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June 10, 2004

Alfred M. Pollard
General Counsel
Office of Federal Housing Enterprise Oversight
Fourth Floor
1700 G Street, NW
Washington, DC 20552

Dear Mr. Pollard:

Re: Comments/RIN 2550-AA24

This letter is submitted on behalf of Business Roundtable, an association of chief executive officers of leading corporations with a combined workforce of more than 10 million employees in the United States and $3.7 trillion in annual revenues. We appreciate this opportunity to provide our views on the Office of Federal Housing Enterprise Oversight's (OFHEO) proposal to amend its corporate governance regulation for Fannie Mae and Freddie Mac (the "Enterprises").

Business Roundtable has long had an interest in and been a strong supporter of good corporate governance. We have issued numerous statements addressing corporate governance, including, most recently, *Principles of Corporate Governance* (May 2002), *Executive Compensation: Principles and Commentary* (November 2003) and *The Nominating Process and Corporate Governance Committees: Principles and Commentary* (April 2004). We strongly supported enactment of the Sarbanes-Oxley Act of 2002, implementation of the Securities and Exchange Commission's rules relating to the Sarbanes-Oxley Act, and revisions to the corporate governance listing standards of the New York Stock Exchange and NASDAQ Stock Market, Inc. Based on our experience, we have two primary concerns about the proposed amendments to OFHEO's corporate governance regulation.

First, the proposed amendments would require the Enterprises to separate the positions of board chair and CEO. As we stated in our 2002 *Principles of Corporate Governance*, we believe that each company should make its own determination of what leadership structure works best, given its present and anticipated circumstances. Historically, the vast majority of public companies in the United States have followed a governance model that focuses on leadership by a single individual occupying the positions of both board chair and CEO.

Most U.S. companies find this structure desirable because it makes clear that the chair/CEO has the responsibility to manage the company's business, under the oversight and review of the board. The CEO acts as a bridge between management and the board, ensuring that both act with a common purpose.

As The Conference Board Commission on Public Trust and Private Enterprise concluded in 2003, "no single board structure has yet been demonstrated to be superior in providing the oversight that leads to corporate success." Moreover, companies are already taking steps to strengthen independent board leadership, including through the appointment of independent lead or presiding directors. A March 2004 survey of Business Roundtable companies found that a large majority have independent lead or presiding directors.

Finally, the board leadership structure that works for a company at a given point in time may not work as well at a different point in time if the company's circumstances or its senior executives change. In fact, a May 2004 Booz Allen Hamilton study of 2,500 large public companies suggests that splitting the roles of board chair and CEO may not benefit shareholders. According to the study, shareholder returns were 4.1 percent per year lower in North America and 4.7 percent per year lower in Europe when the roles were split. Net income growth was also lower at companies that split the two positions. Accordingly, Business Roundtable does not believe that it is appropriate to require as a matter of regulation that the positions of board chair and CEO be separated.

Our second concern relates to the requirement for mandatory auditor rotation. The proposed amendments would require the enterprises to change outside auditors at least every 10 years. As we stated in our *Principles of Corporate Governance*, and as reinforced by the Sarbanes-Oxley Act of 2002, a company's independent audit committee is responsible for supervising the company's relationship with its outside auditor, including evaluating the auditor's performance and considering whether it would be appropriate for the company periodically to change its outside auditor. In performing this function, the audit committee should base its decisions about selecting and possibly changing the outside auditor on its assessment of what is likely to lead to more effective audits. We believe that eliminating the audit committee's discretion to make such decisions would not strengthen corporate governance and, on the contrary, could have significant negative consequences, including a substantial increase in audit costs and a decrease in audit quality.

When Congress passed the Sarbanes-Oxley Act of 2002, which included a mandatory rotation requirement for key audit personnel, it expressly declined to adopt a requirement that companies periodically rotate their outside audit *firm*. Instead, Congress directed the U.S. General Accounting Office (GAO) to conduct a study on the merits of mandatory audit firm rotation. In its report, the GAO concluded that "mandatory audit firm rotation may not be the most efficient way to strengthen auditor independence and improve audit quality considering the additional financial costs and the loss of institutional knowledge of the public company's previous auditor of record, as well as the current reforms being implemented."

Based on our experience and the GAO's report, we do not believe that a mandatory auditor rotation requirement is appropriate.

Thank you for considering our comments. Please do not hesitate to contact me if I can be of assistance.

Sincerely,

John J. Castellani