



**RiskMetrics Group**

---

## 2008 Proxy Season Preview

Focusing on Executive Pay, Director Elections, and Subprime Proposals

February 15, 2008

---

Copyright © 2008 by RiskMetrics Group.

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopy, recording, or any information storage and retrieval system, without permission in writing from the publisher. Requests for permission to make copies of any part of this work should be sent to: RiskMetrics Group Marketing Department, One Chase Manhattan Plaza, 44th Floor, New York, NY 10005. RiskMetrics Group is a trademark used herein under license.

## Introduction

The 2008 U.S. annual meeting season will find investors focused primarily on three key governance issues: executive compensation reform, board election reform, and risks to portfolio companies stemming from exposure to mortgage-backed securities and other high-risk investments.

Still, investors also continue to spotlight other key governance concerns—such as dismantling takeover defenses—and have so far filed in sum nearly 600 governance-related proposals as of Feb. 15. Included in the tally are 40 proposals calling for declassified boards, and 32 each to rescind supermajority vote requirements and to allow for cumulative voting. Last year those measures fared well, with average support for the proposals amounting to 64, 68, and 34 percent, respectively.

Calls for independent chairmen or the separation of the chairman and CEO posts also will receive attention in 2008, albeit proponents have so far submitted fewer proposals this year. Thus far, RiskMetrics Group is tracking 20 such proposal filings at companies including Time Warner, Eli Lilly, Chevron, Pfizer, and Wells Fargo. Last proxy season, nearly 40 such proposals—out of 49 filed—came to a vote, receiving average support of roughly 25 percent of votes cast “for” and “against.”

Similarly, some perennial concerns will be voiced this proxy season, albeit with less frequency. In a trend dating back to last year, far fewer proposals seeking to redeem or vote on poison pills have been filed in 2008 than in past years, while the same holds true for resolutions seeking curbs on golden parachutes. During the 2006 proxy season, for instance, RiskMetrics Group tracked 27 pill-related filings, compared with just nine filed so far in 2008. This year, meanwhile, just six proposals on golden parachutes have been filed, compared with 28 during the first half of 2006.

Proxy fights may feature prominently during the 2008 proxy season, in addition. So far, companies including Sybase, Wendy’s International, and the New York Times Company are facing challenges from dissident investors seeking greater board representation. Carl Icahn, meanwhile, recently disclosed plans to seek three board seats at pharmaceutical company Biogen Idec.

As economic recession looms and stock prices dip, activist shareholders and others may eye potential targets more frequently than in past years, with many opting to launch proxy fights, particularly in the wake of the Securities and Exchange Commission’s recently promulgated e-proxy and e-forum rules. The rules, according to many observers, hold the potential to markedly reduce the cost of undertaking such contests. Microsoft, which may mount a proxy fight in an effort to secure its \$45 billion unsolicited bid for Yahoo!, is one example of the potential for a spike in proxy fights as languishing share prices spur the market for corporate control.

## Compensation Proposals

Investor calls for advisory votes on pay and other measures to reform executive compensation will resonate in 2008 as U.S. capital markets slide in the face of recession.

A network of investors, led by Boston-based Walden Asset Management and the American Federation of State, County and Municipal Employees, has so far filed more than 90 proposals calling for an advisory vote on pay, compared with 44 such resolutions at this time last year. The network’s membership—which ranges from church groups to pension fund giants including the California Public Employees’ Retirement System—also has grown from 2007. Nearly 75 investors have come together this year to file the measure at primarily large and medium-sized companies.

“Companies receiving the proposal include those where shareholders believe there has been non-performance, options backdating, and other major issues that shareowners need to address,” said Timothy Smith, senior vice president at Walden Asset Management. Abbott Laboratories, Capital One, Lexmark and Wells Fargo are among

those targeted. Spokeswomen at Capital One and Wells Fargo declined to comment on the filings, while officials at Abbott Laboratories and Lexmark did not immediately respond to requests for comment.

#### Sample of 2008 'Say on Pay' Proposal Filings

Company	Proposal	Filer	Status
Affiliated Computer Services	Advisory vote on comp.	AFSCME	Pending
Apple	Advisory vote on comp.	AFL-CIO	Pending
Bank of America	Advisory vote on comp.	Steiner, K.	Pending
Bank Of New York Mellon	Advisory vote on comp.	AFSCME	Pending
Bear Stearns	Advisory vote on comp.	AFL-CIO	Pending
Citigroup	Advisory vote on comp.	Conn., AFSCME	Pending
ConocoPhillips	Advisory vote on comp.	AFSCME	Pending
Countrywide Financial	Advisory vote on comp.	AFL-CIO	Pending
Dell	Advisory vote on comp.	AFL-CIO	Pending
Dresser-Rand Group	Advisory vote on comp.	CWA	Pending
Edison International	Advisory vote on comp.	Chevedden, J.	Pending
Electronic Data Systems	Advisory vote on comp.	Steiner, W.	Pending
General Electric	Advisory vote on comp.	Walden AM	Pending
General Motors	Advisory vote on comp.	Chevedden, J.	Pending
Goldman Sachs	Advisory vote on comp.	Walden AM	Pending
HealthSouth	Advisory vote on comp.	NYC funds	Pending
IBM	Advisory vote on comp.	Boston Common AM	Pending
Ingersoll-Rand	Advisory vote on comp.	AFSCME	Pending
Jefferies Group	Advisory vote on comp.	TIAA-CREF	Pending
Johnson & Johnson	Advisory vote on comp.	TIAA-CREF	Pending
Jones Apparel Group	Advisory vote on comp.	Calvert	Pending
JPMorgan Chase	Advisory vote on comp.	SEIU	Pending
Lexmark International	Advisory vote on comp.	LongView	Pending
Lockheed Martin	Advisory vote on comp.	Chevedden, J.	Pending
Merck	Advisory vote on comp.	AFL-CIO	Pending
Merrill Lynch	Advisory vote on comp.	AFSCME, Conn.	Pending
Morgan Stanley	Advisory vote on comp.	AFSCME	Pending
Motorola	Advisory vote on comp.	AFL-CIO	Pending
Nabors Industries	Advisory vote on comp.	AFL-CIO	Pending
Pulte Homes	Advisory vote on comp.	AFL-CIO	Pending
Raytheon	Advisory vote on comp.	AFSCME	Pending
Ryland Group	Advisory vote on comp.	TIAA-CREF	Omitted
Tenet Healthcare	Advisory vote on comp.	LongView	Pending
The Allstate	Advisory vote on comp.	AFSCME	Pending
U.S. Bancorp	Advisory vote on comp.	AFSCME	Pending
UnitedHealth Group	Advisory vote on comp.	Walden AM	Pending
Wachovia	Advisory vote on comp.	AFSCME	Pending
Waddell & Reed	Advisory vote on comp.	Boston Common AM	Pending
Wal-Mart Stores	Advisory vote on comp.	LongView	Pending
WellPoint	Advisory vote on comp.	Conn.	Pending
Wells Fargo	Advisory vote on comp.	Walden AM	Pending

Source: RiskMetrics Group

The proposal, dubbed "say on pay," also will be filed at companies such as General Electric that have generally been viewed favorably by shareholders with respect to executive compensation and other facets of governance, according to Smith. "We believe [such companies] should provide leadership in adopting an

advisory vote” on pay, said Smith, who also noted that dialogue on the issue has increased this year. Governance watchers have in recent months called for increased communication between issuers and shareholders on a range of issues including compensation. “Improved communication and dialogue ... may provide compensation committees with a broader perspective and balance in relation to the views provided by management,” wrote Weil, Gotshal & Manges attorneys Ira M. Millstein, Holly J. Gregory, and Rebecca C. Grapas in a memo to clients earlier this month. “It may also lessen the push for an advisory vote on executive compensation.”

Last year, 20 companies and investors came together to form the “Working Group on the Advisory Vote on Executive Compensation” to study the issue. Three companies—Par Pharmaceuticals, Verizon Communications, and Aflac—have so far taken steps to allow for advisory votes on pay following shareholder proposal filings in 2007 calling for the right. Aflac, the Georgia-based insurer, will be the first to give shareholders the vote when it holds its annual meeting on May 5. The company originally planned to allow for the vote in 2009.

Concerns over compensation in 2008 will not be limited to calls for advisory votes on pay, though. Novel proposals will include demands for companies to adopt a policy on the use of so-called 10b5-1 stock-selling plans, and those seeking to limit or bar tax gross-ups for senior executives. Another resolution seeks to place limits on executive employment agreements.

First year proposals generally do not fare as well as those in their second and third year, though this year may prove an exception. “As the market declines, there’ll be more support for compensation reform,” notes Charles Elson, director of the University of Delaware’s Weinberg Center for Corporate Governance. “The downturn will only fuel the efforts of shareholders.”

Reports of record Wall Street bonuses at financial firms that sustained considerable losses in 2007 as a result of exposures to mortgage-related investments are likely to stimulate broad support for proposals tied to executive pay. Goldman Sachs, Morgan Stanley, Merrill Lynch, Lehman Brothers, and Bear Stearns together awarded roughly \$39 billion in year-end bonuses, exceeding the \$36 billion distributed in 2006 when the industry reported all-time high profits, Bloomberg News reported.

CEOs at Morgan Stanley and Bear Stearns forfeited bonuses in light of bad bets on subprime mortgage-backed securities. That may mollify shareholders who are expected to vote on a range of proposals including those calling for strengthened links between pay and performance. Labor funds, led by the United Brotherhood of Carpenters’ and Joiners of America, have so far filed more than 50 such resolutions at spring annual meetings.

#### **Pay-for-Superior-Performance**

More than three-dozen proposals requesting a pay-for-performance link received average support of nearly 30 percent in 2007, while roughly two dozen similar resolutions received more than 36 percent support in 2006.

This year’s proposals typically call for compensation committees to adopt a pay-for-superior-performance principle by establishing compensation plans that set strict criteria for achieving payout targets. For example, measures call for the establishment of performance targets for each plan financial metric relative to the performance of peer companies, as well as delivery of a majority of the plan’s target long-term compensation through performance-vested equity awards rather than time-vested awards.

Bear Stearns is one company that sought to challenge the proposal at the SEC on the grounds it has been “substantially implemented,” arguing its compensation committee “has historically followed the long-held principle that the executive officers should be rewarded based on both the [c]ompany’s and their own individual performance.”

In their Dec. 21 letter to the SEC, lawyers for the New York-based financial firm note that the commission has in the past stated that exclusion may be appropriate “...even if company practice does not mirror the proposal exactly.” Thirty-two percent of Bear Stearns’ shares present and represented, including abstentions, voted in

favor of a Carpenters' pay-for-performance proposal at last year's annual meeting. The company has since settled with the proponent.

The Carpenters have so far filed pay-for-superior-performance proposals at more than 30 companies, including Best Buy, Honeywell International, WellPoint, and Northern Trust, according to RiskMetrics records. To date, the fund has withdrawn the measure following dialogue with management at 14 firms. Moreover, the fund also has written letters to nearly four-dozen companies similarly seeking a tighter link between pay and performance.

### New Concerns Spotlighted

Troubled by the potential for executives to abuse certain benefits, labor pension funds are filing two new proposals in 2008.

AFSCME plans to submit proposals calling on companies to adopt tighter controls on executive stock sales under "Rule 10b5-1" plans. That SEC rule, enacted in 2000, was meant to provide flexibility to insiders who may not trade on information that is not available to outsiders by allowing them to set up automatic trading protocols that operate regardless of insider trading "windows." However, critics of the rule contend that loopholes allow executives to cancel trades when nonpublic information would indicate, for example, that a sale may not be beneficial. A September 2007 study by Stanford University researcher Alan D. Jagolinzer found that the rule "appears to enable strategic trade[s]," and SEC officials have warned that the study suggests the possibility of abuses, which they are investigating.

AFSCME's 10b5-1 proposal, filed so far at Safeway and SanDisk, seeks to close potential loopholes by tightening disclosure requirements and putting in place stronger controls. The resolution calls on boards to adopt principles to help ensure that 10b5-1 plans are not abused. For instance, one principle would limit amendments, or the early termination of plans. Another would require the broker handling 10b5-1 plan trades not to handle other trades for an executive in order to minimize the likelihood that the executive will inadvertently communicate material nonpublic information to the broker.

The proposal also calls for a 90-day gap between adoption or amendment of a 10b5-1 plan and initial trading under the plan, barring executives from trading in company stock outside plans, and a requirement to identify plan transactions on Form 4 reports, which are corporate filings on trades by insiders. "We believe that 10b5-1 plans, with proper safeguards, can serve a useful function," AFSCME notes in the proposal's supporting statement. "The disclosure-related principles aim to increase transparency regarding 10b5-1 plans."

AFSCME also is submitting a new compensation-related proposal that seeks to limit the use of tax gross-ups, whereby companies cover the tax liability of executives, often following a change in control. Such payments have received widespread coverage in recent years as use of perks has proliferated and new SEC compensation disclosure rules make it easier for investors to identify such potential payments.

### Sample of New Compensation-related Proposal Filings for 2008

Company	Proposal	Filer	Status
Sandisk Corp.	Establish 10b5-1 policy	AFSCME	Pending
Safeway	Establish 10b5-1 policy	AFSCME	Pending
Northrop Grumman	Establish anti-gross ups policy	AFSCME	Pending
Textron	Establish anti-gross ups policy	AFSCME	Pending
Nabors Industries	Establish anti-gross ups policy	AFSCME	Pending
CVS Caremark	Establish anti-gross ups policy	AFSCME	Pending
American Express	Establish anti-gross ups policy	AFSCME	Pending
Clear Channel Communications	Establish anti-gross ups policy	AFSCME	Pending

Source: RiskMetrics Group

AFSCME's proposal calls on companies to refrain from making or promising to make gross-up payments to its senior executives, except those "provided pursuant to a plan, policy or arrangement applicable to management employees" generally, such as those related to relocation or expatriate tax-equalization policies. The proposal defines a gross-up as "any payment to or on behalf of the senior executive whose amount is calculated by reference to an actual or estimated tax liability of the senior executive." The definition is designed to focus on the often large payments made in conjunction with severance packages awarded after takeovers.

"Gross-ups highlight the dubious effects of privilege that allow CEOs to avoid taxation, while ordinary Americans cannot," said Richard Ferlauto, director of pension and benefit policy at AFSCME. Proposals have so far been filed at Nabors, American Express, Textron, CVS Caremark, Northrop Grumman and Clear Channel Communications.

Connecticut Retirement Plans and Trust Funds is seeking to bridge the gap between CEO pay and that of the next highest-paid named executive officer, or NEO. So far, the pension fund is calling on two companies--Abercrombie & Fitch and SUPERVALU--to adopt an internal pay equity policy. Under the proposal, compensation committees would be charged with conducting peer group and other analyses and then disclosing to shareholders "the role of internal pay equity considerations in the process of setting compensation for the CEO and other NEOs." We "believe that large CEO to NEO pay ratios may indicate inadequate succession planning, since large disparities may be seen as reflecting significant differences in contribution and ability," fund officials wrote in the proposal.

Meanwhile, the AFL-CIO is submitting a new resolution that seeks to curb employment contracts for named executive officers. The limits include capping such agreements at three years, barring evergreen clauses that allow for renewal without shareholder approval, and barring the accelerated vesting of stock-based awards and the use of excise tax gross-ups.

## Director Election Proposals

The 2008 proxy season takes place in the shadow of the Securities and Exchange Commission's November decision to allow companies to exclude proxy access proposals. Labor and public pension funds submitted five access proposals in a bid to test the agency's decision in court, and a Feb. 11 "no-action" decision by the agency to allow for their omission will likely pave the way for litigation, observers say. Any lawsuit is unlikely to play until after proxy season, however.

With access out for 2008, investors will press forward with old, new, and updated resolutions that seek to improve boardroom accountability. As in past years, dozens of majority threshold voting proposals may be on the ballot during the 2008 annual meeting season. According to RiskMetrics Group records, the United Brotherhood of Carpenters and Joiners of America and others have so far filed 80 such resolutions, with the vast majority targeting S&P 500 companies.

Resolutions seeking reimbursement for short-slate solicitation expenses are set to appear at a handful of companies this coming proxy season. Meanwhile, uninstructed broker voting may also feature prominently as a topic of debate. In a 2008 shareholder proposal filing, the Service Employees International Union called for the exclusion of uninstructed broker votes at CVS Caremark. The labor fund withdrew that resolution in December in the face of a challenge at the SEC, but SEIU officials tell RiskMetrics Group that they will seek other ways to highlight the issue.

## Reimbursement Proposals

AFSCME, the American Federation of State County and Municipal Employee, is planning to submit a half dozen binding proposals calling for the reimbursement of solicitation expenses. Some observers believe this resolution may gain more attention in light of the SEC's proxy access decision.

One such proposal, filed at Houston-based energy company Apache, calls for reimbursement of "reasonable expenses ... incurred in connection with nominating one or more candidates in a contested election of directors to the corporation's board of directors, including, without limitation, printing, mailing, legal, solicitation, travel, advertising and public relations expenses ...."

Limits would be placed on the repayment of expenses incurred. For example, reimbursement could only occur for elections after the bylaw is approved and for a "short slate" of nominees (i.e., less than half the board) where one or more is elected and cumulative voting is not allowed. The amount paid to the nominator may "not exceed the amount expended by the corporation in connection with such election."

A similar proposal filed last year at Apache received 14 percent support, according to RiskMetrics data. Computer manufacturer Dell also will be targeted in 2008, according to AFSCME.

"If the reimbursement proposals do well, they may in the end supplant access," says Charles Elson, director of the John L. Weinberg Center for Corporate Governance at the University of Delaware. "I think it's the ultimate solution." Elson has long been a champion of such proposals, arguing that proxy-cost reimbursement is a more prudent alternative to access.

### Broker Voting

Another proposal, submitted by SEIU, had called on CVS Caremark not to count uninstructed broker votes in director elections. At the company's last annual meeting in May, former Caremark director Roger Headrick received a 43 percent "against" vote over his role in approving the pharmacy-benefits company's sale to CVS. The labor fund argued that Headrick would have failed to get a majority of votes cast (which is required for election) had uninstructed "broker votes" been excluded.

SEIU officials say the binding proposal was withdrawn after being challenged at the SEC. Davis Polk & Wardwell, as counsel for CVS Caremark, argued implementation of the bylaw proposal would cause the company to violate Delaware law, noting that the law had no provision "permitting the [c]ompany to deprive record holders of their vote," which, CVS argued, the SEIU's proposal would effectively allow.

The New York Stock Exchange in October 2006 proposed to bar uninstructed broker votes (which routinely are cast for management nominees) in uncontested director elections by January 2008, but the SEC has yet to approve the rule change. Some investors expected the commission would approve the measure for 2008 in light of the agency's decision to allow companies to exclude access proposals.

"We're still exploring how to keep the broker issue front and center for companies, investors, and the SEC," noted Tracey Rembert, senior corporate governance analyst at SEIU, after confirming the fund would indeed pull the CVS proposal. In a Dec. 14 letter to the Council of Institutional Investors, the SEC said it is still examining "many of the complex issues" raised by the proposed NYSE rule change. The letter, written by Erik Sirri, director of the Division of Trading and Markets, did not say when the SEC would take action.

### Majority Voting

A longstanding board reform proposal also will receive fresh attention in light of the SEC decision to allow the exclusion of proxy access proposals. Majority threshold voting proposals, which typically ask boards to require directors to receive a majority of votes cast "for" and "against" to win election, will be filed at dozens of companies, proponents say, targeting larger firms that have yet to adopt the reform.

Delaware Chancery Court Judge Leo E. Strine Jr., writing in the October edition of the *Journal of Corporation Law*, noted that "shareholder access has gone nowhere," but that this "does not mean that management won." Strine, like a growing number of governance watchers including Stanford Law School professor and former SEC commissioner Joseph Grundfest, argued that majority voting represents a more "potent weapon" to change the

composition of the board and that directors are now “running scared of withhold campaigns, and increasingly ready to make the bargains necessary to avoid being targeted.”

The Carpenters’ fund, which pioneered majority voting proposals in 2004, plans to submit up to 100 such resolutions in 2008, the vast majority of which will be at large-capital S&P 500 companies. “We’re starting to settle this year’s resolutions already, and I expect at this pace to get us to where we were last year, when roughly two-thirds of proposal filings were settled,” said Ed Durkin, corporate affairs director at the Carpenters’ fund. According to RiskMetrics Group records, more than 25 filings have been withdrawn, largely following implementation by management of a majority vote standard.

A recent study by Neal, Gerber & Eisenberg partner Claudia Allen found that 44 percent of S&P 500 companies have adopted a “true majority vote election standard,” with many more having in place resignation policies that call on directors to step down if they receive a majority of “withhold” votes. Moreover, the recent adoption of a majority vote bylaw by pharmaceutical giant Pfizer, whose groundbreaking director resignation policy in 2005 spurred others to take that partial step instead of adopting a majority vote standard, may also push more companies to adopt bylaws.

“It’s *deja vu* all over again,” noted Allen in a recent interview. “Majority voting was an outgrowth of the apparent failure of proxy access back in 2003. Frustrations with the SEC in relation to proxy access now will continue to move majority voting along.”

## Subprime Proposals

As the 2008 proxy season looms, a growing number of U.S. companies are finding themselves in the crosshairs of investors troubled by their involvement in, or exposure to, the subprime mortgage crisis that has roiled capital markets. “Vote No” campaigns against certain directors are expected at a handful of financial firms over their exposure to risky mortgage-backed securities.

A number of labor funds are targeting homebuilders with mortgage lending operations as well as financial firms whose investments in mortgage-backed securities have resulted in deep losses. Shareholder proposals at those firms include calls to establish committees to review lending operations, as well as those to establish new policies on dealings with ratings agencies.

“Anyone who said [subprime lending] didn’t relate to shareholder value now looks silly,” noted AFL-CIO Associate General Counsel Damon Silvers, alluding to efforts by social activists in recent years to curb “predatory” lending practices. To date, the AFL-CIO has not filed any subprime-related proposals, though labor federation officials suggest the focus on the issue may change in the coming months.

“As annual meetings approach, and more information is available ... that suggests certain people weren’t doing their jobs in a way that cost investors a lot of money, we’re going to see a focus on those people,” Silvers warned in a December interview.

The CtW Investment Group, the investment arm of the Change to Win labor coalition, announced in January it would target the five members of financial giant Citigroup’s audit committee as well as directors at Merrill Lynch. It has since said it will target directors at Wachovia, Washington Mutual, Morgan Stanley, and Bank of America, following the release of fourth quarter 2007 results at those firms that included write-downs in the billions for subprime losses. “Citigroup and several other major banks were at the epicenter of the mortgage meltdown,” CtW Investment Group Executive Director William Patterson noted in a statement. “This proxy season, the [group] will be working to hold individual directors at these companies accountable for their performance.”

Other labor funds, meanwhile, are addressing subprime-related concerns via shareholder proposals. The Laborers’ International Union of North America, or LIUNA, has filed resolutions at a half dozen companies that

call for enhanced disclosure of lending practices, according to RiskMetrics records. Companies including the Ryland Group and Beazer Homes are not providing sufficient information on their mortgage practices for shareholders to adequately monitor risk, LIUNA argues.

The labor fund cites a March 2007 Business Week article noting that federal investigators have opened a broad criminal probe into “lending practices, some financial transactions, and other dealings” at Beazer Homes to underscore the need for additional disclosures. The resolution to the Atlanta-based homebuilder calls on its board to report within 90 days of the annual meeting on lending practices and to specifically discuss the following:

- The extent of the company’s mortgage originations in subprime, Alt-A, jumbo, and “exotic” mortgages including piggybacks/second mortgages, interest only loans, negative amortization loans, and low/no documentation loans, as well as what percentage of its mortgage originations may be classified as such mortgages;
- Which of the company’s geographic markets are most reliant on those mortgages;
- The identity of the purchasers that buy the company’s mortgage loans in the secondary market;
- What percentage, if any, of the purchased loans have early payment default provisions that may require the company to buy back those loans as well as the time frame for those obligations; and
- How many non-performing loans the company expects it will have to repurchase during the current and upcoming fiscal year.

Beazer asked the SEC for permission to omit the proposal, but the company’s “no-action” petition was denied. The Ryland Group has agreed to adopt the proposal, meanwhile.

#### Sample of New Subprime Proposal Filings

Company	Proposal	Filer	Status
Moody's	Conflict of interest policy as rating agency	Laborers	Pending
McGraw-Hill	Conflict of interest policy as rating agency	Laborers	Pending
NVR	Create compliance committee for mortgage lending ops.	LongView	Withdrawn
The Ryland Group	Create compliance committee for mortgage lending ops.	LongView	Omitted
Pulte Homes	Create compliance committee for mortgage lending ops.	LongView	Pending
KB Home	Create compliance committee for mortgage lending ops.	LongView	Omitted
Toll Brothers	Create compliance committee for mortgage lending ops.	LongView	Omitted
Lennar Corp.	Create compliance committee for mortgage lending ops.	LongView	Pending
M.D.C. Holdings	Create compliance committee for mortgage lending ops.	LongView	Pending
Washington Mutual	Disclose mortgage business risk	Laborers	Pending
The Ryland Group	Disclose mortgage business risk	Laborers	Withdrawn
Bear Stearns	Disclose mortgage business risk	Laborers	Pending
Lehman Brothers	Disclose mortgage business risk	Laborers	Pending
Standard Pacific	Disclose mortgage business risk	Laborers	Pending
Beazer Homes	Disclose mortgage business risk	Laborers	Pending
Citigroup	Establish policy on ratings agency dealings	Laborers	Pending
IndyMac Bancorp	Establish policy on ratings agency dealings	Laborers	Withdrawn
Wells Fargo	Establish policy on ratings agency dealings	Laborers	Pending

Source: RiskMetrics Group

Homebuilders are not the only ones being targeted over disclosures related to subprime mortgages. Financial institutions also are being called on to provide more details on their exposure to mortgage-backed securities. Many Wall Street firms were forced to write down assets valued in the billions of dollars during the second half of 2007 and into 2008 due to their exposure to high-risk loans.

LIUNA is asking Lehman Brothers, Washington Mutual, Bear Stearns, and others to report on mortgage originations and mortgage securitizations as "subprime, Alt-A, or other non-agency loan types." The resolved clause of the resolution at Lehman's also calls on the company to discuss the long-term strategic and financial implications of its decision to reduce resources and capacity in the subprime area and what the firm anticipates will be its "ultimate realized losses related to the mortgage securities crises."

### Ratings Agencies in Crosshairs

Credit rating agencies also have been targeted over the subprime mortgage crisis. Both Moody's and McGraw-Hill, parent company of Standard & Poor's, have received proposals that call for the board to adopt policies to bar the employment of any individual who worked for a client within the past year. The proposal also calls for the lead analyst for a given client to be rotated every five years and for the audit committee to be "directly and fully responsible" for managing potential conflicts of interest with clients and to conduct internal audits to ensure compliance with the policy.

"As [regulators] investigate the role that credit rating agencies have played in the current mortgage and credit crisis, we believe that corporations like Moody's and McGraw-Hill should be proactive in limiting both real and perceived conflicts of interests with their clients," noted Jennifer O'Dell, LIUNA's assistant director for corporate affairs. "We believe this duty falls squarely on the shoulders of the audit committees of these corporations."

Lawmakers also have questioned the role of the ratings agencies, arguing that they gave high ratings to bonds backed by risky mortgages and failed to downgrade those ratings until markets began to collapse. McGraw-Hill did not respond to requests for comment, while a Moody's spokesman told RiskMetrics Group that the company would comment only if the proposal showed up in the proxy. McGraw-Hill successfully challenged the proposal at the SEC, arguing that the proposal constituted "ordinary business," which should be left to the company. --*Subodh Mishra*