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DIRECTORS
INSTITUTE

NDI Executive Exchange

What's on Your Mind?

Share and Discuss the Corporate Governance Issues Impacting Your Business

CFO's Interaction With the Board

Thursday, November 17, 2011
10:30 a.m. – 11:45 a.m.

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2011 NDI Executive Exchange Roundtable Panel CFO's Interaction With Board

Panelists: Wayne Burks, John Sykes, James Williams, Todd Pfister, Marty Traber

Time: 10:30 a.m. – 11:45 a.m.

- I. CFO as Information Source for Board Members
 - A. Honesty is critical
 - B. Company's interests must be paramount
 - C. Importance of open lines of communication
 - D. Seek to avoid surprises
 - E. Importance of balancing relationship with CEO
 - F. Importance of CFO participation in Board meetings (including involving other financial team members)

- II. CFO's Reporting/Communication Function
 - A. Benefits/Detriments of "over disclosure" vs. surface level disclosure to Board
 - B. Need for consistency in format, detail, etc. of presentations to Board
 - C. Importance of tracking action items
 - D. Need to communicate relevant developments to Board members on a timely basis
 - E. Need for openness and directness with Board and CEO
 - F. Importance of copying CEO on e-mails to Board members
 - G. Importance of distributing materials well in advance of Board meetings
 - H. Importance of focusing on actual results, financial forecasts, guidance and earnings at Board meetings
 - I. Importance of CFO managing Board expectations
 - J. Need to prepare CEO for Board meetings
 - K. Need to balance discussion of strategic business issues and discussion of compliance issues

III. CFO Involvement with Board Committees

A. Audit Committee involvement

- (1) Compliance with Section 404 requirements relating to documenting, testing and assessing internal controls
- (2) Addressing risk management issues, especially in light of recent proxy disclosure requirements
- (3) Focus on disclosure/committee reporting
- (4) Work with Audit Committee on audit work approvals
- (5) Address underlying quality of earnings
- (6) Importance of regular meetings between CFO and Audit Committee

B. Compensation Committee involvement

- (1) Work related to compensation benchmarking
- (2) Work related to equity issuances

IV. CFO Relationship with Audit Committee Chair

A. Importance of one-on-one meetings prior to Audit Committee meetings

B. Discuss audit/financial results

C. Address state of business/principal risks faced by Company

D. Benefits for both CFO and Audit Committee Chair

- (1) Share advice
- (2) Preview likely Board questions
- (3) Provide Audit Committee Chair with better understanding in order to better inform other Audit Committee members and prepare meeting questions

V. Impact of SOX, Dodd-Frank Act, Proxy Statement Rule Changes, and NYSE and Nasdaq Initiatives

A. Creation of “culture of oversight and compliance”

- (1) Internal controls over financial reporting (SOX Section 404)

- (a) Management’s internal control report
 - (b) Auditor report
 - B. Adoption of disclosure controls and procedures
 - (1) CEO/CFO certifications
 - C. Director independence requirements
 - D. New executive compensation disclosure requirements
 - (1) Compensation risk assessment
 - (2) Pay vs. performance
 - (3) Internal pay equity
 - E. Other disclosure requirements
 - (1) SOX Section 407 disclosure regarding Audit Committee “financial expert”, director independence, etc.
 - (2) SOX Section 406 disclosure regarding codes of ethics
 - (3) Board disclosures, including diversity policy, Board leadership structure and Board role in risk oversight
- VI. Changing Nature of CFO/Board Relationships
 - A. Becoming a closer relationship due to legal requirements and liability concerns?
 - B. Balancing of CFO roles
 - (1) CFO as key participant in senior management team
 - (2) CFO as key check and balance (“conscience of the Company”)
 - C. Increasing focus of CFO on strategy and operating issues
 - D. Continually evolving nature of relationships among auditors, CFO and Board
 - (1) More independent channels of communication
 - (2) SOX Section 204 required communications of independent auditors to Audit Committee
 - (3) SOX Section 303 prohibition on improper influence on conduct of audits

- E. Impact of corporate governance and other regulatory developments on CFO/Board relations
 - F. CFOs as directors?
 - G. Impact of recent proxy disclosure requirements relating to Board role in risk management
 - H. Appropriate Board role in CFO selection process
 - I. Increasing importance of CFO succession planning
- VII. CFO Handling of Difficult Internal Political Scenarios
- A. Board member asks about CEO behavior
 - B. Disagreement with CEO over disclosing particular issues to the Board
 - C. Other challenging scenarios/situations?
- VIII. Some Suggested CFO Takeaways
- A. Work with Audit Committee and other Board members to guide enterprise risk management (ERM)
 - B. Develop personal relationships with Board members, as familiarity breeds confidence
 - C. Expose Board to entire financial team
 - D. Own Company's results and view business from owner's perspective
 - E. Strive to go beyond regulatory requirements
 - F. Provide leadership in formalizing Company's risk management program
 - G. Set the appropriate tone for encouraging participation in risk management
 - H. Seek to continually educate Board members and increase their participation in risk management
 - I. Focus more on strategy and operating issues
 - J. Serve as bridge to investors