# GLOBALPROXYWATCH™

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# Showdown

"One of the most important shareholder resolutions in Europe this year," as one investor calls it, is set for Feb. 27. Troubled **UBS** is facing two subprime-related shareowner resolutions at its extraordinary general meeting (**GPW** XII-4). **Governance fund Ethos is proposing (item 1) a special audit to probe failures in the giant bank's risk management. At the same time, Profond, the Swiss pension fund, has filed a resolution (item 3.2) seeking a rights offer to all current investors.** UBS prefers a different course. It has negotiated a US$11.7 billion capital injection from **Government of Singapore Investment Corporation** and an unnamed Mideast investor.

As much as 79% of UBS shares are owned by non-Swiss investors, so foreigners can control the ballot outcome. **Some key UK-based funds already plan votes against management.** Ethos, which just published an English-language proxy analysis of the UBS meeting, sees the showdown as critical. "If the company receives an important signal, directors will have to take the opinion of investors seriously. If not, directors will say that investors were not particularly upset and management will gain confidence in its communication and transparency." UBS rates an underwhelming 6 out of 10 on **GovernanceMetrics International**'s risk scale. Uninstructed shares will be added to the ballot count for management. Funds can either vote themselves or through agents, or assign their proxy to Ethos. *Contact dbiedermann@ethosfund.ch*.

# Backward

## *Electronic ballots prompt plunge in retail voting, handing clout to brokers*

Is the 'investors' advocate' muzzling investors? Last year the US **Securities & Exchange Commission** (SEC) adopted rules designed to save corporations a projected US$1 billion a year by letting them distribute proxy materials on the web rather than in hard copy (**GPW** XI-25). **Now early, little-known data reveal perverse effects: the e-proxy has transferred dramatic chunks of voting power from individual shareowners to brokers.**

Some 69 companies, including **Intel** and **Sun Microsystems**, went paperless last year. **Crunching turnout numbers, Broadridge, which processes proxies, has just found that individual shareowners are beginning to stop voting. Only 13% cast ballots at the 69. That's less than half the already low 28% individual vote in 2006.** Even the institutional investor vote slipped, from 53% to 49%. **Brokers stepped into the breach, more than doubling the amount of shares they vote—from 11% to 26%.** And since brokers commonly back management, the shift represents a major benefit to boards under challenge—and a step back for director accountability.

As more companies adopt e-proxies, expect serial replays of the mess surrounding **CVS/Caremark** drugstore chain director Roger Headrick, who won re-election last year thanks to "ballot-stuffer" broker votes (**GPW** XI-27). Headrick later resigned in the face of investor pressure. The **New York Stock Exchange** has asked regulators to green light a plan to end broker voting in director elections. **But the SEC is now in its 15th month of unexplained stalling on the request.**

Abolition of broker voting for director elections could unlock e-proxy's big potential upside for investors. The practice could drastically lower the cost of proxy fights over US board seats, according to a recent paper by **Columbia Law School** professor Jeffrey Gordon. Broadridge plans to post latest e-proxy turnout data on its website monthly starting February 15. Meanwhile, expect droves of retail shareowners to abandon voting. ☐

# Briefings

***Job Security*** What's the best way for board members to hang onto their jobs? Be responsive to the company's shareowners. That's the surprising result of a study by **Fuqua** B-School professor Yonca Ertimur and two colleagues. The finding emerged from an analysis of 620 US governance-related shareowner proposals receiving a majority vote between 1997 and 2004. Boards adopted 41% of resolutions passed in 2003-04, nearly double the 22% implemented between 1997 and 2002—a sign that directors began to heed shareowner demands. **But here's the career tip: outside directors at companies which adopted**


*Stephen Davis, editor; Aaron Bernstein, contributor.* **T** *+1 203 245 2288* **E** *sdavis@proxywatch.com For subscriptions: subs@proxywatch.com*

**proposals proved more likely to retain their board seats and to gain spots on other boards, the trio found.** In other words, the labor market for US directors now assigns extra value to directors who maintain positive relations with shareowners. Expect board members with ambitions to pay heed. So will nomination committees and director search firms.

## ***Glass Houses***

Proxy advisor **Glass Lewis** (GL) has long thrown stones at rival **RiskMetrics Group** (RMG) for selling governance information to the same companies it analyzes for shareowners. Now GL faces the first test of its own conflict-of-interest standards since **Ontario Teachers Pension Plan** (OTPP) bought the service last October (**GPW** XI-36). **Canada's five major banks face shareowner proposals calling for versions of 'say-on-pay.'** The first is at **CIBC** on February 28. GL has supported similar advisory vote resolutions in the United States, and more than 90 are already filed there for the 2008 AGM season. In Canada, **SHARE**, the Vancouver-based investor advocate, backs 'say on pay.' But the powerful **Canadian Coalition for Good Governance**, which OTTP helped found, recently opposed the idea for domestic companies, preferring "constructive engagement" with boards where pay excesses exist (**GPW** XII-2). **GL asserts that "the proxy voting and related corporate governance policies of Glass Lewis are separate from OTPP." Expect observers to check how the firm and its owner vote.** Not that the conflict-of-interest charges have dented market-dominant RMG. **On January 8 it became the first proxy service in the world to go public. The stock closed yesterday at $22.30 compared to $17.50 on opening day.** Insiders signaled their confidence, too. Two directors, including former **SEC** chairman Arthur Levitt Jr., each bought 12,500 shares at the offering price.

## ***Mayne Frame***

Shareowners can get complex profiles of who sits on a US company's board from **The Corporate Library** (TCL). **Now a similar window has opened up on Australian board members through a new directors section of the Mayne Report, the online Aussie corporate governance newsletter launched last year by maverick activist Stephen Mayne, formerly of Crikey (GPW XI-31).** His analysis won't be as comprehensive as the better-staffed **TCL**. But Mayne has a sharp eye for conflicts shareowners should know about. For example, he spotlights 14 busy souls who chair two top-150 companies in violation of **Australian Securities Exchange** (ASX) corporate governance guidelines. The tool may aid investors watching the flood of mid-cap floats by Perth-based resource companies. The Western Australia city is an epicenter of poor governance, according to Mayne's take on a January **RiskMetrics** report.

## ***Lesson Plan***

Beavering out of the spotlight, the **Global Corporate Governance Forum** (GCGF) is making headway promoting infrastructure in emerging markets. Its new publication series *Lessons Learned* offers first insights into progress. **The debut issue tracks the establishment of the Institute of Corporate Governance-Panama, whose goal is to further best practices in one of Latin America's largest offshore financial centers.** The newsletter describes the challenges faced by the Institute in a country dominated by family-owned companies. **The next *Lessons Learned*, published today, looks at Bulgaria's new Corporate Governance Code.** The GCGF, housed at the **World Bank Group**, is directed by Philip Armstrong.

# Memoriam

Alastair Ross Goobey died last Saturday at age 62, leaving a rich legacy in global corporate governance. Consider the capital market before he took the helm of **Hermes**. The UK fund management house, then known as PosTel, barely voted its shares and, like other City institutions, had no governance specialists. Corporate boards, for their part, paid little heed to investor accountability—for instance, dispensing munificent packages worth a typical three times salary to departing CEOs, regardless of performance.

Son of a revered pension fund manager, Ross Goobey changed all that. He hired Peter Butler as Britain's first full-time governance manager, pioneering a trend now copied at nearly all major institutional investors. He built an expert staff that founded Focus Funds skilled at earning outsized returns through engagement. He led an improbably successful campaign to cap CEO severance payouts to the equivalent of one year's salary. And when he chaired the **International Corporate Governance Network** (ICGN) he shepherded the group to new levels of global influence.

Ross Goobey was known for his bracing integrity, rapier vision, backbone and mischievous wit. But he was hardly uncontroversial. Some executives grumbled at his charges of board excess; some investors balked at his dismissal of many environmental and social issues. But Ross Goobey earned universal praise when terrorist bombs threatened to scrub the 2005 ICGN annual conference in London. He steadied nerves and kept the event on course even as much of the capital shut down. Ross Goobey faced a prolonged bout with cancer with courage, staying on duty for chairing tasks at Hermes and advisory work at **Morgan Stanley**. He lived to walk his daughter down the aisle at her recent marriage. Ross Goobey's funeral is scheduled for 11:00 am Monday at St. Mary's Church in Islington, London. A memorial service is planned for late April. Express condolences through a dedicated ICGN web page; messages will be conveyed to Ross Goobey's wife Sarah and their son and daughter. The ICGN board is also preparing to launch, with Hermes, a scholarship fund in Ross Goobey's memory.