



# Governance & Proxy Review

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Edited by Francis H.Byrd

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## As We See It - Commentary from The Altman Group

The Altman Interview – Donna Anderson, Vice President & Global Corporate Governance Analyst, T. Rowe Price Associates, Inc.

Donna F. Anderson, CFA, is a Vice President and Global Corporate Governance Analyst in the Equity Division of T. Rowe Price Associates. In her current role, Donna leads the policy-formation process for proxy voting, shepherds the firm's engagement efforts with portfolio companies, co-chairs the Proxy Committee and serves as an in-house resource on environmental, social and governance issues. Donna joined the firm in 2007 and has 14 years of previous investment experience. Prior to joining the firm, she was Director of Research for AIM Investments, a division of Invesco. She earned a B.A. in Foreign Languages from Trinity University, San Antonio, Texas, and an M.B.A. from the University of Texas at Austin. She is a CFA charterholder.

### Question 1

**F.H. Byrd:** T. Rowe has always been very open to discussing proxy/voting issues with companies, something for which everyone is very appreciative. Are there any particular governance issues you will be addressing in your proxy policy prior to the 2010 proxy season?

**Donna Anderson:** *We have an open-door policy when it comes to speaking with issuers about their shareholder meetings, even during proxy season. We want to establish a dialogue with our portfolio companies on what we see as best practices in terms of governance, capital structure and executive compensation relative to the company's peers.*

*In 2010, I think the most significant change in our proxy policy will be the way we look at equity compensation plans in the U.S. We have spent the past year drawing up a proprietary, scorecard-based way to look at stock plans and backtesting it to see how it would have altered our voting pattern in the past. Under the new framework, companies earn positive marks for incorporating certain shareholder-friendly provisions in their plans. Negative points are assigned*

## Governance News & Views from across the spectrum

>>Executive Compensation

THE WALL STREET JOURNAL

### **December 30th, Morgan Stanley to Overhaul Pay Plan**

Aaron Lucchetti reports on prospective changes to the bank's executive compensation plan.

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### **December 28th, In Battle With U.S. Over Pay, AIG Chief Meets His Match**

Serena Ng, Deborah Solomon and Joann S. Lublin report on the state of the tug of war between AIG's CEO, Pay Czar Feinberg, and the Treasury.

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### **December 26th, Does Golden Pay For the CEOs Sink Stocks?**

The Intelligent Investor column comments on CEO pay and performance.

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The Washington Post

### **December 23rd, AIG Executives' Promises to Return Bonuses Have Gone Largely Unfulfilled**

Brady Dennis reports on the speed of repayment of

for areas of potential concern such as an excessive (or rapidly increasing) burn rate, an overly dilutive plan relative to the company's size and growth rate, or any problematic structural features in the plan.

### **Question 2**

**F.H. Byrd:** On December 16th, the SEC approved additional disclosure requirements regarding executive compensation and its relationship to risk. What types of data or information are critical for you in your decision-making process when voting on executive compensation and equity plans, and is there a better way for companies to present that information?

**Donna Anderson:** *Generally speaking, we think U.S. companies are doing a good job explaining the components of their executive compensation plans and how the internal decision-making takes place. The analysis becomes more difficult in situations where there is something troubling about the structure of a comp plan itself, or where we find questionable correlation between the shareholders' experience and the executives' pay over long periods of time. If a company has underperformed yet its executives have been earning more with each passing year, then we look to see whether the company does an adequate job of explaining the divergence.*

*To be candid, the 80/20 rule applies for us, especially during proxy season. On compensation-related questions, I spend 80 percent of my time looking into the 20 percent that are exceptional cases.*

*One part of the CD&A that I find particularly interesting is when a company adds supplemental tables to illustrate a point. We find many instances where these tables lead to helpful insights, but we can point to others where it seems that their intended purpose was obfuscation, not illumination.*

### **Question 3**

**F.H. Byrd:** The SEC recently approved new disclosure focused on board leadership and director qualifications and selection. Combined with the loss of the broker vote, more emphasis will now be put on how institutional shareholders vote on the election of directors. What advice would you give to companies on topics they should be aware of for director elections?

**Donna Anderson:** *We hope companies will respond to the new disclosure rules by offering shareholders a new perspective into the boardroom, focusing on the unique contributions made by each director and how their skills and backgrounds enable them to function well together as a board.*

*Without the broker vote, we can understand that some companies are concerned about the likely proportionate increase in institutional voters' impact. Like most other institutional investors who publish their voting records,*

bonus money paid to AIG executives.

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## AGENDA

### **December 21st, SEC's Disclosure Changes Raise Compensation Standards**

Josh Martin discusses the SEC's new disclosure regime on compensation risk and pay consultant use.

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## CFO.com

### **December 18th, Checking on Risky Pay**

Alix Stuart discusses the SEC's new disclosure rules on risk in compensation.

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### **>>Global Dispatches**

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## Bloomberg.com

### **December 30th, World Credit Market Shrinks For First Time in 15 Years, Mizuho Says**

Yusuke Miyazawa discusses a report on the state of the global credit market.

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## Bloomberg.com

### **December 30th, Russia Unbeatable as Kudrin Says Stocks Are Too High**

Michael Patterson reports on Russia as the hot emerging market and comments from the Russian Finance Minister.

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we support the re-election of a large majority of corporate directors, and we expect that trend will continue. Simply stated, we use the information available to us to make a decision about whether directors have effectively represented our interests, first at an individual contributor level, then at the committee level and finally at the full board level. Looking ahead, we would advise boards to take seriously any significant levels of votes withheld or cast against directors. It may be tempting for a board to attribute a high negative vote to a RiskMetrics recommendation or to the lapse of the broker vote rule, and therefore, they may feel justified in not addressing their shareholders' underlying concern. Whether under a plurality standard or a majority standard, we hold boards accountable if we think they are not responding appropriately to constructive feedback from shareholders, particularly if such feedback presents itself in the form of a large number of votes in favor of a particular shareholder proposal or withheld votes with respect to the election of directors.

#### **Question 4**

**F.H. Byrd:** The SEC recently approved new disclosure also focuses on board oversight of risk. What type of information on this question would one find useful?

**Donna Anderson:** We do not think it's advisable for companies in every industry to establish risk committees at the board level. Risk is one of those factors that is truly dependent on the facts and circumstances within each company. We expect disclosure about specific risk-management processes to improve over the next few years, but for the upcoming proxy season what we would find most helpful is a simple narrative about how the board goes about supervising management's responsibility to define, identify, categorize and manage the spectrum of risks relevant to that company.

#### **Question 5**

**F.H. Byrd:** Tax gross-ups and reimbursement on perks are under the microscope these days. How will T. Rowe be looking at these issues on director votes and equity compensation plan votes?

**Donna Anderson:** With very few exceptions, we do not believe tax gross-up arrangements are an appropriate use of company resources, whether contained in change-in-control agreements or included within the executive perks package. We have withheld votes from compensation committee members on this basis alone, and in addition, the presence of these provisions will be a negative factor on our scorecard-based approach to assessing equity compensation plans. We believe that most uses of tax gross-ups are out of step with contemporary standards in executive compensation.

**F.H. Byrd:** Thanks for the insights, Donna.

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#### **December 29th, Munich Re-Urges Climate Action**

Gerrit Wiesmann reports on the insurer's annual survey of natural catastrophes.

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#### **December 29th, 2010 Outlook: German Economy Faces Mini-Boom, But Risks Loom**

Comments from Sebastian Dullien, a professor of economics at the University of Applied Sciences in Berlin.

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#### **December 29th, Tending to India's Credibility**

Geeta Anand sits down with Deepak Parekh, government appointed director at Satyam Computer Services Ltd. to discuss changes at the company and meeting the challenges to the credibility of India's corporate sector.

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#### **December 23rd, Sovereign Wealth Funds On the Hunt**

Mina Kimes reports on a renewed interest in deals among Sovereign Wealth Funds.

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#### **December 22nd, Russia's Richest Man Sets Up Oligarch's Bank**

A Reuters report discusses the plans of Mikhail Prokhorov to pool financial resources with other wealthy Russians in a distressed investment fund.

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### The Altman Group's Opinion Survey Regarding Certain Aspects of the SEC's Proposed Rules on Proxy Access

The Altman Group is conducting a survey of opinions regarding issues raised by the SEC's proposing release on "Facilitating Shareholder Director Nominations" ("Proxy Access"). We are asking readers to participate in a short survey (only 20 questions/5-8 minutes), designed to provide constructive insights into selected proxy access issues. We will be closing the survey for responses after the close of business on Wednesday, January 13th in order to provide us with time to analyze the results and prepare a report for submission to the SEC by the new comment period deadline (Tuesday, January 19, 2010). Note: identifying information requested in the survey will not be publicized, and will be used only for analytical purposes and to identify duplicate submissions from the same company or institution. Please go to the following link: <http://www.surveymonkey.com/s/98NMLPP>

**gulfnews.com**

### **December 21st, Dubai World to Pay Interest**

Dubai World announces a plan to make interest payments on its debt.

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### **>>Proxy Contests/Battles for Control**

# DealBook

### **January 5th, Kraft Offers Cadbury More Cash and Sells Unit to Nestlé**

Chris V. Nicholson discusses Kraft's latest offer.

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### **January 5th, Berkshire Issues Warning to Kraft**

Dana Cimilluca and Cecilie Rohwedder report on Berkshire's planned vote against Kraft's proposal to issue up to 370 million shares to finance its offer for British chocolate maker Cadbury.

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### **January 3rd, Kraft Set to Raise Bid for Cadbury**

Jenny Wiggins reports on the latest moves in the battle for Cadbury.

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**Bloomberg.com**

### **December 30th, M&A Rebound Years Away as Morgan Stanley Sees 'Gentle Recovery'**

Zachary R. Mider reports on an analysis of a

potential 2010 recovery and what that would portend for the merger and acquisition business.

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# DealBook

## **December 30th, The Deal Professor's 2009 in Review, Part I: No Exit**

Comments on deal prospects for 2010 from Steven M. Davidoff. [The Deal Professor's 2009 in Review, Part II: The Deals](#)

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>>Investor Action



## **January 3rd, External Experts Help FSA Probe Banks**

Paul J Davies reports on the use of outside financial experts to examine large banks by the UK's Financial Services Authority.

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## **December 30th, New Comments Could Broaden Debate On Proposed SEC Proxy Rules**

Fawn Johnson discusses the ongoing debate on Proxy Access.

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## **December 30th, Wall Street Waits As SEC Fails To Bring Madoff-Inspired Reforms**

Jesse Westbrook reports on reform efforts at the SEC.

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**Bloomberg.com**

**December 24th, Dimon, Blankfein, Mack, Among First to Testify at Crisis Panel**

Lorraine Woellert reports on which top-level bankers have been called to testify at the Congressional Financial Crisis Panel.

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**CFO.com**

**December 15th, Will the SEC Get Personal?**

Sarah Johnson discusses the possibility of a greater focus on individual corporate managers, attorneys and advisors by the SEC.

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**>>The Boardroom**

**AGENDA**

**January 4th, Directors Rank Boardroom Priorities for New Year**

Tony Chapelle discusses a recent survey of corporate directors conducted by Agenda.

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**BOARDMEMBER.com**

**December 24th, This Week In the Boardroom – A Discussion of the Top Ten Issues for 2010 with Scott Cutler of the NYSE Euronext**

(Video)

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**December 24th, Boards Mature With Firms**

Pui-Wing Tam reports on a Spencer Stuart **study** of a trend in board composition among Silicon

Valley companies.

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**December 22nd, Creativity, Meet Destruction**

Scott Thurm provides discussion and analysis of the first decade of the 21st Century and its impact on corporations and the market.

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**December 21st, New Governance Disclosures Force Balancing Act on Boards**

Kristin Gribben discusses the impact of the SEC's new disclosure rules on management's director nominees.

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**CFO.com**

**December 21st, From Windows to Windshields**

David McCann reprises parts of a 2008 interview with Chris Liddell, who is leaving his position as CFO of Microsoft for General Motors.

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**January 17th, Activist Targets CEO Succession**

Francesco Guerrera and Joanna Chung report on plans by activist institutional investors to sponsor shareholder resolutions focused on CEO succession planning.

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**December 17th, Last Days of BofA's**

### **Hunt For a CEO: Pay, Politics**

Dan Fitzpatrick and Deborah Solomon provide analysis on the selection of BofA's new CEO.

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### **December 9th, Q&A With Martin Lipton and Richard Ferlauto: Short-Termism**

The Conference Board engages in a Q&A session on the subject of short-termism.

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### **December 2009, Some Thoughts for Boards of Directors in 2010**

The magazine shares some thoughts from Marty Lipton and his team at Wachtell, Lipton, Rosen & Katz.

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