



## Change in RiskMetrics Group Governance Ratings

*March 3, 2010*

RiskMetrics is introducing a new corporate governance rating for corporate issuers. With a nod to the recognition of the importance of risk management in the wake of the financial crisis, the new rating system is labeled Governance Risk Indicators ("GRId"). This system will succeed the existing Corporate Governance Quotient scores.

The new measure differs in two key respects from the current CGQ score:

- rather than a single score, the new scoring will be based on an assessment of concern (high, medium, low) along four independent categories: audit, board structure, compensation, and shareholder rights; and
- the scores will now be absolute rather than relative to index or industry peers.

RiskMetrics will use approximately 70 variables for rating companies in order to evaluate the degree to which a company's practices may contribute to or mitigate its governance related risk. The granularity of the assessments will make it more difficult for a problematic governance area to be obscured behind a rating that is strong overall. Not surprisingly, there is a much more robust compensation section.

The significance of RiskMetrics' governance ratings arises in a few different contexts:

- some boards take pride in being on the leading edge of corporate governance and take comfort from a strong governance rating;
- there has been speculation that some institutional investors take governance scores into account when making investments and, at a minimum, such scores can be referenced in the context of an ongoing dialogue between a board/management and institutional investors; and
- governance ratings can be used as both a sword and shield in proxy contests although, to be sure, they are not dispositive of an outcome.

We view RiskMetrics' governance ratings as one of a number of useful inputs for a board to consider but not a talisman to be followed for its own sake. A board's own assessment of whether its governance structure furthers shareholder interests is paramount rather than a box score established by RiskMetrics.

The new system will be phased in over the next few months with GRId being published on proxy research reports beginning in the second half of March 2010 and with the old CGQ

ratings being completely retired by June. For companies with March meetings, CGQ ratings will continue to be updated and will be published in proxy research reports. Companies in this category will have a GRId assessment by June 30, 2010. For companies with April meetings and beyond, GRId will appear on proxy research reports beginning in the second half of March (CGQ ratings will be frozen until retired completely).

Given the extent of new information that will be included in GRId, one next step will clearly be a review of the data to be included in the proxy research report.

For information provided by RiskMetrics with respect to GRId (including a sample report), see <http://www.riskmetrics.com/grid-info>.

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