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Market News

The Great Debate: Do news wire services really provide equitable disclosure?

Last month's IR Web Report story alleging that news-release wire services do not provide truly equitable access to the material information they distribute has triggered a debate about what really constitutes fair disclosure. IR Web Report noted that material news announcements are often available on certain paid financial news services several minutes before they show up on free, mass-audience sites such as Yahoo Finance. It recommends that companies post material disclosures simultaneously on their websites and via a wire service, following recent SEC guidance on website disclosure. Meanwhile, the SEC has refused direct comment on the report. Former NIRI Chairman Lou Thompson called the issue "splitting hairs," but supports the idea of simultaneous posting of material releases on company websites. Our take? The wire services need to respond in detail about how they plan to address this issue. Until then, it appears that fair disclosure requires that issuers post material news on their corporate website and simultaneously distribute at least a brief notice-and-access release via a wire service directing investors to the website.

SEC steps back from international financial reporting standard (IFRS)

The idea of a unified set of global financial reporting standards to replace GAAP seems to have lost steam. The Securities and Exchange Commission issued its long-promised roadmap for the mandatory adoption of IFRS by public companies, pushing the proposed implementation date out to 2014. The date to make the final decision whether to go with IFRS was pushed back to 2011. SEC Commissioner Chris Cox stated last week that the decision will hinge on progress made in the convergence project between the U.S. and international standard-setters, the level of IFRS education in the United States, the International Accounting Standards Board's stability, and the consistent application of IFRS worldwide. Currently, more than 100 countries have adopted IFRS, most of which have made specific changes to the standard to accommodate their own accounting standards.

Indices scurry to change classifications as stocks tumble

Standard & Poor's lowered its minimum market value for membership in the S&P 500 index from \$4.5 billion to \$4.0 billion to cut the number of companies falling off the index. Thirty companies were removed from the prestigious index since the beginning of the year, and more than half those companies were removed since September 10th. MSCI Barra, a world leading provider of equity, REIT, mutual-fund and hedge-fund indices, recently reduced its minimum benchmark for a large-cap stock to \$7.5 billion from \$11 billion, and its small-cap benchmark to \$200 million from \$300 million.

RiskMetrics grossed out over gross-ups

RiskMetrics will advise against votes for directors who agree to so-called "gross-up" tax payments on executive perks or exit packages in the 2009 proxy season. About two-thirds S&P 500 companies cover the 20 percent tax on incentives, RiskMetrics said, which leads to abuses like the \$107 million in taxes that Capital One Financial paid to the CEO of a bank it acquired in 2006. Colgate-Palmolive is one of several companies phasing out the gross-ups by capping perk packages. Declining stock values could also reduce the overall value of compensation packages. Gross-ups are just one of RiskMetric's targets for

2009. Other executive comp issues, plus board structure and audit practices are on the list. Performance issues include pay-for-performance and independent board chairs. RiskMetrics's share buyback policy now reflects client feedback and regulatory developments in Europe. It also favors allowing investors to use a discharge vote to provide a "yellow card" warning to directors who may not be fulfilling their fiduciary duties.

Employee satisfaction and stock prices – a link?

Alex Edmans, assistant finance professor at The Wharton School, has analyzed the relationship between employee satisfaction and long-run stock performance. A portfolio of the "100 Best Companies to Work For in America" outperformed the S&P 500 by 4% from 1984-2005, along with industry- and characteristics-matched benchmarks. The advantage is even greater in the 1998-2005 period. These findings, according to Edmans, suggest that employee satisfaction correlates with shareholder returns, and that the stock market does not fully value intangibles, even when independently verified. Maybe it also shows that people like their jobs more when their company is successful.

The SEC exodus has begun

SEC Chief Accountant Conrad Hewitt is the latest top SEC official to announce his departure come January, following recent similar announcements from Deputy Chief of Staff Alexander Cohen, General Counsel Brian Cartwright, and Corporate Finance Director John White. Speculation is strong that SEC Chairman Chris Cox won't be far behind them. His five-year term on the Commission doesn't expire until June 2010, but the President can choose who serves as chair at any time. SEC Chairs have traditionally offered their resignations when the White House changes hands.

E-proxy leader Broadridge used paper this year

The market leader in e-proxy services has opted not to use such services for communicating with its own investors. Broadridge Financial Solutions said it would not use notice and access as a method for delivering its own 2008 proxy statement. Instead, its shareholders will receive traditional hard copies. Since the SEC made e-proxy an option, more than 650 public companies have chosen it, and saved \$143 million on mailing and fulfillment costs. But Broadridge's own data also show that the percentage of retail accounts voting has fallen from 21.1 percent to 5.7 percent since the introduction of e-proxy. Broadridge explained that it had a number of critical issues on its shareholder ballot, and could not afford to risk a low participation rate.

At this special time of year, we always pause to remember that our business relies on the trust and confidence of the good people it is our fortune to work with. We appreciate your kindness and concern for us, and we want you to know how much we enjoy both our professional and personal relationships with you. In the New Year, we hope that we can continue to support you and your business, but equally important, we wish for continued friendship, and good health for you and your families throughout the year.



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