Russell Read
Chief Investment Officer
California Public Employees' Retirement System
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Chairman Shelby, Senator Sarbanes and members of the Senate Banking Committee, I am pleased to be here today to provide an institutional investor's perspective on the important topic of stock option backdating and spring loading.

I am Russell Read, Chief Investment Officer with the California Public Employees' Retirement System (CalPERS). As you know, CalPERS is the nation's largest public pension system with more than $209 billion in assets. We have long been a voice for corporate governance. We are committed to executive compensation reform, to full disclosure and transparency of financial information, and to director accountability.

The recent allegations around secret and even fraudulent backdating of options are disturbing. We appreciate your leadership, Mr. Chairman in calling for this hearing and for your personal commitment and the commitment of the Senate Banking Committee toward addressing this problem.

CalPERS believes that as part of a good executive compensation policy, stock options are appropriate. They align employees' interest with that of the shareowners. But when options are hidden from view, and when the option awards themselves do not tie to performance, it creates a serious problem.

As you know, CalPERS size does not lend itself to selling our stocks in troubled companies. As a large institutional investor, we don't have the luxury of not showing up for the ballgame. Baseball fans can choose to stay home, but as the steward for so many public servants who depend on us for their retirement security, we cannot.

If we are out of the ball game, we can't produce the investment returns that cover $3 of every $4 of our people's retirement benefits.

When an executive takes stealth payments that we can't trace, when companies make false statements and omit material facts concerning backdating of option grant, billions of dollars can be inappropriately given and once the truth of such option grant practices are made, it can cause the company's stock to fall precipitously. This directly hurts the retirement security of ordinary Americans. In CalPERS case, we're talking about clerks, custodians, school bus drivers, firefighters, and highway repair people, for example.

Since this issue has come to light, an unprecedented number of late filings with the SEC have occurred, which of course, delays disclosure to shareowners.

Secondly, these late filings are often considered to be technical violations of the conditions of borrowing, and that is costing companies too.

Last month, the Wall Street Journal reported that some bondholders are calling in their loans or demanding payment or large fees in exchange for an extension of their default deadlines. As many as two dozen companies were reported to have faced this dilemma over the past 18 months, and some had to pay multi-million dollar fees.

Even more astonishing, as the Wall Street Journal also reported, we are now learning that as stocks sank after the terrorist attacks of September 11, scores of companies rushed to issue options to top tier executives when the stock market had reached its post-attack low on September 21, 2001.

Now comes a cascade of class action and shareowner derivative lawsuits.

Once again, this scandal has brought back a number of fundamental corporate governance questions, such as:

1. Are Boards condoning this behavior?
2. If not -- and the Boards are themselves surprised to learn of questionable backdating -- then the question is where was their oversight?
3. It raises questions about adequate internal and external auditor controls? Are the auditors being vigorous enough in their examination of a company's option granting practices?
4. And finally, investors want to know if illegalities are occurring, will the wrongdoers be swiftly and aggressively prosecuted, and will they be held accountable with civil and criminal penalties where appropriate?

Mr. Chairman, you hit the nail on the head when you said that if the public is to maintain full confidence in our public markets, the appropriate action need to occur.

Over the last two months, we have approached 42 portfolio companies under investigation by the SEC. We have asked that companies perform independent investigations and that they publicly disclose all findings resulting from such investigations, regardless of the outcome.

We have urged company boards of directors to develop policies that disclose how stock option grant dates are established and then publicly disclose those policies in company financial and proxy statements.

We want Company Boards and Compensation Committees to conduct an audit of their executive compensation plan administrator to be sure they are acting in full compliance with their directives.

And we strongly believe something needs to be done to be sure that company resources are not used to satisfy the tax and legal liability of executives implicated for this kind of wrongdoing. Such an inappropriate use of corporate assets hurts shareowners twice – once by the fruits of such backdating, and the other when they are allowed to use company assets to defend their actions.

We urge the Committee to call on the SEC to continue to investigate, and to aggressively prosecute wrongdoing.

We believe the SEC has the authority it needs to solve this problem. But we think they need to be more aggressive in enforcing rules for the filing of Forms 3, 4 and 5. SEC rules require company stock sales to be reported on SEC Forms within two days of the date of execution. SEC rules also require two-day reporting of certain transactions between employee benefit plans by officers and directors and that transactions involving stock options such as grants, awards, cancellations and re-pricing be reported in the same time frame.

We welcome the Public Accounting Standards Board's help by providing greater oversight of auditing practices pertaining to option grants. Their July 28th practice alert is very beneficial, and we welcome their continued oversight.

I would like to close by giving our view of the issue of spring loading of options.

We believe the SEC's requirement that an issuer disclose its option grants policy will have a positive effect. It should mitigate the activity of spring loading options in the future. However, should this not prove to be the case, we recommend that the SEC take additional steps to ensure that option grant practices are carried out in a systematic fashion, unaffected by the timing and release of material non-public information.

To sum up, we are going to do our part as active shareowners to hold Boards of Directors and Compensation Committees accountable. We will work with the SEC and the PCAOB in whatever way they deem helpful, and of course, we stand ready to assist this Committee by providing additional information. Finally, on behalf of the 1.4 million public servants we represent, I want to thank you once again, Mr. Chairman for all that you and this Committee are doing to restore the public trust in our financial markets.

I would be pleased to answer any questions.