



THE CONFERENCE BOARD

**Remarks by Jonathan Spector, CEO
The Conference Board
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Good morning. I appreciate the invitation to be here today.

For over 90 years, The Conference Board has served as an independent business and research organization, dedicated to helping our member companies deal with the most challenging issues of our time.

We're not partisan, we don't take positions on legislation, and we don't lobby on behalf of our members. We're a tax-exempt, not-for-profit with a unique mission: to provide the world's leading organizations with the knowledge they need to improve their performance, and to help them better serve society.

We meet here this morning at a critical time. A new era in corporate America is beginning, and all of us have important responsibilities. Today I will call on each of you to help lead your organizations to take two important actions.

In the past 18 months our economy and our financial system have gone through historic levels of stress and turbulence. During this period, many Americans have simply lost trust in their corporate institutions. Some business leaders argue that this loss of trust is limited to big financial institutions. I disagree. This trust "gap" affects all of us, no matter our industry, and no matter our location.

Perhaps no issue has helped contribute more to this loss of trust than the issue of executive compensation.

The most important regulatory reform debate in generations has begun, and we all know that new regulation from Congress is coming. On the specific issue of executive compensation, last week the Federal Reserve and Treasury issued new proposals and determinations.

Yet, while the government has an important role to play in modernizing our regulatory frameworks, trust in our corporate institutions can only be fully restored if private sector institutions themselves take meaningful action.

In this climate, you are probably asking yourselves how you can define "meaningful action." I'd like to offer a very simple answer: When deciding how to address the issue of executive compensation, take the steps that will do the most to restore trust and confidence.

This was the starting point for the work of The Conference Board Task Force on Executive Compensation. Comprised of sitting CEOs, corporate directors, shareholders, academics and experts in compensation, governance and law, our task force was chaired by Rajiv Gupta and Robert Denham, both former CEOs and active Directors themselves.

On September 21st, the Task Force laid out a roadmap for companies to take action, by following five broad principles:

The first principle is to be very clear about how your compensation supports your long-term strategy, properly incorporates risk, and pays only after performance has actually been delivered. It's evident in hindsight that many companies did not assess risks properly; nor did they wait long enough to determine whether the performance they were paying for had been actually delivered – and there were disastrous consequences as a result.

Second, make sure the compensation you are delivering is affordable over the long term, and that you are getting your money's worth from your compensation programs. You should hold yourselves to a high standard – you must be able to convince skeptical shareholders that you could not have achieved the same performance with a lower compensation structure.

Third, stop using compensation vehicles that conflict with fundamental notions of fairness and pay for performance, unless special justification is present. Excessive golden parachutes, multi-year guaranteed contracts with overly generous severance arrangements, gross-ups of parachute payments or perquisites, and golden coffins are all pay practices that aren't related to performance. And by their very nature they damage trust. Institutions that continue to pursue such practices should have very good reasons for doing so – reasons they have disclosed to, and discussed at length with, their shareholders.

Fourth, proactively demonstrate credible board oversight of executive compensation. The members of the comp committee must be fluent in the strategy of the company; the committee must control the engagement with key advisors; and advisory fees must be disclosed.

And, finally, make sure your compensation programs are understandable and effectively communicated to shareholders – and that when questions arise, boards and shareholders are able to engage in meaningful dialogue. An advisory vote on executive pay is not itself a “dialogue” – but a tool to encourage a dialogue between shareholders and directors when dialogue is needed.

These five principles developed by the Task Force reflect today's business environment. Compared to earlier business eras, they more clearly take into account risk and uncertainty. There is stronger emphasis on transparency and dialogue. And there is greater clarity on controversial practices.

Publicly endorsing and adopting the five Task Force principles should be the first step your organizations take. Each company that adds the weight of their voice – whether by endorsing our principles or similar ones – helps all of us rebuild the trust that has been lost. And each company that sits on the sidelines adds to the trust gap that we all face.

But adopting these five principles is not, in and of itself, enough. While we believe the principles can be applied to all companies, there's no realistic and effective “check the box” approach to implementing compensation programs. When it comes to implementation, one size does not fit all. Individual boards and compensation committees must be free to make choices that fit their own companies.

And so I come back to the second call to action for this group. You must visibly put these principles into practice. The details of your implementation will differ across companies. But the singular measure of success will be whether your actions have inspired greater trust and confidence in your company – and by extension, in all companies.

The American people need to see that we all understand and acknowledge that there were very real abuses in executive compensation – and they need to see that we are taking tangible action to help prevent abuses from happening again.

Many key companies have already endorsed the Task Force's work. We're pleased to say that SIFMA was one of the very first organizations to endorse these principles, and we think their leadership during this period demonstrates just how seriously the financial services industry takes this issue. I also want to thank NASDAQ, AFC Enterprises, AT&T, CALSTRS, Cisco Systems, Hewlett-Packard, and Tyco for being the first institutions to endorse these principles publicly.

Ladies and gentlemen, we must demonstrate leadership and help restore trust in our business institutions. It's important for business, and it is even more important for society.

I very much appreciate the opportunity to be here with you today, and I'm happy to address any questions you may have.