



July 26, 2010

Senator Robert Wirth
Co-Chair Joint Survey Committee on Retirement Systems
Room 316 South
State Capitol
PO Box 7882
Madison, WI 53707-07882

Representative Mary Hubler
Co-Chair Joint Survey Committee on Retirement Systems
Room 119 North
State Capitol
PO Box 8952
Madison, WI 53708

Re: State of Wisconsin Investment Board (SWIB) Quarterly Governance Report

Dear Senator Wirth and Representative Hubler:

Regulatory reform activities continued at a rapid pace during the second quarter of the year as Congress negotiated differences between the House and Senate financial reform bills. Due to the considerable pressure on lawmakers to remove governance provisions from the final bill, SWIB sent several letters voicing the value in preserving these provisions for shareholders, especially the ability for shareholders to nominate directors. SWIB also sent letters to lawmakers opposing amendments that would have adverse effects on public pension funds and other investors. These provisions involved swap transactions and power given to the FDIC to provide creditors of the same bonds different rights in a bankruptcy situation.

The Dodd-Frank Wall Street Reform and Consumer Protection Act was approved by the House and Senate and recently signed by the President. The bill concludes a significant multi-year effort on the part of SWIB and other institutional investors to improve shareholder rights and advance governance initiatives. Among other improvements, the bill gives the SEC authority to develop rules to allow shareholders to nominate directors and requires shareholders to provide an advisory vote on compensation plans.

Industry governance activities and our specific corporate governance efforts during the second quarter of 2010 are outlined in the attached report. Should you wish additional information, please feel free to contact me at 608.266.9451 or Deputy Executive Director, Gail Hanson, at 608.261.0187.

With the passage of this federal legislation, we wanted to ask you about the value of continuing to provide a quarterly report on our governance activities. An alternative would be to provide an annual report or update you when significant events warrant communication. Additionally, we are always willing to discuss any areas of concern that you may have at any time. Please let us know the frequency with which you would like to receive a report on SWIB's governance activities.

Sincerely,



Keith Bozarth
Executive Director

Enclosures

cc: Members, Joint Survey Committee on Retirement Systems

SWIB Governance Activities 2nd Quarter 2010

SHAREHOLDER RIGHTS

Enhancing Qualified Director Candidates

SWIB participated in several meetings with other public and corporate pension funds and industry participants to brainstorm ways to improve the pool of qualified directors that could serve on corporate boards. Having a capable pool of director candidates will become vital when proxy access is implemented and shareholders are able to nominate directors to corporate boards.

MARKET OVERSIGHT AND REGULATION

Senate Debates Financial Reform

In April, the full Senate began debating the legislation approved by the Senate Banking Committee. Experts warned that the pressure on lawmakers from various corporate lobbyists was intense to remove the corporate governance provisions from Dodd's bill. SWIB sent several letters to Senate Majority Leader Harry Reid and the Wisconsin delegation urging their enactment of regulatory reform and specifically to retain the corporate governance improvements such as majority voting and proxy access in the draft of the bill.

SWIB also sent a letter to Chairman Dodd and Ranking Member Shelby expressing concerns about specific language in the bill relating to the ordering of creditors in a bankruptcy situation. SWIB encouraged modifications in order to provide certainty that creditors would be treated equitably in the same class of priority during the liquidation of a covered financial company.

In response to a Senate amendment that would make swap dealers fiduciaries to pension plans and others when entering a swap transaction, SWIB sent a letter to Chairman Dodd, Ranking Member Shelby and Senators Kohl and Feingold opposing the amendment. While well intentioned to provide protection to some parties, the provision would effectively eliminate the ability for pension plans to engage in these transactions. SWIB suggested eliminating the provision or providing a regulatory body with the authority to protect certain classes of investors while not restricting others.

After several weeks of debate, the U.S. Senate voted to approve wide-ranging financial reform legislation on May 20. The House version of a similar bill was approved in December.

Joint House-Senate Conference Committee

Lawmakers spent the month of June meeting to negotiate and resolve differences between the Senate bill and the House version. Both bills contained provisions that would affirm the authority of the Securities and Exchange Commission to adopt a proxy access rule and require an advisory vote on compensation. The Senate bill included provisions to require a majority vote listing standard.

During that time, there continued to be significant pressure from lobbyists to remove proxy access from the bill. SWIB sent a letter to Chairman Dodd and Frank applauding their leadership in enacting legislation and encouraging them to retain the proxy access language that was included in both bills.

In response to an amendment that would impose a 5% ownership requirement for proxy access, SWIB sent letters strongly opposing the amendment to White House Advisor Valerie Jarrett, Wisconsin Senators, and Chairmen Frank and Dodd. A 5% requirement would effectively shut out long-term institutional investors such as public pension funds who are most willing to engage companies and participate in elections. Even if the largest ten public pension plans were to aggregate their holdings in a single public company, those funds would rarely be able to surmount a 5% threshold.

SWIB sent a final letter in late June to Chairmen Dodd and Frank urging prompt enactment of the Conference Committee report on Wall Street reform.

Passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act

Both the House and the Senate have voted to approve the new Dodd-Frank Wall Street Reform and Consumer Protection Act. The Act was enacted by the President in July. The legislation includes several corporate governance provisions. These include allowing the SEC to develop rules relating to proxy access and requiring companies to allow shareholders to vote on compensation at least every three years. The bill does not require public companies to implement a majority voting standard.

UNIFICATION OF FINANCIAL REPORTING

Ongoing Discussion of International Accounting Standards

In June, the Deputy Executive Director participated on the IFRS Advisory Council meeting in London to discuss International Accounting Board projects and the status of international accounting standards.

ONGOING GOVERNANCE ACTIVITIES

SWIB has voted over 2,700 proxies calendar year-to-date. During the second quarter staff communicated with over 80 companies about governance concerns. As a result of these engagements, several companies are modifying board structure, compensation plans, and internal policies. Some examples include eliminating accelerated vesting of options in compensation plans, altering CEO pay, lowering option plan dilution, eliminating tax gross-ups, removing insiders from key committees, strengthening clawback provisions, and disclosing political contributions.

Staff also participated in teleconferences relating to executive compensation, shareholder engagement, and financial reform and attended the Council of Institutional Investors Spring Conference in Washington DC which focused on restoring trust in the U.S. Financial System.

July 22, 2010