The Nightly Business Report

More Independence in the Boardroom

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Two weeks ago the SEC approved new listing standards proposed by the stock exchanges to elevate governance. As a director of five public companies, I welcome these changes.

The new standards require that independent directors comprise a *majority* of the board and that three board committees – audit, compensation, and nominating – be composed *entirely* of independent directors. An independent director has no "material" relationship with the company, and several things disqualify a director from being independent. He or she cannot:

- be an employee;
- receive compensation from the company, other than board fees, of more than $100,000 per year. For audit committee members, no other compensation is allowed;
- be affiliated with or employed by the company's auditor;
- be part of a compensation committee interlock; or
- be an executive officer or the immediate family member of an executive officer of another firm that makes or receives payments from the company in excess of 2% of that firm's gross revenues or $1 million, whichever is greater.

These standards strengthen the independent mindset of directors, so they are more willing to question management vigorously and take a stand. The result is a more equal balance of power between management and the board, and that benefits shareholders.

I'm Barbara Hackman Franklin.