

Conflict of Interests Policies and Practices Vary Widely at Proxy Advisory Firms

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Part two of this two-part article examines how Institutional Shareholder Services, Glass Lewis, and PROXY Governance handle potential conflicts of interest.

The first page of the proxy voting recommendation report from [Glass Lewis](#) on Chevron (ticker: [CVX](#)) includes a much different conflict of interests disclaimer than the boilerplate version from competing proxy advisory firm Institutional Shareholder Services ([ISS](#)). While ISS notes that companies covered in the proxy reports often purchase self-assessment tools, publications, advice, and analysis from ISS' Corporate Services division, the Glass Lewis report discloses its relationship with a shareowner resolution filer.

Harvard Law Professor Lucian Bebchuk, whose resolution calls on Chevron to reimburse shareowner expenses for resolutions receiving majority support, is a minority shareholder of Glass Lewis, serves on its advisory board, and collaborates on its shareholder rights index. Of the six shareowner resolutions up for vote at Chevron, Prof. Bebchuk's is the only one Glass Lewis recommends voting *for*.

"Glass Lewis believes we would have reached the same conclusions irrespective of who proposed the resolution," states the proxy report.

ISS recommends voting in favor of the Bebchuk resolution through both its US Standard Policy and its Socially Responsible Investing (SRI) Policy. The other major proxy advisory firm, [PROXY Governance](#), also recommends voting *for* it.

A similar resolution filed at Citigroup ([C](#)) by the American Federation of State, County, and Municipal Employees ([AFSCME](#)) asks for reimbursement of shareowner expenses for running a short slate of directors who receive over 30 percent support. Glass Lewis recommends voting *against* this resolution, as does ISS (on both its US Standard and SRI Policies), while [PROXY Governance](#) recommends voting *for* it.

For Glass Lewis, a primary distinction between the two resolutions is that majority support triggers reimbursement with Prof. Bebchuk's resolution, whereas AFSCME's calls for reimbursement with less than majority support.

"It's not that we wouldn't consider supporting such a resolution as AFSCME's ever, but given the circumstances at Citigroup, we didn't feel it was worth it," said Bob McCormick, vice president of proxy research and operations at Glass Lewis. "If Citigroup had a history of being intransigent or ignoring shareholder concerns, we would be more inclined to support this proposal, but since it allows somebody who hasn't even gotten a majority of shareholders to agree with them to be reimbursed, we feel that using shareholder assets to pay for even a portion of expenses wasn't in

shareholders' best interest.

Of course potential conflicts of interest with companies is a much more grave concern for proxy advisory clients than potential conflicts of interest with resolution filers. Glass Lewis guards against such conflicts by not doing any business with corporate clients.

"Just as Regulation FD says that all investors should have equal access to information when making their investment decisions, we feel the same should apply to proxy voting decisions, which really are part and parcel of the investment decisions," Mr. McCormick told SocialFunds.com

"The closest we come to such conflicts of interest would be when we have a corporate pension plan as a client for our proxy advisory services," Mr. McCormick added.

Glass Lewis does not have any such client relationships with Citigroup or Chevron, according to Glass Lewis spokesperson Bayley Diamond.

ISS has faced criticism about potential conflicts of interest by working with corporate clients, but Jim Letsky, a senior analyst with ISS, calls these "inaccurate critiques."

"A company's status as a client has absolutely no bearing on my recommendations--there is a very clearly delineated separation between our Corporate Services group and our Institutional Services," Mr. Letsky told SocialFunds.com. "To be honest, I don't know if either of these companies are our clients."

This lack of knowledge is not accidental, according to Cheryl Gustitus, senior vice president of communications at ISS.

"To protect the integrity of our own firewall and ensure that our analysts cannot learn of an issuer's status as a client or not, as a matter of policy and procedure, we do not disclose this information publicly," Ms. Gustitus told SocialFunds.com when asked if Chevron or Citigroup are clients.

PROXY *Governance* has come under similar criticism as ISS. The Business Roundtable, an industry organization of corporate CEOs, purchased a two-year bulk subscription for its members that helped finance the 2004 founding of PROXY *Governance*--and in the eyes of some, set the stage for potential conflicts of interest. PROXY *Governance* avoids such conflicts of interest by maintaining a Chinese wall.

"Folks on the research side do not know who the corporate clients are, and therefore can make unbiased recommendations," said Shirley Westcott, managing director of policy at PROXY *Governance*. "It's kind of like ISS.

PROXY *Governance* maintains confidentiality agreements that prevent it from disclosing which companies are clients, according to Ms. Westcott.

Given all the factors to weigh, identifying the “right” proxy advisory firm is not a simple choice from an SRI perspective. Take, for example, the resolution asking Chevron to adopt a human rights policy--Glass Lewis recommends voting *against* it, while both ISS and PROXY *Governance* recommend voting *for* it.

“We felt that in general, unless there's really clear evidence of abuse of human rights by companies that taking this step isn't necessarily warranted,” explained Mr. McCormick of Glass Lewis. “We felt this proposal wasn't specific enough and there are other ways to address the issue at the company, particularly through the election of directors.”

PROXY *Governance* had a somewhat different take.

"Chevron has been talking for several years about adopting a human rights policy--we traced company statements back to 2002, and it's still not public," said Scott Fenn, managing director of policy at PROXY *Governance* and former executive director of the Investor Responsibility Research Center (IRRC--now part of ISS). "They say they're committed to doing it later this year, but we feel it's really time to get on with it."

[Part one](#) of this two-part article compares Institutional Shareholder Services, Glass Lewis, and PROXY *Governance* vote recommendations on resolutions at Citigroup and Chevron.

2006 Proxy Voting Recommendations at Citigroup				
	Political Contributions	Performance-Based Equity Compensation	Reimburse Election Expenses	Separate Chair and CEO Positions
ISS Standard	Against	For	Against	Against
ISS SRI	For	For	Against	For
Glass Lewis	Against	For	Against	For
PROXY <i>Governance</i>	For	Against	For	Against

2006 Proxy Voting Recommendations at Chevron					
	Reimburse Majority-Vote Resolutions	Drilling in Sensitive Areas	Political Contributions	Adopt Human Rights Policy	Report on Ecuador Expenditures
ISS Standard	For	Against	Against	For	Against
ISS SRI	For	For	For	For	For
Glass Lewis	For	Against	Against	Against	Against
PROXY <i>Governance</i>	For	Against	Against	For	Against

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