# GLOBAL PROXY WATCH™

**Vol XI No 31** *The Newsletter of International Corporate Governance and Shareowner Value* **Sept. 7 2007**

# Quake!

## *Proxy industry could transform with Glass Lewis sale and ISS parent IPO*

Behind the scenes, the world's two biggest proxy advisors are in a fit of restructuring that promises again to reshape the global governance industry and, possibly, ignite a regulatory backlash, **GPW** has learned. Among fast-paced developments:

**Xinhua Finance (XF) has secretly decided to sell Glass Lewis (GL) just nine months after buying it for US$45 million.** The move comes hard on the heels of the Shanghai-based firm's own in-house governance scandal, which triggered a stock plunge and brand damage at XF, and key staff and client defections at GL (**GPW** XI-21, 22, 25, 27). **CEO Fredy Bush has apparently hired a merchant banker to shop the proxy advisor, with eyes on a deal as early as next month. The frontrunning contender so far: none other than RiskMetrics (RM), owner of rival industry giant Institutional Shareholder Services (ISS).** At least one other unidentified company is also mulling a bid, while a private equity firm has pushed Xinhua to sell it GL at about half the purchase price.

RiskMetrics has the cash and ISS the motive to take over GL. Ex-CEO John Connolly had made serial efforts to buy the four-year old competitor. **But if ISS and GL now combine, the unit will dominate more than 80% of the market—gaining potential new pricing power and clout. Experts predict such a deal would likely draw scrutiny by securities regulators, antitrust authorities and politicians in North America, Europe and, possibly, Australia.** They could join those in the market worried that a single US firm could hold a near monopoly in the highly sensitive business of advising how shareowners vote on everything from board elections to mergers and acquisitions worldwide.

Still, GL-ISS nuptials could boost proxy firms that remain—such as Proxy Governance and Egan-Jones in the US, and ECGS in Europe. Equally, a takeover could spur market interest in specialist stewardship firms such as F&C, Governance for Owners and Hermes EOS. They would all be trolling for fund clients bent on service alternatives to the industry leader.

RiskMetrics, meanwhile, is rumored to have taken another transformative step. **Sources say it opened confidential talks with US Securities and Exchange Commission officials in advance of filing formal IPO documents that would allow it to launch as a publicly traded company.** Perhaps in preparation, RM will inform clients Monday that, as part of internal integration, all its products will carry the RiskMetrics label as of Sept. 17. The move, in effect, demotes the 27-year old ISS brand. **Governance services will now be marketed under the RiskMetrics name.**

Expect an IPO to rekindle debate about whether public ownership—or another buyer—might affect the quality or content of RM advice. Last month the US **Government Accountability Office** (GAO) concluded in a report that "potential conflicts of interest can arise" at proxy firms, but that the SEC had "not identified any major violations." It also asserted that it is relatively easy for rivals to enter the industry, so fears of ISS monopoly power are overblown. Some industry watchers dismissed the GAO report as superficial. But expect its findings to fortify defenders of any RM takeover of GL. *[Note:* **GPW** *editor Stephen Davis is a board member of Hermes EOS.]* ☐

# Briefings

***SEC SOS*** August is normally placid at the US Securities and Exchange Commission. This year it's been closer to meltdown. First, Commissioner Roel Campos announced his resignation. Then reports surfaced that fellow Democrat Annette Nazareth would leave the agency by year end. Republican commissioner Paul Atkins is prowling for another administration post. And even chairman Christopher Cox is rumored to be jockeying for a judgeship, or even attorney general. The lone other commissioner, Kathleen Casey, has been on the job barely a year. Campos is a vocal advocate of shareowner rights. **So his exit heightens chances the SEC will block investor access to the corporate proxy to nominate director candidates** (**GPW** XI-29-30). **At their November meeting commissioners could even restrict decades-old rights shareowners**

**have used to file non-binding resolutions.** Funds fear the worst. A coalition has opened **Save Shareholder Rights**, a website aimed at stirring a defense of access and advisory proposals. *Comment on draft rules (S7-16-07 and S7-17-07) to rule-comments@sec.gov by Oct. 2.*

## Frontier Scouts

Why shouldn't corporate governance unlock value in Africa as it does elsewhere? **Development Partners International (DPI) is about to launch a pan-African private equity fund to invest in asset-rich companies in need of improved governance.** And the focus is on conflict-prone nations such as Ethiopia, Algeria, Sudan, Congo and Rwanda, because that's where equity is still a bargain even if risks are higher. London-based DPI may be new—but CEO Runa Alam and partner Miles Morland are old hands at investing and corporate governance in Africa. Alam headed **Kingdom Zephyr Africa Management**, which invests more than US$122 million in Africa. It mines big value from pressing governance upgrades on portfolio companies. Morland is a legendary frontier investor through his **Blakeney Management** company. DPI plans to raise up to US$500 million from global investors for its Africa Development Partners fund. *Contact runa.alam@dpi-llp.com.*

## Mayne Stream

Looking for the latest innovations in shareowner activism? **Check the Mayne Report, a daily videoblog and online newsletter devoted to investor watchdogging and corporate governance.** It opens for business Oct. 1—but you can see a **YouTube** teaser now. Its editor is Stephen Mayne, founder of ezine **Crikey**, who boasts being "Australia's most unsuccessful candidate, having run for 28 public company boards and various other bodies that wouldn't have him." But don't laugh. Mayne's lashings of companies for misbehavior have won him a wide shareowner audience. And now he's reaching across the Pacific—with the aid of the US **Securities and Exchange Commission** (SEC), no less. Staff there last month rejected a **News Corp**. bid to scrap a shareowner resolution Mayne filed calling for an end to non-voting shares. **So yesterday the proposal duly appeared on the firm's proxy statement for the Oct. 19 AGM in New York.** Mayne plans to attend—and in the meantime to rally proxy advisory firms and media to "get a majority of independent shareholders to support the resolution." Dual voting rights enable Rupert Murdoch to control NewsCorp. with just 15% of equity.

# People/Jobs

***Teresa Barger*, corporate governance czar at the World Bank Group, is leaving Oct. 4 to launch a Washington, DC-based fund management company focused on emerging markets.** Barger has been director of corporate governance for three years, overseeing expansion of programs worldwide. No successor has been named as yet. But who fills the seat could be a key indicator of new WB president Robert Zoellick's commitment to corporate governance programs. *Contact tcbarger@gmail.com.*

***Helga Birgden* this month starts as chief of Mercer Investment Consulting's responsible investment (RI) unit in the Asia-Pacific region.** From her Melbourne base as governance director at **UniSuper**, one of Australia's largest retirement funds, Birgden has been an influential promoter of fund attention to corporate governance. At Mercer she will be part of an ambitious global RI team, headed by Jane Ambachtsheer, which advises institutional investors on environmental, social and governance strategies. As of today UniSuper had not named a successor.

***Linda Crompton* this week took the CEO helm at BoardSource, a Washington, DC firm advising non-profit organizations on governance.** Crompton was the last head of the **Investor Responsibility Research Center** before it was sold to **Institutional Shareholder Services**. BoardSource has a staff of 35 and annual budget of more than US$8.5 million.

***The Center for International Private Enterprise* (CIPE) is looking to fill two staff positions responsible for running a new corporate governance program in the Middle East/North Africa region.** Based in Washington, DC, CIPE is a development assistance arm of the **US Chamber of Commerce**. *Contact jobs@cipe.org and put "MENA-CGPO" in the subject line.*

***The International Corporate Governance Network* (ICGN) is today announcing a search to fill a new post: chief operating officer.** The number two will do business development and oversee ICGN meetings—including interim sessions set for New York (Oct. 29) and Sweden (March 5), and the 2008 annual conference, convening next year in Seoul (June 18-20). Headquartered in London, the ICGN is the global investment community's champion of corporate governance. Some 500 members come from 40 countries. *Contact executive director Anne Simpson at execdirector@icgn.org.*

# To GPW Readers

**GLOBAL PROXY WATCH** is shortly to move house from **Davis Global Advisors** to **Newsmarkets**, the Boston-based publisher of *Directorship Magazine*. Stephen Davis will remain as editorial director; Newsmarkets will begin handling production and business operations. The partnership deal is expected to close within days. Subscribers will receive notice of any updates to contact information.