

NACD Event Highlights

December 8, 2009 Breakfast Event

The Government's New Role in the Corporate Boardroom

On the day before the Treasury extended the TARP for an additional nine months, NACD New England members and their guests had the good fortune to hear from two key insiders on the new role the federal government may soon be playing in corporate boardrooms across America.

Highlighting NACD New England's December 8, 2009 Breakfast Event, Ron Logue, Chairman and CEO of State Street Corporation, and James Segel, Special Counsel to House Financial Services Committee Chairman Barney Frank, joined moderator Helen Frame Peters, Ph.D., professor of finance at Boston College, to share their insights on how the financial crisis has changed the federal government's relationship with Corporate America.

Jim Segel opened the session by commenting on the disconnect between Wall Street and the rest of the country. He described the financial regulatory reform package being drafted by Chairman Frank's committee at the time as the leading edge of a Congressional response to constituent anger at the government for bailing out the financial industry while Main Street remains mired in recession.

Proxy access and director independence were cited by Segel as key points in the financial services reform package currently in Chairman Frank's committee. Among the committee members' underlying goals, he said, is giving shareholders and potentially regulators a stronger voice in corporate decisions on executive compensation and risk management. He believes that Congress prefers having the SEC play the key financial services regulatory role, given current public sentiment toward both the Treasury and the Federal Reserve.

Concluding his opening remarks, Segel observed that members of Congress are generally not eager to involve the legislative branch in corporate governance and would prefer to leave boardroom issues to the SEC. However, given the public's outrage against both government and big business, he believes that Congress may have no choice but to consider new laws aimed at improving the quality of board decision-making. He expects Congress to continue working closely with the SEC on corporate governance issues in the near term, but holds open the possibility of Congressional hearings on corporate governance legislation some time in 2010.

Ron Logue began with a look back at his own experiences during the pivotal days in October 2008 when the Treasury and Congress created the TARP. State Street Corporation was one of the nine institutions that received TARP funds, and Logue shed light on the interactions between Federal Reserve Chairman Ben Bernanke, Treasury Secretary Hank Paulson and the leaders of America's largest financial institutions at a

time when the world economy was edging close to the abyss. He presented charts that highlighted the unprecedented changes in ownership, capitalization and market value that the financial services industry has experienced since September 2008.

The Treasury's decision to put the nation's major banks through stress tests early in 2009 was, in Logue's view, the critical first step in a healing process that is still unfolding. He cautioned not to expect the public's distrust of Wall Street and the financial industry to abate any time soon, and to be prepared for a period of greater government intervention in the boardrooms of companies of all sizes.

Logue observed that boards and management teams have become extremely risk-averse, tending to focus more on the potential downside threats than the upside opportunities in pending corporate initiatives. But he added that the relationships between federal government and business leaders are not as combative as the media coverage suggests, and that the dialogue these leaders are engaged in today is likely to have positive impacts on the economy's future course.

On another encouraging note, Logue said he believes that the financial meltdown has created a new generation of business leaders who, chastened by their experiences managing through a depression-like scenario this past year, may be better equipped than their predecessors to avoid the next bubble and move the economy forward on a more stable and sustainable basis. He advised corporate directors to insist on more open and transparent board processes, to ask the toughest questions, and to take the time necessary to understand the most challenging issues in executing their governance responsibilities.

The panelists' remarks were followed by a lively question-and-answer session. Moderator Peters kicked off the questions by asking whether the public anger directed toward Wall Street extends beyond the banks to money management firms, many of which are based in Boston. Audience members followed with questions on a variety of issues ranging from the potential for a return to Glass-Steagall style separation of commercial and investment banking to the prospects for bills currently in Congress that would require every corporate board to establish a risk management committee.

The December 8th NACD New England Breakfast Event adjourned with two reminders. Only a short time remains for submitting nominations for the Fourth Annual Director of the Year Awards Program. The next Breakfast Event, *From Compliance to Excellence: A More In-Depth Look at Board Evaluations*, is scheduled for Tuesday, January 12, 2010, at the Newton Marriott Hotel.

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