-initiated proxy resolutions, advance copies of any statement management plans to include opposing the resolution so that proponents may object to any misstatement or omission of material facts; and

-- disclose the terms of settlement of proxy contests for election to the board of directors.

In addition, the Commission proposed to require certain parent companies of institutional investors to describe in their

annual reports to shareholders their policies with regard to voting the shares of equity securities which they hold, or over which they have control.

The proposals released for comment today represent the first stage of the Commission's response to issues which have been raised in connection with its ongoing re-examination of its rules relating to shareholder communications, shareholder participation in the corporate electoral process and corporate governance generally. The decision to undertake the study was based, in part, on a recognition that in many public corporations, directors who are chosen by management do not effectively monitor management conduct, and also are not really answerable to shareholders through the corporate electoral process. These concerns were underscored by recent events, such as the numerous corporate disclosures concerning questionable and illegal corporate payments, which focused public attention on the subject of corporate accountability, and raised questions about the adequacy of existing checks on corporate management.

In connection with its study, the Commission held five and a half weeks of public hearings which commenced on September 29, 1977 in Washington and continued in Los Angeles, New York and Chicago. In total, more than three hundred persons and organizations including corporations, business associations, government officials,

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public interest and religious groups, law firms, bar associations, financial analysts, academics, accountants, and individuals submitted written comments or testified during the proceedings. These persons expressed a multitude of views on a large number of issues ranging from narrow technical questions arising under existing proxy rules to broad philosophical inquiries concerning means by which corporations can be made more responsive to shareholders and the public at large.

The Commission intends to publish a comprehensive staff report to address some of the more complex questions raised during its inquiry. Following publication of the staff report, the Commission will consider what further action, if any, would be appropriate to improve shareholder communications and increase shareholder participation in the corporate electoral process. It will at that time determine whether to publish additional rulemaking proposals and whether to recommend to Congress or support new legislation which would affect corporate governance.

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