

RiskMetrics Group's New Governance Risk Indicators (GRId)

RiskMetrics Group (RMG) has recently introduced its new process for evaluating governance-related risk called Governance Risk Indicators (GRId). This will replace the Corporate Governance Quotient (CGQ) in March of 2010. This new tool is broader in scope than the CGQ and is intended to help investors better assess the level of governance-related risk at their portfolio companies. The GRId assessment will be closely aligned with the principles that underlie RMG's proxy voting policy but will not be used to make vote recommendations on shareholder ballot items such as the election of compensation committee members or the approval of equity compensation plans. The following Cogent Alert outlines a description of the GRId, how it both differs from and is similar to the CGQ, and the timing and implementation of the GRId.

Description of the GRId

The new assessment will focus on evaluating risk in four key areas of corporate governance: audit, board, compensation, and shareholder rights. It will consist of 60 to 80 *questions*, answered by RMG using data collected for each company, that will determine whether certain practices contribute to or mitigate a company's governance-related risk. These four key areas are further divided into subsections and measured by level of concern: low, medium, or high. *Answers* will be weighted according to each practice's significance in the market in which the company operates as well as prevailing best practices in that market. The weighted results are summed to obtain a rating for each of the four key areas and then provided to the company as an absolute rating that reflects the level of governance-risk concern based on a company's practices. A profile will be provided in the proxy report that lists how certain factors potentially impact shareholder value. RMG is clear to point out that the methodology is fully transparent and "represents the beginning, rather than the end, of a discussion of contributions of corporate governance to risk management." RMG will shortly issue a technical document detailing the data points used in the GRId.

Comparison of the GRId to the CGQ

RMG states the purpose of both the CGQ and the GRId as tools to help investors identify portfolio risk related to governance and to help companies align with best governance practices and thereby increase shareholder value. Neither the assessment from the CGQ nor the GRId is

considered in vote recommendations, although the GRId is closely tied to the timing and principles of RMG proxy voting policy. Unlike the CGQ, the GRId is less uniform and factors in local market nuances to create a customized assessment. Additionally, the GRId contains approximately 70 variables, based on a company's market, as opposed to the CGQ's 65 variables, for all markets, and is not scored relative to a company's index and industry peer group; rather, the evaluation is absolute. The CGQ categories for evaluating companies include: board of directors, audit, charter and bylaw provisions, anti-takeover provisions, executive and director compensation, progressive practices, ownership, and director education. The GRId categories consist of: audit, board, compensation, and shareholder rights.

Timing and Implementation of the GRId

The GRId assessments will be published on proxy research reports beginning in early March 2010. CGQ scores will be frozen in early March 2010 and retired at the end of June 2010. For companies with February meetings, CGQ ratings will be updated and published on proxy research reports. These companies will have GRId ratings by June 30, 2010. Companies with early-March meetings will have CGQ ratings updated, but they will not be published on proxy research reports (ratings will be available on Yahoo! Finance). GRId ratings for this group of companies will also be ready by the end of June 2010. Finally, companies with late-March meetings and beyond will have GRId ratings appear on proxy research reports beginning in early March. Companies will be emailed once GRId data is ready for review.

Cogent Opinion

The implementation of the GRId provides better transparency for governance-risk assessment than the CGQ. RMG intends to publish the GRId methodology, providing the means for anyone to replicate this assessment. While this full disclosure is important and helpful, the GRId is still a platform by which RMG can convey its position on best practices in corporate governance. The assessment is beneficial to investors in that it allows them to view each governance related topic individually and evaluate its meaningfulness to their investing priorities and company risk. For example, if investors disagree that there is inherent risk in the combination of the CEO and Chairman role, then the GRId assessment will allow them to view that category independently, as opposed to combined with other topics in an overall score. Companies should be careful to consider that, although the GRId assessment is not used in making vote recommendations, some of the principles in the assessment are found in RMG's proxy voting guidelines by which vote recommendations are made.

For more information and examples, please see [RMG's introduction to Governance Risk Indicators at http://www.riskmetrics.com/grid-info](http://www.riskmetrics.com/grid-info)

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