



Governance & Proxy Review

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As We See It - Commentary from The Altman Group

Reid Pearson, Managing Director and Corporate Governance Advisory Practice Co-Leader and Frank J. Cifarelli, Director, Global Shareholder Communications

New RiskMetrics Corporate Governance Rating System Introduced

RiskMetrics Group recently announced a new corporate governance ratings system which will introduce an evaluation model based on four categories: audit, board structure, compensation, and shareholder rights to be known as “GRId” (Governance Risk Indicators). Each of the four categories will be assigned a level of governance risk (low, medium, or high) based on a number of different variables. These variables will each be assigned a number of points between -5 and 5. For example, a company that has a classified board of directors will receive -5 points, whereas a company with an annually elected board will receive 5 points. Companies in the process of transitioning from a classified board to an annually elected board would receive a neutral 0. Once all of the variables within the category are assigned a point value they will be added up to determine the level of governance risk for each category.

RiskMetrics believes that a new corporate governance model was necessary to take into account that corporate requirements, disclosures and practices have changed over time, and that shareholders are evaluating companies with greater scrutiny with regard to how these companies are governed. This new system will replace the current RiskMetrics’ system, Corporate Governance Quotient (CGQ). The old CGQ scores were frozen as of March 17, 2010 and will be completely retired by June 30, 2010. The old CGQ scores will no longer show up on RiskMetrics Group’s reports, but they will still show up on the Yahoo-Finance tabs until all of the GRId scores are updated. Corporate issuers should note that the CGQ scores on Yahoo-Finance will not be updated past the March 17 score.

Like CGQ, corporate issuers will be able to review the GRId criteria via a data verification screen. However, it

Governance News & Views from across the spectrum

>>Executive Compensation



March 31st, Kraft Chief Secures 41% Pay Rise

Jonathan Birchall reports on the “exceptional” leadership award the Kraft board has given Irene Rosenfeld for the successful deal with Cadbury.

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March 29th, PepsiCo Expands Clawback Policy Following Risk Review

Katie Wagner discusses changes to the company’s clawback policy.

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March 29th, AIG Unit Feels Effects of Pay Limits

Joann S. Lublin, Doug Cameron and Serena Ng discuss how AIG is managing with the compensation limits set by pay czar Kenneth Feinberg.

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is The Altman Group's understanding that for companies that have a meeting from the March to June 2010 timeframe, the data verification screen will be only available shortly before the shareholder meeting. The data verification screen will be available in July for issuers with a meeting date after June 2010. RiskMetrics should be sending an email to issuers once the GRId data verification screen is ready. Issuers should ensure that RiskMetrics has the correct contact person so the data verification email goes to the right person. A company can use their current CGQ user name and password, or if they don't have one they can contact RiskMetrics.

Current premium CGQ subscribers will be allowed to review and comment on a pre-score template.

Several features of the GRId system include:

- The GRId system will be aligned closely with RiskMetrics' baseline proxy voting policy. This is an improvement over CGQ, which was not as closely aligned with their voting policy.
- GRId will cover nearly 8,000 global companies with issuers domiciled in the United States comprising about 80 percent (6,400). Other countries with a significant representation in comprising the rest of the original group will be Canada (480), the United Kingdom (450), France (250), Germany (200), the Netherlands (100), and Sweden (100). A further expansion to include additional countries such as Japan and Australia is scheduled for the second half of this year.
- At the core of the new GRId methodology, there will be a set of between 60 to 80 questions/variables that will address a company's specific corporate practices. The specific questions for a particular market are tailored towards the local market.
- The GRId score will be absolute, whereas the CGQ score was relative to a company's peer group and broad based index. This change will insulate companies from "shocks" to their ratings if they move from one index to another. Companies that moved into the S&P 500 index often saw a reduction in their CGQ scores because they did not meet several of the governance criteria that their peers in the index had already adopted.
- RiskMetrics states that GRId ratings will be fully transparent. Therefore, companies will be able to see the detail among the factors and know how they can improve their score for a particular variable. RiskMetrics has released a technical document that provides an explanation on how to compute and replicate the GRId assessment of risk across the four key categories. .
- GRId does not use a uniform method in evaluating the non-U.S. issuer's governance standings (although the scoring mechanisms will be consistent across markets), but instead attempts to use local market specifics and detail to assess best practices for an individual market. As stated above, GRId's system ties into RiskMetrics' baseline proxy voting policy. RiskMetrics believes that the new U.S. methodology will include a more robust compensation system and the

March 22nd, American Express Moves More Toward Fixed Pay

Katie Wagner reports on changes in the executive compensation plan at AmEx.

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[>>Global Dispatches](#)

TIMESONLINE

March 31st, Ireland Aims to Salvage Its Stricken Banks 'once and for all'

Katherine Griffiths, Banking Editor, with an analysis of the Irish government's plans to save Ireland's banks.

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March 31st, Bank of Ireland Unveils €1.8bn Shortfall

John Murray Brown reports on the financial condition of the Bank of Ireland and its plans to raise €2.7bn in private capital.

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Bloomberg.com

March 31st, EcoRodovias Raising \$764 Million in First IPO to Meet Estimates

Paulo Winterstein reports on the success of EcoRodovias' IPO.

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TIMESONLINE

March 30th, Standard Chartered in Indian Listing

Rhys Blakely reports on the bank's plan to raise \$750 million in Indian Depository Receipts.

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actual category questions will better capture more detailed corporate governance data.

RiskMetrics states that GRId ratings are not meant to predict future performance or returns. However, they hope GRId will become a tool that can help institutions and participants in the financial services industry measure and point out potential investment risk, due to poor corporate governance.

The Altman Group applauds RiskMetrics' move to a more transparent rating system. One of the main issuer criticisms of CGQ was the lack of transparency and weightings of the underlying variables. Also, the fact that RiskMetrics is linking the GRId closer to their baseline policy is a positive as well. Currently, most institutional investors do not use CGQ in making any of their vote decisions. The question is: will GRId impact vote decisions? The Altman Group thinks not, but companies should pay attention to GRId and how they are faring under the four categories.



March 30th, Steel Partners Dealt Fresh Setback in Japan

Michiyo Nakamoto reports on Steel Partners defeat at Sapporo's annual general meeting on Tuesday.

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March 30th, Dubai, Abu Dhabi Bourses Discuss Consolidation

Zahra Hankir discusses a possible consolidation of the two gulf bourses.

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March 24th, AIA Directors to Quit Ahead of Pru Deal

Sundeep Tucker, Paul J. Davies and Neil Hume discuss the plans of senior AIA executives to depart after the Pru deal closes.

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[>>Proxy Contests/Battles for Control](#)

DealBook

March 31st, Macarthur Coal Rejects \$3 Billion Bid From Peabody Energy

Chris V. Nicholson reports on the latest turn between Macarthur and Peabody.

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THE GLOBE AND MAIL

March 30th, Miners Gear Up for M&A Flurry

Brenda Bouw reports on the return of deals in the Canadian mining sector.

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[>>Investor Action](#)



March 31st, LBO-Backed Companies Have Lower Defaults than Peers, Study Says

Jason Kelly reports on the findings of a study claiming lower default levels for firms controlled by buyout groups and private equity.

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March 23rd, Banks Could Get off Lightly with Crisis Levy

Anne Seith discusses Germany's plan for a new bank rescue fund.

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March 16th, Europe and America Wrestle over Tighter Financial Regulation

Beat Balzli, Wolfgang Reuter, Michael Sauga and Hans-Jürgen Schlamp discuss the prospects for stricter global regulation of the banking industry. Graphic: [The Return of Speculation](#)

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February 18th, Orin Kramer of the New Jersey State Investment Council Interviewed by Chrystia Freeland.

Video

[> view video](#)

>>**The Boardroom**

THE WALL STREET JOURNAL

March 31st, Xerox's Mulcahy to Retire

Tess Stynes reports on the accession of CEO Ursula M. Burns to the Chairmanship of Xerox.

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THE WALL STREET JOURNAL

March 30th, Where's the Boss at Rescued Firms?

Dan Fitzpatrick and Serena Ng report on the trend in long-distance management of companies by CEOs.

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SPIEGEL ONLINE

March 30th, US Investigators Crack Down on Daimler's Culture of Corruption

Dietmar Hawranek discusses investigations by the SEC into Daimler's "useful payment" practices.

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March 29th, More Boards Receiving Info on Who's Buying, Selling Stock

Kristin Gribben discusses the trend in boards seeking more actionable intelligence on investors buying and selling the company's shares.

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March 22nd, Strategic Plans Only as Good as Assumptions

Tony Chapelle reports on the use of faulty assumptions in the strategic planning process.

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March 19th, Cadbury Executives Join Kraft Top Team

Elizabeth Rigby reports on the movement of top Cadbury executives to Kraft.

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March 18th, Thiam Retreats on SocGen Board Seat Offer

Paul J. Davies, Kate Burgess and Andrew Hill report investor anger at Tidjane Thiam, CEO of Prudential, for seeking an independent directorship on Societe Generale's board.

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