



OFFICE OF  
STATE TREASURER  
DENISE L. NAPIER

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# NEWS

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## **Nappier Appointed to National Task Force Formed to Improve Shareholder-Director Communication, Help Restore Investor Confidence**

*Treasurer also urges SEC to permit shareholders to nominate directors, says corporate boards should follow through on majority votes of shareholders*

Connecticut State Treasurer Denise L. Nappier has been named to a national task force being formed to pursue corporate governance reforms in the wake continuing corporate governance scandals. The joint Task Force, being formed by the **Council of Institutional Investors** (CII) and the **National Association of Corporate Directors** (NACD) will specifically focus on improving communication between shareholders and members of corporate boards.

The Council is an association of about 130 public, labor and corporate pension funds that has been working for better corporate governance since the 1980s. The NACD is the premier educational, publishing and consulting organization in board leadership and the only membership association for boards, directors, director-candidates and board advisors.

The **Task Force on Improving Director-Shareholder Communication** will investigate the current barriers to director-shareholder communication and to see how some companies and directors have overcome them. It will collect examples of successful strategies employed by companies or shareholders, and issue recommendations or "best practices" based on their findings. Boards and shareholders alike stand to benefit from the initiative, which was proposed by the Council and enthusiastically welcomed by the NACD.

Nappier, a leading institutional investor activist on corporate governance issues, said "much more needs to be done to restore investor confidence and integrity in our markets. This task force will tackle some of the issues at the core of the debate, and recommend tangible steps to set the industry on the right path to earn back the confidence of the investing public."

### **CALLING FOR SHAREHOLDER NOMINATIONS OF DIRECTORS, BOARD ACTION ON MAJORITY VOTES**

Serving her second term as Connecticut Treasurer and principal fiduciary of the \$17 billion Connecticut Retirement Plans and Trust Funds, Nappier has also joined a number of institutional investors in urging Securities and Exchange Commission Chairman William Donaldson to permit shareholders to vote on whether they should be allowed to nominate individuals to corporate boards of directors.

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Currently, a slate of directors is proposed by the company for shareholders vote. A number of shareholder proposals submitted to companies this year would ask the board of directors to take action to change the company's by-laws to allow a shareholder or a group of shareholders to nominate a candidate for election to the corporate board in the future. Preliminarily, the SEC has indicated that the companies are not obligated to permit shareholders to even vote on the issue. In a letter to Donaldson, the institutional investors said such action by the SEC would "raise further questions about the Commission's commitment to expanding the rights of shareholders and facilitating tools they can use to protect their investments."

In addition, Nappier has joined with a number of public and union pension funds in stepping up efforts urging companies to follow through on majority votes of their shareholders. They are urging institutional investors to withhold their votes in support of directors who fail to take action on shareholder proposals that are supported by majority votes cast for two consecutive years or by a majority of the outstanding shares for one year.

At present, corporate leaders are generally not obligated to follow the wishes of a majority of their shareholders. Statistics compiled by the Council of Institutional Investors reveals that in the five-year period 1998 to 2002, shareholder proposals won majority votes at 190 companies, some in five consecutive years. Only 29 companies, however, adopted or indicated that they had planned to adopt the reforms that shareholders sponsored and approved.

"Reforms in this area of corporate board practice are long overdue. It is time that the long-term shareowners of publicly traded companies, demand accountability of the boards of directors we elect," Nappier and her colleagues said in a joint letter to institutional investors.

#### **TASK FORCE MEMBERS DRAWN FROM CORPORATE BOARDS, INSTITUTIONAL INVESTORS**

Nappier said that formation of the new Task Force demonstrates that there is increasing interest in corporate governance reforms in the business community, and cooperative efforts to achieve change are encouraging.

"The battle to restore investor confidence must be fought on many fronts, and as institutional investors continue to press for reform, it is essential that we work in concert with corporate directors to achieve results both in the board room and on the bottom line," Nappier said.

In the past, most corporations have argued that shareholders should take their issues to management representatives, who have the time and expertise to deal with them. However, given the heightened interest in corporate governance, many companies are now looking at ways to increase accessibility to directors. Another catalyst for change is the New York Stock Exchange's proposed rule relating to communication. It would require that companies disclose a method for concerned parties to communicate directly with either a designated "presiding" non-management director or with the non-management directors as a group.

"As owners of the companies, shareholders want to express their views directly to the board and have them listened to," said Sarah A.B. Teslik, executive director of the Council. "Now, shareholders generally have no input into selecting director nominees, no meaningful choice in their election, and no real way to exchange views with them, so it's not surprising if many shareholders feel they aren't truly represented in the boardroom."

"Boards face restrictions in communicating with shareholders, and shareholders are frustrated by what they see as a wall between them and their elected representatives, the directors," noted Roger W. Raber, NACD CEO and president. "Our director members are interested in an equitable solution where appropriate communication can take place in the best interest of all stakeholders."

The new task force will be co-chaired by Peter M. Gilbert, chief investment officer of the Pennsylvania State Employees' Retirement System, and Warren L. Batts of Chicago, a long-time CEO and corporate director. The group includes 10 members selected by the Council and 10 by the NACD. Significantly, several of the Council's nominees are corporate directors as well as institutional investors and several of the NACD directors are or have been shareholder advocates.

In addition to Treasurer Nappier, the Task force members nominated by the Council are: **Jack Ehnes**, CEO, California State Teachers' Retirement System; **Peter M. Gilbert**, chief investment officer, Pennsylvania State Employees' Retirement System, and co-chair of the Council of Institutional Investors; **Henry A. McKinnell Jr.**, chair-CEO of Pfizer; director, Moody's, ExxonMobil, John Wiley & Sons, The Business Roundtable; **Richard H. Moore**, North Carolina state treasurer and sole trustee of the North Carolina Retirement Systems; **Jody B. Olson**, chair, Public Employee Retirement System of Idaho; of counsel, Hawley Troxell Ennis & Hawley, Boise, Idaho; former chair, Norco Windows; former VP, Trus Joist; **Damon A. Silvers**, associate general counsel, AFL-CIO; **Coleman Stipanovich**, executive director, Florida State Board of Administration; **William C. Thompson Jr.**, New York City comptroller and trustee of the New York City pension funds and **David S. Wakelin**, chair, Maine State Retirement System; partner, Wakelin, Hallock & O'Donovan LLP; director, Rufus Deering, United Publications.

Members nominated by the NACD include **Warren L. Batts**, Chicago, Ill. Retired CEO of Premark, Tupperware and Mead; director, Cooper Industries, Methode Electronics, three private firms;; **William George**, Minneapolis, Minn. Retired chair-CEO, Medtronic; director, Novartis, Goldman Sachs; **Judith Richards Hope**, Washington, D.C. Partner, Paul, Hastings, Janofsky & Walker; director, General Mills, Union Pacific, Thyssen-Krupp Budd; **Thomas Horton**, DeLand, Fla. President emeritus, American Management Association; board chair, Technahealth; director, The Commercial Bank (Ormond Beach, Fla.); and **Robert D. Kennedy**, Milford, CT. Chair, UCAR International; retired chair-CEO and current director, Union Carbide; director, Kmart, Lion Ore Mining International Ltd., Sunoco, Union Camp; member, advisory boards, The Blackstone Group, RFE Investment Partners, Sullivan Associates; past chairman, Chemical Manufacturers Association.

Also nominated by NACD are **Gwendolyn S. King**, Washington, D.C. President, Podium Prose; former U.S. Commissioner of Social Security; director, Countrywide Financial, Lockheed Martin, Marsh & McLennan, Monsanto, Pharmacia; **Richard H. Koppes**, Sacramento, Calif. Of counsel, Jones Day; director, Apria Healthcare Group, ICN Pharmaceuticals; former deputy executive director and general counsel, California Public Employees' Retirement System; **Thomas G. Plaskett**, Irving, Tex. Managing director, Fox Run Capital Associates; past chair, Probex, Greyhound; director, Smart & Final, Novell, RadioShack; **B. Kenneth West**, Chicago and New York. Retired chair-CEO, Harris Trust & Savings Bank; senior consultant for governance, TIAA-CREF; chair, NACD; director, Motorola; and **Ralph Whitworth**, San Diego, Calif. Principal, Relational Investors LLC; chair, Apria Healthcare Group; director, Mattel, Sirius Satellite Radio, Tektronix, Waste Management; co-founder, United Shareholders Association.

Also serving as Ex Officio members of the Task Force will be **Roger W. Raber**, NACD CEO & President; **Peter R. Gleason**, NACD chief operating officer; and **Sarah Teslik**, CII executive director.

Ehnes, Gilbert and Stipanovich are newly elected members of the Council's board of directors. Batts, George, Horton and King are members of the NACD Governing Board, which West chairs, and Koppes is on the NACD Advisory Board. The task force will receive guidance from an Advisory Board, which will include such governance figures as **Nell Minow**, shareholder activist and author; **James E. Heard**, CEO of Institutional Shareholder Services; **Ned Regan**, president of Baruch College and former New York State comptroller; and **Ted White**, director of corporate governance for the California Public Employees' Retirement System. The full list will be announced later.

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