

# Market News

March 2009

*A monthly review of IR developments for our clients and friends. . .*

## **Familiar names on new regulatory panel**

Expect a lot of “I told you so’s” when a working group assembled by the Council of Institutional Investors and the CFA Institute’s Centre for Financial Market Integrity sits down to develop ideas for fixing the financial regulatory system. Headed by former SEC chairs Bill Donaldson and Arthur Levitt, what’s known as the Investors’ Working Group expects to issue an initial report and recommendations by late spring. But within this group are members who have butted heads on regulatory issues in the past. Brooksley Born, former Commodity Futures Trading Commission chair, battled hard back in the 1990s against Donaldson, Levitt and former Fed Chairman Alan Greenspan to let the CFTC regulate derivatives markets. Likewise, Nell Minow of the Corporate Library and Barbara Roper, director of investor protection for the Consumer Federation of America, pushed in vain for the SEC to adopt disclosure regulations that would have exposed the risks that financial firms were taking. Others in the group: former SEC Commissioner Harvey Goldschmid, Wall Street lawyer Ira Millstein, governance expert Peter Montagnon, financial columnist Jane Bryant Quinn; and Centre managing director Kurt Schacht.

## **SEC budget may reach \$1 billion for FY2010**

If the SEC misses another Madoff-like fraud, it shouldn’t be for lack of resources. President Obama has proposed a 13 percent increase in SEC funding for the FY2010 budget, to about \$1.02 billion, its largest increase since 2003, post-Enron. That’s on top of \$37 million in additional budget authority Congress wants to give the SEC for FY2009, to \$943 million this year. The Senate is also thinking about adding \$110 million more to the budgets of the DOJ, the SEC and the FBI for the specific purpose of cracking down on Wall Street fraud. More important, the Obama budget would increase funding for the Commodity Futures Trading Commission by 44 percent, equipping it to carry out its new responsibilities to regulate currently unregulated trading in financial derivatives, including mortgage derivatives at the heart of the financial crisis.

## **Don’t be so quick to concentrate on your largest shareholders**

New research from Thomson Reuters shows ownership of S&P 500 companies is becoming more widely distributed, with the portion held by the largest 30 shareholders in those companies slipping 21 percent in two years compared with the next 70 shareholders. The market information firm asserts that the data suggest IROs should be paying more attention to that next-level group, who typically trade their holdings in S&P 500 companies twice as rapidly as the top shareholders, and don’t know the company as well. Managing the perceptions of these shareholders, according to Timothy Babbitt of Thomson Reuters, could calm volatility by influencing the duration and size of their ownership, while helping them better understand the company. The report covers S&P 500 trading activity of top-100 shareholders from 2006 to 2008, and excludes activities of index and passive quantitative investors.

### **RiskMetrics/Innovest alliance points toward sustainability concerns**

RiskMetrics Group's acquisition of sustainability researcher Innovest Strategic Value Advisors is further evidence that once the financial crisis eases, sustainability issues will gain more emphasis in fundamental investor analysis. Innovest's expertise in measuring performance on environmental, social, and strategic governance issues, when matched with RiskMetrics' focus on financial and other strategic issues means institutional clients should expect comprehensive assessments on ESG issues via Innovest's 50 analysts and integrated environmental, social & governance services. Stephen Harvey, head of the Governance business at RiskMetrics Group, said "Innovest is one of the few firms that has successfully taken a quantitative approach to assessing ESG issues, thereby helping investors view what are typically intangible, compliance-oriented issues through a clearer financial lens."

### **Investors want to know your green liabilities**

Call it a sign of the times: a coalition of institutional investors and public interest groups placed nine public companies on a climate watch list in mid-February in an attempt to push them to develop and disclose strategies for responding to climate change ([www.ceres.org](http://www.ceres.org)). ExxonMobil, Chevron and General Motors were among the nine companies warned to improve their reporting to shareholders on their business-climate-related challenges and the strategies to overcome them, as future regulatory shifts will have a massive financial impact on the price of carbon footprints. Within two weeks of their announcement, the president released in his fiscal 2010 budget an ambitious proposal forcing polluters to purchase permits for emissions, projected to reap \$646 billion from 2012 through 2019.

### **Pension funding will take from the bottom line**

The benefit consulting firm Mercer recently completed a survey of S&P 500 companies, which reveals company-sponsored plans face an estimated \$409 billion in pension underfunding in 2008, versus \$60 million in overfunding in 2007. In other words, the average pension plan will be 75 percent under funded, down from 104 percent funded last year. Thus, pension funding expenses for these companies will increase from \$10 billion in 2007 to \$70 billion for 2008, causing an 8 percent hit to their bottom lines.

### **FASB promises fair value guidance in 2009**

The Financial Accounting Standard Board (FASB) is working on regulations that will eliminate the confusion over how to measure fair value in an illiquid market. The need to clarify the valuation of assets during uncertain times drew center stage attention when the SEC discouraged the lobbying by bankers to suspend market-to-market accounting in light of the financial crisis. The FASB claims the new guidelines will clearly define how to determine whether an asset or liability's market is active or inactive and whether the transaction should be considered distressed. It will also show how to apply fair value to stakes in alternative investments, such as hedge funds and private equity funds. The FASB says that it expects companies to be more thorough in their explanation of the fair-value disclosures of illiquid assets after the new regulations are released, probably in the fourth quarter of 2009.



*For investor relations or market questions, or to discuss our consulting services, please contact us at (937) 434-2700.*