

## The Business Roundtable

### A Comparison:

#### Principles of Corporate Governance (2002) / Statement on Corporate Governance (1997)

Issue	2002 Principles of Corporate Governance	1997 Statement on Corporate Governance
Best practices.	<ul style="list-style-type: none"> <li>• Articulates a set of guiding principles for corporations to use in implementing corporate governance best practices (pp. v, vi).</li> </ul>	<ul style="list-style-type: none"> <li>• Began with the premise that the substance of good corporate governance practice is more important than its form (p. 1).</li> <li>• Offered insight into the kinds of practices adopted by many corporations, but declined to recommend that corporations follow particular practices.</li> </ul>
Stockholders and stakeholders.	<ul style="list-style-type: none"> <li>• Directors monitor management on behalf of the corporation's stockholders (p. 1).</li> <li>• Discusses the corporation's relationships with its employees, the communities in which it does business, and the government (pp. 25-28), but retains the concept that duties to other groups are derivative of the duty to stockholders (p. 25).</li> </ul>	<ul style="list-style-type: none"> <li>• Discussed at length whether corporations should be managed purely in the interests of stockholders or whether directors should also consider the interests of other "stakeholders." Concluded that the paramount duty of management and the board is to the corporation's stockholders and that the interests of other stakeholders are relevant as a derivative of this duty (pp. 2-4).</li> </ul>
Board independence.	<ul style="list-style-type: none"> <li>• Independence standard recognizes need to:                             <ul style="list-style-type: none"> <li>➢ consider personal and other types of relationships – including those with non-profit organizations that receive corporate contributions – in assessing independence (pp. 10-11);</li> <li>➢ look at the appearance (as well as the fact) of independence (p. 10).</li> </ul> </li> <li>• Determinations as to independence should be made by the board (p. 10).</li> </ul>	<ul style="list-style-type: none"> <li>• Suggested a flexible standard by leaving judgments about independence and committee makeup more to the discretion of each board (pp. 10-11).</li> <li>• Did not address the appearance of independence.</li> </ul>

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Key committees.	<ul style="list-style-type: none"> <li>• The Business Roundtable believes that the functions generally performed by the audit, compensation and corporate governance committees are central to effective corporate governance. The Business Roundtable does not believe, however, that a particular committee structure is essential for all corporations. What is important is that key issues be addressed effectively by the independent members of the board (p. 12).</li> <li>• Committees should apprise the full board of their activities on a regular basis. Processes should be developed and monitored for keeping the board informed through oral and/or written reports (p. 12).</li> </ul>	<ul style="list-style-type: none"> <li>• Recommended that corporations have audit, compensation/personnel and nominating/governance committees, but noted that only an audit committee is required (p. 15).</li> <li>• Recommended that committee membership be limited to "outside" directors (p.15).</li> </ul>
Term limits for directors.	<ul style="list-style-type: none"> <li>• Outlines the various procedures that boards can use to plan for the retirement or replacement of directors and senior management, including term limits, but does not endorse any particular procedures or time periods for term limits (p. 24).</li> </ul>	<ul style="list-style-type: none"> <li>• Opposed term limits for directors (p. 14).</li> </ul>
Management and board evaluations.	<ul style="list-style-type: none"> <li>• Provides more detailed guidance on the substance and process of management, board, board committee and individual director evaluations (pp. 23-24).</li> </ul>	<ul style="list-style-type: none"> <li>• Briefly discussed the need for board evaluation (p. 9).</li> </ul>
Outside advisors to board committees.	<ul style="list-style-type: none"> <li>• From time to time, it may be appropriate for boards and board committees to seek advice from outside advisors independent of management. For example, there may be technical aspects of the corporation's business – such as risk assessment and risk management – or conflict of interest situations for which the board or a committee determines that additional expert advice would be useful. Similarly, a compensation committee may find it useful to engage separate compensation consultants. The Business Roundtable believes that board and committee access to outside advisors in such cases is an important element of an effective corporate governance system (p. 23).</li> </ul>	<ul style="list-style-type: none"> <li>• Seemed to contemplate that committees would need the expertise of outside advisors very infrequently and then only with the concurrence of the CEO (p. 19).</li> </ul>

<b>Issue</b>	<b>2002 Principles of Corporate Governance</b>	<b>1997 Statement on Corporate Governance</b>
Separation of CEO and board chair.	<ul style="list-style-type: none"> <li>• Most American corporations are well served by a structure in which the CEO also serves as chairman of the board. The CEO serves as a bridge between management and the board, ensuring that both act with a common purpose. Some corporations have found it useful to separate the roles of CEO and chairman of the board to provide continuity of leadership in times of transition. Each corporation should make its own determination of what leadership structure works best, given its present and anticipated circumstances. The board should have contingency plans to provide for transitional board leadership if questions arise concerning management's conduct, competence, or integrity or if the CEO dies or is incapacitated. An individual director, a small group of directors, or the chairman of a committee may be selected by the board for this purpose (p. 11).</li> </ul>	<ul style="list-style-type: none"> <li>• Corporations are well served by a structure in which the CEO also serves as chair of the board (p. 13).</li> </ul>
Board consultation with senior management.	<ul style="list-style-type: none"> <li>• Board members should have full access to senior management and to information about the corporation's operations. Generally, the CEO should be advised of significant contacts between board members and senior management (p. 22).</li> </ul>	<ul style="list-style-type: none"> <li>• Board members should have full access to senior management and to information about the corporation's operations. Except in unusual circumstances, the CEO should be advised of significant contacts with senior management (pp. 18-19).</li> </ul>
Director and management compensation.	<ul style="list-style-type: none"> <li>• A meaningful portion of directors' compensation should be in the form of long-term equity. Corporations may wish to consider establishing a requirement that, for as long as directors remain on the board, they acquire and hold stock in an amount that is meaningful and appropriate to each director (pp. 20-21).</li> <li>• The structure of management compensation should directly link the interests of management to the interests of stockholders (pp. 19-20).</li> <li>• Emphasizes the role of the compensation committee in examining the overall compensation structure of the corporation, the need to balance short- and long-term incentives, and the value of providing different forms of compensation (pp. 18-19).</li> </ul>	<ul style="list-style-type: none"> <li>• Stated that the form of compensation would vary by corporation and suggested that boards consider aligning directors' interests with those of stockholders by including some form of equity as a portion of each director's compensation and/or establishing a specific goal for equity ownership by directors (pp. 16-17).</li> </ul>

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Stockholder approval of restricted stock and stock option programs.	<ul style="list-style-type: none"> <li>Because stockholders have a particular interest in the amount and nature of equity compensation paid to directors and senior managers, corporations should obtain stockholder approval of new stock option and restricted stock plans in which directors or executive officers participate (p. 26).</li> </ul>	Not addressed.
Corporate governance principles.	<ul style="list-style-type: none"> <li>Specifically recommends that all corporations adopt and publicize statements of corporate governance principles (p. 18).</li> </ul>	<ul style="list-style-type: none"> <li>Stated that the need to formalize governance practices would depend on the corporation (p. 19).</li> </ul>
Auditor provision of non-audit services.	<ul style="list-style-type: none"> <li>The audit committee should develop policies concerning the provision of non-audit services by the corporation's outside auditor and should consider the nature and dollar amount of all services provided by the outside auditor when assessing the auditor's independence (p. 14).</li> <li>In considering whether the outside auditor should provide certain types of non-audit services, the audit committee should consider the degree of review and oversight that may be appropriate for new and existing services (p. 14).</li> </ul>	Not addressed.
Hiring/firing of outside auditor.	<ul style="list-style-type: none"> <li>The audit committee should make an annual recommendation to the full board about the selection of the outside auditor (p. 14).</li> </ul>	Not addressed.
Auditor rotation.	<ul style="list-style-type: none"> <li>The audit committee should consider whether it would be appropriate for the outside auditor periodically to rotate senior audit personnel or for the corporation periodically to change its outside auditor (pp. 13-14).</li> </ul>	Not addressed.
Hiring former audit personnel.	<ul style="list-style-type: none"> <li>The audit committee should consider adopting a "cooling-off" period or other policy restricting the hiring of former auditor personnel; each corporation should consider what policy is appropriate for it (p. 16).</li> </ul>	Not addressed.