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CONTACT: Morgan Broman (202) 296-5860 x14
(cell) (703) 930-3419
morgan.broman@ced.org

CED RELEASES RECOMMENDATIONS FOR IMPROVING CORPORATE GOVERNANCE
Business-led group backs tighter auditing process, curbs on excessive
executive compensation, time for Sarbanes-Oxley to work

WASHINGTON, D.C., March 21, 2006 – Revelations of misconduct in some of America's leading corporations in recent years have seriously undermined confidence in U.S. businesses and in business leaders, warns the Committee for Economic Development (CED), a business-led public policy group. Today, CED released ***Private Enterprise, Public Trust: The State of Corporate America After Sarbanes-Oxley***, a policy statement that examines the state of corporate governance in the United States and offers practical recommendations for restoring public trust in business. The new CED statement was released at a luncheon forum that featured remarks from the Honorable Christopher Cox, Chairman, U.S. Securities and Exchange Commission (SEC).

“The high-profile corporate scandals of the past few years, coupled with numerous problems regarding financial statements, have shaken shareholders’ trust in many business leaders and their companies,” said Roderick M. Hills, CED’s Co-chair, and Chair of the CED Subcommittee on Corporate Governance. “It is imperative that we take concrete steps to restore the practices and processes that are the foundation of good business ethics. Specifically, I believe that the auditing process must reflect responsibility by company leaders, and not just a rigid adherence to accounting rules. The auditing process needs to be guided by an over-arching set of principles that guarantee that the CEO, Board of Directors, and other top company officials know that they are fully committed to providing a truly fair and clear presentation of the firm,” Mr. Hills continued. Roderick Hills is a former Chairman of the SEC and is currently a Partner at Hills, Stern and Morley.

Sarbanes-Oxley regulations and other new government-imposed rules, though beneficial on balance and deserving of time to become fully effective, are not sufficient to restore trust in business, notes the CED statement. CED recommends additional practical and effective changes -- in financial statements, executive compensation, selection of corporate boards, and other matters -- that do not require new government mandates.

“CED, as a public-policy organization in which current and retired business leaders play a prominent role, is concerned about the reality, as well as the appearance, of corporate impropriety,” said Charles E.M. Kolb, CED President. “We are unwavering advocates for the free market system, but we are just as firm in our belief that businesses and their leaders must earn the public’s trust. Perceptions that firms flout rules, behave unethically, and use deceptive business processes weaken confidence in, and support for, the free enterprise system,” continued Mr. Kolb.

CED’s recommendations include:

Making Audit Committees Autonomous and Vigorous

In order to accurately present a company’s position, the board of directors must have access to all pertinent data. This will occur only if a board’s audit committee is competent, independent, and establishes effective control over both the internal auditors and the independent outside auditors. The relationship between the audit committee of the board and the outside and internal auditors is crucial. The audit committee should exercise the same tone of control over the internal auditor as it does over the external auditor, extending to decisions of hiring, firing, and compensation.

Ensuring that Users Understand that Financial Information is Based on Judgments

Financial statements would be more useful if they were governed by fewer rules and displayed more of the judgment that lies behind estimated numbers. Stock analysts, the investing public, and regulators must recognize the inherently judgmental character of accounting statements and financial information. Ranges of values rather than precise numbers should be explained and understood as such. In addition, financial statements should be supplemented with non-financial indicators of value.

Giving Sarbanes-Oxley a Chance to Work

CED sees room to tailor the requirements imposed by Section 404 of Sarbanes-Oxley within the existing statute, and endorses the Public Company Accounting Oversight Board (PCAOB) and Securities and Exchange Commission (SEC) implementation guidance based on their evaluation of the first-year experience. The guidance, issued simultaneously by the two agencies in May 2005, should lower the costs and increase the value of Section 404 compliance. Moreover, CED does not recommend a broad exemption from Sarbanes-Oxley requirements for small-capitalization companies but nevertheless supports the objective of mitigating the costs to smaller companies.

Taming Excessive Executive Compensation

In CED's view, the disparity of income between top corporate executives and average employees is a cause for serious concern. The differentials that exist today too often reflect neither market conditions nor individual performance. The procedure for determining executive compensation has been broken at far too many of our larger corporations, and CED believes that the solution to excessive executive compensation must be regarded as a matter of *process and disclosure*, including: compensation committees must adopt measurable, specific, and genuinely challenging goals for the performance of their businesses, and judge management by them; the compensation process must be run by compensation committees composed of independent directors; the compensation committee should have direct authority over all terms of any management contract, including all forms of compensation; management should have a substantial equity interest in their company; and management should make a full, timely, and transparent disclosure to shareholders of its compensation.

Using Independent Nominating Committees to Select and Appraise Directors

A paradox of corporate stewardship is that, despite the principle that directors represent shareholders in the selection and retention of management, historically most directors have been selected by management. In our view, the best approach to building high-quality boards is to assign to truly independent nominating committees the responsibility for recommending new board candidates and for evaluating the performance of existing board members. The nominating committee should also have the responsibility of recommending committee assignments.

CED's policy statement addresses governmental and corporate policies that affect the behavior of publicly traded companies, as well as the confidence of investors in them. "We acknowledge at the outset that no laws or policies will ever be sufficient to end all corporate misbehavior - or, for that matter, misbehavior in any segment of public life. We are confident, however, that truly independent and inquisitive boards of directors will provide the best safeguard against corporate wrongdoing," said CED Co-Chair Roderick Hills.

Private Enterprise, Public Trust: The State of Corporate America After Sarbanes-Oxley and an executive summary of the recommendations can be found at www.ced.org

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CED is a non-profit, non-partisan organization of more than 200 business leaders and university presidents. Since 1942, its research and policy programs have addressed many of the nation's most pressing economic and social issues, including education reform, workforce competitiveness, campaign finance, health care, and global trade and finance. CED promotes policies to produce increased productivity and living standards, greater and more equal opportunity for every citizen, and an improved quality of life for all.