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Penn State banks on BNY Mellon executive to fix reputation

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By [Tim McLaughlin](#)

BOSTON (Reuters) - Karen Peetz's Penn State homecoming can't be what she imagined, or what her employer had in mind, for that matter.

When the successful New York banker joined the Pennsylvania State University board of trustees two years ago, the Jerry Sandusky child sex abuse scandal was still hidden from the public eye.

But then the scandal exploded, tarnishing Penn State's sterling football program and gutting the reputation of one of America's great universities. Peetz, a distinguished alum who was named American Banker's 2011 Most Powerful Woman in Banking, was elected to chair the board in its most trying times.

An honor, no doubt. But then there's her day job at Bank of New York Mellon Corp. And therein lies the difficulty of being Karen Peetz.

At the world's largest custody bank, Peetz is vice chairman with responsibility for financial markets and treasury, units that generate more than 40 percent of revenue and employ 17,000 people in more than 70 cities around the world.

Making things doubly difficult, some operations have faltered amid tumultuous markets and ultra-low interest rates. And the bank remains the subject of numerous lawsuits and regulatory probes over its foreign exchange dealings, though Peetz does not run that business.

Penn State, with a budget of \$4.3 billion and over 96,000 students, faces more legal risk and a potential hit to student enrollment and fundraising, a top credit-rating agency has warned.

Corporate governance experts say the dual role of Peetz presents risk to both her employer and alma mater.

"From BNY's perspective, the argument is strong to let her to continue to provide leadership in cleaning up the mess while getting credit for giving her the space to do the job," said James Post, a Boston University management and ethics professor.

"For her to do a bad job is probably the worst of all possible worlds for BNY Mellon and Penn State."

It may be too early to assess how she's faring. But in a sign of how tricky it can be to navigate the two jobs, she already had a brush with conflict of interest revolving around a Penn State land sale to Toll Brothers, a homebuilder in which BNY Mellon's asset management unit is a major shareholder.

Since becoming chairman of Penn State, Peetz has been thrust into a public role defending the school's response to the scandal while enduring a brutal assessment of the school's culture and governance contained in the report last month of former FBI director Louis Freeh. One group of alumni already has demanded that Peetz and others resign. She declined to comment for this story.

But those who know her at BNY Mellon say she's a proven veteran of juggling competing demands.

"Those of us who work with Karen know of the exceptional capabilities and experience and commitment she brings to every endeavor," Jeep Bryant, an executive vice president at BNY Mellon, said.

'NO DRAMA, NO ARROGANCE'

As a Penn State undergraduate in the mid-1970s, Peetz played lacrosse and field hockey, made good grades and met her husband. They now live in the wealthy enclave of Brooklyn Heights and have a \$2 million-plus home near the ocean in Spring Lake, New Jersey, public records show.

The 56-year-old has climbed the ranks at BNY Mellon over a 14-year career after jumping from JPMorgan Chase in 1998.

Her profile on the American Banker "Women in Banking" page says Peetz makes success appear effortless. "There is no drama surrounding her. No arrogance. Just a calm confidence polished with optimism," the paper wrote. She told American Banker she would like to be CEO of a major financial institution some day.

But first she has to lead efforts to rebuild Penn State's reputation and culture - destroyed by the former assistant football coach Sandusky's years of sexually abusing young boys. Top officials, including the late football coach Joe Paterno, failed to protect against the predator, Freeh concluded.

"Firms like BNY Mellon usually encourage their senior management to be involved in higher education as part of their corporate



citizenship initiatives, never thinking for a moment, of course, that an incident such as Sandusky could or would ever occur," said Archie Carroll, a University of Georgia emeritus management professor.

In a statement, Penn State said Peetz is well suited for the roles, "and the breadth of her responsibilities makes her a role model for others."

But the question for BNY Mellon's own board to consider is whether she'll be stretched too thin, said Norman Bowie, a University of Minnesota emeritus strategic management professor.

The challenges at both institutions are daunting.

One of Peetz's main BNY Mellon responsibilities, a business segment called issuer services, reported \$275 million in second-quarter fees, a 12 percent drop from year-ago levels.

BNY's stock price is down 48 percent since mid-August 2007 while the S&P 500 Index is closing in on positive territory. At around \$22, BNY shares remain close to their 2008 lows amid the financial crisis.

Meanwhile, Moody's Investors Service has threatened to lower Penn State's bond rating after Freeh's investigative report blasted the school's governance and sports-first mentality.

Freeh's report also lambasted Penn State's board for being too complacent and not challenging university officials once they became aware of the Sandusky investigations in March 2011. Sandusky, convicted of assaulting children on Penn State's campus, retained unlimited access to university facilities until November 2011. Peetz joined the board in July 2010.

Penn Staters for Responsible Stewardship, a recently formed alumni group with about 8,500 members, wants Peetz and other board member who served before November 2011 to resign.

"They failed in the governance and stewardship of the university and continue to do so," said Maribeth Roman Schmidt, a spokeswoman for the group.

POTENTIAL CONFLICT?

On May 4, Peetz participated in a board of trustees committee meeting that discussed selling 40 acres of Penn State land to Toll Brothers for \$13.5 million, according to the meeting's minutes. BNY Mellon's Boston Company Asset Management was Toll Brothers' seventh largest shareholder in the first quarter, according to U.S. regulatory filings and Thomson Reuters data.

Meeting minutes reveal no discussion about BNY Mellon's interest in Toll Brothers stock. The Committee on Finance, Business and Capital Planning, of which Peetz is a member, recommended that Penn State's board approve the deal, picking Toll Brothers over two other bidders, according to Penn State officials and published meeting minutes.

Ethics and corporate governance experts said Peetz missed a chance to at least set a higher standard for the board when she did not remove herself from discussions.

"Absolutely that was a problem," said Michael Boylan, an ethics and philosophy professor at Marymount University. "She should have disclosed the relationship and recused herself."

Penn State spokesman David La Torre, in a statement, said the Toll Brothers issue did not require any disclosure or recusal under the university's conflict of interest policies.

BU's Post said Penn State board of trustees had been a very trusting group. "In a lot of ways, it was a rubber stamp board," Post said. "There's too much trust without verification. Shame on any trustee that doesn't learn."

(Editing by [Aaron Pressman](#), [Mary Milliken](#) and [Leslie Gevirtz](#))

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