



Council Of Institutional Investors

Accomplishments 2001

As in past years, the Council devoted its time in 2001 to addressing investment issues of greatest importance to members. The most visible manifestations of these wide ranging efforts are the Council's semi-annual meetings at which experts speak on hot issues and the Council's regular newsletters and editorials discuss timely issues. But these represent a small fraction of the Council's activities.

To advance the members' views and protect members' investment interests, the Council regularly sends large numbers of letters to—and meets with—regulators, companies, politicians and others involved with investment issues. The Council's web-site, which is filled with a wealth of up-to-date information, attracts a lot of visits and has become a standard research tool for those in the profession. The Council's "blast e-mail" service, begun this year, supplements this information flow by allowing members to share information and seek expertise instantly on a range of investment, governance and litigation issues. The Council's current major project, converting to paperless files, will make a major leap forward in giving members access to precisely the information they need on any investment issue, without having to sort through the information overload in which issues of interest are too often buried.

The Council also continues to be a quiet leader pressing the causes of shareholder rights and good corporate governance. Staff interacts extensively with the Securities and Exchange Commission, the New York Stock Exchange, the National Association of Securities Dealers, the Financial Accounting Standards Board, the International Accounting Standards Board and individual companies and key legislative committees in Congress.

During 2001, the Council continued to press for greater shareholder oversight of and access to information on stock option plans, for reforms of the stock exchanges' listing standards and "broker may vote" rules and for companies to be more responsive to majority votes on shareholder proposals. The Council also continued to communicate with companies and investors regarding highly controversial corporate proposals.

LETTERS

Securities and Exchange Commission

- On January 5, the Council sent a letter to SEC Chairman Arthur Levitt commending his leadership regarding the disclosure and shareholder approval of stock-based compensation plans and encouraging the Commission to work with the exchanges to ensure meaningful changes to the listing standards.
- On Feb. 2 and twice in March, the Council wrote to David Martin, director of the SEC's division of corporation finance, criticizing the SEC staff's "no action" decisions allowing companies to exclude non-binding shareholder proposals addressing board and committee independence. The Council called the rulings a "distressing reversal of the staff's past position on the most basic and perhaps most important governance issue discussed today."
- On March 26, the Council sent a five-page comment letter regarding the Commission's proposal to require enhanced disclosure of the potential dilution of all stock-based compensation plans. The letter supported most of the proposal and offered some suggested improvements.
- On July 9, the Council sent a letter to David Martin regarding AT&T's proposals to bundle significant governance changes with spin-offs. The Council urged the Commission staff to closely review AT&T's preliminary proxy materials and other companies' proxy materials to ensure that shareholders in all cases are given the opportunity to vote separately on critical matters.
- On Oct. 16, the Council sent a letter to the SEC regarding the Commission's immediate approval—without public comment—of a three-month extension of the NYSE's pilot listing rule governing when shareholders may vote on stock option plans. The Council urged the commission and the division of market regulation to ensure that all future extensions be released for public comment before a staff decision is reached.

Stock Exchanges

- In early 2001, the Council led efforts to rally investors to respond to the Nasdaq stock market's release on its listing standard governing when shareholders must be allowed to vote on stock option plans. To assist members, the Council wrote and published an 18-page *Extra* discussing the issue in general and the Nasdaq request for comments in particular.
- On January 5, the Council sent an 11-page letter to the Nasdaq urging it to reassess and update its listing standards governing when shareholders must be given votes on stock option plans.
- On Oct. 18, the Council wrote to the NYSE to urge it to change its definition of what constitutes a "contested" vote and is, therefore, not eligible for broker votes. The Council recommended that the exchange change its interpretation to classify as "contested" any situations in which investors file definitive proxy materials with the Securities and Exchange Commission or which qualify as "exempt solicitations" under Rule 14a-2(b)(1) of the Securities Exchange Act of 1934.

Companies

- On May 17, the Council sent a letter to all directors of Wachovia urging them to carefully review the competing offers for Wachovia shareholders and criticizing certain features of Wachovia's deal with First Union, including certain lock-up provisions and amendments to the CEO's compensation package.
- On May 29, the Council sent a letter to the chairman and CEO of Staples criticizing the terms of its Staples.com recapitalization proposal and the board's decision to give one director an unprecedented leave of absence.
- On June 21, the Council sent a letter to directors of Lone Star Steakhouse & Saloon urging them to ensure that the company's legal responses to Mr. Adams' proxy contest were proportionate and appropriate, to monitor the ongoing litigation and to ensure that shareholders were given the opportunity to evaluate the candidates and select who should represent them. After the election was held, the Council again wrote the directors of Lone Star, asking them to 'make good' on their proxy campaign implied promises to destagger the board. The board subsequently promised to destagger the board (although it also increased its size).
- On July 10, the Council sent a letter to the chairman of AT&T detailing concerns over the board's response to Comcast's unsolicited buyout offer for AT&T's broadband operations, the company's decision to bundle a variety of corporate governance changes with proposed spin-offs and its proposed adoption of several shareholder-unfriendly governance changes.
- Throughout the year, the Council met or talked with chairmen, CEOs and/or directors of a number of companies involved in controversial transactions, including Wachovia, First Union and Staples, or contested elections, including Computer Associates and Lone Star Steakhouse & Saloon.
- In the summer and fall, the Council sent letters to more than 50 companies reporting majority votes on shareholder resolutions submitted in 2001, and staff tracked responses and posted company responses on our web page.
- In November, the Council wrote letters to a number of airline companies heavily affected by the September 11th terrorist attacks, urging them not to take actions in response to short-term situations that might harm long-term viability.

Capitol Hill

- On July 17, the Council sent a five-page letter to Sen. Paul Sarbanes (D-MD) emphasizing members' interest in the quality of the SEC commissioners and detailing some SEC-related issues of importance to the Council.
- Linda Scott, Director of Investor Affairs, New York State Comptroller's Office is a candidate for a commission seat with the SEC. Council staff coordinated members' support for Linda.

International Accounting Standards Board

- On Oct. 14, the Council sent a letter to the chairman of the International Accounting Standards Board encouraging the IASB to proceed with its review of the controversial topic of accounting for share-based payments and urging it to ignore pressure from parties with significant financial stakes in the debate. The letter explained that the Council's policies committee is in the process of reviewing and considering changes to, including the possible reversal of, the Council's position on the issue.

MEMBER SERVICES

- In early 2001, the Council activated a "blast e-mail" system that all Council members—general, sustaining and honorary—may use to share information and seek guidance on key issues.
- Throughout the year, the Council provided members with detailed analyses of a variety of SEC and self regulatory organization (SRO) proposals, including SRO listing standards regarding shareholder approval of option plans, SEC proposals regarding disclosure of stock option plans and rules governing how changes proposed by SROs are approved.
- The Council updated its "plain English" report on accounting for stock options, and at the request of the policies committee, staff surveyed general members for their views on whether the Council should reverse its policy advocating disclosure, but not expensing, of stock options.
- The Council continued providing members with beneficial information for the conduct of their funds and companies. We responded to members' telephone and e-mail queries with research and information on a wide-ranging list of topics, including compensating fund trustees, members' investment policies, investment manager contracts and fee arrangements, legal lists and other investment restrictions, funds with local preference guidelines for hiring managers and making investments, funds with defined contribution plans, strategic planning processes, and policies on investing in derivatives.

LITIGATION

- The *Peerless Systems* ruling—based on litigation primarily funded by the Council and filed by the State of Wisconsin Investment Board alleging that Peerless Systems deprived shareholders of their voting rights by adjourning the 1999 annual meeting without closing the polls on a proposal that shareholders voted down—had an impact when Citrix Systems decided to withdraw a proposal that narrowly passed in 2000 after the company extended the polls for 15 days. Outside counsel for Citrix called the *Peerless* opinion "a significant development in law in that it articulates the specific obligations on a company when it adjourns an annual meeting while leaving open a shareholder vote." Delaware Chancellor William B. Chandler III ruled in *Peerless* that companies are subject to a tougher standard of review regarding meeting adjournments.
- On Aug. 7, the Council sent a letter to the Ninth Circuit Court of Appeals supporting a request for reconsideration of the Ninth Circuit's "deliberate recklessness" scienter standard first enumerated in the Court's divided and controversial decision in *In re Silicon Graphics*.

- In December, Delaware's five Chancery Court judges extended an invitation to Council members to meet with them in Wilmington Delaware to discuss issues of concern. The Council is working to hold this meeting in conjunction with its June, 2002, Executive Committee meeting.

PUBLICATIONS

- As of November 30, 2001, the Council wrote and published 33 Alerts, totaling 144 pages, 3 Extras, totaling 36 pages, and 12 monthly newsletters.
- The Council published its third annual pension fund performance survey studying the asset allocation decisions and investment returns as of Dec. 31, 2000, of 60 public, corporate and labor fund Council members.
- The Council published its 11th annual Focus List, composed of 25 small-, mid- and large-cap companies.
- The Council wrote and published three primers: Shareholder Approval of Stock Option Plans, an updated Stock Option Accounting Booklet and an SEC Issues Briefing Booklet.
- The Council commissioned and released the 2001 Executive Compensation Heroes and Anti-Heroes list compiled by compensation professional Graef S. Crystal.

OTHER ACCOMPLISHMENTS

- The Council hired three new employees, Linda Baird, director of membership, Pat Baytops, administrative assistant for the Council Research Service, and Monty Ottwell, director of technology.
- The Council hosted two very successful semi-annual meetings, with attendance at the fall meeting reaching record levels.
- The Council organized two executive committee meetings to discuss issues to be presented at semi-annual business meetings of the Council of Institutional Investors.
- The Council organized a very successful fourth annual Council meeting with top SEC staffers and sponsored a special session with staff of the division of corporation finance.
- The Council analyzed key voting items at more than 400 of the S&P 500 companies.
- The Council alerted members regarding upcoming votes at the 59 companies reporting majority votes on shareholder resolutions sponsored in 2000.
- The Council significantly expanded its web page (www.cii.org) to include information on key Council initiatives and key corporate governance activities in 2001.

- The Council upgraded or is upgrading many of its computer capabilities, including:
 - The purchase, installation and configuration of an anti-virus email gateway to block email viruses.
 - The upgrading of its Email server to Exchange 2000.
 - The installation of Internet security and an acceleration server (fire wall and web caching for better internet security and performance) and the updating of all computers with the latest security patches.
 - The purchase and installation of Blackberry wireless email for staff.
 - The creation of a tracking database for office assets, including equipment and computers.
 - The implementing of a computer awareness tips program for staff to keep them technologically current.
- The Council is in the process of purchasing a document-management system to move to a paperless office and to allow for better management and rapid retrieval of documents, both by Council members and staff. When complete, members should be able to search Council publications and each other's publications by word, subject, author, date or recipient.
- The Council has researched and negotiated with vendors for a new phone system that will have voice mail. It will be purchased in 2002.
- The Council has conducted research to upgrade our database system for better and less expensive in-house preparation of Council publications.
- The Council collected information from public fund executives for a compensation survey. Members decided not to proceed to finalize the survey.
- The Council staff worked with the Council's policies committee to draft and recommend a number of refinements and additions to the Council's corporate governance policies. Changes approved by members included (a) adding language regarding corporate governance standards for venture capital, buyout and other private equity funds; and (b) supporting corporate governance initiatives that promote responsible business practices and good corporate citizenship. The policies committee also continues to work on a policy on stock option accounting, and on providing educational programs and materials to Council members on these and other new and controversial topics.
- The Council's directors committee held meetings and sponsored two successful presentations at the Council's fall 2001 meeting on the undertaking of proxy contests.
- The Council's database is continually updated throughout the year, resulting in the publication of the revised directory following the spring meeting.
- Council staff met at the Council offices with members, foreign visitors and others interested in Council subjects.
- The Council staff joined the YMCA to promote better health for employees.

- The Council handled a variety of administrative duties and accomplishments, including:
 - Accounting functions and financial audit preparation.
 - Updating member's RFP's and creating a new RFP index for members to use.
 - Updating members' proxy voting information, including preparation of a new directory of contact names.
 - Engaging in database and computer publication training.
 - Continually staying abreast of legal issues that affect non-profit corporation management (including ever changing employment law case law) and altering Council documents and practices to continue to have state-of-the-art compliance.
 - Engaging in an ongoing membership drive that works with individual potential members and existing members. This program successfully added numerous members in 2001.
 - Tracking of membership dues and other membership information.
 - Handling many (many) special requests from members.
 - Scheduling of appointments and travel arrangements, including substantial assistance to members who request assistance traveling to and from Council meetings.
 - Renegotiating the Council's lease, giving up the Council's conference room and a staff office to save money, and the resulting need to move staffers, repaint walls, move furniture, etc.
 - Maintaining office equipment and supplies.
 - Meeting preparation which involved planning, announcements, registration, hotel negotiations, bios for speakers, general and business meeting packets and coordinating of handouts, awards and speaker gifts.
 - Coordinating and preparing monthly officers' calls.
 - Continuing work on the new edition of the pension fund governance volumes.
 - Library maintenance.

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