

Council adopts new corporate governance policies for CEO and board succession, proxy access

On April 11, 2008, General Members of the Council of Institutional Investors voted to adopt new policies on board succession planning, CEO succession planning and shareowner access to a company's proxy materials to nominate directors. The language and rationale for each of the new policies is detailed below:

Board Succession Planning: "The board should implement and disclose a board succession plan that involves preparing for future board retirements, committee assignment rotations, committee chair nominations and overall implementation of the company's long-term business plan. On a regular basis, the board should evaluate its current skills, competencies and diversity of backgrounds, experiences, ages, races and genders in order to identify existing gaps and those that future vacancies could create. Boards should establish clear procedures to encourage and process board nomination suggestions from long-term shareowners and should respond positively to requests seeking to open dialogues to air and share thoughts and concerns regarding incumbent and potential directors."

Rationale: Many boards are adopting the best practices of CEO succession planning for their own nominating committees to assist with future director recruitment. Shareowner advisory committees could provide a middle ground for large, long-term investors who want an ongoing dialogue on a company's director selection process but do not want to list competing candidates on company voting materials.

CEO Succession Planning: "The board should approve and maintain a detailed CEO succession plan and publicly disclose the essential features. An integral facet of management succession planning involves collaboration between the board and the current chief executive to develop the next generation of leaders from within the company's ranks. Boards therefore should: (1) make sure that broad leadership development programs are in place generally; and (2) carefully identify multiple candidates for the CEO role specifically, well before the position needs to be filled."

Rationale: Poor CEO succession planning and inadequate internal development of managerial talent could result in a panicked board vastly overpaying a replacement chief executive. Shareowners would be able to assess the strength and appropriateness of CEO succession plans if the essential features of such policies were publicly disclosed.

Proxy Access: "Companies should provide access to management proxy materials for a long-term investor or group of long-term investors owning in aggregate at least 3 percent of a company's voting stock to nominate less than a majority of the directors. Eligible investors must have owned the stock for at least two years. Company proxy materials and related mailings should provide equal space and equal treatment of nominations by qualifying investors. To allow for informed voting decisions, it is essential that investors have full and accurate information about access mechanism users and their director nominees. Therefore, shareowners nominating director candidates under an access mechanism should adhere to the same SEC rules governing disclosure requirements and prohibitions on false and misleading statements that currently apply to proxy contests for board seats."

Rationale: The "3% for 2 years" formulation is fully consistent with the Council's underlying position that large, long-term shareowners should have a reasonable degree of access to company proxy materials to nominate director candidates. Further, the voting results from the 2007 annual meetings of Hewlett-Packard and UnitedHealth Group show that the "3% for 2 years" model enjoys considerable investor support. To promote the ability of investors to make reasoned voting decisions regarding director candidates proposed by a shareowner or shareowner group, any director nominations introduced under an access mechanism should be made in accordance with disclosure and accuracy standards applicable to a proxy contest for board seats.

About the Council and its corporate governance policies

The Council's corporate governance policies are a living document that is constantly reviewed and updated. These policies set standards or recommend practices that Council members believe companies and boards of directors should adopt to promote accountability, independence, integrity, rigor and transparency. Council members are not obligated to individually endorse all or any portion of the Council's policies, and companies aren't obligated to adopt the policies and procedures recommended by the Council.

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