Board Oversight: Core Recommendations from the National Association of Corporate Directors

The National Association of Corporate Directors (NACD) is an independent, not for profit organization dedicated exclusively to improving corporate board performance. In 2006, they identified recommendations to the SEC and NASDAQ to improve board performance in light of Sarbanes Oxley. These recommendations include the following:

1. Boards should be comprised of a substantial majority of "independent" directors. At a minimum, these directors should meet the definition of "independent director" as defined under relevant SRO standards, although boards may consider adopting even more stringent standards of independence. Furthermore, boards should formulate and adhere to clear conflict of interest policies applicable to all board members.
2. Boards should require that key committees--including but not limited to audit, compensation, and governance/nominating--be composed entirely of independent directors, and are free to hire independent advisors as necessary.
3. Each key committee should have a board-approved written charter detailing its duties. Audit committee duties, at a minimum, should include two key elements: a) oversight of the quality and integrity of financial reports and the process that produces them b) oversight of the management of risk. Compensation committee duties should include performance goals that align the pay of managers with the long-term interests of shareholders. Governance/nominating committee duties should include setting board and committee performance goals and nominating directors and committee members with the qualifications and time to meet these goals.
4. Boards should consider formally designating an independent director as chairperson or lead director. If they do not make such a designation, they should designate, regardless of title, an independent member to lead the board in its most critical functions, including setting board agendas with the CEO, evaluating CEO and board performance, holding executive sessions, and anticipating and responding to corporate crises.
5. Boards should regularly and formally evaluate the performance of the CEO, other senior managers, the board as a whole, and individual directors. Independent directors should control the methods and criteria for this evaluation.

6. Boards should review the adequacy of their companies' compliance and reporting systems at least annually. In particular, boards should ensure that management pays strict attention to ethical behavior and compliance with laws and regulations, approved auditing and accounting principles, and with internal governing documents. In addition to meeting the current requirements for disclosure of management compensation, boards should disclose the total value of each director's compensation, including the value of any stock options or grants awarded during the year.
7. Boards should adopt a policy of holding periodic sessions of independent directors only. These meetings should provide board and committee members the opportunity to react to management proposals and/or actions in an environment free from formal or informal constraints.
8. Audit committees should meet independently with both the internal and independent auditors.
9. Boards should be constructively engaged with management to ensure the appropriate development, execution, monitoring, and modification of their companies' strategies. The nature and extent of the board's involvement in strategy will depend on the particular circumstances of the company and the industry or industries in which it is operating.
10. Boards should provide new directors with a director orientation program to familiarize them with their companies' business, industry trends, and recommended governance practices. Boards should also ensure that directors are continually updated on these matters.

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