Comparison of Commonsense Principles of Corporate Governance to Other Key Best Practice Recommendations:

- NACD Key Agreed Principles to Strengthen Corporate Governance for U.S. Publicly Traded Companies
- Council of Institutional Investors Corporate Governance Policies
- Business Roundtable Principles of Corporate Governance

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INTRODUCTION

Views on "best practices" in corporate governance continue to proliferate. Most recently, on July 21, 2016, full page advertisements appeared in the New York Times and the Wall Street Journal promoting a set of "Commonsense Principles of Corporate Governance" compiled by a high-profile group of senior executives from major companies and institutional investors. According to the Principles and an accompanying letter (available here), the intent is to restore trust in public companies by establishing "a basic framework for sound, long-term-oriented governance" while encouraging "further conversation."

The Commonsense Principles --like most such best practice recommendations -- recognize that no one set of governance practices will work for every public company. They posit a baseline set of guiding rules that the signatories agree on, but fall far short of being revolutionary – or even evolutionary. The Principles reflect widely-accepted corporate governance practices (e.g., majority voting in uncontested director elections, robust director evaluations), but avoid taking a position on what some view as more controversial governance topics such as proxy access, term limits and mandatory retirement age. Indeed, the vast majority of what is recommended is already practiced by a majority of S&P 500 companies and a fair amount is already required for publicly-traded companies by SEC regulations or stock exchange listing rules.

What is most notable about the Principles is that they were issued by a coalition of high-profile representatives of well known public companies and institutional investors: Warren Buffet of Berkshire Hathaway, and Jamie Dimon of JPMorgan Chase were joined by the CEOs of General Electric, General Motors Co., and Verizon. The institutional investors represented were of varied stripes – mutual funds, an activist hedge fund and a public pension fund: BlackRock, the Canada Pension Plan Investment Board, Capital Group, JPMorgan Asset Management, State Street, T. Rowe Price, ValueAct Capital and Vanguard.

The Commonsense Principles join a chorus of best practice corporate governance viewpoints published by influential director, business and investor groups. This Comparison identifies areas of common agreement and divergence among the following sets of recommendations:

- *Commonsense Principles of Corporate Governance*, described above and available here.

- *Key Agreed Principles to Strengthen Corporate Governance for U.S. Publicly Traded Companies* ("NACD Key Agreed Principles") published by the National Association of Corporate Directors in 2008 (reissued in 2011), available here. These Principles were issued as part of an effort by groups representing directors, business and investors to "recognize significant areas of common agreement and interest" and "move beyond highly prescriptive and rigid recommendations of best practice."

- *Corporate Governance Policies* published by the Council of Institutional Investors ("CII"), most recently in April 2015, available here. These Policies provide guidelines that CII, which has institutional investor members with combined assets exceeding $3 trillion, finds "appropriate in most situations."

- *Principles of Corporate Governance* published by the Business Roundtable ("BRT"), most recently in August 2016, available here. The BRT, an association of chief executive officers of leading U.S. companies, believes that these Principles represent "current practical and effective corporate governance practices," while recognizing that "wide variations exist among the businesses, relevant regulatory regimes, ownership structures and investors of U.S. public companies."

This side-by-side comparison, which is organized in accordance with the NACD Key Agreed Principles, highlights the convergence in views around effective governance practices and structures, while reflecting general agreement that corporate governance practices and structures should be tailored to the company and that "one size does not fit all."

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Applicability			
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…The Principles can be given effect in a variety of ways. Boards are encouraged to use them in thinking through and tailoring their own governance structures and practices to meet the needs of their respective companies. [S]hareholders are encouraged to consider these principles in assessing the governance of companies. It has often been said that "one size does not fit all" when it comes to corporate governance. The Principles are intended to assist boards and shareholders to avoid rote "box ticking" in favor of a more thoughtful and studied approach. It is expected that NACD, Business roundtable (BRT), and other thoughtful proponents of effective governance practices (like those referenced in Appendix A) will continue to advocate their own views about the details of corporate governance best practice. Boards and shareholders should consider these more detailed viewpoints which, while similar in many respects, reflect and will likely continue to reflect some important differences… This document assumes that companies comply with applicable governance-related provisions required by the Dodd-Frank Act of 2010, the Sarbanes-Oxley Act of 2002, rules of the Securities & Exchange Commission ("SEC"), stock listing standards, and all other applicable laws and regulations, as well as company articles and bylaws. For example, it is assumed that most publicly traded U.S. corporations now have a majority of independent directors; that independent directors hold periodic executive sessions without members of management present; that such sessions are convened and presided over by an independent director chosen by the independent directors; and that audit, compensation, and nominating/ governance functions are undertaken by independent directors usually organized in committees. The Key Agreed Principles that follow are grounded in the common interest of shareholders, boards, and management teams in the corporate objective of long-term value creation (through ethical and legal means), the accountability of management to the board, and ultimately the accountability of the board to shareholders for such long-term value creation. The Principles provide a framework for board leadership and oversight in the especially critical areas of strategic planning, risk oversight, executive compensation, and transparency…	The following is a series of corporate governance principles for public companies, their board of directors and their shareholders. These principles are intended to provide a basic framework for sound, long-term oriented governance. But given the differences among our many public companies – including their size, their products and services, their history and their leadership – not every principle (or every part of every principle) will work for every company, and not every principle will be applied in the same fashion by all companies.	Council policies are designed to provide guidelines that the Council has found to be appropriate in most situations. They bind neither members nor corporations. (Section 1.1)	Principles of Corporate Governance is intended to assist public company boards and management in their efforts to implement appropriate and effective corporate governance practices and serve as spokespersons for the public dialogue on evolving governance standards. Although there is no "one size fits all" approach to governance that will be suitable for all U.S. public companies, the creation of long-term value is the ultimate measurement of successful corporate governance, and it is important that shareholders and other stakeholders understand why a company has chosen to use particular governance structures, practices and processes to achieve that objective. Accordingly, companies should disclose not only the types of practices they employ but also their bases for selecting those practices. (p. 4) In light of the evolving landscape affecting U.S. public companies, Business Roundtable has updated Principles of Corporate Governance. Although Business Roundtable believes that these principles represent current practical and effective corporate governance practices, it recognizes that wide variations exist among the businesses, relevant regulatory regimes, ownership structures and investors of U.S. public companies. No one approach to corporate governance may be right for all companies, and Business Roundtable does not prescribe or endorse any particular option, leaving that to the considered judgment of boards, management and shareholders. Accordingly, each company should look to these principles as a guide in developing the structures, practices and processes that are appropriate in light of its needs and circumstances. (p. 2)

I. Board Responsibility for Governance			
NACD Key Agreed Principles	**Commonsense Principles of Corporate Governance**	**CII Policies**	**BRT Principles of Corporate Governance**
***Governance structures and practices should be designed by the board to position the board to fulfill its duties effectively and efficiently.* (Principle I)** The board of directors, as the central mechanism for oversight and accountability in our corporate governance system, is charged with the direction of the corporation, including responsibility for deciding how the board itself should be organized, how it should function, and how it should order its priorities. The board's fiduciary objective is long-term value creation for the corporation; governance form and process should follow. (Commentary to Principle I)	Directors' loyalty should be to the shareholders and the company. A board must not be beholden to the CEO or management. Over the course of the year, the [board's] agenda should include and focus on the following items, among others…Creation of shareholder value, with a focus on the long term. This means encouraging the sort of long-term thinking owners of a private company might bring to their strategic discussions, including investments that may not pay off in the short run... (Section II.b)	Corporate governance structures and practices should protect and enhance a company's accountability to its shareowners, and ensure that they are treated equally. An action should not be taken if its purpose is to reduce accountability to shareowners. (Section 1.4) U.S. companies should not reincorporate to offshore locations where corporate governance structures are weaker, which reduces management accountability to shareowners. (Section 1.8)	An effective system of corporate governance provides the framework within which the board and management address their key responsibilities. (p. 7) The board approves corporate strategies that are intended to build sustainable long-term value; selects a chief executive officer (CEO); oversees the CEO and senior management in operating the company's business, including allocating capital for long-term growth and assessing and managing risks; and sets the "tone at the top" for ethical conduct. (Guiding Principle 1, p. 3) The nominating/corporate governance committee of the board plays a leadership role in shaping the corporate governance of the company, strives to build an engaged and diverse board whose composition is appropriate in light of the company's needs and strategy, and actively conducts succession planning for the board. (Guiding Principle 5, p. 3) The board, under the leadership of its nominating/corporate governance committee, nominates directors and committee members and oversees the structure, composition (including independence and diversity), succession planning, practices and evaluation of the board and its committees. (p. 8)
Shareholders and management have important viewpoints about governance structures and processes, and shareholders elect directors and have authority for certain critical decisions. However, it is the board that is charged with selecting and evaluating senior executives; planning for succession; monitoring performance; overseeing strategy and risk; compensating executives; approving corporate policies and plans; approving material capital expenditures and transactions not in the ordinary course of business; ensuring the transparency and integrity of financial disclosures and controls; providing oversight of compliance with applicable laws and regulations; and setting the "tone at the top." Ultimately, therefore, the board must decide how best to position itself to fulfill its fiduciary obligations. (Commentary to Principle I)	*See Part VII below in relation to board agenda.*	*See Part VII below in relation to board agenda.*	Shareholders invest in a corporation by buying its stock and receive economic benefits in return. Shareholders are not involved in the day-to-day management of business operations, but they have the right to elect representatives (directors) and to receive information material to investment and voting decisions. Shareholders should expect corporate boards and managers to act as long-term stewards of their investment in the corporation. They also should expect that the board and management will be responsive to issues and concerns that are of widespread interest to long-term shareholders and affect the company's long-term value. Corporations are for-profit enterprises that are designed to provide sustainable long-term value to all shareholders. Accordingly, shareholders should not expect to use the public companies in which they invest as platforms for the advancement of their personal agendas or for the promotion of general political or social causes. Some shareholders may seek a voice in the company's strategic direction and decision-making

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			— areas that traditionally were squarely within the realm of the board and management. Shareholders who seek this influence should recognize that this type of empowerment necessarily involves the assumption of a degree of responsibility for the goal of long-term value creation for the company and all of its shareholders. Effective corporate governance requires dedicated focus on the part of directors, the CEO and senior management to their own responsibilities and, together with the corporation's shareholders, to the shared goal of building long-term value. (p. 6) *See Part VII below in relation to board agenda.*
The corporation today faces pressures and scrutiny from a variety of stakeholders (for example, employees, customers, suppliers, special interest groups, communities, politicians, and regulators) having diverse interests in its operation and success. Moreover, shareholders are increasingly diverse and the capital markets and the business and social environment are increasingly complex and challenging. In addition to individuals who hold shares directly, investors now include a growing variety of entities that invest monies on behalf of their beneficiaries and have diverse time horizons, strategies, and interests in the corporation. These include hedge funds, private equity and venture capital funds, public and private pension funds, mutual funds, sovereign wealth funds, insurance companies, banks and other types of lenders, and derivative product holders. In responding to the pressures facing the corporation, the board must understand the diverse interests of stakeholders and investors, and consider competing demands and pressures as necessary and appropriate while ensuring that the corporation is positioned to create the long-term value that all shareholders have an interest in as a unified body. This is the context in which the board must order its governance structures and processes, providing both oversight and guidance to management regarding strategic planning, risk assessment and management, and corporate performance. Serving as a director is demanding and—in addition to significant substantive knowledge and experience relevant to the business and governance needs of the company—requires integrity, objectivity, judgment, diplomacy, and courage. (Commentary to Principle I)	*See Part X below in relation to shareholder communications.*	Publicly traded companies, private companies and companies in the process of going public should practice good governance. General members of venture capital, buyout and other private equity funds should encourage companies in which they invest to adopt long-term corporate governance provisions that are consistent with the Council's policies. (Section 1.7) *See Part X below in relation to shareholder communications.*	In making decisions, the board may consider the interests of all of the company's constituencies, including stakeholders such as employees, customers, suppliers and the community in which the company does business, when doing so contributes in a direct and meaningful way to building long-term value creation. (Guiding Principle 8, p. 4) Shareholders are not a uniform group, and their interests may be diverse. Although boards should consider the views of shareholders, the duty of the board is to act in what it believes to be the long-term best interests of the company and all its shareholders. The views of certain shareholders are one important factor that the board evaluates in making decisions, but the board must exercise its own independent judgment. Once the board reaches a decision, the company should consider how best to communicate the board's decision to shareholders. (p. 26) *See Part X below in relation to shareholder communications.*

II. Corporate Governance Transparency			
NACD Key Agreed Principles	**Commonsense Principles of Corporate Governance**	**CII Policies**	**BRT Principles of Corporate Governance**
Governance structures and practices should be transparent— and transparency is more important than strictly following any particular set of best practice recommendations. **(Principle II)** A variety of structures and practices may support and further effective governance. Boards should tailor governance structures and practices to the needs of the company in a pragmatic search for what is most effective and efficient. Governance best practices should be adopted thoughtfully, and not by rote reliance on the recommendations posited by any entity or group. However, every board should strive to understand generally the parameters of and variations in standards of best practice recommended by NACD, BRT, and other thoughtful proponents of effective governance practices (like those referenced in Appendix A). (Commentary to Principle II)	These principles are intended to provide a basic framework for sound, long-term-oriented governance. But given the differences among our many public companies – including their size, their products and services, their history and their leadership – not every principle (or every part of every principle) will work for every company, and not every principle will be applied in the same fashion by all companies. (Introduction)	Corporate governance structures and practices should protect and enhance a company's accountability to its shareowners, and ensure that they are treated equally. An action should not be taken if its purpose is to reduce accountability to shareowners. (Section 1.4)	Although there is no "one size fits all" approach to governance that will be suitable for all U.S. public companies, the creation of long-term value is the ultimate measurement of successful corporate governance, and it is important that shareholders and other stakeholders understand why a company has chosen to use particular governance structures, practices and processes to achieve that objective. Accordingly, companies should disclose not only the types of practices they employ but also their bases for selecting those practices. (p. 4)
Every board should explain, in proxy materials and other communications with shareholders, why the governance structures and practices it has developed are best suited to the company. Some boards may choose to disclose their own practices in relation to a set of recognized best practice recommendations, identifying those areas where their practices differ and explaining the board's rationale for such differences. Whether or not a board discloses its practices against a defined set of recommendations, it is the disclosure of governance structures and practices generally and the rationale for divergences from widely accepted best practices that is important. Disclosure of the practices adopted and adapted by the board, along with the rationale for unusual aspects, is far preferable to the adoption of any prescribed set of best practices. Valuing disclosure over rigid adoption of any set of recommended best practices encourages boards to experiment and develop approaches that address their own particular needs, and avoids rigidity. Boards that explain their practices should be rewarded and not penalized for decisions to adapt best practice to their own needs. (Commentary to Principle II)	Disclosures to shareholders should describe the structure and function of each board committee. (Section I.e) Some boards have rules around maximum length of service and mandatory retirement age for directors; others have such rules but permit exceptions; and still others have no such rules at all. Whatever the case, companies should clearly articulate their approach on term limits and retirement age. And insofar as a board permits exceptions, the board should explain (ordinarily in the company's proxy statement) why a particular exception was warranted in the context of the board's assessment of its performance and composition. (Section I.f) Robust communication of a board's thinking to the company's shareholders is important. There are multiple ways of going about it. For example, companies may wish to designate certain directors – as and when appropriate and in coordination with management – to communicate directly with shareholders on governance and key shareholder issues, such as CEO compensation. Directors who communicate directly with shareholders ideally will be experienced in such matters. (Section II.a) The board's independent directors should decide, based upon the circumstances at the time, whether it is appropriate for the company to have separate or combined chair and CEO roles. The board should explain clearly (ordinarily in the company's proxy statement) to shareholders why it has separated or	…[E]very company should have written, disclosed governance procedures and policies, an ethics code that applies to all employees and directors, and provisions for its strict enforcement. The Council posts its corporate governance policies on its Web site (www.cii.org); it hopes corporate boards will meet or exceed these standards and adopt similarly appropriate additional policies to best protect shareowners' interests. (Section 1.3) The board should be chaired by an independent director. The CEO and chair roles should only be combined in very limited circumstances; in these situations, the board should provide a written statement in the proxy materials discussing why the combined role is in the best interests of shareowners, and it should name a lead independent director who should have approval over information flow to the board, meeting agendas and meeting schedules to ensure a structure that provides an appropriate balance between the powers of the CEO and those of the independent directors…. (Section 2.4) …The process by which committee members and chairs are selected should be disclosed to shareowners. (Section 2.5) …The board should disclose to shareowners, at least annually, sufficient information to enable them to assess whether the board is carrying out its oversight responsibilities effectively. (Section 2.7) …The audit committee report should provide	Once the board reaches a decision, the company should consider how best to communicate the board's decision to shareholders. (p. 26) Corporations have an important perspective to contribute to the public policy dialogue and discussions about the development, enactment and revision of the laws and regulations that affect their businesses and the communities in which they operate and their employees reside. To the extent that the company engages in political activities, the board should have oversight responsibility and consider whether to adopt a policy on disclosure of these activities. (p. 28)

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	combined the roles. (Section V.a) *See Part II below in relation to disclosure regarding financial reporting.*	meaningful information to investors about how the committee carries out its responsibilities. The report should include an explanation of how the committee carries out its auditor compensation responsibilities in consideration of audit quality objectives. The report should include a fact specific explanation for not changing the company's auditor if the committee chooses to renew the engagement of an auditor with more than 10 consecutive years of service, or if the auditor is retained despite knowledge of substantive deficiencies identified during the committee's review of the considerations described [in Section 2.13a]. (Section 2.13a) The proxy statement should include a copy of the audit committee charter and a statement by the audit committee that it has complied with the duties outlined in the charter. (Section 2.13d) The board should develop and disclose publicly its guidelines for approving charitable and political contributions. The board should disclose on an annual basis the amounts and recipients of all monetary and non-monetary contributions made by the company during the prior fiscal year. Any expenditures earmarked for political or charitable activities that were provided to or through a third-party should be included in the report. (Section 2.14b) …To allow for informed voting decisions, it is essential that investors have full and accurate information about [proxy] 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. (Section 3.2)	
Financial Reporting and Earnings Guidance			
[I]t is the board that is charged with …ensuring the transparency and integrity of financial disclosures and controls… (Commentary to Principle I) [B]oards should assess management integrity and ethics when…reviewing financial reporting and accounting decisions… (Commentary to Principle VI)	Transparency around quarterly financial results is important. (Section IV.a) Companies should frame their required quarterly reporting in the broader context of their articulated strategy and provide an outlook, as appropriate, for trends and metrics that reflect progress (or not) on long-term goals. A company should not feel obligated to provide earnings guidance – and should determine whether providing earnings guidance for the company's shareholders does more harm than good. If a company does provide earnings guidance,	*Not covered directly but see:* • *Audit Committee Responsibilities Regarding Independent Auditors* (Section 2.13a) • *Competitive Bids* (Section 2.13b) • *Non-audit Services* (Section 2.13c) • *Audit Committee Charters* (Section 2.13d) • *Liability of Outside Auditors* (Section 2.13e) • *Shareowner Votes on the Board's Choice of Outside Auditor* (Section 2.13f) • *Disclosure of Reasons Behind Auditor Changes* (Section 2.13g)	Management, under the oversight of the board and its audit committee, produces financial statements that fairly present the company's financial condition and results of operations and makes the timely disclosures investors need to assess the financial and business soundness and risks of the company. (Guiding Principle 3, p. 3) The audit committee of the board retains and manages the relationship with the outside auditor, oversees the company's annual financial statement audit and internal controls over financial reporting,

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	the company should be realistic and avoid inflated projections. Making short-term decisions to beat guidance (or any performance benchmark) is likely to be value destructive in the long run. (Section IV.b) As appropriate, long-term goals should be disclosed and explained in a specific and measurable way. (Section IV.c) A company should take a long-term strategic view, as though the company were private, and explain clearly to shareholders how material decisions and actions are consistent with that view. (Section IV.d) Companies should explain when and why they are undertaking material mergers or acquisitions or major capital commitments. (Section IV.e) Companies are required to report their results in accordance with Generally Accepted Accounting Principles ("GAAP"). While it is acceptable in certain instances to use non-GAAP measures to explain and clarify results for shareholders, such measures should be sensible and should not be used to obscure GAAP results. In this regard, it is important to note that *all* compensation, including equity compensation, is plainly a cost of doing business and should be reflected in any non-GAAP measurement of earnings in precisely the same manner it is reflected in GAAP earnings. (Section IV.f) In addition to its other responsibilities, the Audit Committee should focus on whether the company's financial statements would be prepared or disclosed in a materially different manner if the external auditor itself were solely responsible for their preparation. (Section II.b)		and oversees the company's risk management and compliance programs. (Guiding Principle 4, p. 3) The board should be satisfied that the company's financial statements accurately present its financial condition and results of operations, that other disclosures about the company's performance convey meaningful information about past results as well as future plans, and that the company's internal controls and procedures have been designed to detect and deter fraudulent activity. (p. 8) Management is responsible for the integrity of the company's financial reporting system and the accurate and timely preparation of the company's financial statements and related disclosures. It is management's responsibility — under the direction of the CEO and the company's principal financial officer — to establish, maintain and periodically evaluate the company's internal controls over financial reporting and the company's disclosure controls and procedures, including the ability of such controls and procedures to detect and deter fraudulent activity. (p. 9) The [audit] committee should discuss significant issues relating to the company's financial statements with management and the outside auditor and review earnings press releases before they are issued. The committee should understand the company's critical accounting policies and why they were chosen, what key judgments and estimates management made in preparing the financial statements, and how they affect the reported financial results. The committee should be satisfied that the financial statements and other disclosures prepared by management present the company's financial condition and results of operations accurately and are understandable. (p. 16) Companies should communicate honestly with their employees about corporate operations and financial performance. (p. 27) *See also Audit Committee* (pp. 15-16)

III. Director Competency & Commitment			
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Governance structures and practices should be designed to ensure the competency and commitment of directors. **(Principle III)**			
Board Composition and Director Qualifications			
A board's effectiveness depends on the competency and commitment of its individual members, their understanding of the role of a fiduciary and their ability to work together as a group. Obviously, the foundation is an understanding of the fiduciary role and the basic principles that position directors to fulfill their responsibilities of care, loyalty, and good faith. (Commentary to Principle III)	Directors' loyalty should be to the shareholders and the company. A board must not be beholden to the CEO or management…All directors must have high integrity and the appropriate competence to represent the interests of all shareholders in achieving the long-term success of their company… (Section I.a)		Every director should have integrity, strong character, sound judgment, an objective mind and the ability to represent the interests of all shareholders rather than the interests of particular constituencies. (p. 12)
However, an effective board is far more than the sum of its parts: it should bring together a variety of skill sets, experiences, and viewpoints in an environment conducive to reaching consensus decisions after a full and vigorous discussion from diverse perspectives. While the board should reflect a mix of diverse experiences and skill sets relevant to the business and governance of the company, each board must determine for itself, and review periodically, what those experiences and skill sets are and what the appropriate mix should be as the company faces different challenges over time. (Commentary to Principle III)	Directors should be strong and steadfast, independent of mind and willing to challenge constructively but not be divisive or self-serving. Collaboration and collegiality also are critical for a healthy, functioning board…Directors should have complementary and diverse skill sets, backgrounds and experiences. Diversity along multiple dimensions is critical to a high-functioning board. Director candidates should be drawn from a rigorously diverse pool. (Section I.a)	The Council supports a diverse board. The Council believes a diverse board has benefits that can enhance corporate financial performance, particularly in today's global market place. Nominating committee charters, or equivalent, ought to reflect that boards should be diverse, including such considerations as background, experience, age, race, gender, ethnicity, and culture. (Section 2.8b)	The nominating/corporate governance committee of the board plays a leadership role in shaping the corporate governance of the company, strives to build an engaged and diverse board whose composition is appropriate in light of the company's needs and strategy, and actively conducts succession planning for the board. (Guiding Principle 5, p. 3) The composition of a board should reflect a diversity of thought, backgrounds, skills, experiences and expertise and a range of tenures that are appropriate given the company's current and anticipated circumstances and that, collectively, enable the board to perform its oversight function effectively. (p. 11) Diverse backgrounds and experiences on corporate boards, including those of directors who represent the broad range of society, strengthen board performance and promote the creation of long-term shareholder value. Boards should develop a framework for identifying appropriately diverse candidates that allows the nominating/corporate governance committee to consider women, minorities and others with diverse backgrounds as candidates for each open board seat. (p. 11) In connection with renomination of a current director, the nominating/corporate governance committee should review the director's background, perspective, skills and experience; assess the director's contributions to the board; consider the director's tenure; and evaluate the director's continued value to the company in light of current and future needs. Some boards may undertake these steps as part of the annual nomination process, while others may use a director evaluation process. (p. 17)

III. Director Competency & Commitment			
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Typically, a board will want some persons with specialized knowledge of relevant businesses and industries and the business environment in which the company functions who can provide insight regarding strategy and risk. Director qualifications and criteria should be designed to position the board to provide oversight of the business. (Commentary to Principle III)	Ideally, in order to facilitate engaged and informed oversight of the company and the performance of its management, a subset of directors will have professional experiences directly related to the company's business. At the same time, however, it is important to recognize that some of the best ideas, insights and contributions can come from directors whose professional experiences are not directly related to the company's business…Directors should be business savvy, be shareholder oriented and have a genuine passion for their company. (Section I.a)		Directors with relevant business and leadership experience can provide the board a useful perspective on business strategy and significant risks and an understanding of the challenges facing the business. (p. 12) The [nominating/corporate governance] committee should establish, and recommend to the board for approval, criteria for board membership and periodically review and recommend changes to the criteria. The committee should review annually the composition of the board, including an assessment of the mix of the directors' skills and experience; an evaluation of whether the board as a whole has the necessary tools to effectively perform its oversight function in a productive, collegial fashion; and an identification of qualifications and attributes that may be valuable in the future based on, among other things, the current directors' skill sets, the company's strategic plans and anticipated director exits. (pp. 16-17) Audit committee members must meet minimum financial literacy standards, and one or more committee members should be an audit committee financial expert, as determined by the board in accordance with applicable rules. (p. 15)
Attendance, Commitment and Limits on Other Board Service			
Directors need to exhibit a commitment of both time and active attention to fulfill their fiduciary obligations. Generally, that means that directors should ensure that they have the time to attend board and committee meetings and the annual meeting of shareholders, prepare for meetings, stay informed about issues that are relevant to the company, consult with management as needed, and address crises should crises arise. The board may wish to articulate guidelines that encourage directors to limit their other commitments. Such guidelines assist in communicating expectations about the commitment that is expected. Given the considerable variation in individual capacity, boards should apply their judgment and assess directors' commitment through their actions, rather than rely on rigid standards. (Commentary to Principle III)	Directors need to commit substantial time and energy to the role. Therefore, a board should assess the ability of its members to maintain appropriate focus and not be distracted by competing responsibilities. In so doing, the board should carefully consider a director's service on multiple boards and other commitments. (Section I.a)	Absent compelling and stated reasons, directors who attend fewer than 75 percent of board and board-committee meetings for two consecutive years should not be renominated. Companies should disclose individual director attendance figures for board and committee meetings. Disclosure should distinguish between in-person and telephonic attendance. Excused absences should not be categorized as attendance. (Section 2.8d) …Companies should establish and publish guidelines specifying on how many other boards their directors may serve. Absent unusual, specified circumstances, directors with full-time jobs should not serve on more than two other boards. Currently serving CEOs should not serve as a director of more than one other company, and then only if the CEO's own company is in the top half of its peer group. No other director should serve on more than five for-profit company boards. (Section 2.11) Given the vital importance of their responsibilities, non-employee directors should expect to devote significant time to their boardroom duties… (Section	Serving as a director of a public company requires significant time and attention. Certain roles, such as committee chair, board chair and lead director, carry an additional time commitment beyond that of board and committee service. Directors must spend the time needed and meet as frequently as necessary to discharge their responsibilities properly. While there may not be a need for a set limit on the number of outside boards on which a director or committee member may serve — or for any limits on other activities a director may pursue outside of his or her board duties — each director should be committed to the responsibilities of board service, and each board should monitor the time constraints of its members in light of their particular circumstances. (pp. 12-13) Serving on a board requires significant time and attention on the part of directors. Certain roles, such as committee chair, board chair and lead director, carry an additional time commitment beyond that of board and committee service. Directors must spend the time needed and meet as frequently as necessary to discharge their responsibilities

III. Director Competency & Commitment			
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		6.1)	properly. (p. 20) Service on the board of a public company provides valuable experience and insight. Simultaneous service on too many boards may, however, interfere with an individual's ability to satisfy his or her responsibilities as a member of senior management or as a director. In light of this, many boards limit the number of public company boards on which their directors may serve. Business Roundtable does not endorse a specific limit on the number of directorships an individual may hold, recognizing that decisions about limits on board service are best made by boards and their nominating/governance committees in light of the particular circumstances of individual companies and directors. (p. 20) With the significant responsibilities imposed on audit committees, consideration should be given to whether limiting service on other public company audit committees is appropriate. Policies may permit exceptions if the board determines that the simultaneous service would not affect an individual's ability to serve effectively. (p. 15)
Board Size			
Not covered.	While no one size fits all – boards need to be large enough to allow for a variety of perspectives, as well as to manage required board processes – they generally should be as small as practicable so as to promote an open dialogue among directors. (Section I.a)	Absent compelling, unusual circumstances, a board should have no fewer than five and no more than 15 members (not too small to maintain the needed expertise and independence, and not too large to function efficiently). Shareowners should be allowed to vote on any major change in board size... (Section 2.11)	In determining appropriate board size, directors should consider the nature, size and complexity of the company as well as its stage of development. Larger boards often bring the benefit of a broader mix of skills, backgrounds and experience, while smaller boards may be more cohesive and may be able to address issues and challenges more quickly. (p. 11)
Director Orientation and Education			
Not covered.	Companies should conduct a thorough and robust orientation program for their new directors including background on the industry and the competitive landscape in which the company operates, the company's business, its operations, and important legal and regulatory issues, etc. (Section 1.e) A board should be continually educated on the company and its industry. If a board feels it would be productive, outside experts and advisors should be brought in to inform directors on issues and events affecting the company. (Section II.b)	Directors should receive training from independent sources on their fiduciary responsibilities and liabilities. Directors have an affirmative obligation to become and remain independently familiar with company operations; they should not rely exclusively on information provided to them by the CEO to do their jobs... (Section 2.12a)	Directors should be encouraged to take advantage of educational opportunities in the form of outside programs or "in board" educational sessions led by members of senior management or outside experts. New directors should participate in a robust orientation process designed to familiarize them with various aspects of the company and board service. (p. 22)

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***Governance structures and practices should be designed to ensure the accountability of the board to shareholders and the objectivity of board decisions.* (Principle IV)** Boards are accountable to shareholders for the governance and performance of the corporation, and must provide active oversight of the management of the corporation. Accountability in the oversight of the corporation is premised on the ability of the board to be objective and distinct from management. While actual board objectivity is key, reassuring shareholders that the board is structured to lessen the likelihood of undue management influence is also important. (Commentary to Principle IV)	Directors' loyalty should be to the shareholders and the company. A board must not be beholden to the CEO or management… (Section I.a)	Corporate governance structures and practices should protect and enhance a company's accountability to its shareowners, and ensure that they are treated equally. An action should not be taken if its purpose is to reduce accountability to shareowners. (Section 1.4) U.S. companies should not reincorporate to offshore locations where corporate governance structures are weaker, which reduces management accountability to shareowners. (Section 1.8) *See also* Section 1.9 (Companies should not attempt to restrict the venue for shareowner claims by adopting charter or bylaw provisions that seek to establish an exclusive forum. Nor should companies attempt to bar shareowners from the courts through the introduction of forced arbitration clauses.)	An effective system of corporate governance provides the framework within which the board and management address their key responsibilities. (p. 7)
Director Independence			
Listing standards require that a majority of directors qualify as "independent," and reserve key functions relating to audit, compensation, and nominating/governance matters to independent directors. (Heightened standards of independence apply to audit committee members.) Listing standards also define certain relationships that are inconsistent with a finding of director independence while otherwise leaving to board discretion the determination whether a director has family, business, consulting, charitable, or other relationships with the company and its management that might undermine objectivity. (Commentary to Principle IV)	A significant majority of the board should be independent under the New York Stock Exchange rules or similar standards. (Section I.a)	At least two-thirds of the directors should be independent; their seat on the board should be their only non-trivial professional, familial or financial connection to the corporation, its chairman, CEO or any other executive officer.... (Section 2.3) …[A]ll members of [the] [audit, nominating and compensation] committees should be independent... (Section 2.5) A narrowly drawn definition of an independent director (coupled with a policy specifying that at least two-thirds of board members and all members of the audit, compensation and nominating committees should meet this standard) is in the corporation's and shareowners' financial interest because: • Independence is critical to a properly functioning board; • Certain clearly definable relationships pose a threat to a director's unqualified independence; • The effect of a conflict of interest on an individual director is likely to be almost impossible to detect, either by shareowners or other board members; and • While an across-the-board application of any definition to a large number of people will inevitably miscategorize a few of them, this risk is sufficiently small and is far outweighed by the significant benefits. Independent directors do not invariably share a single set of qualities that are not shared by non-	Director independence is critical to effective corporate governance, and providing objective independent judgment that represents the interests of all shareholders is at the core of the board's oversight function. Accordingly, a substantial majority of the board's directors should be independent, according to applicable rules and regulations and as determined by the board. • Definition of "independence". Independent director should not have any relationships that may impair, or appear to impair, the director's ability to exercise independent judgment. Many boards have developed their own standards for assessing independence under stock market definitions, in addition to considering the views of institutional investors and other relevant groups. • Assessing independence. When evaluating a director's independence, the board should consider all relevant facts and circumstances, focusing on whether the director has any relationships, either direct or indirect, with the company, senior management or other directors that could affect actual or perceived independence. This includes relationships with other companies that have significant business relationships with the company or with not-for-profit organizations that receive substantial support from the company. While it has been suggested that long-standing board service may be perceived to affect director independence, long tenure, by itself, should not disqualify a director

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		independent directors. Consequently no clear rule can unerringly describe and distinguish independent directors. However, the independence of the director depends on all relationships the director has, including relationships between directors, that may compromise the director's objectivity and loyalty to shareowners. Boards have an obligation to consider all relevant facts and circumstances to determine whether a director should be considered independent. These considerations include the director's years of service on the board. Extended periods of service may adversely impact a director's ability to bring an objective perspective to the boardroom. (Section 7.1) An independent director is someone whose only nontrivial professional, familial or financial connection to the corporation, its chairman, CEO or any other executive officer is his or her directorship. Stated most simply, an independent director is a person whose directorship constitutes his or her only connection to the corporation. (Section 7.2) The notes that follow are supplied to give added clarity and guidance in interpreting the specified relationships. A director will not be considered independent if he or she: • Is, or in the past five years has been, or whose relative is, or in the past five years has been, employed by the corporation or employed by or a director of an affiliate; NOTES: An "affiliate" relationship is established if one entity either alone or pursuant to an arrangement with one or more other persons, owns or has the power to vote more than 20 percent of the equity interest in another, unless some other person, either alone or pursuant to an arrangement with one or more other persons, owns or has the power to vote a greater percentage of the equity interest. For these purposes, joint venture partners and general partners meet the definition of an affiliate, and officers and employees of joint venture enterprises and general partners are considered affiliated. A subsidiary is an affiliate if it is at least 20 percent owned by the corporation. Affiliates include predecessor companies. A "predecessor" is an entity that within the last five years was party to a "merger of equals" with the corporation or represented more than 50 percent of the corporation's sales or assets when such predecessor became part of the corporation. "Relatives" include spouses, parents, children, step-children, siblings, mothers and fathers-in-law, sons	from being considered independent. (p. 12) The nominating/corporate governance committee should ensure that a substantial majority of the directors are independent both in fact and in appearance. The committee should take the lead in assessing director independence and make recommendations to the board regarding independence determinations. In addition, each director should promptly notify the committee of any change in circumstances that may affect the director's independence (including but not limited to employment change or other factors that could affect director independence). (p. 17)

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		and daughters-in-law, brothers and sisters-in-law, aunts, uncles, nieces, nephews and first cousins, and anyone sharing the director's home. (Section 7.3a) • Is, or in the past five years has been, or whose relative is, or in the past five years has been, an employee, director or greater-than-20-percent owner of a firm that is one of the corporation's or its affiliate's paid advisers or consultants or that receives revenue of at least $50,000 for being a paid adviser or consultant to an executive officer of the corporation; NOTES: Advisers or consultants include, but are not limited to, law firms, auditors, accountants, insurance companies and commercial/investment banks. For purposes of this definition, an individual serving "of counsel" to a firm will be considered an employee of that firm. The term "executive officer" includes the chief executive, operating, financial, legal and accounting officers of a company. This includes the president, treasurer, secretary, controller and any vice-president who is in charge of a principal business unit, division or function (such as sales, administration or finance) or performs a major policymaking function for the corporation. (Section 7.3b) • Is, or in the past five years has been, or whose relative is, or in the past five years has been, employed by or has had a five percent or greater ownership interest in a third-party that provides payments to or receives payments from the corporation and either: (i) such payments account for one percent of the third-party's or one percent of the corporation's consolidated gross revenues in any single fiscal year; or (ii) if the third-party is a debtor or creditor of the corporation and the amount owed exceeds one percent of the corporation's or third party's assets. Ownership means beneficial or record ownership, not custodial ownership; (Section 7.3c) • Has, or in the past five years has had, or whose relative has paid or received more than $50,000 in the past five years under, a personal contract with the corporation, an executive officer or any affiliate of the corporation; NOTES: Council members believe that even small personal contracts, no matter how formulated, can threaten a director's complete independence. This includes any arrangement under which the director borrows or lends money to the corporation at rates better (for the director) than those available to normal customers—even if no other services from the director are specified in connection with this relationship; (Section 7.3d)	

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		• Is, or in the past five years has been, or whose relative is, or in the past five years has been, an employee or director of a foundation, university or other non-profit organization that receives significant grants or endowments from the corporation, one of its affiliates or its executive officers or has been a direct beneficiary of any donations to such an organization; NOTES: A "significant grant or endowment" is the lesser of $100,000 or one percent of total annual donations received by the organization. (Section 7.3e) • Is, or in the past five years has been, or whose relative is, or in the past five years has been, part of an interlocking directorate in which the CEO or other employee of the corporation serves on the board of a third-party entity (for-profit or not-for-profit) employing the director or such relative; (Section 7.3f) • Has a relative who is, or in the past five years has been, an employee, a director or a five percent or greater owner of a third-party entity that is a significant competitor of the corporation; or (Section 7.3g) • Is a party to a voting trust, agreement or proxy giving his/her decision making power as a director to management except to the extent there is a fully disclosed and narrow voting arrangement such as those which are customary between venture capitalists and management regarding the venture capitalists' board seats. (Section 7.3h) The foregoing describes relationships between directors and the corporation…[I]t is important to discuss relationships between directors on the same board which may threaten either director's independence. A director's objectivity as to the best interests of the shareowners is of utmost importance and connections between directors outside the corporation may threaten such objectivity and promote inappropriate voting blocks. As a result, directors must evaluate all of their relationships with each other to determine whether the director is deemed independent. The board of directors shall investigate and evaluate such relationships using the care, skill, prudence and diligence that a prudent person acting in a like capacity would use. (Section 7.3)	

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Director Independence Disclosures			
Boards are encouraged by listing standards to disclose the standards they apply in determining director independence and must disclose, by category or type, the relationships that they consider in their assessment. Disclosure serves as a significant disciplining force for board independence decisions. Given … the impossibility of defining all the relationships with a company that may arise for directors and director candidates, and the likelihood that many relationships outside the per se prohibited relationships provided by listing rules and SEC regulations will be significantly attenuated, it is advisable that boards retain discretion to decide independence on a case by case basis. Application of board judgment to the independence determination (within the framework provided by listing standard and applicable SEC regulations) is preferable to application of the more rigid standards prescribed in some best practice recommendations. (Commentary to Principle IV)	*Not covered.*	…The company should disclose information necessary for shareowners to determine whether directors qualify as independent. This information should include all of the company's financial or business relationships with and payments to directors and their families and all significant payments to companies, non-profits, foundations and other organizations where company directors serve as employees, officers or directors... (Section 2.3)	*Not covered.*
Executive Sessions			
Executive sessions—usually including both independent directors and those outside directors who do not qualify as independent—without members of management present should be held regularly; more often than once or twice a year. Such sessions provide the opportunity for open discussion of management's performance and management proposals regarding strategies and actions. Executive sessions are critical in establishing an appropriate environment of objectivity and candor. Most boards also spend time in the board meeting alone with the CEO to provide the CEO with the opportunity for candid exchange outside the presence of executives and staff. In addition, the independent and other outside directors should have the opportunity, from time to time, to meet alone with the chief financial officer, general counsel, and/or other key senior officers outside the presence of the CEO. (Commentary to Principle IV)	At each meeting, to ensure open and free discussion, the board should meet in executive session without the CEO or other members of management. The independent directors should ensure that they have enough time to do this properly. (Section II.b) As authorized and coordinated by the board, directors should have unfettered access to management, including those below the CEO's direct reports. (Section II.b) Depending on the circumstances, a lead independent director's responsibilities may include… • Presiding over meetings of the board at which the chair is not present, including executive sessions of the independent directors… • Having the authority to call meetings of the independent directors… (Section III.c)	The independent directors should hold regularly scheduled executive sessions without any of the management team or its staff present. (Section 2.12c) …Some regularly scheduled committee meetings should be held with only the committee members (and, if appropriate, the committee's independent consultants) present... (Section 2.5) … Other roles of the lead independent director should include chairing meetings of non-management directors and of independent directors… (Section 2.4)	Directors should have sufficient opportunity to meet in executive session, outside the presence of the CEO and any other management directors, in accordance with stock exchange rules. Time for an executive session should be placed on the agenda for every regular board meeting. The independent chair or lead director should set the agenda for and chair these sessions and follow up with the CEO and other members of senior management on matters addressed in the sessions. (p. 20) Lead directors perform a range of functions depending on the board's needs, but they typically chair executive sessions of a board's independent or nonmanagement directors, have the authority to call executive sessions, and oversee follow-up on matters discussed in executive sessions. (p. 13)
Role of the Board and Role of Management			
Careful respect should be given to maintaining the distinction between the role of the board and the role of management. Undue board involvement in matters of management may interfere with the board's ability to provide objective oversight of management performance. (Commentary to Principle IV)	Directors' loyalty should be to the shareholders and the company. A board must not be beholden to the CEO or management… (Section I.a) A company is more likely to attract and retain strong directors if the board focuses on big-picture issues and can delegate other matters to management… (Section I.c)	*See Part VII below in relation to board agenda.*	Effective corporate governance requires a clear understanding of the respective roles of the board, management and shareholders; their relationships with each other; and their relationships with other corporate stakeholders….The board of directors has the vital role of overseeing the company's management and business strategies to achieve long-term value creation. Selecting a well-qualified chief executive officer (CEO) to lead the company, monitoring and evaluating the CEO's performance,

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	See Part VII below in relation to board agenda.		and overseeing the CEO succession planning process are some of the most important functions of the board. The board delegates to the CEO — and through the CEO to other senior management — the authority and responsibility for operating the company's business. Effective directors are diligent monitors, but not managers, of business operations. They exercise vigorous and diligent oversight of a company's affairs, including key areas such as strategy and risk, but they do not manage — or micromanage — the company's business by performing or duplicating the tasks of the CEO and senior management team. The distinction between oversight and management is not always precise, and some situations (such as a crisis) may require greater board involvement in operational matters. In addition, in some areas (such as the relationship with the outside auditor and executive compensation), the board has a direct role instead of an oversight role. (p. 5) Management, led by the CEO, is responsible for setting, managing and executing the strategies of the company, including but not limited to running the operations of the company under the oversight of the board and keeping the board informed of the status of the company's operations. Management's responsibilities include strategic planning, risk management and financial reporting. An effective management team runs the company with a focus on executing the company's strategy over a meaningful time horizon and avoids an undue emphasis on short-term metrics. (pp. 5-6) Effective corporate governance requires dedicated focus on the part of directors, the CEO and senior management to their own responsibilities… (p. 6) *See Part VII below in relation to board agenda.*
Board Committees			
This document assumes…that audit, compensation, and nominating/governance functions are undertaken by independent directors usually organized in committees. (Introduction) Listing standards…reserve key functions relating to audit, compensation, and nominating/governance matters to independent directors. (Heightened standards of independence apply to audit committee members.) (Commentary to Principle IV) …Rotation of the leadership position among directors or committee chairs on a per-meeting or	A board should have a well-developed committee structure with clearly understood responsibilities. Disclosures to shareholders should describe the structure and function of each board committee. (Section I.e) Boards should consider periodic rotation of board leadership roles (i.e., committee chairs and the lead independent director), balancing the benefits of rotation against the benefits of continuity, experience and expertise. (Section I.e)	Companies should have audit, nominating and compensation committees, and all members of these committees should be independent. The board (not the CEO) should appoint the committee chairs and members. Committees should be able to select their own service providers. The process by which committee members and chairs are selected should be disclosed to shareowners. (Section 2.5) [Members of the compensation committee] should represent diverse backgrounds and professional experiences. (Section 5.5a)	An effective committee structure permits the board to address key areas in more depth than may be possible at the full board level. Decisions about committee membership and chairs should be made by the full board based on recommendations from the nominating/corporate governance committee. The functions performed by the audit, nominating/corporate governance and compensation committees are central to effective corporate governance; however, no one committee structure or division of responsibility is right for all companies. Thus, the references in Section IV [Board

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quarterly basis is not favored because it does not promote accountability for the independent leadership role. (Commentary to Principle V)		The board should implement and disclose a board succession plan that involves preparing for…committee assignment rotations [and] committee chair nominations. (Section 2.8a) [Compensation committee] membership should rotate periodically among the board's independent directors… (Section 5.5a)	Committees] to functions performed by particular committees are not intended to preclude companies from allocating these functions differently. (p. 13) The responsibilities of each committee and the qualifications required for committee membership should be clearly defined in a written charter that is approved by the board. Each committee should review its charter annually and recommend changes to the board. Committees should apprise the full board of their activities on a regular basis. Board committees should meet all applicable independence and other requirements as to membership (including minimum number of members) prescribed by applicable law and stock exchange rules. (p. 14) Annually, the [nominating/corporate governance] committee should recommend directors for appointment to board committees and ensure that the committees consist of directors who meet applicable independence and qualification standards. The committee should periodically review the board's committee structure and consider whether refreshment of committee memberships and chairs would be helpful. (p. 18) *See Board Committees* (Section IV)

V. Independent Board Leadership

NACD Key Agreed Principles	Commonsense Principles of Corporate Governance	CII Policies	BRT Principles of Corporate Governance
Governance structures and practices should be designed to provide some form of leadership for the board distinct from management. **(Principle V)** The board provides oversight of management and holds it accountable for performance. This requires that the board function as a body distinct from management, capable of objective judgment regarding management's performance. Therefore, some form of independent leadership is required, either in the form of an independent chairman or a designated lead or presiding director. (Rotation of the leadership position among directors or committee chairs on a per-meeting or quarterly basis is not favored because it does not promote accountability for the independent leadership role.) Boards should evaluate the independent leadership of the board annually. The decision as to the form of independent leadership should be made by the independent directors. If the independent directors determine that it is in the best interests of the company to have independent board leadership in the form of an independent lead director, with the CEO or other non-independent director serving as the board chair, the independent directors should explain why that form of leadership is preferable and also provide the independent lead director with authority for setting the board agenda, determining the board's information needs, and convening and leading regular executive sessions without the CEO or other members of management present. (Commentary to Principle V)	The board's independent directors should decide, based upon the circumstances at the time, whether it is appropriate for the company to have separate or combined chair and CEO roles. The board should explain clearly (ordinarily in the company's proxy statement) to shareholders why it has separated or combined the roles. (Section V.a) If a board decides to combine the chair and CEO roles, it is critical that the board has in place a strong designated lead independent director and governance structure. (Section V.b) Depending on the circumstances, a lead independent director's responsibilities may include: • Serving as liaison between the chair and the independent directors • Presiding over meetings of the board at which the chair is not present, including executive sessions of the independent directors • Ensuring that the board has proper input into meeting agendas for, and information sent to, the board • Having the authority to call meetings of the independent directors • Insofar as the company's board wishes to communicate directly with shareholders, engaging (or overseeing the board's process for engaging) with those shareholders • Guiding the annual board self-assessment • Guiding the board's consideration of CEO compensation • Guiding the CEO succession planning process (Section V.c) Boards should consider periodic rotation of board leadership roles (i.e., committee chairs and the lead independent director), balancing the benefits of rotation against the benefits of continuity, experience and expertise. (Section I.e) Boards should have a robust process to evaluate themselves on a regular basis, led by the non-executive chair, lead independent director or appropriate committee chair... (Section I.g) The full board (including, where appropriate, through the non-executive chair or lead independent director) should have input into the setting of the board agenda. (Section II.b)	The board should be chaired by an independent director. The CEO and chair roles should only be combined in very limited circumstances; in these situations, the board should provide a written statement in the proxy materials discussing why the combined role is in the best interests of shareowners, and it should name a lead independent director who should have approval over information flow to the board, meeting agendas and meeting schedules to ensure a structure that provides an appropriate balance between the powers of the CEO and those of the independent directors. Other roles of the lead independent director should include chairing meetings of non-management directors and of independent directors, presiding over board meetings in the absence of the chair, serving as the principle liaison between the independent directors and the chair and leading the board/director evaluation process. Given these additional responsibilities, the lead independent director should expect to devote a greater amount of time to board service than the other directors. (Section 2.4)	U.S. companies take a variety of approaches to board leadership; some combine the positions of CEO and chair while others appoint a separate chair. No one leadership structure is right for every company at all times, and different boards may reach different conclusions about the leadership structures that are most appropriate at any particular point in time. When appropriate in light of its current and anticipated circumstances, a board should assess which leadership structure is appropriate. Independent board leadership is critical to effective corporate governance regardless of the board's leadership structure. Accordingly, the board should appoint a lead director, also referred to as a presiding director, if it combines the positions of CEO and chair or has a chair who is not independent. The lead director should be appointed by the independent directors and should serve for a term determined by the independent directors. Lead directors perform a range of functions depending on the board's needs, but they typically chair executive sessions of a board's independent or nonmanagement directors, have the authority to call executive sessions, and oversee follow-up on matters discussed in executive sessions. Other key functions of the lead director include chairing board meetings in the absence of the board chair, reviewing and/or approving agendas and schedules for board meetings and information sent to the board, and being available for engagement with long-term shareholders. (p. 13) The [nominating/corporate governance] committee should conduct an annual evaluation of the board's leadership structure and recommend any changes to the board. The committee should oversee the succession planning process for the board chair, which should involve consideration of whether to combine or separate the positions of CEO and board chair and whether events such as the end of the current chair's tenure or the appointment of a new CEO may warrant a change to the board leadership structure. (p. 18)

VI. Integrity, Ethics & Responsibility			
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Governance structures and practices should be designed to promote an appropriate corporate culture of integrity, ethics, and corporate social responsibility. **(Principle VI)** The tone of the corporate culture is a key determinant of corporate success. Integrity, ethics, and a sense of the corporation's role and responsibility in society are foundations upon which long-term relationships are built with customers, suppliers, employees, regulators, and investors. The board plays a key role in assuring that an appropriate corporate culture is developed, by communicating to senior management the seriousness with which the board views the matter, defining the parameters of the desired culture, reviewing efforts of management to inculcate the agreed culture (including but not limited to review of compliance and ethics programs) and continually assessing the integrity and ethics of senior management. Assessment of management performance and integrity are at the heart of effective governance, and should factor into all board decisions – not only in hiring and compensation matters. In particular, boards should assess management integrity and ethics when considering management proposals; assessing internal controls and procedures; reviewing financial reporting and accounting decisions; and more generally, when discussing management development and succession planning. The board should pay special attention to how members of senior management approach their own conflicts of interest, for example, in addition to any proposed related-person transactions involving management, the conflicts inherent in compensation decisions and the use of corporate assets in the form of perquisites. (Commentary to Principle VI)	Over the course of the year, the [board's] agenda should include and focus on the following items, among others… • Standards of performance, including the maintaining and strengthening of the company's culture and values. • Material corporate responsibility matters… (Section II.b) Benchmarks and performance measurements ordinarily should be disclosed to enable shareholders to evaluate the rigor of the company's goals and the goal-setting process. That said, compensation should not be entirely formula based, and companies should retain discretion (appropriately disclosed) to consider qualitative factors, such as integrity, work ethic, effectiveness, openness, etc. Those matters are essential to a company's long-term health and ordinarily should be part of how compensation is determined. (Section 7.c)	…[C]ompanies should adhere to responsible business practices and practice good corporate citizenship. Promotion, adoption and effective implementation of guidelines for the responsible conduct of business and business relationships are consistent with the fiduciary responsibility of protecting long-term investment interests. (Section 1.6) …[E]very company should have written, disclosed governance procedures and policies, an ethics code that applies to all employees and directors, and provisions for its strict enforcement… (Section 1.3) A director with a conflict of interest in a matter before the board should immediately communicate all facts about the conflict and abstain from voting on the matter. Deliberation on the matter should take place only among non-conflicted directors. The content of the deliberations, both verbal and written, should not be shared with the conflicted director. Prior to deliberation, the non-conflicted directors should have discretion to invite the conflicted director to share information that could help inform the vote. The conflicted director should comply if such communication is not prohibited by contract or law. (Section 2.15)	The board…sets the "tone at the top" for ethical conduct. (Guiding Principle 1, p. 3) In making decisions, the board may consider the interests of all of the company's constituencies, including stakeholders such as employees, customers, suppliers and the community in which the company does business, when doing so contributes in a direct and meaningful way to building long-term value creation. (Guiding Principle 8, p. 4) Corporations are often said to have obligations to stakeholders other than their shareholders, including employees, customers, suppliers, the communities and environments in which they do business, and government. In some circumstances, the interests of these stakeholders are considered in the context of achieving long-term value. (p. 25) The board should set a "tone at the top" that demonstrates the company's commitment to integrity and legal compliance. This tone lays the groundwork for a corporate culture that is communicated to personnel at all levels of the organization. (p. 7) The board, under the leadership of appropriate committees, oversees the company's compliance program and remains informed about any significant compliance issues that may arise. (p. 8) Unless the full board or one or more other committees do so, the audit committee should oversee the company's compliance program, including the company's code of conduct. The committee should establish procedures for handling compliance concerns related to potential violations of law or the company's code of conduct, including concerns relating to accounting, internal accounting controls, auditing and securities law issues. (p. 16) Directors have a duty to maintain the confidentiality of all nonpublic information (whether or not it is material) that they learn through their board service, including boardroom discussions and other discussions between and among directors and senior management. (p. 21) Due to the potential for conflicts of interest and the duty of directors to represent the interests of all shareholders, directors or director nominees should not be a party to any compensation-related

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			arrangements with any third party relating to their candidacy or service as a director of the company, other than those arrangements that relate to reimbursement for expenses in connection with candidacy as a director. (p. 21) Treating employees fairly and equitably is in a company's best interest. Companies should have in place policies and practices that provide employees with appropriate compensation, including benefits that are appropriate given the nature of the company's business and employees' job responsibilities and geographic locations. When companies offer retirement, health care, insurance and other benefit plans, employees should be fully informed of the terms of those plans. (p. 27) Companies should have in place and publicize mechanisms for employees to seek guidance and to alert management and the board about potential or actual misconduct without fear of retribution. As part of fostering a culture of compliance, companies should encourage employees to report compliance issues promptly and emphasize their policy of prohibiting retaliation against employees who report compliance issues in good faith. (p. 27) Companies should strive to be good citizens of the local, national and international communities in which they do business; to be responsible stewards of the environment; and to consider other relevant sustainability issues in operating their businesses. Failure to meet these obligations can result in damage to the company, both in immediate economic terms and in its longer-term reputation. Because sustainability issues affect so many aspects of a company's business, from financial performance to risk management, incorporating sustainability into the business in a meaningful way is integral to a company's long-term viability. (p. 27) A company should strive to be a good citizen by contributing to the communities in which it operates. Being a good citizen includes getting involved with those communities; encouraging company directors, managers and employees to form relationships with those communities; donating time to causes of importance to local communities; and making charitable contributions. (p. 27) A company should conduct its business with meaningful regard for environmental, health, safety

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			and other sustainability issues relevant to its operations. The board should be cognizant of developments relating to economic, social and environmental sustainability issues and should understand which issues are most important to the company's business and to its shareholders. (p. 27) Corporations, like all citizens, must act within the law. The penalties for serious violations of law can be extremely severe, even life threatening, for corporations. Compliance is not only appropriate — it is essential. The board and management should be comfortable that the company has a robust legal compliance program that is effective in deterring and preventing misconduct and encouraging the reporting of potential compliance issues. (p. 28)

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Governance structures and practices should be designed to support the board in determining its own priorities, resultant agenda, and information needs and to assist the board in focusing on strategy (and associated risks). **(Principle VII)** In today's dynamic and volatile business and financial environment, a key challenge for boards comprised primarily of outside and independent directors is to develop their own sense of corporate priorities and their own view of the matters that are most important to the success of the company. Boards must develop their own viewpoints to provide management with meaningful strategic guidance and support and to focus their own attention appropriately. Therefore, the board must be actively engaged in determining its own priorities, agenda and information needs. (Commentary to Principle VII)			
Board Agenda, Including Strategy and Risk Oversight			
For most companies, the priority focus of board attention and time will be understanding and providing guidance on strategy and associated risk—based on the underlying understanding of the company's strengths and weaknesses, and the opportunities and threats posed by the competitive environment—and monitoring senior management's performance in both carrying out the strategy and managing risk. Management performance, corporate strategy, and risk management are the prime underpinnings of the corporation's ability to create long-term value. Directors should strive for a constructive tension in discussions with management about strategy, performance, and the underlying assumptions upon which management proposals are based. Directors should actively participate in defining the benchmarks by which to assess success, and then monitor performance against those benchmarks. They should also establish (and disclose to the extent practical in light of competitive realities) a very real and apparent link between the strategy, benchmarks for success, and compensation. As emphasized by the Sarbanes-Oxley Act and related SEC regulations and listing standards, the board plays a critical role in oversight of compliance, financial reporting, and internal controls, as well as in organizing the board's own processes. However, these functions should follow naturally from an understanding of the importance of the board's objective judgment in its role as a fiduciary and a primary focus on corporate strategy and	Over the course of the year, the agenda should include and focus on the following items, among others: • A robust, forward-looking discussion of the business. • The performance of the current CEO and other key members of management and succession planning for each of them. One of the board's most important jobs is making sure the company has the right CEO. If the company does not have the appropriate CEO, the board should act promptly to address the issue. • Creation of shareholder value, with a focus on the long term. This means encouraging the sort of long-term thinking owners of a private company might bring to their strategic discussions, including investments that may not pay off in the short run. • Major strategic issues (including material mergers and acquisitions and major capital commitments) and long-term strategy, including thorough consideration of operational and financial plans, quantitative and qualitative key performance indicators, and assessment of organic and inorganic growth, among others. • The board should receive a balanced assessment on strategic fit, risks and valuation in connection with material mergers and acquisitions. The board should consider establishing an ad hoc Transaction Committee if significant board time is otherwise required to consider a material merger or acquisition. If the company's stock is to be used in such a transaction, the board should carefully	The board has ultimate responsibility for risk oversight. The board should (1) establish a company's risk management philosophy and risk appetite; (2) understand and ensure risk management practices for the company; (3) regularly review risks in relation to the risk appetite; and (4) evaluate how management responds to the most significant risks. In determining the risk profile, the board should consider the dynamics of the company, its industry and any systemic risks. Council policies on other critical corporate governance matters, such as executive compensation (see 5.1, the Council's policy on executive compensation, below), reinforce the importance of the board's consideration of risk factors. Effective risk oversight requires regular, meaningful communication between the board and management, among board members and committees, and between the board and any outside advisers it consults, about the company's material risks and risk management processes. The board should disclose to shareowners, at least annually, sufficient information to enable them to assess whether the board is carrying out its oversight responsibilities effectively. (Section 2.7) The board of directors should monitor, assess and approve all charitable and political contributions (including trade association contributions) made by the company. The board should only approve contributions that are consistent with the interests of the company and its shareowners. The terms and conditions of such contributions should be clearly	The board's agenda must be carefully planned yet flexible enough to accommodate emergencies and unexpected developments, and it must be structured to maximize the use of meeting time for open discussion and deliberation. The board chair should work with the lead director (when the company has one) in setting the agenda and should be responsive to individual directors' requests to add items to the agenda. (p. 21) The [nominating/corporate governance] committee should oversee the effective functioning of the board, including the board's policies relating to meeting agendas and schedules…with input from the lead director or independent chair. (p. 18) The board approves corporate strategies that are intended to build sustainable long-term value; selects a chief executive officer (CEO); oversees the CEO and senior management in operating the company's business, including allocating capital for long-term growth and assessing and managing risks; and sets the "tone at the top" for ethical conduct. (Guiding Principle 1, p. 3) Management develops and implements corporate strategy and operates the company's business under the board's oversight, with the goal of producing sustainable long-term value creation. (Guiding Principle 2, p. 3) A corporation's business is managed under the board's oversight. The board also has direct

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performance (within an appropriate framework of integrity and ethics as discussed above). In normal circumstances, compliance, oversight of financial reporting and controls, and governance issues should not demand the majority of board time and therefore should not overwhelm the board's agenda. (Commentary to Principle VII)	assess the company's valuation relative to the valuation implied in the acquisition. The objective is to properly evaluate the value of what you are giving vs. the value of what you are getting. • Significant risks, including reputational risks. The board should not be reflexively risk averse; it should seek the proper calibration of risk and reward as it focuses on the long-term interests of the company's shareholders. • Standards of performance, including the maintaining and strengthening of the company's culture and values. • Material corporate responsibility matters. • Shareholder proposals and key shareholder concerns. • The board (or appropriate board committee) should determine the best approach to compensate management, taking into account all the factors it deems appropriate, including corporate and individual performance and other qualitative and quantitative factors. (Section II.b) The board should minimize the amount of time it spends on frivolous or nonessential matters--the goal is to provide perspective and make decisions to build real value for the company and its shareholders. (Section II.b) The full board (including, where appropriate, through the non-executive chair or lead independent director) should have input into the setting of the board agenda. (Section II.b) Depending on the circumstances, a lead independent director's responsibilities may include…Ensuring that the board has proper input into meeting agendas for, and information sent to, the board… (Section III.c)	defined and approved by the board. (Section 14a) [If the CEO and chair roles are combined, the board] should name a lead independent director who should have approval over information flow to the board, meeting agendas and meeting schedules to ensure a structure that provides an appropriate balance between the powers of the CEO and those of the independent directors... (Section 2.4) Any director should be allowed to place items on the board's agenda. (Section 2.12b)	responsibility for certain key matters, including the relationship with the outside auditor and executive compensation. The board's oversight function encompasses a number of responsibilities, including: • Selecting the CEO. The board selects and oversees the performance of the company's CEO and oversees the CEO succession planning process. • Setting the "tone at the top." The board should set a "tone at the top" that demonstrates the company's commitment to integrity and legal compliance. This tone lays the groundwork for a corporate culture that is communicated to personnel at all levels of the organization. • Approving corporate strategy and monitoring the implementation of strategic plans. The board should have meaningful input into the company's long-term strategy from development through execution, should approve the company's strategic plans and should regularly evaluate implementation of the plans that are designed to create long-term value. The board should understand the risks inherent in the company's strategic plans and how those risks are being managed. • Setting the company's risk appetite, reviewing and understanding the major risks, and overseeing the risk management processes. The board oversees the process for identifying and managing the significant risks facing the company. The board and senior management should agree on the company's risk appetite, and the board should be comfortable that the strategic plans are consistent with it. The board should establish a structure for overseeing risk, delegating responsibility to committees and overseeing the designation of senior management responsible for risk management. • Focusing on the integrity and clarity of the company's financial reporting and other disclosures about corporate performance. The board should be satisfied that the company's financial statements accurately present its financial condition and results of operations, that other disclosures about the company's performance convey meaningful information about past results as well as future plans, and that the company's internal controls and procedures have been designed to detect and deter fraudulent activity. • Allocating capital. The board should have meaningful input and decisionmaking authority over the company's capital allocation process and strategy to find the right balance between short-term and long-term economic returns for its

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			shareholders. • Reviewing, understanding and overseeing annual operating plans and budgets. The board oversees the annual operating plans and reviews annual budgets presented by management. The board monitors implementation of the annual plans and assesses whether they are responsive to changing conditions. • Reviewing the company's plans for business resiliency. As part of its risk oversight function, the board periodically reviews management's plans to address business resiliency, including such items as business continuity, physical security, cybersecurity and crisis management. • Nominating directors and committee members, and overseeing effective corporate governance. The board, under the leadership of its nominating/corporate governance committee, nominates directors and committee members and oversees the structure, composition (including independence and diversity), succession planning, practices and evaluation of the board and its committees. • Overseeing the compliance program. The board, under the leadership of appropriate committees, oversees the company's compliance program and remains informed about any significant compliance issues that may arise. (pp. 7-8) Other key functions of the lead director include…approving agendas and schedules for board meetings and information sent to the board…. (p. 13) Many audit committees have at least some responsibility for risk assessment and management due to stock market rules. However, the audit committee should not be the sole body responsible for risk oversight, and the board may decide to allocate some aspects of risk oversight to other committees or to the board as a whole depending on the company's industry and other factors. A company's risk oversight structure should provide the full board with the information it needs to understand all of the company's major risks, their relationship to the company's strategy and how these risks are being addressed. Committees with risk-related responsibilities should report regularly to the full board on the risks they oversee and brief the audit committee in cases where the audit committee retains some risk oversight responsibility. (p. 16) The board of directors, with the assistance of the nominating/corporate governance committee,

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			should consider the frequency and length of board meetings. Longer meetings may permit directors to explore key issues in depth, whereas shorter, more frequent meetings may help directors stay current on emerging corporate trends and business and regulatory developments. (p. 20) *See also* p. 9 (The CEO and senior management generally take the lead in articulating a vision for the company's future and in developing strategic plans designed to create long-term value for the company, with meaningful input from the board. Management implements the plans following board approval, regularly reviews progress against strategic plans with the board, and recommends and carries out changes to the plans as necessary…. Management identifies, evaluates and manages the risks that the company undertakes in implementing its strategic plans and conducting its business. Management also evaluates whether these risks, and related risk management efforts, are consistent with the company's risk appetite. Senior management keeps the board and relevant committees informed about the company's significant risks and its risk management processes.)
As expressed in more detail below, the board should also strive to communicate with shareholders about corporate priorities. (Commentary to Principle VII) *See Part X below in relation to shareholder communications.*	Robust communication of a board's thinking to the company's shareholders is important... (Section II.a) As appropriate, long-term goals should be disclosed and explained in a specific and measurable way. (Section IV.c) A company should take a long-term strategic view, as though the company were private, and explain clearly to shareholders how material decisions and actions are consistent with that view. (Section IV.d) Companies should explain when and why they are undertaking material mergers or acquisitions or major capital commitments. (Section IV.e) *See Part X below in relation to shareholder communications.*	*See Part X below in relation to shareholder communications.*	*See Part X below in relation to shareholder communications.*
Board Information Flow, Materials and Presentations, Access to Management and Advisors			
Directors need significant information about the company's business and its prospects based on an understanding of opportunities, capabilities, strategies, and risks in the competitive environment. While directors must—and should—rely on management for information about the company, they need to recognize that their ability to serve as fiduciaries depends on the degree to which they can	As authorized and coordinated by the board, directors should have unfettered access to management, including those below the CEO's direct reports. (Section II.b) The Board should be continually educated on the company and its industry. If a Board feels it would be productive, outside experts and advisors should	...Directors have an affirmative obligation to become and remain independently familiar with company operations; they should not rely exclusively on information provided to them by the CEO to do their jobs. Directors should be provided meaningful information in a timely manner prior to board meetings and should be allowed reasonable access to management to discuss board issues. The board	The board should work to foster open, ongoing dialogue between management and members of the board. Directors should have access to senior management outside of board meetings. (p. 21) The quality and timeliness of information that the board receives directly affects its ability to perform

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bring objective judgment to bear. Therefore, directors cannot be unduly reliant on management for determining the board's priorities and related agenda, and information needs. Information flow to the board should be sufficient to support understanding of the company's business and the critical issues the company faces, and enable participation in active, informed discussions at board meetings. It should not be so voluminous as to overwhelm. While the board must have access to any information that it wants, generally the board should assert discipline and not overwhelm management with requests for information outside the scope of what management uses to manage. The board and management should work together to define the type and quantity of information that is of most use, and to identify the timeframe in which information should be provided. (It is in the area of agenda and information flow that independent board leadership is particularly necessary.) Crisp reports distributed in advance of meetings should obviate the need for lengthy management presentations in most board and committee meetings, so that maximum time is preserved for discussion. (Commentary to Principle VII)	be brought in to inform directors on issues and events affecting the company. (Section II.b) Depending on the circumstances, a lead independent director's responsibilities may include…Ensuring that the board has proper input into meeting agendas for, and information sent to, the board… (Section III.c)	should periodically assess whether directors feel they have sufficient information to make well-informed decisions and reasonable access to management on matters relevant to shareowner value. For ease of implementation, such assessment may be incorporated into existing director surveys. (Section 2.12a) [If the CEO and chair roles are combined, the board] should name a lead independent director who should have approval over information flow to the board, meeting agendas and meeting schedules to ensure a structure that provides an appropriate balance between the powers of the CEO and those of the independent directors… (Section 2.4)	its oversight function effectively. (p. 21) Companies should take advantage of technology such as board portals to provide directors with meeting materials and real-time information about developments that occur between meetings. The use of technology (including e-mail) to communicate with and deliver information to the board should be accompanied by safeguards to protect the security of information and directors' electronic devices and to comply with applicable document retention policies. (p. 21) In performing its oversight function, the board is entitled under state corporate law to rely on the advice, reports and opinions of management, counsel, auditors and expert advisers. Boards should be comfortable with the qualifications of those on whom they rely. Boards are encouraged to engage outside advisers where appropriate and should use care in their selection. Directors should hold advisers accountable and ask questions and obtain answers about the processes they use to reach their decisions and recommendations, as well as about the substance of the advice and reports they provide to the board. (p. 22) The [nominating/corporate governance committee] should oversee…the company's processes for providing information to the board (both in connection with, and outside of, meetings) with input from the lead director or independent chair. (p. 18) Other key functions of the lead director include…approving agendas and schedules for board meetings and information sent to the board… (p. 13)
Management Succession and Development			
[I]t is the board that is charged with…planning for succession… (Commentary to Principle I) [B]oards should assess management integrity and ethics …when discussing management development and succession planning. (Commentary to Principle VI)	Over the course of the year, the [board's] agenda should include and focus on…among others… The performance of the current CEO and other key members of management and succession planning for each of them. One of the board's most important jobs is making sure the company has the right CEO. If the company does not have the appropriate CEO, the board should act promptly to address the issue. (Section II.b) Senior management bench strength can be evaluated by the board and shareholders through an assessment of key company employees; direct exposure to those employees is helpful in making	The board should approve and maintain a detailed CEO succession plan and publicly disclose the essential features in the proxy statement. 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. To that end, the plan should address both short and long-term succession scenarios. (Section 2.9)	Selecting a well-qualified chief executive officer (CEO) to lead the company, monitoring and evaluating the CEO's performance, and overseeing the CEO succession planning process are some of the most important functions of the board. (p. 5) The board selects and oversees the performance of the company's CEO and oversees the CEO succession planning process. (p. 7) Planning for CEO and senior management development and succession in both ordinary and emergency scenarios is one of the board's most important functions. Some boards address succession planning primarily at the full board level,

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	that assessment. (Section VI.a) Companies should inform shareholders of the process the board has for succession planning and also should have an appropriate plan if an unexpected, emergency succession is necessary. (Section VI.b) Depending on the circumstances, a lead independent director's responsibilities may include…Guiding the CEO succession planning process. (Section V.c)		while others rely on a committee composed of independent directors (often the compensation committee or the nominating/corporate governance committee) to address this key area. The board, under the leadership of the responsible committee (if any), should identify the qualities and characteristics necessary for an effective CEO and monitor the development of potential internal candidates. The board or committee should engage in a dialogue with the CEO about the CEO's assessment of candidates for both the CEO and other senior management positions, and the board or committee should also discuss CEO succession planning outside the presence of the CEO. The full board should review the company's succession plan at least annually and periodically review the effectiveness of the succession planning process. (p. 23) The board and the independent committee (if any) with primary responsibility for oversight of succession planning also should know what the company is doing to develop talent beyond the senior management ranks. The board or committee should gain an understanding of the steps the CEO and other senior management are taking at more junior levels to develop the skills and experience important to the company's success and build a bench of future candidates for senior management roles. Directors should interact with up-and-coming members of management, both in board meetings and in less formal settings, so they have an opportunity to observe managers directly and begin developing relationships with them. (p. 23) Senior management selects qualified management, implements an organizational structure, and develops and executes thoughtful career development and succession planning strategies that are appropriate for the company. (p. 10)
Executive Compensation			
[I]t is the board that is charged with…compensating executives… (Commentary to Principle I) Assessment of management performance and integrity are at the heart of effective governance, and should factor into all board decisions – not only in hiring and compensation matters. In particular, boards should assess management integrity and ethics when considering management proposals; assessing internal controls and procedures; reviewing financial reporting and accounting decisions; and more generally, when discussing	The board (or appropriate board committee) should determine the best approach to compensate management, taking into account all the factors it deems appropriate, including corporate and individual performance and other qualitative and quantitative factors. (Section II.b) The board (or appropriate board committee) should discuss and approve the CEO's compensation. (Section II.b) To be successful, companies must attract and retain the best people – and competitive compensation of	The Council believes that executive compensation is a critical and visible aspect of a company's governance. Pay decisions are one of the most direct ways for shareowners to assess the performance of the board. And they have a bottom line effect, not just in terms of dollar amounts, but also by formalizing performance goals for employees, signaling the market and affecting employee morale. The Council endorses reasonable, appropriately structured pay-for-performance programs that reward executives for sustainable, superior performance over the long-term, consistent with a	The compensation committee of the board develops an executive compensation philosophy, adopts and oversees the implementation of compensation policies that fit within its philosophy, designs compensation packages for the CEO and senior management to incentivize the creation of long-term value, and develops meaningful goals for performance-based compensation that support the company's long-term value creation strategy. (Guiding Principle 6, p. 3) The compensation committee has many

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management development and succession planning. The board should pay special attention to how members of senior management approach their own conflicts of interest, for example, in addition to any proposed related-person transactions involving management, the conflicts inherent in compensation decisions and the use of corporate assets in the form of perquisites. (Commentary to Principle VI) Directors should actively participate in defining the benchmarks by which to assess success, and then monitor performance against those benchmarks. They should also establish (and disclose to the extent practical in light of competitive realities) a very real and apparent link between the strategy, benchmarks for success, and compensation. (Commentary to Principle VII) Executive compensation is an issue of particular concern for many shareholders. The board and the compensation committee should consider ways for shareholders to communicate their views and concerns regarding executive compensation, and should take these views and concerns into account, again recognizing that ultimately the board as fiduciary must make compensation decisions. Some boards may wish to consider seeking advisory shareholder votes on executive compensation, while some boards may explore other means of obtaining shareholder viewpoints. (Commentary to Principle X)	management is critical in this regard. To this end, compensation plans should be appropriately tailored to the nature of the company's business and the industry in which it competes. Varied forms of compensation may be necessary for different types of businesses and different types of employees. While a company's compensation plans will evolve over time, they should have continuity over multiple years and ensure alignment with long-term performance. (Section VII.a) Compensation should have both a current component and a long-term component. (Section VII.b) Benchmarks and performance measurements ordinarily should be disclosed to enable shareholders to evaluate the rigor of the company's goals and the goal-setting process. That said, compensation should not be entirely formula based, and companies should retain discretion (appropriately disclosed) to consider qualitative factors, such as integrity, work ethic, effectiveness, openness, etc. Those matters are essential to a company's long-term health and ordinarily should be part of how compensation is determined. (Section VII.c) Companies should consider paying a substantial portion (e.g., for some companies, as much as 50% or more) of compensation for senior management in the form of stock, performance stock units or similar equity-like instruments. The vesting or holding period for such equity compensation should be appropriate for the business to further senior management's economic alignment with the long-term performance of the company. With properly designed performance hurdles, stock options may be one element of effective compensation plans, particularly for the CEO. All equity grants (whether stock or options) should be made at fair market value, or higher, at the time of the grant, with particular attention given to any dilutive effect of such grants on existing shareholders. (Section VII.d) Companies should clearly articulate their compensation plans to shareholders. While companies should not, in the design of their compensation plans, feel constrained by the preferences of their competitors or the models of proxy advisors, they should be prepared to articulate how their approach links compensation to performance and aligns the interests of management and shareholders over the long term.	company's investment horizon. "Long-term" is generally considered to be five or more years for mature companies and at least three years for other companies. While the Council believes that executives should be well paid for superior performance, it also believes that executives should not be excessively paid. It is the job of the board of directors and the compensation committee specifically to ensure that executive compensation programs are effective, reasonable and rational with respect to critical factors such as company performance, industry considerations, risk considerations and compensation paid to other employees. It is also the job of the compensation committee to ensure that elements of compensation packages are appropriately structured to enhance the company's short- and long-term strategic goals and to retain and motivate executives to achieve those strategic goals. Compensation programs should not be driven by competitive surveys, which have become excessive and subject to abuse. It is shareowners, not executives, whose money is at risk. Since executive compensation must be tailored to meet unique company needs and situations, compensation programs must always be structured on a company-by-company basis. However, certain principles should apply to all companies. (Section 5.1) ...In developing, approving and monitoring the executive pay philosophy, the compensation committee should consider the full range of pay components, including structure of programs, desired mix of cash and equity awards, goals for distribution of awards throughout the company, the relationship of executive pay to the pay of other employees, use of employment contracts and policy regarding dilution. (Section 5.5b) Compensation of the executive oversight group should be driven predominantly by performance. The compensation committee should establish performance measures for executive compensation that are agreed to ahead of time and publicly disclosed. Multiple performance measures should be used in an executive's incentive program, and the measures should be sufficiently diverse that they do not simply reward the executive multiple times for the same performance. The measures should be aligned with the company's short- and long-term strategic goals, and pay should incorporate company-wide performance metrics, not just business unit performance criteria. Performance measures applicable to all performance-based	responsibilities relating to the company's overall compensation philosophy, structure, policies and programs. To assist it in performing its duties, the compensation committee must have the authority to obtain advice from independent compensation consultants, counsel and other advisers. The advisers' independence should be assessed under applicable law and stock market rules, and the compensation committee should feel confident and comfortable that its advisers have the ability to provide the committee with sound advice that is free from any competing interests. (p. 18) A major responsibility of the compensation committee is establishing performance goals and objectives relating to the CEO, measuring performance against those goals and objectives, and determining and approving the compensation of the CEO. The compensation committee also generally approves or recommends for approval the compensation of the rest of the senior management team. (p. 18) Executive compensation should be designed to align the interests of senior management, the company and its shareholders and to foster the long-term value creation and success of the company. Compensation should include performance-based elements that reward the achievement of goals tied to the company's strategic plan but are at risk if such goals are not met. These performance goals should be clearly explained to the company's shareholders. (p. 19) The compensation committee should understand the costs of the compensation packages of senior management and should review and understand the maximum amounts that could become payable under multiple scenarios (such as retirement; termination for cause; termination without cause; resignation for good reason; death and disability; and the impact of a transaction, such as a merger, divestiture or acquisition). The committee should ensure that the proper protections are in place that will allow senior management to remain focused on the long-term strategies and business plans of the company even in the face of a potential acquisition, shareholder activism, or unsolicited takeover activity or control bids. (p. 19) To further align the interests of directors and senior management with the interests of long-term shareholders, the [compensation] committee should establish stock ownership and holding requirements

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	If a company has well- designed compensation plans and clearly explains its rationale for those plans, shareholders should consider giving the company latitude in connection with individual annual compensation decisions. (Section VII.e) If large special compensation awards (not normally recurring annual or biannual awards but those considered special awards or special retention awards) are given to management, they should be carefully evaluated and – in the case of the CEO and other "Named Executive Officers" whose compensation is set forth in the company's proxy statement – clearly explained. (Section VII.f) Companies should maintain clawback policies for both cash and equity compensation. (Section VII.g) Depending on the circumstances, a lead independent director's responsibilities may include…Guiding the board's consideration of CEO compensation… (Section V.c).	awards (including annual and long-term incentive compensation) should reward superior performance—based predominantly on measures that drive long-term value creation—at minimum reasonable cost. Such measures should also reflect downside risk. The compensation committee should ensure that key performance metrics cannot be manipulated easily. The compensation committee should ensure that sufficient and appropriate mechanisms and policies (for example, bonus banks and clawback policies) are in place to recover erroneous bonus and incentive awards paid in cash, stock or any other form of remuneration to current or former executive officers, and to prevent such awards from being paid out in the first instance. Awards can be erroneous due to acts or omissions resulting in fraud, financial results that require restatement or some other cause that the committee believes warrants withholding or recovering incentive pay. Incentive-based compensation should be subject to recovery for a period of time of at least three years following discovery of the fraud or cause forming the basis for the recovery. The mechanisms and policies should be publicly disclosed. (Section 5.5d) Benchmarking at median or higher levels is a primary contributor to escalating executive compensation. Although benchmarking can be a constructive tool for formulating executive compensation packages, it should not be relied on exclusively. If benchmarking is used, compensation committees should commit to annual disclosure of the companies in peer groups used for benchmarking and/or other comparisons. If the peer group used for compensation purposes differs from that used to compare overall performance, such as the five-year stock return graph required in the annual proxy materials, the compensation committee should describe the differences between the groups and the rationale for choosing between them. In addition to disclosing names of companies used for benchmarking and comparisons, the compensation committee should disclose targets for each compensation element relative to the peer/benchmarking group and year-to-year changes in companies composing peer/benchmark groups. (Section 5.5i) Executives…should own, after a reasonable period of time, a meaningful position in the company's common stock. Executives should be required to own stock—excluding unexercised options and	that require directors and senior management to acquire and hold a meaningful amount of the company's stock at least for the duration of their tenure and, depending on the company's circumstances, perhaps for a certain period of time thereafter. The company should have a policy that monitors, restricts or even prohibits executive officers' ability to hedge the company's stock and requires ongoing disclosure of the material terms of hedging arrangements to the extent they are permitted. (p. 19) The compensation committee should review the overall compensation structure and balance the need to create incentives that encourage growth and strong financial performance with the need to discourage excessive risk-taking, both for senior management and for employees at all levels. Incentives should further the company's long-term strategic plans by looking beyond short-term market value changes to the overall goal of creating and enhancing enduring value. The committee should oversee the adoption of practices and policies to mitigate risks created by compensation programs, such as a compensation recoupment, or clawback, policy. (p. 19) Under the oversight of an independent committee or the lead director, the board should annually review the performance of the CEO and participate with the CEO in the evaluation of members of senior management in certain circumstances. All nonmanagement members of the board should have the opportunity to participate with the CEO in senior management evaluations if appropriate. The results of the CEO's evaluation should be promptly communicated to the CEO in executive session by representatives of the independent directors and used in determining the CEO's compensation. (p. 24)

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NACD Key Agreed Principles	**Commonsense Principles of Corporate Governance**	**CII Policies**	**BRT Principles of Corporate Governance**
		unvested stock awards—equal to a multiple of salary [after a reasonable period of time]. The stock subject to the ownership requirements should not be pledged or otherwise encumbered. The multiple should be scaled based on position, for example: two times salary for lower-level executives and up to six times salary for the CEO. (Section 5.15a) Executives should be required to continue to satisfy the minimum stock holding requirements for at least six months after leaving the company. (Section 5.15c) *See also provisions relating to:* • *Gross-ups* (Section 5.3) • *Oversight* (Section 5.5c) • *Annual Approval and Review* (Section 5.5e) • *Outside Advice* (Section 5.5g) • *Disclosure Practices* (Section 5.5h) • *Salary* (Section 5.6) • *Annual Incentive Compensation* (Section 5.7) • *Long-term Incentive Compensation* (Section 5.8) • *Dilution* (Section 5.9) • *Stock Option Awards* (Section 5.10) • *Stock Awards/Units* (Section 5.11) • *Perquisites* (Section 5.12) • *Employment Contracts, Severance and Change-of-Control Payments* (Section 5.13) • *Retirement Arrangements* (Section 5.14) • *Stock Ownership* (Section 5.15)	

VII. Attention to Information, Agenda & Strategy			
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Director Compensation			
Not covered.	A company's independent directors should be fairly and equally compensated for board service, although (i) lead independent directors and committee chairs may receive additional compensation and (ii) committee service fees may vary. If directors receive any additional compensation from the company that is not related to their service as a board member, such activity should be disclosed and explained. Companies should consider paying a substantial portion (e.g., for some companies, as much as 50% or more) of director compensation in stock, performance stock units or similar equity-like instruments. Companies also should consider requiring directors to retain a significant portion of their equity compensation for the duration of their tenure to further directors' economic alignment with the long-term performance of the company. (Section I.d)	... Policy issues related to director compensation are fundamentally different from executive compensation. Director compensation policies should accomplish the following goals: (1) attract highly qualified candidates, (2) retain highly qualified directors, (3) align directors' interests with those of the long-term owners of the corporation and (4) provide complete disclosure to shareowners regarding all components of director compensation including the philosophy behind the program and all forms of compensation. To accomplish these goals, director compensation should consist solely of a combination of cash retainer and equity-based compensation. The cornerstone of director compensation programs should be alignment of interests through the attainment of significant equity holdings in the company meaningful to each individual director…[E]quity obtained with an individual's own capital provides the best alignment of interests with other shareowners. However, compensation plans can provide supplemental means of obtaining long-term equity holdings through equity compensation, long-term holding requirements and ownership requirements. Companies should have flexibility within certain broad policy parameters to design and implement director compensation plans that suit their unique circumstances. To support this flexibility, investors must have complete and clear disclosure of both the philosophy behind the compensation plan as well as the actual compensation awarded under the plan. Without full disclosure, it is difficult to earn investors' confidence and support for director and executive compensation plans. Although non-employee director compensation is generally immaterial to a company's bottom line and small relative to executive pay, director compensation is an important piece of a company's governance. Because director pay is set by the board and has inherent conflicts of interest, care must be taken to ensure there is no appearance of impropriety. Companies should pay particular attention to managing these conflicts. (Section 6.1) …[D]irectors should own, after a reasonable period of time, a meaningful position in the company's common stock…The stock subject to the ownership requirements should not be pledged or otherwise encumbered… (Section 5.15a) Ownership requirements [for directors] should be at least three to five times annual compensation.	The [nominating/corporate governance] committee also may oversee the compensation of the board if the compensation committee does not do so, or the two committees may share this responsibility. (p. 18) The compensation committee may also be responsible, either alone or together with the nominating/corporate governance committee, for establishing director compensation programs, practices and policies. (p. 19) The amount and composition of the compensation paid to a company's nonemployee directors should be carefully considered by the board with the oversight of the appropriate board committee. Director compensation typically consists of a mix of cash and equity. The cash portion of director compensation should be paid in the form of an annual retainer, rather than through meeting fees, to reflect the fact that board service is an ongoing commitment. Equity compensation helps align the interests of directors with those of the corporation's shareholders but should be provided only through shareholder-approved plans that include meaningful and effective limitations. Further, equity compensation arrangements should be carefully designed to avoid unintended incentives such as an emphasis on short-term market value changes. Due to the potential for conflicts of interest and the duty of directors to represent the interests of all shareholders, directors or director nominees should not be a party to any compensation-related arrangements with any third party relating to their candidacy or service as a director of the company, other than those arrangements that relate to reimbursement for expenses in connection with candidacy as a director. (p. 21)

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		(Section 6.4b) Equity-based compensation can be an important component of director compensation. These tools are perhaps best suited to instill optimal long-term perspective and alignment of interests with shareowners. To accomplish this objective, director compensation should contain an ownership requirement or incentive and minimum holding period requirements… (Section 6.4) Companies should have the flexibility to set and adjust the split between equity-based and cash compensation as appropriate for their circumstances. The rationale for the ratio used is an important element of disclosures related to the overall philosophy of director compensation and should be disclosed. (Section 6.4d) Directors should be required to repay compensation to the company in the event of malfeasance or a breach of fiduciary duty involving the director. (Section 6.10) *See also provisions relating to:* • *Role of the Compensation Committee in Director Compensation* (Section 6.2) • *Retainer* (Section 6.3) • *Equity-based Compensation* (Section 6.4) • *Performance-based Compensation* (Section 6.5) • *Perquisites* (Section 6.6) • *Repricing and Exchange Programs* (Section 6.7) • *Employment Contracts, Severance and Change-of-control Payments* (Section 6.8) • *Retirement Arrangements* (Section 6.9)	

VIII. Protection Against Board Entrenchment			
NACD Key Agreed Principles	**Commonsense Principles of Corporate Governance**	**CII Policies**	**BRT Principles of Corporate Governance**
Governance structures and practices should encourage the board to refresh itself. **(Principle VIII)**			
Director Tenure, Term Limits, Mandatory Retirement, Changes in Job Responsibility and Board Succession Planning			
The board needs to ensure that it is positioned to change and evolve with the needs of the company. This requires that directorship never be viewed as a sinecure. Some boards rely on age limits and/or term limits to assist in moving directors off the board. Some boards also require directors to offer their resignation upon a significant change in job responsibility. These mechanisms do not substitute for evaluating the contributions of individual directors in the context of re-nomination determinations and, in appropriate circumstances, determining not to re-nominate based on the evolving needs of the company or underperformance by the director. (Commentary to Principle VIII)	It is essential that a company attract and retain strong, experienced and knowledgeable board members. Some boards have rules around maximum length of service and mandatory retirement age for directors; others have such rules but permit exceptions; and still others have no such rules at all. Whatever the case, companies should clearly articulate their approach on term limits and retirement age. And insofar as a board permits exceptions, the board should explain (ordinarily in the company's proxy statement) why a particular exception was warranted in the context of the board's assessment of its performance and composition. Board refreshment should always be considered in order to ensure that the board's skill set and perspectives remain sufficiently current and broad in dealing with fast-changing business dynamics. But the importance of fresh thinking and new perspectives should be tempered with the understanding that age and experience often bring wisdom, judgment and knowledge. (Section 1.f)	…Boards have an obligation to consider all relevant facts and circumstances to determine whether a director should be considered independent. These considerations include the director's years of service on the board. Extended periods of service may adversely impact a director's ability to bring an objective perspective to the boardroom. (Section 7.1) 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… (Section 2.8a)	Directors with a range of tenures can contribute to the effectiveness of a board. Recent additions to the board may provide new perspectives, while directors who have served for a number of years bring experience, continuity, institutional knowledge, and insight into the company's business and industry. (p. 12) The [nominating/corporate governance] committee should review annually…an identification of qualifications and attributes that may be valuable in the future based on, among other things, the current directors' skill sets, the company's strategic plans and anticipated director exits. (pp. 16-17) The [nominating/corporate governance] committee, together with the board, should actively conduct succession planning for the board of directors. The committee should proactively identify director candidates by canvassing a variety of sources for potential candidates and retaining search firms. (p. 17) The committee should consider whether procedures such as mandatory retirement ages or term limits are appropriate. Other practices, such as a robust director evaluation process, may make these tenure limits unnecessary, but they may still serve as useful tools for ensuring board engagement and maintaining diversity and freshness of thought. Many boards also require that directors who change their primary employment tender their resignation so that the board may consider the desirability of their continued service in light of their changed circumstances. (p. 17)
Board Self-Evaluations			
In addition, the board and its committees should conduct self-evaluations periodically in the interest of continual self-improvement. Such self-evaluations do not need to be unduly complicated, but should provide an opportunity for the board and its committees to reflect and should culminate in a significant discussion about areas for further effort and improvement. Board policies regarding the conduct of evaluations should be disclosed. (Commentary to Principle VIII)	Boards should have a robust process to evaluate themselves on a regular basis, led by the non-executive chair, lead independent director or appropriate committee chair. The board should have the fortitude to replace ineffective directors. (Section I.g) Depending on the circumstances, a lead independent director's responsibilities may include… Guiding the annual board self-assessment… (Section III.c)	Boards should review their own performance periodically. That evaluation should include a review of the performance and qualifications of any director who received "against" votes from a significant number of shareowners or for whom a significant number of shareowners withheld votes. (Section 2.8c) ...The board should periodically assess whether directors feel they have sufficient information to make well-informed decisions and reasonable access to management on matters relevant to shareowner	In connection with renomination of a current director, the nominating/corporate governance committee should review the director's background, perspective, skills and experience; assess the director's contributions to the board; consider the director's tenure; and evaluate the director's continued value to the company in light of current and future needs. Some boards may undertake these steps as part of the annual nomination process, while others may use a director evaluation process. (p. 17)

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		value. For ease of implementation, such assessment may be incorporated into existing director surveys. (Section 2.12a) Shareowners should have meaningful opportunities to…suggest processes and criteria for director selection and evaluation. (Section 1.5) …Other roles of the lead independent director should include…leading the board/director evaluation process. (Section 2.4)	The board should have an effective mechanism for evaluating its performance on a continuing basis. Meaningful board evaluation requires an assessment of the effectiveness of the full board, the operations of board committees and the contributions of individual directors on an annual basis. The results of these evaluations should be reported to the full board, and there should be follow-up on any issues and concerns that emerge from the evaluations. The board, under the leadership of the nominating/corporate governance committee, should periodically consider what method or combination of methods will result in a meaningful assessment of the board and its committees. Common methods include written questionnaires; group discussions led by a designated director, employee or outside facilitator (often with the aid of written questions); and individual interviews. (p. 22)
Shareholder Rights and Takeover Defenses			
As fiduciaries, boards need the ability to negotiate regarding takeover approaches, and anti-takeover defenses are important in providing negotiating leverage. At the same, time boards should understand that many shareholders view anti-takeover devices as unduly protective of the status quo. Boards should give careful consideration to whether anti-takeover devices are in the best long-term interests of the company. If the board adopts an anti-takeover measure, it should take special care to communicate to shareholders the reasons why, in its considered viewpoint, the measure is in the best interests of the company, and it may wish to consider providing shareholders with the opportunity to ratify within a reasonable time frame. (Commentary to Principle VIII)	Dual class voting is not best practice. If a company has dual class voting, which sometimes is intended to protect the company from short-term behavior, the company should consider having specific sunset provisions based upon time or a triggering event, which eliminate dual class voting. In addition, all shareholders should be treated equally in any corporate transaction. (Section III.b) Written consent and special meeting provisions can be important mechanisms for shareholder action. Where they are adopted, there should be a reasonable minimum amount of outstanding shares required in order to prevent a small minority of shareholders from being able to abuse the rights or waste corporate time and resources. (Section III.c)	All directors should be elected annually. Boards should not be classified (staggered). (Section 2.1) Corporations should not adopt so-called “continuing director” provisions (also known as “dead-hand” or “no-hand” provisions, which are most commonly seen in connection with a potential change in control of the company) that allow board actions to be taken only by: (1) those continuing directors who were also in office when a specified event took place or (2) a combination of continuing directors plus new directors who are approved by such continuing directors. (Section 2.10) A majority vote of common shares outstanding should be required to approve…Poison pills; Abridging or limiting the rights of common shares to: (1) vote on the election or removal of directors or the timing or length of their term of office or (2) nominate directors or propose other action to be voted on by shareowners or (3) call special meetings of shareowners or take action by written consent or change the procedure for fixing the record date for such action… (Section 3.6) Shareowners should be allowed to vote on unrelated issues separately. Individual voting issues (particularly those amending a company’s charter), bylaws or anti-takeover provisions should not be bundled. (Section 3.8) Shareowners should have the right to call special meetings. (Section 4.2)	*Not covered.*

IX. Shareholder Input in Director Selection			
NACD Key Agreed Principles	**Commonsense Principles of Corporate Governance**	**CII Policies**	**BRT Principles of Corporate Governance**
Governance structures and practices should be designed to encourage meaningful shareholder involvement in the selection of directors. **(Principle IX)**			
Majority Voting in Uncontested Director Elections			
Voting procedures for director elections should be designed to promote accountability to shareholders by providing shareholders a meaningful ability to elect or decline to elect directors in uncontested elections. Companies should adopt majority voting through appropriate provisions in articles of incorporation or bylaws (to the extent consistent with state law). In an uncontested election, a candidate who fails to win a majority of the votes cast should be required to tender his or her resignation, and the nominating/ governance committee should recommend to the board whether to accept or reject the resignation, depending on the circumstances. (Any board decision not to accept the resignation of a director who has failed to receive a majority of the votes cast should be carefully thought out, and the explanation for such decision should be fully disclosed to shareholders.) In contested elections, directors should be elected by plurality voting. (Commentary to Principle IX)	Directors should be elected by a majority of the votes cast "for" and "against/withhold" (i.e., abstentions and non-votes should not be counted for this purpose). (Section I.b)	Directors in uncontested elections should be elected by a majority of the votes cast. In contested elections, plurality voting should apply. An election is contested when there are more director candidates than there are available board seats. To facilitate the shareholder voting franchise, the opposing sides engaged in a contested election should utilize a proxy card naming all management-nominees and all shareholder-proponent nominees, providing every nominee equal prominence on the proxy card. Directors who fail to receive the support of a majority of votes cast in an uncontested election should step down from the board and not be reappointed. A modest transition period may be appropriate under certain circumstances, such as for directors keeping the company in compliance with legal or listing standards. But any director who does not receive the majority of votes cast should leave the board as soon as practicable. (Section 2.2) Boards should review their own performance periodically. That evaluation should include a review of the performance and qualifications of any director who received "against" votes from a significant number of shareowners or for whom a significant number of shareowners withheld votes. (Section 2.8c)	Directors should be elected by a majority vote for terms that are consistent with long-term value creation. Boards should adopt a resignation policy under which a director who does not receive a majority vote tenders his or her resignation to the board for its consideration. Although the ultimate decision whether to accept or reject the resignation will rest with the board, the board and its nominating/corporate governance committee should think critically about the reasons why the director did not receive a majority vote and whether or not the director should continue to serve. Among other things, they should consider whether the vote resulted from concerns about a policy issue affecting the board as a whole or concerns specific to the individual director and the basis for those concerns. (p. 12)
Director Candidate Recommendations			
Shareholders should have meaningful opportunities to recommend candidates for nomination to the board. The nominating/governance committee should disclose a process for considering shareholders' recommendations. Particular attention should be paid to a process for obtaining the views of long-term shareholders who hold a significant number of shares. (Commentary to Principle IX)	Long-term shareholders should recommend potential directors if they know the individuals well and believe they would be additive to the board. (Section I.c)	Shareowners should have...meaningful opportunities to suggest or nominate director candidates and to suggest processes and criteria for director selection and evaluation. (Section 1.5) ...Boards should establish clear procedures to encourage and consider board nomination suggestions from long-term shareowners. The board should respond positively to shareowner requests seeking to discuss incumbent and potential directors. (Section 2.8a)	Shareholders invested in the long-term success of the company should have a meaningful opportunity to nominate directors and to recommend director candidates for nomination by the [nominating/corporate governance] committee, which may include proxy access if shareholder support is broad based and the board concludes this access is in the best interests of the company and its shareholders. (p. 17)

IX. Shareholder Input in Director Selection			
NACD Key Agreed Principles	**Commonsense Principles of Corporate Governance**	**CII Policies**	**BRT Principles of Corporate Governance**
Advance Notice Bylaws and Proxy Access			
Not covered.	Many public companies and asset managers have recently reviewed their approach to proxy access. Others have not yet undertaken such a review or may have one under way. Among the larger market capitalization companies that have adopted proxy access provisions, generally a shareholder (or group of up to 20 shareholders) who has continuously held a minimum of 3% of the company's outstanding shares for three years is eligible to include on the company's proxy statement nominees for a minimum of 20% (and, in some cases, 25%) of the company's board seats. Generally, only shares in which the shareholder has full, unhedged economic interest count toward satisfaction of the ownership/holding period requirements. A higher threshold of ownership (e.g., 5%) often has been adopted for smaller market capitalization companies (e.g., less than $2 billion). (Section III.a)	Advance notice bylaws, holding requirements, disclosure rules and any other company imposed regulations on the ability of shareowners to solicit proxies beyond those required by law should not be so onerous as to deny sufficient time, limit the pool of eligible candidates, or otherwise make it impractical for shareowners to submit nominations or proposals and distribute supporting proxy materials. (Section 3.4) Companies should provide access to management proxy materials for a long-term investor or group of long-term investors owning in aggregate at least three 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. (Section 3.2)	Shareholders invested in the long-term success of the company should have a meaningful opportunity to nominate directors and to recommend director candidates for nomination by the committee, which may include proxy access if shareholder support is broad based and the board concludes this access is in the best interests of the company and its shareholders. (p.17)

X. Shareholder Communications			
NACD Key Agreed Principles	**Commonsense Principles of Corporate Governance**	**CII Policies**	**BRT Principles of Corporate Governance**
Governance structures and practices should be designed to encourage communication with shareholders. **(Principle X)** Shareholders have a legitimate interest in the governance of their companies. The fundamental role of shareholders in corporate governance is to elect directors capable of directing management in the best interests of the company and its shareholders. Receptivity to shareholder communications on topics relevant to board quality and accountability may prove beneficial in helping to improve mutual understanding while avoiding needless confrontation. (Commentary to Principle X)	Asset managers, on behalf of their clients, are significant owners of public companies, and, therefore, often are in a position to influence the corporate governance practices of those companies. Asset managers should exercise their voting rights thoughtfully and act in what they believe to be the long-term economic interests of their clients. (Section VIII) Asset managers should devote sufficient time and resources to evaluate matters presented for shareholder vote in the context of long-term value creation… (Section VIII.a) Asset managers, on behalf of their clients, should evaluate the performance of boards of directors, including thorough consideration of the following: • To the extent directors are speaking directly with shareholders, the directors' (i) knowledge of their company's corporate governance and policies and (ii) interest in understanding the key concerns of the company's shareholders; • The board's focus on a thoughtful, long-term strategic plan and on performance against that plan. (Section VIII.c)	Shareowners should have meaningful ability to participate in the major fundamental decisions that affect corporate viability, and meaningful opportunities to suggest or nominate director candidates and to suggest processes and criteria for director selection and evaluation. (Section 1.5) … General members of venture capital, buyout and other private equity funds should encourage companies in which they invest to adopt long-term corporate governance provisions that are consistent with the Council's policies. (Section 1.7)	Shareholders invest in a corporation by buying its stock and receive economic benefits in return. Shareholders are not involved in the day-to-day management of business operations, but they have the right to elect representatives (directors) and to receive information material to investment and voting decisions. Shareholders should expect corporate boards and managers to act as long-term stewards of their investment in the corporation. They also should expect that the board and management will be responsive to issues and concerns that are of widespread interest to long-term shareholders and affect the company's long-term value. Corporations are for-profit enterprises that are designed to provide sustainable long-term value to all shareholders. Accordingly, shareholders should not expect to use the public companies in which they invest as platforms for the advancement of their personal agendas or for the promotion of general political or social causes. Some shareholders may seek a voice in the company's strategic direction and decision-making — areas that traditionally were squarely within the realm of the board and management. Shareholders who seek this influence should recognize that this type of empowerment necessarily involves the assumption of a degree of responsibility for the goal of long-term value creation for the company and all of its shareholders. (p. 6) The nominating/ corporate governance committee and the board should know who the company's major shareholders are and understand their positions on significant issues relevant to the company. (p. 25) Shareholders are not a uniform group, and their interests may be diverse. Although boards should consider the views of shareholders, the duty of the board is to act in what it believes to be the long-term best interests of the company and all its shareholders. The views of certain shareholders are one important factor that the board evaluates in making decisions, but the board must exercise its own independent judgment. Once the board reaches a decision, the company should consider how best to communicate the board's decision to shareholders. (p. 26)

X. Shareholder Communications			
NACD Key Agreed Principles	**Commonsense Principles of Corporate Governance**	**CII Policies**	**BRT Principles of Corporate Governance**
Shareholder Proposals and Proxy Proposals Generally			
The board should carefully consider critical non-binding proxy proposals that attract significant support from shareholders. The board should take special care to ensure that it fully understands the issue and should communicate both with the proponent and the shareholders at large regarding the board's thinking on the matter. Such communication can be had through the proxy statement, annual report, annual meeting, and other meetings and correspondence with the proponent and other shareholders (subject to compliance with Reg FD). (Commentary to Principle X)	Over the course of the year, the agenda should include and focus on the following items, among others…Shareholder proposals and key shareholder concerns… (Section II.b)	Boards should take actions recommended in shareowner proposals that receive a majority of votes cast for and against. If shareowner approval is required for the action, the board should seek a binding vote on the action at the next shareowner meeting. (Section 2.6a) Advance notice bylaws, holding requirements, disclosure rules and any other company imposed regulations on the ability of shareowners to solicit proxies beyond those required by law should not be so onerous as to deny sufficient time, limit the pool of eligible candidates, or otherwise make it impractical for shareowners to submit nominations or proposals and distribute supporting proxy materials. (Section 3.4) Audit committee charters should provide for annual shareowner votes on the board's choice of independent, external auditor. Such provisions should state that if the board's selection fails to achieve the support of a majority of the for-and-against votes cast, the audit committee should: (1) take the shareowners' views into consideration and reconsider its choice of auditor and (2) solicit the views of major shareowners to determine why broad levels of shareowner support were not achieved. (Section 2.13f) All companies should provide annually for advisory shareowner votes on the compensation of senior executives. (Section 5.2) Shareowners should ratify all employment contracts, side letters or other agreements providing for severance, change-in-control or other special payments to executives exceeding 2.99 times average annual salary plus annual bonus for the previous three years. (Section 5.13f)	The federal proxy rules require public companies to include qualified shareholder proposals in their proxy statements. Shareholders should not use the shareholder proposal process as a platform to pursue social or political agendas that are largely unrelated and/or immaterial to the company's business, even if permitted by the proxy rules. Further, a company's proxy statement is not always the best place to address even legitimate shareholder concerns. Shareholders with concerns about particular issues should seek to engage in a dialogue with the company before submitting a shareholder proposal. If a shareholder submits a proposal, the company's board or its nominating/corporate governance committee should oversee the company's response. The board should consider issues raised by shareholder proposals that receive substantial support from other shareholders and should communicate its response to all shareholders. (pp. 26-27) Companies should conduct shareholder outreach efforts where appropriate to explain the bases for the board's recommendations on the matters that are submitted to a vote of shareholders. (p. 26)
Shareholder Engagement			
Boards should also consider reaching out and developing stronger relationships with investors through candid and open dialogue. In particular, boards should consider ways to engage large long-term shareholders in dialogue about corporate governance issues and long-term strategy issues, recognizing that the board's fiduciary duties with respect to these issues mandate that the board exercise its own judgment. Board communications with shareholders on these issues should involve one or more independent	Robust communication of a board's thinking to the company's shareholders is important. There are multiple ways of going about it. For example, companies may wish to designate certain directors – as and when appropriate and in coordination with management – to communicate directly with shareholders on governance and key shareholder issues, such as CEO compensation. Directors who communicate directly with shareholders ideally will be experienced in such matters. (Section II.a) Directors should speak with the media about the company only if authorized by the board and in	Directors should respond to communications from shareowners and should seek shareowner views on important governance, management and performance matters. To accomplish this goal, all companies should establish board-shareowner communications policies. Such policies should disclose the ground rules by which directors will meet with shareowners. The policies should also include detailed contact information for at least one independent director (but preferably for the independent board chair and/or the independent lead director and the independent chairs of the	The board and management should engage with long-term shareholders on issues and concerns that are of widespread interest to them and that affect the company's long-term value creation. Shareholders that engage with the board and management in a manner that may affect corporate decisionmaking or strategies are encouraged to disclose appropriate identifying information and to assume some accountability for the long-term interests of the company and its shareholders as a whole. As part of this responsibility, shareholders should recognize that the board must continually

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members of the board—usually the board chair, the lead director, or the appropriate committee chairs. In most instances, the CEO or other members of management should also participate. The board should establish processes for communications to ensure that any communications with shareholders are authorized by the board. (Commentary to Principle X)	accordance with company policy. (Section II.a) In addition, the CEO should actively engage on corporate governance and key shareholder issues (other than the CEO's own compensation) when meeting with shareholders. (Section II.a) Depending on the circumstances, a lead independent director's responsibilities may include…Insofar as the company's board wishes to communicate directly with shareholders, engaging (or overseeing the board's process for engaging) with those shareholders… (Section III.c) …Asset managers should actively engage, as appropriate, based on the issues, with the management and/or board of the company, both to convey the asset manager's point of view and to understand the company's perspective. Asset managers should give due consideration to the company's rationale for its positions, including its perspective on certain governance issues where the company might take a novel or unconventional approach. (Section VIII.a) Given their importance to long-term investment success, proxy voting and corporate governance activities should receive appropriate senior-level oversight by the asset manager. (Section VIII.b) An asset manager's ultimate decision makers on proxy issues important to long-term value creation should have access to the company, its management and, in some circumstances, the company's board. Similarly, a company, its management and board should have access to an asset manager's ultimate decision makers on those issues. (Section VIII.d) Asset managers should raise critical issues to companies (and vice versa) as early as possible in a constructive and proactive way. Building trust between the shareholders and the company is a healthy objective. (Section VIII.e)	audit, compensation and nominating committees). Companies should also establish mechanisms by which shareowners with non-trivial concerns can communicate directly with all directors. Policies requiring that all director communication go through a member of the management team should be avoided unless they are for record-keeping purposes. In such cases, procedures documenting receipt and delivery of the request to the board and its response must be maintained and made available to shareowners upon request. Directors should have access to all communications. Boards should determine whether outside counsel should be present at meetings with shareowners to monitor compliance with disclosure rules.... (Section 2.6b) [Compensation] committee members should be available to respond directly to questions about executive compensation; the chair of the committee should take the lead… (Section 5.5f)	weigh both short-term and long-term uses of capital when determining how to allocate it in a way that is most beneficial to shareholders and to building long-term value. (Guiding Principle 7, p. 3) The [nominating/corporate governance] committee may oversee the company's and management's shareholder engagement efforts, periodically review the company's engagement practices, and provide to senior management feedback and suggestions for improvement. The committee and the full board should understand the company's efforts to communicate with shareholders and receive regular briefings on such communications. (p. 18) Regular shareholder outreach and ongoing dialogue are critical to developing and maintaining effective investor relations, understanding the views of shareholders, and helping shareholders understand the plans and views of the board and management. (p. 25) Members of senior management are the principal spokespersons for the company and play an important role in shareholder engagement. This role includes serving as the main points of contact for shareholders on issues where management is in the best position to have a dialogue with shareholders. (p. 25) When appropriate and in consultation with the CEO, directors should be equipped to play a part from time to time in the dialogue with shareholders on topics involving the company's pursuit of long-term value creation and the company's governance. Communications with shareholders are subject to applicable regulations (such as Regulation Fair Disclosure) and company policies on confidentiality and disclosure of information. These regulations and policies, however, should not impede shareholder engagement. Direct communication between directors and shareholders should be coordinated through — and with the knowledge of — the board chair, the lead independent director, and/or the nominating/corporate governance committee or its chair. (pp. 25-26) Companies should engage with long-term shareholders in a manner consistent with the respective roles of the board, management and shareholders. Companies should maintain effective protocols for shareholder communications with directors and for directors to respond in a timely manner to issues and concerns that are of

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			widespread interest to long-term shareholders. (p. 26) Other key functions of the lead director include…being available for engagement with long-term shareholders. (p. 13)
Shareholder Feedback on Executive Compensation			
Executive compensation is an issue of particular concern for many shareholders. The board and the compensation committee should consider ways for shareholders to communicate their views and concerns regarding executive compensation, and should take these views and concerns into account, again recognizing that ultimately the board as fiduciary must make compensation decisions. Some boards may wish to consider seeking advisory shareholder votes on executive compensation, while some boards may explore other means of obtaining shareholder viewpoints. (Commentary to Principle X)	Companies should clearly articulate their compensation plans to shareholders. While companies should not, in the design of their compensation plans, feel constrained by the preferences of their competitors or the models of proxy advisors, they should be prepared to articulate how their approach links compensation to performance and aligns the interests of management and shareholders over the long term. If a company has well-designed compensation plans and clearly explains its rationale for those plans, shareholders should consider giving the company latitude in connection with individual annual compensation decisions. (Section VII.e)	All companies should provide annually for advisory shareowner votes on the compensation of senior executives. (Section 5.2) Current listing standards require shareowner approval of equity-based compensation plans and material amendments to plans (with limited exceptions). The Council strongly supports this concept and advocates that companies adopt conservative interpretations of approval requirements when confronted with choices. (For example, this may include material amendments to the plan.) (Section 5.4)	Equity compensation helps align the interests of directors with those of the corporation's shareholders but should be provided only through shareholder-approved plans that include meaningful and effective limitations. (p. 21)
Shareholder Meetings, Voting Powers and Practices			
The board should also consider ways to enhance the communication opportunity provided by the annual meeting, taking into account shareholders' expense and convenience when selecting the time, location, and mode of meetings (i.e. in-person meetings, meetings via electronic communication, or both). All directors should attend the annual meeting, and shareholders should have the opportunity to ask questions, subject to appropriate procedural rules (for example, those designed to ensure that a variety of shareholders can be heard from in the limited time available). (Commentary to Principle X)	Asset managers may rely on a variety of information sources to support their evaluation and decision-making processes. While data and recommendations from proxy advisors may form pieces of the information mosaic on which asset managers rely in their analysis, ultimately, their votes should be based on independent application of their own voting guidelines and policies. (Section VIII.f) Asset managers should make public their proxy voting process and voting guidelines and have clear engagement protocols and procedures. (Section VIII.g) Asset managers should consider sharing their issues and concerns (including, as appropriate, voting intentions and rationales therefor) with the company (especially where they oppose the board's recommendations) in order to facilitate a robust dialogue if they believe that doing so is in the best interests of their clients. (Section VIII.h)	…All directors should attend the annual shareowners' meetings and be available, when requested by the chair, to answer shareowner questions. During the annual general meeting, shareowners should have the right to ask questions, both orally and in writing. Directors should provide answers or discuss the matters raised, regardless of whether the questions were submitted in advance. While reasonable time limits for questions are acceptable, the board should not ignore a question because it comes from a shareowner who holds a smaller number of shares or who has not held those shares for a certain length of time. (Section 2.6b) Corporations should make shareowners' expense and convenience primary criteria when selecting the time and location of shareowner meetings. Appropriate notice of shareowner meetings, including notice concerning any change in meeting date, time, place or shareowner action, should be given to shareowners in a manner and within time frames that will ensure that shareowners have a reasonable opportunity to exercise their franchise. (Section 4.1) To promote the ability of shareowners to make informed decisions regarding whether to recall loaned shares: (1) shareowner meeting record dates should be disclosed as far in advance of the record date as possible, and (2) proxy statements should be	Directors should be expected to attend the annual meeting of shareholders, absent unusual circumstances. Companies should consider ways to broaden shareholder access to the annual meeting, including webcasts, if requested by shareholders. (p. 26) While some shareholders may use tools such as third-party analyses and recommendations in making voting decisions, these tools should not be a substitute for individualized decision-making that considers the facts and circumstances of each company. Companies should conduct shareholder outreach efforts where appropriate to explain the bases for the board's recommendations on the matters that are submitted to a vote of shareholders. (p. 26)

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		disclosed before the record date passes whenever possible. (Section 4.3) A company should broadly and publicly disclose in a timely manner the final results of votes cast at annual and special meetings of shareowners. Whenever possible, preliminary results should be announced at the annual or special meeting of shareowners. (Section 4.4) Polls should remain open at shareowner meetings until all agenda items have been discussed and shareowners have had an opportunity to ask and receive answers to questions concerning them. (Section 4.5) Companies should not adjourn a meeting for the purpose of soliciting more votes to enable management to prevail on a voting item. A meeting should only be extended for compelling reasons such as vote fraud, problems with the voting process or lack of a quorum. (Section 4.6) Companies should hold shareowner meetings by remote communication (so-called "virtual" meetings) only as a supplement to traditional in-person shareowner meetings, not as a substitute. Companies incorporating virtual technology into their shareowner meeting should use it as a tool for broadening, not limiting, shareowner meeting participation. With this objective in mind, a virtual option, if used, should facilitate the opportunity for remote attendees to participate in the meeting to the same degree as in-person attendees. (Section 4.7) [A]ll directors should attend the annual shareowners' meeting and be available, when requested by the chair, to respond directly to oral or written questions from shareowners. (Section 4.8) A shareowners' right to vote is inviolate and should not be abridged. (Section 3.1) Each share of common stock should have one vote. Corporations should not have classes of common stock with disparate voting rights. Authorized, unissued preferred shares that have voting rights to be set by the board should not be issued without shareowner approval. (Section 3.3) All proxy votes should be confidential, with ballots counted by independent tabulators. Confidentiality should be automatic, permanent and apply to all	

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		ballot items. Rules and practices concerning the casting, counting and verifying of shareowner votes should be clearly disclosed. (Section 3.5) A majority vote of common shares outstanding should be sufficient to amend company bylaws or take other action that requires or receives a shareowner vote. Supermajority votes should not be required. A majority vote of common shares outstanding should be required to approve: • Major corporate decisions concerning the sale or pledge of corporate assets that would have a material effect on shareowner value. Such a transaction will automatically be deemed to have a material effect if the value of the assets exceeds 10 percent of the assets of the company and its subsidiaries on a consolidated basis; • The corporation's acquisition of five percent or more of its common shares at above-market prices other than by tender offer to all shareowners; • Poison pills; • Abridging or limiting the rights of common shares to: (1) vote on the election or removal of directors or the timing or length of their term of office or (2) nominate directors or propose other action to be voted on by shareowners or (3) call special meetings of shareowners or take action by written consent or change the procedure for fixing the record date for such action; and • Issuing debt to a degree that would excessively leverage the company and imperil its long-term viability. (Section 3.6) Uninstructed broker votes and abstentions should be counted only for purposes of a quorum. (Section 3.7) Shareowners should be allowed to vote on unrelated issues separately. Individual voting issues (particularly those amending a company's charter), bylaws or anti-takeover provisions should not be bundled. (Section 3.8)	