



WHAT YOUR BOARD NEEDS TO KNOW ABOUT IT

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JAMES R. KALYVAS
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James R. Kalyvas is a partner with Foley & Lardner and chair of the firm's Information Technology & Outsourcing Practice. He is also a member of the Automotive and Energy Industry Teams. Mr. Kalyvas advises companies, public entities, and associations on all matters involving the use of IT, including structuring technology initiatives, vendor selection, negotiation, technology implementation, and enterprise management of technology assets. Mr. Kalyvas specializes in structuring and negotiating outsourcing transactions, ERP initiatives, and unique business partnering relationships. He has incorporated his experience in handling billions of dollars of technology transactions into the development of several proprietary tools relating to the effective management of the technology selection, negotiation, implementation, and management processes.

Mr. Kalyvas assists clients in developing "pay for performance" technology relationships that tie compensation to the achievement of meaningful and measurable business objectives. These strategies have been successfully applied in outsourcing; ERPs; and clinical, financial, CRM, manufacturing, and other critical system transactions.

Mr. Kalyvas has authored articles and books relating to software licensing and the negotiation of information systems. He is a frequent commentator and speaker on technology trends, enterprise information system strategies, outsourcing, and technology business partner relationships.

A graduate of the University of Michigan Law School (J.D., 1981) and Oakland University (B.A., 1977), Mr. Kalyvas was admitted to the California Bar in 1981 and also is admitted to practice before the Northern, Central and Southern Districts of California of the United States District Court. He is an active member of the Healthcare Information and Management Society.



ELLEN KOPLOW
EXECUTIVE VICE-PRESIDENT &
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Ellen Koplow is Executive Vice President and General Counsel, responsible for the overall management of the Legal and Compliance functions of TD Ameritrade and its subsidiaries, and has administrative oversight of the Internal Audit function. Ms Koplow also serves as Secretary of the Corporation.

Ms. Koplow joined the Company in May 1999 as Deputy General Counsel, was named acting General Counsel in 2000, and in June 2001, accepted the position of General Counsel. Prior to joining the Company, Ellen was Managing Principal of the Columbia, Maryland office of Miles & Stockbridge P.C. Koplow graduated cum laude from the University Of Baltimore School Of Law and has a B.A. from the University of Maryland. She was selected as one of Maryland's Top 100 Women by *The Daily Record* for the years of 1999 and 2006.



KEN PORRELLO
PRINCIPAL
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Ken Porrello is a Principal in Deloitte Consulting in Chicago. Ken has held a variety of leadership positions within Deloitte, including Regional Managing Director of Deloitte's Midwest Consulting practice, Managing Director of Deloitte's Chicago consulting practice, Director of Deloitte's North American Insurance practice and Regional Industry Lead for Deloitte's Financial Services practice in the Midwest. Ken has been a member of the firm for 19 years.

Ken is an active practitioner serving the Financial Services industry. Representative projects include finance transformation, market entry and product strategies, operations improvement, M&A due diligence and integration, strategic sourcing and large-scale technology initiatives. Ken is currently focusing his practice on IT strategy and operational effectiveness. Representative clients include ABN AMRO, Allstate Financial, multiple Blue Cross/Blue Shield plans, CNA Financial, ING, Kaiser Permanente, Northwestern Mutual, and Washington Mutual.

Prior to joining Deloitte, Ken worked for nine years in industry for Amoco Corporation and for CF Industries (Long Grove, IL) in finance, technology and strategic planning roles.

Ken is a graduate with honors of Northwestern University's McCormick School of Engineering and Kellogg Graduate School of Business. Ken is a recognized Fellow of the CEO Perspectives Program of the Kellogg program.

Ken has been published or his research work featured in over 100 publications and news shows, including *The Washington Post*, *U.S. News & World Report*, *The Financial Times*, *Optimize Magazine*, *Corporate Board Member*, and *Crain's Chicago Business*.

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The Board and
Information Technology
Perspectives on an Emerging Frontier

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Agenda

Ken Porrello

- Information Technology and the Business
- Overview of Deloitte Study on the Board and IT

Ellen Koplow

- Life on the Front Lines – the Opportunities and Realities of Board Engagement in IT

Jim Kalyvas

- Bringing it Together – What you can do differently next quarter

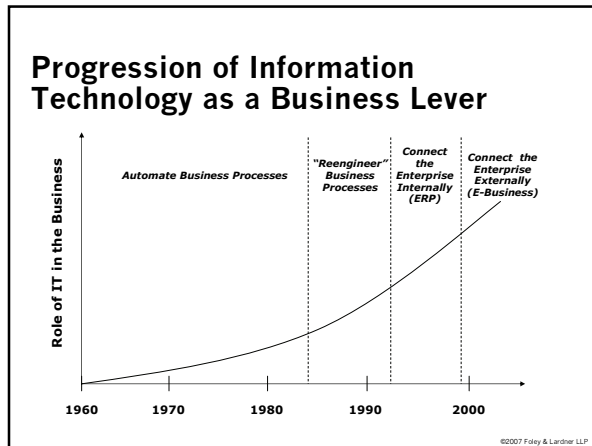
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Role of Technology in the Business

		Information and Technology's Strategic Value			
		LOW			HIGH
		Type 1: IT supports the business	Type 2: IT supports competitive advantage	Type 3: IT provides competitive advantage	Type 4: IT is the business
Role of IT		<ul style="list-style-type: none"> Need technology to operate the business, but the company functions if IT systems fail Timeliness and accuracy needs do not require heavy IT investment 	<ul style="list-style-type: none"> Strategy blends technology with other capital (PP&E, supply chain, distribution, etc.) for competitive advantage Key parts of the business depend on timely, accurate information 	<ul style="list-style-type: none"> IT is a competitive differentiator Timely, accurate information is often critical to business strategy 	<ul style="list-style-type: none"> Business and IT strategies are tightly integrated IT is explicit in the value proposition Timely, accurate information is mission critical
Examples		Manufacturer with "open-loop" supply chain	Manufacturer with integrated supply chain	Global express delivery service or on-line retailer	Provider of fund transfer engines or financial data products
		IT as commodity		IT as strategic differentiator	

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- ### Overview of Deloitte Study - Objectives
- Investigate how the role of information technology (IT) in a company affects their board's approach to IT matters
 - Document practices adopted by management and boards for governing IT
 - Develop recommendations for how the board and management can better govern IT
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Board Approaches to IT Governance

Interviews revealed patterns in the role of IT in the business and in the board's involvement with IT matters.

Engagement Level	Board activities
I—Ad Hoc Engagement	<ul style="list-style-type: none"> Board has little to no involvement in any aspect of IT strategy, alignment, value, or risk assessment Involved occasionally in review of major capital IT investments
II—Awareness	<ul style="list-style-type: none"> Board reviews IT matters on a regular basis and has a guiding hand in overseeing major IT investments Board interacts regularly with IT management
III—Frequent Engagement	<ul style="list-style-type: none"> General board reviews IT matters frequently IT alignment, risk, and value-related issues are closely scrutinized by the board Board interacts frequently with several levels of IT management Board often includes dedicated committee on IT matters
IV—Continual and Deep Engagement	<ul style="list-style-type: none"> Board includes multiple IT experts and has a dedicated technology committee Board interacts continually with IT management Board is intimate with IT alignment, value, and risk issues

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Board Foundations for IT Governance

Four “foundations” for the board's involvement in IT matters emerged in the interviews.*

Foundation	Description
Board Structure	<ul style="list-style-type: none"> Use of committee structure to enhance focus on IT Use of committee structure to “demote” IT as a general board matter
Allocation of Board Time	<ul style="list-style-type: none"> Frequency of IT as a board agenda item Breadth and depth of board briefings on IT matters
Board Composition	<ul style="list-style-type: none"> Presence (or lack) of members of the board with IT experience and knowledge
Board Interactions with IT Management	<ul style="list-style-type: none"> Frequency and intensity of participation of IT management in board meetings Frequency and intensity of interactions between board members and IT management outside formal board meetings (e.g., dinners, individual consultations, ad hoc briefings, etc.)

* Based on the work of Sage Partners, LLC.

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A “Foundations” Maturity Model: Progression of Board Involvement in IT

	Level I—Ad Hoc Engagement	Level II—Awareness	Level III—Frequent Engagement	Level IV—Continual and Deep Engagement
Board Structure	<ul style="list-style-type: none"> No formal recognition of board responsibility for technology oversight 	<ul style="list-style-type: none"> Oversight of technology delegated to the audit committee 	<ul style="list-style-type: none"> Technology policy and strategy are often directed by the board Board may include a technology committee 	<ul style="list-style-type: none"> Technology policy and strategy are directed at the board level Board has a dedicated technology committee
Allocation of Board Time to IT matters	<ul style="list-style-type: none"> IT has limited presence on the board agenda Annual board meeting topic 	<ul style="list-style-type: none"> IT is a semi-annual or annual discussion topic More frequent during heavy investment periods 	<ul style="list-style-type: none"> IT is an agenda item at every board meeting Frequent reviews of strategic IT initiatives 	<ul style="list-style-type: none"> IT is an agenda item at every board meeting Frequent reviews strategic IT initiatives
Board Composition	<ul style="list-style-type: none"> Limited if any technology knowledge among board members 	<ul style="list-style-type: none"> Limited if any technology knowledge among board members 	<ul style="list-style-type: none"> One or more technology-savvy directors. May have informal IT advisory board 	<ul style="list-style-type: none"> Multiple technology-savvy directors Board of IT advisors from industry and academia
Board Interactions with IT Mgmt	<ul style="list-style-type: none"> Limited if any board/CIO interaction 	<ul style="list-style-type: none"> Interactions at the CIO level only Limited board visibility into the IT team CIO (only) is included in succession plan 	<ul style="list-style-type: none"> CIO attends all board meetings. Frequent ad hoc contact with the CIO Senior IT mgmt is included in succession plan 	<ul style="list-style-type: none"> CIO attends all board meetings. Frequent ad hoc interaction between board and IT mgmt IT mgmt is visible to the board, included in succession plan

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Deloitte Study - Conclusions

- There is a high disparity in how much attention is paid to IT at the board level, which is not consistently explained by the role of IT in the business.
- Boards and management vary dramatically across organizations in their readiness to engage on IT governance matters. Again, this is not consistently explained by the role of IT in the business.
- Boards are most active in overseeing the alignment of IT with business priorities and in risk management.
- Board review of IT value is typically limited to approvals of major projects.

Significant opportunities exist for senior management and boards to improve their approach to addressing IT, without turning the board or its agenda upside-down.

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Realities of Today's Boardroom – Board Oversight of IT

- Balancing IT with the many other priorities impacting the board today
- Educating the board on IT in the enterprise
- “Triggers” for placing IT on the board agenda
 - Event- Outsourcing, ERP
 - Compliance- Disaster Recovery, Data Security
 - Risk- core system stability; project management
- Shaping the board's discussion
 - Venue: Audit Committee -- General Board Discussion
 - Leadership: From the Board...from Finance...from IT
 - Ongoing education - Background Materials

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Board IT Priorities in Addressing Technology

		Information and Technology's Strategic Value			
		LOW			HIGH
		Type 1: IT supports the business	Type 2: IT supports competitive advantage	Type 3: IT provides competitive advantage	Type 4: IT is the business
Priorities		<ul style="list-style-type: none"> Use technology to help business run more smoothly Ensure reliable support and ease of day-to-day operations at minimal cost 	<ul style="list-style-type: none"> Use technology to improve or support some key areas of the business Determine which areas would benefit from technology and improve/support those areas at minimal cost 	<ul style="list-style-type: none"> Use technology to improve or support many key areas of the business Select and use technology with goal of competing more effectively Manage IT-related investments and risks 	<ul style="list-style-type: none"> Lead industry through best use of technology Constantly seek to improve technology improve or maintain strategic position Manage large IT investments and risks
Address IT by		<ul style="list-style-type: none"> Ad hoc or regular audit review 	<ul style="list-style-type: none"> Regular audit review May be reviewed as part of business function 	<ul style="list-style-type: none"> Frequent audit review, or agenda item when needed for project implementation 	<ul style="list-style-type: none"> Regular agenda item IT Committee
		IT as commodity		IT as strategic differentiator	

Board IT Priorities

Board's oversight of IT will change based on

- Competing priorities
- The current "Strategic Value" of IT to the company
- Legal and regulatory requirements associated with IT issues
- Technology literacy/comfort of board/committees
- Best vehicle for board and corporate culture
- Board may address IT as part of a larger and more business-oriented objective, as a separate item, or, most commonly, as a hybrid

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"Triggers" for placing IT on the board's agenda

- Traditional triggers
 - A crisis
 - natural disaster takes out a data center
 - Y2K
 - competitive crisis)
 - An event
 - Outsourcing
 - core system replacement
- Regulatory Triggers
 - Data protection
 - Financial controls
- Less obvious triggers
 - Focused assessment of IT component in key business initiatives
 - Monitoring/questioning of general impact of IT on operations/competitiveness

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“Triggers” for placing IT on the board’s agenda

- Recommendations
 - Understand that the role of board and its committees will change based on the companies current needs- understand triggers impacting your company
 - Improving technology literacy on board /committees – board orientation
 - Create processes that enable IT to be addressed in context and more holistically by the board, rather than as a series of one off events

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Bringing it Together – What you can do Differently Next Quarter

- Determining the Board’s role
 - Assess both the state of the business and the role of IT in the business
 - No one size fits all
 - Changing emphasis on Board’s role between monitoring and advising
- Consider immediate change with regard to key events
 - Outsourcing
 - ERP
- Plan the Board’s role
 - Agree on an approach for this year
 - how often on the agenda
 - what topics
 - who leads from management
 - how IT integrates with the overall agenda

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Questions

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