

Study Links Directors to Options Scandal

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More than 1,000 directors of US companies have benefited from the controversial practice of backdating stock options to boost their pay, according to new research set to open another front in a scandal that is spreading rapidly across corporate America.

The study by three academics - to be published today- is the first to provide evidence that options of outside directors were backdated in the same way as the ones awarded to chief executives. It could prompt regulators and companies to widen their probes to include backdating by directors.

The backdating scandal has engulfed nearly 200 companies but attention has focused on options given to chief executives and other company officers. Several chief executives have been forced to resign as a result.

However, the new findings are potentially more damaging to shareholders' trust in companies' boards because outside directors are charged with overseeing executives' conduct and corporate governance practices on behalf of shareholders.

The study, by Harvard Law School's Lucian Bebchuk, Cornell University's Yaniv Grinstein, and Insead's Urs Peyer, found that about 1,400 directors at 460 US companies benefited from stock options backdated to the lowest price in a monthly period.

"Rather than being merely uninformed and/or passive bystanders vis-à-vis the backdating of grants to executives, a large number of outside directors have themselves benefited from grant manipulation practices," the study concludes.

Lynn Turner, a former Securities and Exchange Commission chief accountant, now with investor advisory firm Glass Lewis, said the research should prompt the SEC to widen its probes.

"It raises a fundamental issue: how do you establish accountability for directors? At the moment, investors have no ability to hold them accountable," he said.

The study, which looked at 90,000 grants to more than 30,000 directors at around 6,000 companies between 1996 and 2005, will be sent to the SEC, where Prof Grinstein is a visiting scholar for this year and the next.

Roger Raber, chief executive of the National Association of Corporate Directors, which represents some 10,000 directors of US companies, said the practice was unjustifiable. "Shame on them. It is one thing if management did it without letting the board know, but it is much worse if directors were intent on backdating options," he said.

The study found that directors' backdated options were more likely to have occurred when executives also got a grant on the same date.