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GMI Looks at Corporate Boards and Risk Oversight

Investors Need Greater Transparency

New York, June 29, 2009 - GovernanceMetrics International (GMI), the corporate governance research and ratings firm, announced today new findings concerning enterprise risk management and risk oversight at the board level, noting standardized disclosure is lacking at most companies.

GMI's most recent rating release, made available to clients last week, includes a number of new metrics concerning risk oversight. These had been under consideration for a while but were made paramount by ongoing turmoil in the financial and credit markets. The new metrics are now factored into the GMI rating model. Some highlights follow:

Standardized disclosure of company-wide risk management is lacking

- Only 33.1% of the 4,162 companies covered by GMI worldwide provide comprehensive disclosure on their enterprise risk management policies (ERM) in the annual report or other publicly available source
- Only 8.4% disclose they have implemented a nationally or internationally recognized risk management charter or standard such as COSO's Integrated Framework for Enterprise Risk Management

Risk committees of the board are even less common and are sector-specific

- 27.6% of companies covered by GMI disclose having a combined audit and risk committees
- 5.9% of companies covered by GMI disclose a stand-alone board level risk committee or subcommittee
- These were most often found among Banks (35.1%), followed by Life Insurers (21.3%) and Non-life Insurers (17.6%)
- There were no stand-alone board level risk committees or subcommittees in 11 of the 41 sectors covered by GMI

There is a huge disparity between directors with risk management experience and those with general accounting or financial expertise

- Only 1% of the companies covered by GMI globally have at least one non-executive board member who has general expertise in risk management

- By contrast, 77.1% of companies covered by GMI have at least one non-executive member of the board audit committee who has general expertise in accounting or financial management

This pattern is not likely to change any time soon

- Of the 1,659 new board members tracked by GMI so far in 2009, 35% had general accounting or financial expertise, compared to 1.4% with risk management expertise

The Banking sector in particular is racing to raise oversight standards

- Of the 227 new board members tracked by GMI at Banks so far in 2009, 55.5% had general accounting or financial expertise and 3.5% had risk management expertise

The Australia-New Zealand region looks relatively progressive overall

- The Australia - New Zealand region disclosed the widest use of stand-alone board level risk committee or subcommittees (12.1% v. 5.9% worldwide)
- 75.8% of companies in Australia and New Zealand have at least two non-executive directors with substantial industry knowledge, compared to 56.8% worldwide

According to GMI President and CEO Howard Sherman, “Events of the last year have made it clear there is a need for heightened risk oversight at the board level. As companies start to come to grips with the challenge, we thought now would be the right time to start to develop a baseline. Our expectation going forward is that companies seen to be taking serious steps to augment risk oversight, especially in the financial sector, will be rewarded by the market.”

GMI’s new metrics focus on four areas:

- Company disclosures concerning enterprise risk management (ERM)
- A determination as to whether members of the board involved in risk oversight and / or those serving on the audit committee have relevant industry experience
- The prevalence of risk oversight experience among members of the board
- Qualifications of members of the audit committee of the board

The new ERM metrics were based in part on a survey and paper GMI prepared jointly with the Risk Consulting Practice of Marsh Inc. (*The Importance of ERM during Economic Upheaval*, February 2009). Sherman observed that the disparity between directors with risk management experience and financial or accounting backgrounds was not a surprise given the former has not been a typical career path for board members.

“Ideally, the full board should be involved in risk oversight,” said Sherman. “To that end, we expect to see companies employing a variety of approaches. Whatever path they choose to take, there clearly is a need for increased transparency concerning companies’ overall approach to risk management. At the end of the day, our job is to help our clients identify companies adopting best practices and those where progress may be lacking.”

In keeping with the increasing demands on directors’ time, with its latest release GMI also announced it had tightened the standards by which it treats “over-boarded” directors. GMI’s new guidance is that the CEO should serve on no more than two public company boards (with the board where he or she serves as CEO counting as one of the two), down from three. For non-executive directors our new guidance is that the upper limit is no more than three public company boards, down from four.

About GMI: GMI ratings, research reports and e-Alerts are used by a wide array of global financial institutions. Depending on the organization, clients use GMI as part of their overall investment research strategy, to support corporate engagement programs and ESG-specific research and investment products, and to help assist with portfolio risk analysis. GMI is often combined with traditional analytical tools such as discounted cash flow or financial ratio analysis to create more robust valuation models. GMI publishes new research reports for all companies covered on a quarterly basis and conducts interim re-ratings when events so warrant. Additional information can be found at www.gmiratings.com.

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