

NACD New England Chapter Event Highlights

Breakfast Event – September 16, 2011

Corporate Governance in the Spotlight:

A Conversation with Jay Hooley, CEO of State Street Corporation

Event Overview

Life on the board of State Street Corporation is more demanding than it used to be. Evolving federal regulations and a plethora of emerging risks have conspired to create a “new normal” that makes the task of strategic planning more crucial and challenging than ever before. At the NACD New England Chapter’s September 16, 2011 Breakfast Event, State Street’s chief executive officer joined one of the company’s directors, as well as a prominent corporate attorney, to paint an insider’s picture of the new governance landscape at one of New England’s largest companies

Keynote Speaker and Panelists

Introducing the podium guests and moderating the discussion was NACD New England Chapter President **Bill Earon**, founder and managing director of Coastal Capital Advisors, LLC, a private equity and board-consulting firm that provides equity, financing and consulting services to the media and entertainment industry.

Providing the audience with an inside perspective on corporate governance at one of New England’s leading companies was keynote speaker **Jay Hooley**, president and chief executive officer of State Street Corporation. Since joining State Street in 1986, Hooley has held a number of diverse leadership positions with increasing responsibility. In addition to his leadership position at State Street, he serves as a director of Boston Financial Data Services and on the boards of several nonprofit organizations.

Hooley also represents the Federal Reserve Bank of Boston as First District member of the Federal Advisory Council and is a member of the Financial Services Forum, a nonpartisan financial and economic policy organization comprised of the CEOs of 18 of the largest financial services institutions doing business in the United States.

Participating in the panel discussion following Jay Hooley’s remarks were **Ronald L. Skates**, former president and chief executive officer of Data General Corporation, and **R. Robert Popeo**, chairman of the law firm of Mintz Levin. Ronald Skates is a director of Courier Corp, where he chairs the Audit Committee. He also serves on the boards of Raytheon Company, where he chairs the Audit Committee and is a member of the Management Development and Compensation, Public Affairs and Executive Committees.

As well, Skates is a director of State Street Corporation, where he chairs the Audit Committee and is a member of the Risk and Capital and Nominating and Governance Committees. Bob Popeo, who practices in Mintz Levin’s Litigation Section and previously served as the firm’s chairman, serves on numerous nonprofit boards. He has been recognized by the *National Law Journal* as one of the country’s

top 100 lawyers for nine consecutive years, and has been featured in *The American Lawyer* as one of the country's "heavy hitters."

Keynote Remarks

Sharing insights from his experience leading State Street Corporation's board, Jay Hooley focused on three key areas: regulatory reform; risk oversight and management; and strategic planning and "operating in a new normal."

Hooley discussed the Dodd-Frank financial reform law's impact on operations as State Street. More than 200 State Street employees are now working on compliance with new Dodd-Frank regulations, he said, and the company's designation under the law as a "systemically important" financial institution has dramatically affected its capital allocation strategy. He also described the new challenges faced by the State Street board in recruiting new directors and board succession planning under the Sarbanes-Oxley law.

State Street established a Risk and Capital Committee in 2009, Hooley said, highlighting how an increasing amount of the board's work is taking place at the committee level. He pointed to the Audit Committee as an example of increased director responsibility in a more challenging regulatory environment, and discussed the interplay between the Risk and Capital and Nominating and Governance Committees with regard to executive compensation.

Hooley went on to discuss how an uncertain economy and climate of financial regulatory reform have combined to create a "new normal" for leadership at State Street Corporation and other major U.S. financial institutions. Succeeding in this new environment requires boards to think about strategic planning as an ongoing process – and not the "once every three years exercise" it often was in the past. Hooley explained that State Street's board typically executes its day-to-day governance responsibilities at the committee level, which allows the full board to focus its efforts on strategy.

Asked by moderator Earon, "what keeps you up at night?" Hooley said his top concern, despite State Street's innate strengths and favorable market position, is "getting the strategy right." Another concern, he said, is attracting outstanding talent to the company at both the board and management levels. A third key issue, he said, is managing tail risk in an increasingly complex and competitive business environment.

Panel Discussion Highlights

Moderator Bill Earon kicked off the panel discussion by asking Jay Hooley to expand on the changes in governance at State Street in the new Dodd-Frank regulatory environment. Hooley described the special demands now placed on the 20 large financial companies, State Street among them, now deemed too big to fail. Pointing to the 20 days he has spent in Washington, D.C., this past year, he described the current climate on Capitol Hill as "hugely frustrating."

He remarked that government officials generally understand the issues facing the world economy at this time, but that "political infighting gets in the way of good decision making." Bob Popeo reinforced

Hooley's comment, saying "the United States has become one of the most unfriendly places in the world to do business." He said that "paralysis in Washington, along with regulatory costs and delays, are paralyzing the nation's economy."

Moderator Earon then asked Jay Hooley to amplify his comments on the growing level of committee-level activity for directors at State Street. Hooley responded by describing recent work at both the Risk and Capital and Audit Committees. Each committee meets roughly 10 times a year for five or six hours per meeting, he said, highlighting the highly detailed nature of the issues considered and acted upon by each committee.

Hooley re-emphasized the value of committees in handling work that is too narrowly focused to be effectively handled by the full board, commenting that delegating large amounts of responsibility to the directors who chair and serve on committees "requires a high degree of trust."

In response to moderator questions on board level strategic planning, Hooley, Skates and Popeo discussed some of the key strategic issues uniquely faced by financial services companies, and then went on to expand the discussion to smaller companies and those in other market sectors. They emphasized how unexpected events can suddenly transform daily operations risk into strategic risk, discussing board processes and best practices for rising to such challenges. Hooley explained his approach as chairman and CEO to ensure the State Street board is fully involved in, and supportive of, the company's strategic plan.

Questions and Answers

A final half hour of audience questions from the floor focused the discussion on topics ranging from the increasing professionalism demanded of directors to the new types of risk faced by Corporate America, chief among them risks related to IT systems integrity and cyber security.

Q: "How have you recently changed your board's approach to handling corporate strategy?"

A: Jay Hooley described how an executive strategy group comprised of 12 State Street leaders based in the United States, Europe and China regularly provides insights to directors. He cited these interactions as an example of several new governance processes at State Street that have led to a more global and professional approach to board decision making.

Q: "What steps are you taking to educate directors so the board is equipped to handle today's greater business complexity?"

A: The State Street board frequently allocates a full eight-hour meeting to doing a deep dive on a single product, Hooley said. Focusing on securities lending or derivatives, for example, the day features in-depth interaction with product leaders. In addition, State Street's board invites outside experts to speak on emerging issues, and directors are expected each year to make at least one multi-day visit to a State Street operation where they can experience the business at the hands-on level.

Q: "What are your suggestions for handling a situation where the CEO wants to take 'path A,' the Board wants to take 'path B,' and major shareholders want the company to take 'path C?'"

A: Hooley commented that, if a board is functioning well, disconnects of this type should be rare. Bob Popeo pointed to the board's responsibility to represent the interests of all shareholders. Ronald Skates commented on the importance of openness and transparency in board deliberations, pointing to the importance of distinguishing between the responsibilities of directors and those of management.

Q: "The governance community seems to be moving toward the concept of the "professional director" for whom board service is a full-time job. Does this model make sense?"

A: The panelists were unanimously skeptical about whether the professional director concept is feasible, given the value of having sitting CEOs and other senior executives of other firms serving on a company's board. There was a lively discussion about the increasing difficulty of recruiting such individuals to board service and how many boards are responding by raising the mandatory retirement age for directors.

Q: "In the area of risk management, how do you distinguish between the issues that go to the Risk Committee and those that go to the Audit Committee, and how do you ensure these issues are considered on an integrated basis?"

A: Jay Hooley took the lead in responding to this question by outlining in detail State Street's framework for risk analysis. He emphasized the importance of clearly defining and measuring risk, describing the five threats in the "risk framework" routinely examined by the board at State Street. The panelists went on to emphasize the growing exposure to cyber attacks, discussing the pros and cons of establishing board level IT Committees to focus on this type of threat.

Q: "How do you handle the challenge of communicating risk to non-management audiences such as corporate attorneys, auditors and shareholders?"

A: The panelist joined in a discussion about the practical limitations on full corporate transparency as well as the implications of financial disclosure rules such as Reg FD. Jay Hooley and Bob Popeo emphasized the value of publicly accessible investment conference presentations and quarterly earnings conference calls in allowing management flexibility in discussing risk.

Meeting Wrap-Up

NACD New England Chapter President Bill Earon closed the September 16th session by reminding everyone about the chapter's next breakfast event: "Strategy and Risk – Are They Aligned?" Scheduled for October 18, 2011, the event will be held at The Conference Center at Waltham Woods, Waltham.