



## Buzz Saw

### **Proxy advisor ownership at issue in governance scandal and IPO decision**

**Glass Lewis** (GL), the world's second largest proxy advisor, is struggling to fend off a squall unleashed by governance faults at parent **Xinhua Finance** (XF), based in Shanghai. The crisis comes just as **RiskMetrics**, owner of dominant proxy firm **Institutional Shareholder Services** (ISS), was reported close to a decision on whether to go public. **The twin developments are stoking fresh market anxiety over proxy firm ownership four weeks before a congressionally mandated US government report on the industry is released.**

An exposé in *Barron's* last weekend lit a weeklong fuse of troubles for XF and Glass Lewis's respected staff. Author Bill Alpert, dissecting disclosures made by XF when it brought **Xinhua Finance Media** (XFM) public in the US in March, raised questions about XFM CFO Shelly Singhal. **A magnet for civil suits and serial corporate troubles, Singhal would almost certainly have drawn red flags in a GL proxy report.** In fact, GL hinted in a May 21 email to clients that it had been lobbying XF behind the scenes to clean up its act: "We are no less critical of our parent company (and sister subsidiaries) than we are of the other 14,000 public companies we evaluate," wrote CEO KT Rabin." When *Barron's* started digging, XF stripped Singhal of positions—too late for GL to escape collateral damage.

**Two key figures—Lynn Turner and Jonathan Weil—had already submitted resignations.** Turner—a star former US Securities and Exchange Commission chief accountant—is said to have been mulling an exit since XF took control in January. Weil, the former *Wall Street Journal* reporter who broke early **Enron** stories, had also planned to leave for a new post at **Bloomberg**. After the *Barron's* article he emailed contacts: "To protect my reputation, I can no longer be associated with Glass Lewis or Xinhua Finance." **Two law firms launched shareowner suits against XF, charging gaps in the IPO prospectus; both Moody's and Standard & Poor's downgraded the company's credit risk to negative; and the stock plunged.** "We headed into a buzz saw," said an insider. XF is about to announce an outside advisor to design a governance overhaul. But CEO Fredy Bush expects sharp questioning at the June 14 [annual meeting](#) in Tokyo.

GL says its clients worldwide are standing firm. But Rabin, who succeeded founding CEO Greg Taxin barely one month ago, is scrambling to retain market confidence. One step: recruiting an independent advisory panel to ensure research independence. Still, rivals see an opening. **PIRC, for one, is stepping up marketing by brandishing "conflict free" credentials. Expect Proxy Governance and Egan-Jones to do the same.**

Conflicts and ownership are also drawing renewed attention at ISS. In March, **Pervenche Berès**, French socialist member of the **European Parliament** and chair of the potent **Committee on Economic and Monetary Affairs**, **questioned** ISS's independence. **And soundings among funds reveal some early disquiet about a possible RiskMetrics IPO that could keep ownership—and its effect on ISS product quality—uncertain for months.**

Changes make a moving target for the US **Government Accountability Office**. The investigative arm of Congress now plans to release its 10-month long inquiry into the proxy advisory industry in late June (GPW X-33, XI-5). □




## Briefings

**Flashpoints** Two bruising battles are marking the close of the North American proxy season. Next Tuesday the target is **UnitedHealth**. Following a giant stock option backdating scandal, the firm outfitted itself with vanguard governance features (GPW X-38). While inviting investor advice on directors, it did not include a formal channel for shareowners to nominate board candidates. **CalPERS**, the **US\$240 billion retirement fund**, is spearheading a proposal (**No. 11**) to introduce such 'access to the proxy.' Along with **CalSTRS**, it is pushing the measure through full-page newspaper advertisements and a [website](#). Then there's **ExxonMobil**, a longtime lightning rod whose AGM is Wednesday. The oil giant is vastly profitable—but the board consistently spurns investor concerns over climate change. **This time funds led by Connecticut Treasurer Denise Nappier are campaigning for protest votes against director Michael Boskin**, a Stanford University economics professor. **Boskin has five times rebuffed investor requests to meet on climate change risks.** Strangely, he chairs the board's


[Public Issues Committee](#), which is supposed to address just this topic. And Nappier is no gadfly. Funds backing her at ExxonMobil, including members of the [Investor Network on Climate Risk](#), represent US\$900b in assets.

 **You & Us** Conflicts of interest so skew the stewardship behavior of fund managers that they satisfy their own commercial needs before those of client shareowners. Right? Maybe, but [UBS](#)'s Paul Fiani might tar that an urban legend. Fiani—who is exiting to start his own fund—led an investor bloc that just scuppered **Australian Airline Partners'** high-profile A\$11 billion bid for [Qantas](#). Dissenters held out for a higher price. **What's unusual is that Fiani's professional brothers in UBS's investment banking unit were working the deal for Qantas—and stood to gain millions in fees had the private equity group succeeded.** Fiani might not be the most popular mate around any washrooms UBS's fund managers and investment bankers might share. But the Qantas stock price has so far proven that dissenters preserved value for client shareowners. Equally important, Fiani showed that a big bank can fairly multitask. Of course, a big bank can also get it atrociously wrong. Case in point: when **Deutsche Bank's** proxy unit caved in to investment banking pressure and backed the **HP-Compaq** merger. For now, though, kudos to UBS.

 **Hedge Hogs** As hedge fund capital balloons worldwide, markets are mulling how to combat short-termers that grab control of companies, slash costs, load up debt, and then quickly bale out. [DSM](#) proposed a carrot to reward long-term loyalty: shell out premium dividends to shareowners holding stock for at least three years. A Dutch court quashed that idea (**GPW X-9, XI-10, 11, 14**). In [hearings](#), the **US Securities and Exchange Commission** yesterday and today considered how to block the risks that hedge funds can vote shares they don't own. **And now guru Stephen Jarislowsky, chair of Montréal-based fund manager [Jarislowsky Fraser](#), is proposing a stick: restrict voting rights only to investors who own stock for at least one year.** "Hedge funds are a bunch of scum who make deals fast and force companies into taking short-term decisions whether they are in the best interests of shareholders or not," he told the *Financial Post*. The notion contradicts the long investor love affair with one share, one vote. But expect hedge fund horror stories to fuel market interest in such ideas.

 **Just a Name** Relax, some governance codes say, if a company features a healthy slug of independent directors. The board likely won't go too far astray from shareowner interests. **But in Korea just 37% of directors labeled as "outsiders" turn out to be truly independent, finds the [Center for Good](#)**

**Corporate Governance.** The rest are somehow affiliated with the company or its controlling owner. The [Financial Supervisory Service](#) this week agreed, saying the outside director system, first installed in 1998, "seems to be just a name with no meaning." **The agency pledged to review and "right the system" with reforms.** Send comments to [fssintl@fss.or.kr](mailto:fssintl@fss.or.kr).

 **Zero** Can companies operate in tough markets without engaging in corruption? [Siemens](#), now subject to criminal prosecution, is finding that short term gains from bribery can beget big costs, including loss of investor confidence. **That's one reason why [TNK-BP](#), the BP joint oil venture in Russia, just named a prominent corporate governance honcho to fill the new position of Corruption Risk Manager.** Matthew Murray chaired the St. Petersburg-based NGO [Center for Business Ethics and Corporate Governance](#), and ran the US management consultancy **Sovereign Ventures.** **At TNK-BP, he is charged with achieving "zero tolerance" of corruption.** The board has given its blessing to the policy. And TNK-BP is the only Russian oil company that has signed the **World Economic Forum's [Partnering Against Corruption Initiative](#).** But Russia is among countries most at risk of corporate vice, according to rankings prepared by [Transparency International](#). From a Moscow perch, Murray's challenge is to translate NGO best practices into operational reality. Contact [mmurray@tnk-bp.com](mailto:mmurray@tnk-bp.com).

## Diary

The June calendar, Part Two. Click [here](#) to see the entire **GPW 2007** list of governance events posted at the **Millstein Center for Corporate Governance and Performance** at Yale University.

- June 14, **London.** *UK Approach to Corporate Governance—Lecture in Memory of Jonathan Charkham, [Financial Reporting Council](#).*  [www.frc.org.uk](http://www.frc.org.uk).
- June 18-19, **Shanghai.** *Sarbanes-Oxley 404, Continuing Professional Education.*  [www.cpeonline.com](http://www.cpeonline.com).
- June 20, **Edinburgh.** *Companies Act 2006: Intention, Interpretation and Implementation, Institute of Chartered Secretaries and Administrators.*  [www.icsaseminars.com](http://www.icsaseminars.com).
- June 20, **New York.** *The Sustainable Governance Forum on Climate Risk, [Marsh](#), [Ceres](#), [Yale School of Forestry and Environmental Studies](#).*  [www.sustainablegovernance.com](http://www.sustainablegovernance.com).
- June 21-24, **Alexandria, Virginia.** *Annual Conference, [International Policy Governance Association](#).*  [www.policygovernanceassociation.org/conference\\_07](http://www.policygovernanceassociation.org/conference_07).
- June 22, **Sheffield, England.** *Contractual Corporate Governance, [European Corporate Governance Institute](#).*  [www.ecgi.org](http://www.ecgi.org).
- June 24-26, **Boston.** *Audit Committees in a New Era of Governance, [Harvard Business School](#).*  [www.exed.hbs.edu](http://www.exed.hbs.edu).
- June 25-26, **Stanford, California.** *Directors College, [Stanford Law School](#).*  [www.law.stanford.edu](http://www.law.stanford.edu).