OFFICE OF
STATE TREASURER
DENISE L. NAPPIER

# NEWS

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## NAPPIER URGES NEW YORK STOCK EXCHANGE TO ADOPT TOUGHER CORPORATE ACCOUNTABILITY, RESPONSIBITY STANDARDS

### *Requirement for More Independent Board Members Would Also Provide Opportunity for More Diverse Boards to Include Women, Minorities*

Connecticut Treasurer Denise L. Nappier is urging the New York Stock Exchange (NYSE) to adopt stricter corporate accountability and responsibility standards for companies listed on the Exchange. A decision on the recommendations, made by a special committee appointed by the Exchange, is expected this week.

Nappier said the proposals would help to restore investor confidence, accelerate corporate accountability initiatives and provide an opportunity for greater independence and diversity on the boards of America's leading corporations.

In a letter to NYSE Chairman and CEO Richard Grasso, Nappier acknowledged that even in the current climate, there remains some resistance to reform. "The Exchange's board may be pressured to limit some of these recommendations. I urge you to stand firm. Any pull back from these recommendations may be seen as a lack of commitment to shareholders, and will undo much of the confidence building that the report has achieved."

Nappier supported recommendations calling for independent directors to be a majority of any board, and for members of three key board (audit, nominating and governance) committees to be independent. The Treasurer also said proposals that would require shareholder approval of all equity compensation plans (including stock options), and prohibit brokers from voting on these plans without specific instructions from their customers should not be watered down. The Treasurer also urged the NYSE to go further than the recommendations in a number of areas, including:

- Strengthening the definition of independent director, and a proposed five year look-back for former employees. The former employee or auditor should have no paid relationship with the company for five years (including no consulting and no board position) to be considered as independent at the end of the five year period. Also, Nappier said, a former CEO of the company should never be considered independent, no matter how long ago he or she may have been an employee.

- Requiring that the Committee's solid recommendations for enhancements to nominating, compensation, and audit committee practices be not only documented in written committee

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charters, but also be included in the proxy statement for the annual shareholders meeting, and available on the company web site when they are adopted.

- Provide for the inclusion of the recommended disclosure of a company's corporate governance guidelines and its code of business conduct and ethics for directors as part of the proxy statement and make them available on the company web site as soon as they are adopted.

"Public and investor confidence in corporate governance has been substantially harmed due to the abhorrent actions of a number of corporate executives, and the abrogation of duties by some corporate directors," Nappier said. "The recommendations proposed will certainly enhance the governance – and potentially, I believe, the financial performance – of all companies that adopt them. The report contains many of the reforms that I, and many other institutional investors, have been advocating for a number of years."

### *Adoption of New NYSE Standards Could Provide New Opportunities for Women, Minorities*

"If new requirements for independent directors are adopted, it will be an historic and unprecedented opportunity for greater diversity on America's corporate boards," Nappier said. "With hundreds of corporate boards looking to add new members, there is a real chance, as never before, to add diversity to the board room and new strength to the bottom line."

A 2001 Harvard Business School study found, in a sample of companies during the '90's, that companies with corporate governance policies unfriendly to shareholders did not perform as well as companies with strong policies.

A Investment Responsibility Research Center report on board practices and executive pay found that the percentage of women holding board seats at companies in the S&P Super 1500 hasn't grown recently, remaining at 9.8% in 2001 and 2000, only slightly higher than the 9.3% in 1999. Only 64% of those companies surveyed had at least one woman on the board in 2001, according to the survey. The percentage of minorities holding board seats of the S&P Super 1500 rose from 7.4% in 2000 to 8.1% in 2001.

"Incredibly, as this year began, neither women nor minorities held even 10% of the board seats in America's top companies. I have no doubt that these corporations, with a little effort and incentive, can add well qualified and extremely capable women and minorities to their boards," Nappier said. "The benefits of that effort, the Treasurer added, "will accrue to shareholders, the corporate bottom line, and the strength of our economy."

Nappier also noted that her office is working with the Permanent Commission on the Status of Women, the State Commissions on African-American Affairs and Puerto Rican and Latino Affairs, DemocracyWorks, and the Conference on Community and Justice on a "Connecticut Board Diversity Initiative" to assist companies in developing a process to achieve a greater diversity of board membership.

Treasurer Nappier said that the Connecticut pension fund's investment guidelines, as developed by her Office and approved by the state's Investment Advisory Council "reflect our belief that shareholder value and the corporate bottom line are enhanced by an independent and diverse Board of Directors."

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