AUDIT COMMITTEE LEADERSHIP NETWORK
IN NORTH AMERICA
ViewPoints

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Improving public company disclosures

On January 14–15, 2016, members of the Audit Committee Leadership Network in North America (ACLN) met in New York for their 31st stand-alone meeting. Members addressed the issue of public company disclosures from two different perspectives:[1]

- Members discussed the investor perspective on disclosures, especially governance disclosures, with Glenn Booraem, Fund Treasurer at Vanguard Group; Drew Hambly, Executive Director of Corporate Governance at Morgan Stanley Investment Management; Zach Oleksiuk, Americas Head of Corporate Governance and Responsible Investment at BlackRock; and Ann Yerger, Executive Director, Center for Board Matters at EY and former Executive Director of the Council of Institutional Investors.
- Members discussed company innovation in disclosures, focusing on General Electric's (GE) proxy statement and 10-K in a session with Jan Hauser, Vice President - Controller and Chief Accounting Officer at GE; Christoph Pereira, Chief Corporate, Securities, and Finance Counsel at GE; and Chris Holmes, National Director of SEC Regulatory Matters at EY. For biographies of all the guests, see Appendices 1 and 2 on pages 12-14. For further information on the network, see "About this document," on page 10. For a full list of participants, see Appendix 3, on page 15.

Executive summary

In their discussions with investors and the guests from GE, ACLN members explored both the needs of investors in terms of disclosures and engagement and the challenges companies face in improving disclosures:

- **Institutional investors' perspectives on public company disclosures** *(page 2)*

  Institutional investors are a key constituency for company disclosures, and one of the areas that interest these investors is governance, including information about audit committees and information about board composition, board effectiveness, and evaluation of board performance. Formal disclosures, especially the proxy statement, are an important source of information, providing scalability of communications, but they may be supplemented by direct engagement with the company, including – when necessary – engagement with board members. Effective communication between investors and the company is vital in helping companies deal with activist investors and explain major initiatives such as share buy-back programs.

- **Innovation in public company reporting** *(page 6)*

  GE's initiatives to revamp its proxy statement and then its annual report were driven by the sparse usage of these documents by investors. By introducing more charts and graphs, direct communications from the board, layered content, and more detail in key areas, GE was able to benefit internal stakeholders as

[1] *ViewPoints* reflects the network's use of a modified version of the Chatham House Rule whereby names of members and their company affiliations are a matter of public record, but comments are not attributed to individuals or corporations. Italicized quotations reflect comments made in connection with the meeting by network members and other meeting participants. The guests agreed to speak on the record, but the views expressed by them are their own and do not necessarily reflect the views of their organizations.

well as investors and analysts. To achieve these changes, however, GE needed the support and approval of both internal and external players, including senior management, the audit committee and external auditor, the company's lawyers, and the Securities and Exchange Commission (SEC). It also needed the dedication of an inspired staff that was willing to work the many hours required to implement the changes.

For a list of discussion questions for audit committees, see Appendix 4 on page 16.

Institutional investors' perspectives on public company disclosures

The term "institutional investor" includes mutual funds, asset managers, pension funds, insurance companies, and others. Institutional investors are a heterogeneous group: different types of organizations have different strategies, objectives, structures, and forms of governance.[2] There are many of them. For example, there were more than 700,000 pension funds and 8,000 mutual funds in the United States in 2009[3] – but even the smallest is substantially larger than all but the wealthiest individuals. Institutional investors have become much more important to capital markets in the last few decades. In 1950, they held only 6.1% of available US equities, but that climbed to 18% by 1980 and to 40% by 2009.[4] In the United States, institutional investors now hold more than 50% of US equities.[5]

At the meeting in New York, Ms. Yerger underscored that *"it is important for directors to know that institutional investors are not monolithic. They have different approaches to how they handle governance issues. You should know who your largest owners are and how they handle these responsibilities. It can be quite different. Don't think just about size of your owner – sometimes the smallest ones can cause you the biggest problems."* Mr. Oleksiuk agreed: *"It's important for boards to understand a wide range of shareholder perspectives, even those further down the roster. There are thoughtful and influential investors that you might not see in your top 20 or even top 50 holders."*

During their discussion in New York, ACLN members and their guests focused on governance disclosures, including the types of governance information that are important to investors, the disclosures investors use to gather that information, and the role of direct engagement between investors and the board in supplementing disclosures. They also touched on the relationship between institutional investors and activist investors.

Investor interest in audit committee issues

Recent research has found that large institutional investors care about governance as well as performance. In a survey of 143 institutional investors, 39% said they had exited an investment because of dissatisfaction with

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[2] Ben W. Heineman, Jr. and Stephen Davis, *Are Institutional Investors Part of the Problem or Part of the Solution?* (Washington, DC, and New Haven, CT: Committee for Economic Development and the Millstein Center for Corporate Governance and Performance, 2011), 8.

[3] Ibid.

[4] Edward B. Rock, *The Oxford Handbook of Corporate Law and Governance: Institutional Investors in Corporate Governance* (Philadelphia: University of Pennsylvania, 2015), 3.

[5] Suneela Jain, Barbara Blackford, Donna Dabney and James D. Small III, *What Is the Optimal Balance in the Relative Roles of Management, Directors, and Investors in the Governance of Public Corporations?* (New York: The Conference Board, 2014), 9.

governance, only somewhat fewer than had exited because of dissatisfaction with performance (49%).[6] This interest in governance extends to the audit committee. Some investor groups, such as the United Brotherhood of Carpenters Pension Fund, have requested more audit-related disclosures for several years now,[7] and in its policy survey for 2014, Institutional Shareholder Services found investor interest in increased disclosures related to critical audit matters.[8] In its recent comment letter on the SEC's audit committee concept release, the Council of Institutional Investors expressed general support for the SEC's initiative and recommended specific disclosures in two areas: 1) how the audit committee evaluates audit fees and their connection to audit quality; and 2) how it determines renewals of audit engagements after ten years of consecutive service, or whether the audit firm has substantive deficiencies identified by the audit committee.[9]

At the meeting in New York, the investor guests expressed interest in understanding more about the audit committee and its work. Mr. Oleksiuk noted that *"institutional investors may not have a good sense of the work of the audit committee. A few company- and industry-specific situations aside, the audit function has been out of the investor spotlight since Sarbanes-Oxley. We support enhanced audit committee reporting to better understand among other things audit priorities and audit quality assessment, but believe that enhanced reporting should be voluntary."* Mr. Booraem shared those sentiments, adding, *"Enhanced disclosures would help us understand what the audit committee is doing on behalf of shareholders, and increase our confidence in how the board as a whole is performing."*

Mr. Hambly mentioned concerns stemming from the evolution of the audit committee's role: *"The role of the audit committee goes so far beyond audit. Risk management and cybersecurity are two examples. Given the additional responsibilities, take the opportunity to tell us how much extra you are doing. It's time to get that story out."*

Interest in board processes

At the same time, investors see interest in the audit committee as part of a broader interest in board processes. As Vanguard's Mr. Booraem explained in a pre-meeting conversation, *"From our standpoint, the key issues on the disclosure front go beyond the audit committee. They include the internals of board oversight processes, some of which extend to the audit committee, like oversight of operational risk. But they also extend to board thinking about succession, composition, assessment – the [nominating and governance] space. It's more from the process and oversight standpoint, how the board approaches stewardship."*

At the meeting, the other investors concurred. Mr. Oleksiuk said: *"Board effectiveness, and better disclosure and dialogue on the board evaluation process, are particularly important to us. Evaluations are important, whether done internally or externally."* Mr. Hambly added, *"I think a board that hasn't added a new face to the board in four to five years would cause us to question the succession planning process. Boards need to*

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6 Joseph A. McCahery, Zacharias Sautner, and Laura T. Starks, "Behind the Scenes: The Corporate Governance Preferences of Institutional Investors," *Journal of Finance,* June 2015, 2.

7 Rosemary Lally, "Carpenters' Fund Continues to Make Progress on Auditor Disclosure," *CII Governance Alert,* July 16, 2015.

8 Institutional Shareholder Services, *2014-2015 Policy Survey Summary of Results* (Institutional Shareholder Services, September 2014), 17.

9 Jeff Mahoney, general counsel of the Council of Institutional Investors, to the Securities and Exchange Commission, comment letter on *Possible Revisions to Audit Committee Disclosures,* August 19, 2015.

cast a wide net. We're not looking to kick people off, but we want to see some new faces every couple of years." In another session of the meeting, Gary Retelny, president of Institutional Shareholder Services (ISS), said that ISS had observed a strong focus by institutional investors on board composition and refreshment, prompting the company to begin developing a "director database" for use by its clients.

EY's Ms. Yerger also highlighted board composition in a pre-meeting conversation, noting that these governance issues are currently more on the front burner than audit issues: *"From a corporate governance community perspective, the issue of board composition is hot and much more so than the audit or audit committees. The focus is on who is sitting around the table, what are their unique qualifications to serve as directors, how are they adding value to strategic discussions, and how effective are they in performing their oversight and other board responsibilities? That has relevance to the audit committee space as well, but the impact is much broader."*

The investor guests pointed to the proxy statement as a primary resource for them on governance issues. Mr. Oleksiuk said, *"The proxy is used in voting but also in assessing governance quality more broadly – the proxy is where you go on record about your approach to governance. It helps us understand the work of the board and key committees. We frequently refer back to the proxy for reasons other than making a voting decision."*

Direct engagement between shareholders and the board

The challenge of developing a nuanced understanding of governance issues may also require channels of communication that go beyond formal disclosures, such as more direct engagement between shareholders and the company, including the board. Mr. Booraem explained that Vanguard expects to get to know companies, particularly those in its index funds, over time: *"This is important to us, because we will be permanent owners."* A number of stakeholders and governance experts have been urging more dialogue between boards and shareholders. In a recent survey of large institutional investors, 45% said that in the past five years, they had met with the board privately, without the presence of management.[10]

The investor guests saw a limited but, at times, important role for direct engagement with the board. Mr. Hambly said, *"We have not been demanding to see board members, but we welcome the opportunity if you want to see us. If you have a shareholder proposal or a controversial issue, that might be an opportunity where we want to see a board member."* Mr. Booraem made a similar point: *"When to involve the board? There are very few instances where board involvement is mandatory, but we'd like to see the board involved over time. That said, if there are specific issues of concern related to an area in which the board is directly involved – proxy fights, contested M&A, CEO compensation – we believe members of the board should be at the table."*

Mr. Oleksiuk elaborated, mentioning the constraints on direct engagement and the subsequent need to use it effectively: *"The challenge that we face is scale – as an indexer, it is difficult to engage with every company every year, and our priorities for engagement topics and timing may be different than companies'. We don't require discussions with the board unless you are in a particularly difficult situation, and we must prioritize*

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[10] McCahery, Sautner, and Starks, "Behind the Scenes: The Corporate Governance Preferences of Institutional Investors," 1.

our engagements to best use our resources to protect the economic value of the assets our clients' entrust us to manage. But we do value relationship-oriented engagement with a director as well, perhaps every few years, about the board's approach to governance and how that supports value creation."

Ms. Yerger cited a forthcoming survey of institutional investors by the Center for Board Matters, highlighting disclosures as a way to make engagement more efficient: *"We heard over and over that company disclosures really do matter. Boards should think carefully about how company strategies, risks, and governance issues are articulated. Get it out there – it saves engagement time. There are mixed views about the need for directors to be involved. Many institutional investors prefer directors to spend time on other things. You also want to make sure that, when there is a meeting, there is a good agenda. There should be more of a connection between strategic discussions and governance, so that it's no longer a one dimensional dialogue."* As Mr. Booraem put it, *"Disclosure is inherently scalable."*

In pre-meeting conversations, some ACLN members reported that investors are reaching out to the board more. One member said, *"[A large institutional investor] reached out and wanted to talk to our independent chair, the [nominating and governance] chair, and the chair of the compensation committee. They have agreed to meet with [the investor] to just chat with them about governance and compensation. We've never done anything like this. But we're doing this with our top five investors. It's exploratory. Prior to this, there was no contact between the board and investor community."*

The member noted, however, that the chair of the audit committee did not participate, which is consistent with what investors have told Tapestry. Members suggested that investors may only seek meetings with the audit committee when there is a serious audit-related problem, such as a financial restatement or dismissal of the external auditor. One member said, *"We haven't had a restatement in a while, but that would be an area where they might want to talk to the audit committee."* Reflecting on the performance of the audit committee, Mr. Hambly observed that there have been substantial improvements over the years, particularly in the oversight of the audit: *"Weaknesses have turned to strengths as each audit committee improves its engagement with the auditor."*

Activist investors

ACLN members asked the institutional investors about their relationship with activist investors: *"How do you think about activist investors? It appears that they get their leverage based on their relationships with the large institutional investors, since they take a relatively small stake. With the increase in assets flowing into activist funds, this is becoming a bigger issue."*

The investors presented a nuanced picture of how they view activists and respond to their campaigns. Mr. Hambly said, *"We look at each one of these on a case-by-case basis. We are focused on the company more than the specific activist. We are focused on the long-term interests of the company. But in instances where we don't think the company is being run well, we will entertain some of their ideas, ride their coattails. Try not to read too much into activism as a term because it takes many different forms."*

Mr. Booraem described a similar approach: *"I would underplay the relationship between institutional investors and activists. We are not in the business of whispering targets to activists. We take each activist* *situation on a case-by-case basis. Our assessment is company by company, not activist by activist. There are cases where we have supported an activist at one company, and when they brought a similar idea to another company, we didn't support it. In an activist situation, we want to understand the two competing narratives and determine the long-term value case for each of them. We don't want a deal that will increase value in the short term then dissipate over time."*

Mr. Oleksiuk elaborated on the relationship to activists, and noted that there are different kinds of activists: *"When an activist says, 'we've talked to BlackRock,' that may be true but there is a difference between listening and agreement. We do sometimes listen to other shareholders about their views as part of our analysis. We think we should be doing this as a fiduciary. In some cases, change is warranted, and the addition of an activist is a good catalyst to make it happen. But not always. Some funds get that this is a long-term game. But a number of them are still focused on the short term, in my view. Our bias is management-led change."*

Mr. Booraem linked the discussion of activists back to the theme of disclosures and engagement: *"The prospect of activism certainly isn't the only reason to engage with your long-term shareholders. That said, if a company hasn't engaged or communicated over time and, as a consequence, shareholders don't have a consistent sense of the company's strategy or direction, it's far easier for an activist to come in and fill that vacuum."*

Innovation in public company reporting

Pressures from investors and regulators, as well as companies' own observations about how their reports are being used, are driving companies to improve their reports and their reporting processes. GE has been a prominent example. At the meeting in New York, the two guests from GE, Jan Hauser and Christoph Pereira, discussed GE's effort, including its origins, its outcomes, and the process of achieving change.

In a pre-meeting conversation, Ms. Hauser described how GE began by making improvements to its 2014 proxy statement, in a process led by Mr. Pereira. After receiving plaudits for that work, they turned to the annual report, looking at the flow and presentation as well as the content. According to the *Wall Street Journal,* one driver of the effort was the fact that GE's 2013 annual report was downloaded only 800 times and generated very few questions from investors.[11] At the meeting, Mr. Pereira elaborated: *"It was disappointing to see how few people reviewed the 10-K. It was not an effective communication. The effort was disproportionate to the output. We had a courageous CFO, who was not afraid to try something new. The process took seven-to-nine months, and it was iterative. We wanted to improve communication with shareholders. We had already changed earnings releases and the proxy – the 10-K was the next step."*

The results attracted considerable attention, but other companies have made similar efforts to improve their reporting, including their audit committee reports. In pre-meeting conversations, experts mentioned companies such as American Express, Google, Intel, Prudential, and Sprint, and several ACLN members described innovations they had implemented at their own companies or encountered in the course of their

[11] Vipal Monga and Emily Chasan, "The 109,894-Word Annual Report," *CFO Journal* (blog), *Wall Street Journal,* June 2, 2015.

work. A recent survey of 120 companies by EY and the Financial Executives Research Foundation (FERF) found that nearly three-quarters of these companies are working to improve their financial reports.[12]

Type of innovation

Companies are experimenting with the content and the format of reports, as well as the processes for producing reports. The following changes are examples of what some leading companies, including GE, are doing to improve their financial reports:

- **Providing more charts and graphics.** GE's use of charts and graphics has received plaudits from many quarters as a helpful way of making critical information easier to digest. An ACLN member who had seen GE's annual report and proxy statement said, *"I think graphic depiction is an interesting way of sharing information, and they do it effectively."*
- **Using plain English.** GE and other companies have tried to move away from what one observer called the "headache-inducing blend of industry jargon and legalese" that often appears in company reports.[13]
- **Including more direct communications from the board.** An ACLN member noted that, in addition to the committee reports, the GE proxy statement included a Q&A with the lead director, which is *"fairly novel"* and puts them *"ahead of other companies."*
- **Layering content.** GE has been praised for being the first company to provide a "proxy summary" at the beginning of the proxy statement.[14] The summary presents highlights from the proxy statement in just a few pages of bullets and charts.
- **Providing more detail in key areas.** In addition to presenting information in novel ways, innovative reports also present more information, adding facts and data not included before in order to present a richer picture. GE's proxy statement, for example, explains in detail the specific kinds of board expertise it seeks and quantifies how its board meets these goals.

Ms. Hauser and Mr. Pereira said that the effort has created real value for the company. Ms. Hauser explained that the new report *"allowed us to communicate who we are in a much different way, allowing people to evaluate the value proposition and how we think about our vision and strategy."* The value for investors was clear, Mr. Pereira explained: *"There were many, many more downloads … Doing these things does a lot for your relationship with investors. Smart analysts appreciated the additional information that reconciled with our earnings materials. Analysts dislike differences between earnings materials and the 10-K. It creates more work for them. This makes it easier for them."*

Mr. Pereira added that the company itself benefited: *"The larger benefit is internal, not external. The board loves it, and employees actually read it. Everyone at the company can articulate the strategy. You need something anyone can read and then be able to articulate the strategy. Marching to the same drumbeat. Same language, same targets."* These benefits were very motivating for the employees who worked to

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[12] EY, "FERF and EY Report Unveils How Companies Can Enhance Disclosure Effectiveness," news release, November 16, 2015.

[13] Isaac Pino, "General Electric Company Reveals a Flashy, Upgraded Report for Investors," *The Motley Fool,* March 10, 2015.

[14] Neil Stewart, "Best Proxy Statements of 2014," *Corporate Secretary,* July 30, 2014.

implement the changes. As Ms. Hauser noted, *"Our SEC reporting team put in hours out of true devotion to the cause … The group was dedicated to getting it done."*

ACLN members saw the value of the effort but also expressed a few concerns. A member said, *"This has catalyzed a discussion that has been waiting to happen for a long time – a terrific thing."* Perusing the annual report, another member noted that *"in addition to the normal disclosure, there is a lot of selling in here, artfully done."* However, one member added, *"I would take a wait-and-see approach if this were presented to me. I would be concerned about one document having two different objectives, and about another cost being thrown on to public companies."* Responding to the point about selling, Mr. Pereira responded, *"I might articulate it differently. I would not characterize it as selling, but as advocacy. It is okay to ask whether 10-K is the right document, but advocacy is legitimate. No one else is going to tell your story. On that point, this is the only document that pulls it together."*

The innovations have been widely praised as an important step in the right direction, though some observers have noted that many of the changes so far will probably be more helpful for retail investors than for professional analysts, who want to see improvements in the financial statements and the footnotes.[15] In a pre-meeting conversation, Mr. Oleksiuk also pointed out an irony in these improvements by highly respected companies: *"While it's refreshing to see innovation, these are not usually the companies that require our focus. Given the breadth of our clients' holdings, we need to focus on companies where there are the greatest governance risks."* An ACLN member said that it might take time for some companies to implement these kinds of changes: *"Some larger company will follow this lead, and reframe these documents to drive the storytelling. Smaller companies will be slower to follow."*

Achieving change

Members and experts noted that implementing significant changes to company reporting is not necessarily easy. In a pre-meeting conversation, EY's Mr. Holmes reflected, *"The finance organization can't take an independent approach. You need broad buy-in. You need to overcome potential concerns and objections from internal and external securities counsel. We have disclosure that has built up for many years, and people are comfortable with the status quo and don't see the need to change things or challenge it. When you take a fundamentally fresh start, with a fresh sheet of paper, it can be very challenging. Many are reluctant and ask, 'Is there more risk than reward to go through that process?'"*

At the meeting, Ms. Hauser and Mr. Pereira described how support and assistance from key players enabled the project to move forward. They highlighted the sponsorship by the CFO and the approval of the CEO, but they also emphasized the support and approval of several other players:

- **The audit committee and the external auditor.** Ms. Hauser said: *"We gave them the new look and the audit committee was incredibly supportive. It was the same data and disclosures, but a much easier way to digest it. We were not asking them to sign off on something really different in terms of disclosure. The bullets and highlights needed to be balanced. They didn't want to skew it in one particular direction. They were also interested in our interactions with the SEC and the feedback from*

[15] Noelle Knox, "GE's Newly Designed 10K Has Lots of Bells and Whistles," *CFO Journal* (blog), *Wall Street Journal,* March 2, 2015.

our auditors. They clearly were encouraged and perhaps emboldened by the positive feedback they had already received on the revised proxy." Regarding the audit committee's compliance concerns, Mr. Pereira added: *"We started by assuring the audit committee that compliance with SEC rules is foundational and paramount … and that hasn't changed. From there, we were convinced that there is a better way to disclose this info."* The external auditor was part of the process as well, providing feedback on accuracy. Mr. Holmes noted that the external auditor tends to *"get more involved when you are revising notes to the financial statements – changing disclosure outside the financial statements is subject to a lower level of scrutiny."*

- **General counsel.** Mr. Pereira described the assessment of litigation risk in providing additional forward-looking disclosures in the annual report: *"A project like this is hard to do without lawyers on board … Is there incremental liability? You have to think about risk in relative terms, not absolute terms. If you look at providing earnings estimates in earnings releases, there is liability risk. In litigation, we believe having more context is a better position to be in. Telling the whole story provides a better defense. If you produce a document that is not forward looking, it will be less relevant. By including forward-looking information, you could create risk. But if the additional info is already out there, there is no incremental 34 Act liability when you also provide appropriate cautionary language. It was important to make everyone working on it aware that this is an SEC-filed document, not just a glossy annual report. It helps to make sure we have a balanced document, and it's important to have processes to make sure that whatever you put out is accurate."*
- **The SEC.** Securing the support of the SEC itself went relatively smoothly. Ms. Hauser said: *"We gave them a heads up. We knew they were interested in innovation, simplification, making public documents more consumable. There was an open invite to have a dialogue. The team visited with the SEC once we felt we had something that was a bit more baked. We wanted to make sure this wouldn't be met with resistance or rejection. We didn't want to have an element of surprise. They gave us thoughtful responses."* In general, the SEC was open and receptive, as long as the information was balanced and clearly identified those non-GAAP measures incorporated from earnings presentations that were new to the 10-K. One potential snag was the requirement of the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system that everything has to be searchable, but as Mr. Pereira explained, *"The SEC came up with a new interpretation – only required information needs to be searchable."* For more information, see the SEC's interpretation of Regulation S-T.[16]
- **The staff.** Securing the resources to get the work done was also a challenge, and ultimately it was the dedication of the staff that proved pivotal. Ms. Hauser explained: *"We secured additional resources through leadership development programs. Projects were given to up-and-coming finance superstars. We gave them a vision, a chance to dig into 'the art of the possible.' They did a lot of legwork within a six-to-eight-week period of time, and they had the opportunity to present that to the CFO. Once we had approval to move forward, there were lots of decisions to make. You need a team dedicated to the project or it just won't happen."*

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[16] Securities and Exchange Commission, "Regulation S-T: Questions and Answers of General Applicability," accessed January 26, 2016.

- **Business leaders.** During internal reviews, some business leaders initially questioned the disclosure of additional detail and were concerned about giving away sensitive business information. "*However, what they didn't fully appreciate was that much of the information had been disclosed in prior 10-Ks in narrative form; the new tabular format was just so much easier to read,"* Mr. Pereira said.

In the recent survey by EY and FERF about their efforts to improve reporting, company financial executives offered a number of recommendations for implementing change successfully. They highlighted the importance of starting the process early and engaging key stakeholders, including senior executives. They also suggested using disclosure committees, putting disclosure effectiveness on the audit committee agenda, and implementing regular reviews of disclosure documents for effectiveness.[17]

Conclusion

During their meeting in New York, ACLN members discussed the issue of public company disclosures from the perspectives of both the investors that rely on disclosures and the companies that develop them. Institutional investors are interested in governance disclosures, including information about audit committees, but their interest in the audit committee is part of a broader interest in board processes, including board composition, board effectiveness, and evaluation of board performance. Formal disclosures provide scalability in communications, but they may be supplemented by direct engagement with the company, including engagement with the board.

The guests from GE in turn provided a helpful perspective on how companies can improve disclosures to offer a more compelling narrative. They described how they marshalled support for the project, both internally and externally, and how the project inspired the dedication of the staff to implement it. Both the investors and the guests from GE agreed on the importance of disclosures, including disclosures about governance. As one of the investors said to the directors, *"The disclosure process is incredibly important in establishing the context for what the board does, telling your story in the way you want it heard."*

About this document

The Audit Committee Leadership Network is a group of audit committee chairs drawn from leading North American companies committed to improving the performance of audit committees and enhancing trust in financial markets. The network is organized and led by Tapestry Networks with the support of EY as part of its continuing commitment to board effectiveness and good governance.

ViewPoints is produced by Tapestry Networks to stimulate timely, substantive board discussions about the choices confronting audit committee members, management, and their advisers as they endeavor to fulfill their respective responsibilities to the investing public. The ultimate value of *ViewPoints* lies in its power to help all constituencies develop their own informed points of view on these important issues. Those who receive *ViewPoints* are encouraged to share it with others in their own networks. The more board members, members of management, and advisers who become systematically engaged in this dialogue, the more value will be created for all.

[17] EY, "FERF and EY Report Unveils How Companies Can Enhance Disclosure Effectiveness."

Appendix 1: Biographies of investor guests

Glenn Booraem

Glenn Booraem is a Principal of the Vanguard Group, Inc. and the Treasurer of each of the Vanguard Funds. He has worked for Vanguard since 1989, and he currently oversees the firm's corporate governance program covering approximately US$2 trillion in equity market value. He speaks periodically to industry groups on governance and has served on the New York Stock Exchange's Proxy Working Group and Commission on Corporate Governance. Most recently, he served on the Advisory Board on Corporate/Investor Engagement for The Conference Board Governance Center and the Working Group for the SDX (Shareholder/Director Exchange) Protocol.

Mr. Booraem has been recognized for the past five years (2011-2015) on the NACD's Directorship 100 list of the "most influential people in corporate governance."

In addition to his governance-related duties, Mr. Booraem is responsible for global fund accounting operations, security valuation, and fund compliance monitoring for the Vanguard funds. Mr. Booraem earned a BBA from Temple University, and he is a graduate of the Advanced Management Program at Harvard Business School.

Drew Hambly

Drew Hambly joined Morgan Stanley Investment Management in 2011. He is responsible for corporate governance policy and proxy voting practices in the global equity group. In this capacity, he provides support to portfolio managers across 12 investment groups within MSIM on global proxy voting and other corporate governance matters.

Mr. Hambly was vice president of State Street Global Advisors with the SSgA corporate governance and global proxy voting. His responsibilities included corporate governance research and analysis across domestic and global investment strategies. He was a member of the SSgA proxy review committee. He was also responsible for corporate governance policy development and implementation, along with case-by-case analysis and decisions on governance and shareholder issues.

Mr. Hambly has worked in corporate governance for the past 17 years. Prior to joining SSgA, he worked for the corporate governance group at Moody's Investor Service and started his governance career at the Investor Responsibility Research Center.

Mr. Hambly graduated with a BA in Economics from American University and earned his MBA from the Weatherhead School of Management at Case Western Reserve University.

Zach Oleksiuk

Zach Oleksiuk, CFA, is Head of BlackRock's Americas Corporate Governance and Responsible Investment team. He has over 13 years' experience in corporate governance, including various roles with BlackRock since 2006. He is an active thought leader in the corporate governance community and is a frequent speaker to audiences of corporate directors and executives, investors, regulators, students, and other market participants.

At BlackRock, Mr. Oleksiuk leads a team of analysts responsible for engaging with portfolio companies on corporate governance. The work of the team helps BlackRock fulfill its fiduciary duty to protect and enhance the long-term economic value of the companies in which it invests on clients' behalf. These efforts include voting proxies using BlackRock's internally developed policies; meeting with companies to build mutual understanding on corporate governance issues; developing the corporate governance and proxy voting policies applied in the Americas; and contributing to BlackRock's global proxy voting operations. The team also engages with portfolio companies to understand the economic impacts of the social, environmental, and ethical factors of the business, and it coordinates, as appropriate, the integration of corporate governance and responsible investment considerations into the investment process.

Mr. Oleksiuk is a CFA charterholder and is a member of the New York Society of Security Analysts (NYSSA), where he has chaired the Corporate Governance Committee. He serves on the Public Company Accounting Oversight Board (PCAOB) Standing Advisory Group (2015-2017) and on the Council of Institutional Investors (CII) Advisory Council.

Prior to joining BlackRock, Mr. Oleksiuk spent five years with Institutional Shareholder Services (ISS), where he held various client-facing, management, and operational roles. Mr. Oleksiuk earned an MBA from the Smith School of Business at the University of Maryland and a BA from Pennsylvania State University.

Ann Yerger

Ann Yerger is a leader of the EY Center for Board Matters, where she guides the Center's team in efforts to strengthen engagement between EY, investors, and board members. Using her experience, relationships, and extensive governance background, Ms. Yerger helps the Center develop points of view and resources for boards, audit committees, institutional investors, and others interested in governance topics.

Ms. Yerger joined EY after nearly 20 years serving as Executive Director of the Council of Institutional Investors (CII), a nonprofit, nonpartisan association of funds and endowments that focuses on effective corporate governance practices. She joined CII in 1996 as director of the Council's research service. The organization's objective is to educate its members, policymakers, and the public about good corporate governance, shareowner rights, and related investment issues, and to advocate on its members' behalf. Before joining CII, Ms. Yerger was deputy director of the Investor Responsibility Research Center's corporate governance service. Prior to that, she spent five years in the domestic corporate banking division of Wachovia Bank.

Ms. Yerger was a member of the Investor Advisory Group of the Public Company Accounting Oversight Board, the Investor Advisory Committee of the Securities and Exchange Commission, and the Weinberg Center for Corporate Governance Advisory Board. She also served on the NASDAQ Listing and Hearing Review Council.

Appendix 2: Biographies of GE guests

Jan Hauser

Jan Hauser is Vice President – Controller and Chief Accounting Officer for General Electric Company (GE). Prior to joining GE in 2013, Ms. Hauser was a partner in the Accounting Services Group of PricewaterhouseCoopers (PwC) National Professional Services Group. She also served as a Professional Accounting Fellow in the Office of the Chief Accountant at the Securities and Exchange Commission from 1991-1993.

Ms. Hauser is on the Financial Accounting Standards Advisory Council (FASAC), a group that advises the Financial Accounting Standards Board (FASB) on matters related to board projects and agenda prioritization. She is also on the Committee on Corporate Reporting of Financial Executives International.

In addition, Ms. Hauser was a member of the Emerging Issues Task Force (EITF) from 2005 through 2011 and a member of the Financial Reporting Committee of the Institute of Management Accountants, an organization that regularly provides commentary and feedback on important standard-setting activities.

Ms. Hauser is a graduate of the University of Wisconsin and is a Certified Public Accountant. Ms. Hauser is on the Board of Trustees for The Holderness School.

Christoph Pereira

Christoph Pereira serves as General Electric Company's Chief Corporate, Securities & Finance Counsel. He oversees all legal matters for GE and its businesses relating to global securities law, corporate governance, corporate finance and corporate law. He joined GE in March 2007.

From 2004 to 2007, Mr. Pereira served as Vice President of Legal Affairs & Secretary of Exelixis, a NASDAQ-listed biotechnology company based in South San Francisco. He reported to the CEO and was a member of the company's executive management committee with responsibility for a wide range of general counsel duties. Before joining Exelixis, Mr. Pereira practiced law at Sullivan & Cromwell's New York and Silicon Valley offices from 1998 to 2004 specializing in mergers and acquisitions, securities law, and private equity. From 1995 to 1997, Mr. Pereira clerked at the Federal Courts in Austria.

Mr. Pereira is a frequent speaker on securities, finance and board related matters. He serves on the board of directors of the Society of Corporate Secretaries & Governance Professionals and previously served as a member of the NYSE Governance Council and as President of the Stockholder Relations Society of New York. He received his law degrees from the University of Chicago Law School and the University of Vienna Law School, and he is a CFA charterholder.

Appendix 3: Participants

Members participating in all or part of the meeting sit on the boards of over 25 public companies:

- Alan Bennett, Audit Committee Chair, Halliburton
- Les Brun, Audit Committee Chair, Merck
- Carolyn Dittmeier, Chairman Statutory Audit Committee, Generali*
- Marie Knowles, Audit Committee Chair, McKesson
- Mike Losh, Audit Committee Chair, Aon
- Wick Moorman, Audit Committee Chair, Chevron
- Chuck Noski, Audit Committee Chair, Microsoft
- Tom Schoewe, Audit Committee Chair, General Motors
- Dick Swift, Audit Committee Chair, CVS

EY was represented in all or part of the meeting by:

- Steve Howe, U.S. Chairman and Americas Managing Partner
- Frank Mahoney, Americas Vice Chair of Assurance Services

* Member of the European Audit Committee Leadership Network

Appendix 4: Discussion questions for audit committees

- How effective is our suite of disclosures in communicating our strategies, risks, performance, and governance to investors, employees and other stakeholders?
- What improvements, if any, should we consider? Which disclosure innovations are helpful? Which are less important?
- What pitfalls and obstacles are of concern as companies and audit committees improve their reports?
- What is the feedback from our investors' investment and governance teams regarding governance issues in general, our company's governance in particular, and, more specifically, the audit committee's activities and the manner in which we are executing our responsibilities for oversight of auditors and the financial reporting process? What issues are they asking about? Are their concerns changing over time?
- How are investors getting the information they want about governance? Are they relying on formal disclosures or are they also engaging directly with the company? Are they engaging with the board and the audit committee? How effective are these company disclosures and initiatives?
- What is the company's strategy for engaging with investors and for involving directors in selective engagement efforts?