



Signing the Aspen Principles

-- Frequently Asked Questions for Corporate CEOs --

In June 2007 a group of companies and investors released *Long-Term Value Creation: Guiding Principles for Corporations and Investors*, otherwise known as the Aspen Principles. There are still opportunities for leading firms to sign on to the Aspen Principles and join the historic coalition focused on addressing issues of short-termism in our business sector.

This document provides a basic overview on the Aspen Principles, and reviews some questions that other CEOs have asked prior to making a formal endorsement.

A. Overview of Process, Subscribing, and Next Steps

What are the benefits to my company of our subscribing to the Aspen Principles? Will subscribing be a positive for us in dealing with our investors?

Companies subscribe to the Aspen Principles for three general reasons. First, many firms receive **internal benefits** because signing on to the Principles generates goodwill among stakeholders, including management, labor, and investors. These benefits stem from the company's demonstrated willingness to take a leadership role to work toward consensus with other firms and institutional investors on key issues of good corporate governance.

Secondly, firms receive **external benefits** as clients, suppliers, the media, and the general public come to recognize the leadership stand the firm has taken. The Aspen Principles have generated significant media attention, as well as attention from important organizations such as the National Association of Corporate Directors, Business Roundtable, Council of Institutional Investors, and International Corporate Governance Network. We expect such attention to continue as more organizations subscribe.

Finally, there will be **systemic benefits** to the international economy. Short-term thinking constrains the ability of business to do what it does best – create valuable goods and services, invest in innovation, take risks, and develop human capital. Subscribers believe that favoring a long-term perspective will result in better economic returns and a greater business contribution to the public good.

What does subscribing mean, exactly? Are these principles legally binding?

The Aspen Principles require subscription at the organizational level. The Aspen Principles are not only the expression of individual corporate leaders, but demonstrate that the entire organization is affirming that these issues are important. However, they are not legally binding. Rather, the Aspen Principles are explicitly written as aspirational guidelines for good corporate practice.

In subscribing, and moving over time to implement them in their own organizations, subscribers are leading by example and taking a stand that a long-term focus is critical to long-term value creation. Both operating company and institutional investor subscribers agree, among other things, to work together in an ongoing process and to support each other even in the face of internal and external pressures to compromise on these principles and default to short-term thinking. There is no requirement for every subscriber to implement every detail of the Aspen Principles, and no specific time schedule. Rather, the commitment is to a shared journey of all subscribers toward the goals of the Aspen Principles.

Who should approve the Aspen Principles—our CEO? Our Board? Our General Counsel?

Subscribing to the Aspen Principles indicates an organization-level approval for the aspirations they demonstrate. Each firm has followed its own approval process. For some organizations, these principles are clearly within existing corporate declarations, and senior staff can make the endorsement. Other organizations have asked the CEO or a committee of the Board of Directors to review the principles prior to making the formal endorsement.

Who has signed the Aspen Principles?

The Aspen Principles were released in June 2007 with several dozen subscribers, including leading companies such as Pepsi and Xerox and institutional investors such as CalPERS and TIAA-CREF. Organizations continue to subscribe. A full roster of current subscribers is available in a separate document.

Does signing the Aspen Principles single our company out for greater risk from activists?

The Aspen Principles are the result of a deeply collaborative process that included the formal endorsement of the Business Roundtable, the Council of Institutional Investors and the AFL-CIO. Subscribers have found that their commitment as a part of this process effectively demonstrates their willingness to work with multiple stakeholders. Subscribers are a group of organizations representing hundreds of thousands of employees and trillions of dollars of investment, this highly inclusive group process, and the consensus represented in the Aspen Principles, could minimize the risks of being “singled out.”

How were the Aspen Principles developed?

Building on five years of Aspen Institute work, thirty individuals worked over a six month period in early 2007 to identify the common ground between and among a broad range of interests and to produce a set of principles in pursuit of long-term value creation. The co-conveners of the drafting committee were the chief executives of the **Business Roundtable** and the **Council of Institutional Investors**.

The Aspen Principles are not intended to address every issue of contemporary corporate governance, but instead are designed to drive quickly to action in areas that *all parties* agree are critically important. In drafting the Aspen Principles, members of the CVSG sought consensus and agreed that an overly-prescriptive approach would slow progress. The Aspen Principles are thus offered as guidelines, and are not detailed at a tactical level.

What happens after we sign the Aspen Principles? Will there be follow-on projects and/or more principles on other issues?

Subscribing to the Aspen Principles indicates a willingness to work with other subscribers in an ongoing effort to restore a long-term strategic direction to business decisions. Subscribers as a

group provide leadership and the future direction for the group. Current plans include broadening the base of subscribers to the current Aspen Principles, and creating a series of roundtables and white-papers on best practices. Every subscriber has the opportunity to choose to participate, or not, in subsequent activities. It is expected that independent activities related to corporate governance or investment issues that are not addressed in the Aspen Principles will continue. Signatories have the opportunity to innovate and adapt to meet individual and evolving circumstances.

B. Questions Related to Specific Principles

What if my current practices don't match each principle exactly? Is there a timetable for compliance?

For many subscribing companies, current corporate practice does not exactly match the aspirational guidelines that the Aspen Principles represent. Subscribing to the Aspen Principles is about taking a public stand on good governance, and declaring an aspiration to work with other subscribers toward common goals. There is no timetable for compliance.

Subscribers broadly endorse the goals of the Aspen Principles. If a company fundamentally disagrees with any of the basic principles or their premises, then signing is probably not a good fit.

How can my company stop giving quarterly earnings guidance when our competitors are still giving guidance?

Ending the practice of providing quarterly earnings per share guidance [Principle 2.2] has been recommended by nearly every panel and commission to study the issue. In drafting the Aspen Principles, companies and investors alike felt strongly that providing 90-day estimates of financial performance often leads to a value-destroying short-term focus. Additionally, the overwhelming preponderance of evidence suggests that there are no significant negative financial or other effects from ending the provision of guidance.

Nevertheless, there are certainly historical and industry-specific reasons why it may be difficult to end quarterly EPS guidance. The Aspen Principles do not require a timetable for compliance. Although some subscribers will continue to provide guidance in one form or another, we do hope that all subscribers will engage meaningfully in our ongoing work to share best practices and identify practical alternatives.

What if we have existing compensation plans and contracts in place that don't conform to all of the individual principles?

The Aspen Principles are aspirational, not legally binding, and are explicitly written not to interfere with existing plans and contracts into which a firm may have entered. The primary objective is that compensation “is based on long-term performance, is principled, and is understandable”.

On specific provisions such as communicating with investors [Principle 3.1(c)], requiring executives to hold equity beyond their tenure [Principle 3.3(c)], providing for clawbacks [Principle 3.3(e)], or considering the reputation risks of very large compensation packages [Principle 3.4(b)], subscribers are expected to be thoughtful in designing their own compensation packages, but how these issues are addressed is left to each subscriber.