

November 11, 2009

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Ladies and Gentlemen:

Thank you for offering to Pearl Meyer & Partners (PM&P) the opportunity to comment on the policy changes that RiskMetrics Group (RMG) is considering for 2010. As a leading independent executive compensation consulting firm, we share your strong interest in developing and promoting sound corporate governance principles as they relate to executive compensation.

Our comments are focused on two of RMG's 2010 U.S. policy topics, "Pay for Long-term Performance Alignment (US)" and "Pay Riskiness (US)". We also comment briefly on the topics of "Reversion to 200-day Volatility", "Supplemental Company Peer Group Information in Report to Investors", and "Increased Clarity of Potential RMG Actions".

Pay for Long-term Performance Alignment (US)

RMG currently identifies a company as having a potential pay-for-performance disconnect if its 1- and 3-year total shareholder returns (TSR) are both in the bottom half of its industry group (i.e., the 4-digit Global Industry Classification Standard (GICS)), and its CEO had an increase in total direct compensation from the prior year. RMG's proposal would: (i) expand the disconnect trigger to include cases where the CEO's total direct compensation is "unchanged" or "marginally decreased" in conjunction with below-industry-median 1- and 3-year TSR, and (ii) assess the alignment of the CEO's pay and TSR over a period of at least five years as a secondary performance test if the initial test suggests a pay-for-performance disconnect.

As a general matter, we support consideration of a 5-year time horizon in assessing long-term performance at a company as an additional layer of review. The proposal acknowledges the individual circumstances of each company, and takes into account a longer horizon than the economically challenged recent years. While we appreciate that a 5-year TSR metric would add depth to the analysis, two challenges remain. First, although TSR is a critical metric, many investors also consider long-term financial performance metrics that may be industry-specific. RMG already provides some peer comparisons of financial ratios, but this section of the report could be enhanced. Second, a point-to-point TSR comparison remains heavily impacted by the stock price on a single day, the end point. Given high stock market volatility over the past year, a company's 1-, 3- and 5-year TSRs could provide an incomplete or misleading picture when calculated using the same single end point for each TSR metric (e.g., closing price on 12/31/09). RMG



already uses price averaging in its SVT calculations. While more complex, the use of price averaging at the start and end points in the TSR calculations would minimize the single day's impact.

There are also several issues in adopting a more rigorous trigger for the test by including instances of "unchanged or marginally decreasing CEO pay". In general, it is difficult to develop a "perfect" pay-for-performance test that can be applied uniformly across all companies. While a uniform test is necessary for RMG to efficiently review and evaluate thousands of companies, we believe that increasing the precision of the trigger seems inconsistent with the inherent limitations of any formulaic test, as follows:

- The policy is unclear on the meaning of "marginal". We foresee undue complexities in analyzing the amount of decrease that is enough to avoid being flagged. The test continues to present an incentive for companies to push compensation from one year into the next in order to show a decrease to match the pure mechanics of the test, regardless of whether the Committee believes that there is a pay-for-performance disconnect or not. Companies are particularly concerned with "optics over substance" when seeking shareholder approval of a new or amended equity plan.
- The flagging of flat or marginally lower CEO compensation is more granular and precise than the existing "no increase" policy. This methodology is in stark contrast to the high-level, non-tailored approach RMG uses to derive the peer comparison group. For example, RMG continues to focus exclusively on its own peer comparison, while ignoring the peer group that has been selected by the Committee and disclosed to investors. Adopting the more precise "flat or marginally lower" methodology would further emphasize proxy compensation disclosures, but those disclosures have specific weaknesses (see next point). While RMG has a history of leadership in executive compensation governance, there should be a distinction between providing strong guidance and imposing specific compensation decisions, e.g., must be a decrease of at least 10%, which are the purview of the Committee.
- RMG considers year-over-year changes in CEO pay based on proxy disclosures. We agree that target long-term incentive awards at grant (rather than the reported FAS 123R accounting figures in the Summary Compensation Table or the maximum value) are the most relevant comparison. However, the disclosed information continues to have weaknesses and may still result in "false positive" situations when total compensation values appear to be increasing. Consider two examples:
 - In FY 2008, the CEO earns \$2 million of salary, annual incentives and grant date value of long-term incentives. In FY 2009, the CEO receives zero annual incentive payout due to below-threshold financial performance, so the total drops from \$2 million to \$1.5 million. However, in FY 2009, the CEO turns 55 and becomes



retirement-eligible, resulting in a \$0.6 million increase in pension value. Since this more than offsets the zero annual incentive payout, CEO pay is “increasing.”

- A company adopts a non-overlapping, two-year long-term performance plan. Thus, awards are made every other year and award size is determined accordingly. In FY 2007, an award is granted with target value of \$2 million. In FY 2008, there is no new award. In FY 2009, a new award is granted with target value of \$2 million. If all other compensation elements remain the same for all three years, the RMG formula would show a decrease in pay in FY 2008 and an increase in pay in FY 2009, while the company has not changed its incentive plan targets. We would typically annualize certain types of “uneven” compensation, particularly long-term equity grants.
- The policy continues to compare a “snapshot” of TSR performance against year-over-year changes in pay. This can result in an important disconnect. For example, consider a company whose 1- and 3-year TSRs fall in the bottom quartile for FY 2008 and the CEO’s total compensation declines from FY 2007 due to a zero annual incentive payout. In FY 2009, the company ranks at the 49th percentile on 1- and 3-year TSR and the CEO receives an incentive payout that is above threshold, but below target, resulting in an increase in total compensation for FY 2009. Under the existing and proposed policies, RMG would flag the company because there is a pay increase with below median TSR performance. We believe, however, that this year-over-year improvement in performance should warrant some payout in FY 2009.
- The current policy penalizes companies that have positive 1- or 3-year TSRs that may still fall below the RMG selected peer group median TSRs. We believe this test tends to discount positive company developments in a recessionary economy. We suggest a modification to the policy that would rely on a “double trigger:” Specifically, the performance component of the test would not result in a flag unless the company has performed in the bottom half of its 4-digit GICS Code on both 1- and 3-year TSR and TSR has not improved from the prior year.
- More generally, differences in peer group composition and selection of performance metrics may also result in a “false positive” disconnect. We agree that RMG and Compensation Committees should be vigilant with respect to inappropriate peer groups and performance metrics/goals. However, relatively few annual incentive plans are linked directly with TSR performance due to the volatility of the measure on an annual basis and a desire to focus management on near-term financial and operating goals that are directly under their control. Thus, there is an increased chance that the annual incentive payout (and therefore total compensation) may not be aligned with TSR performance, while quite appropriately aligned with



key near-term value drivers. Of course, there should not be a persistent directional difference between financial, operating and stock performance, but TSR is linked with one single end point in time.

While we understand that the TSR/CEO pay analysis is used as a screen to flag certain companies for which RMG will then conduct a further review, we are concerned that the new rule will identify an overwhelming number of companies that, as a holistic matter, do not have poor compensation programs.

Pay Riskiness (US)

We believe RMG should be cautious before making decisions about pay and risk. In a quick reaction to the economic crises and in the course of less than a year, Treasury, the Federal Reserve, the SEC, the Obama Administration and many others have tried to define risk, and then further define what risk is “good” risk and “bad” risk as it relates to compensation plans and their interaction with business risk. Each of these entities has reached a different conclusion, provided varying thresholds and examples, and has a different approach to acceptable concepts about risk. We are concerned that if RMG introduces a structure around pay riskiness now, it may need to revisit the structure in a few years when the long-term consequences of this most recent market cycle have become clearer. Similarly, the interrelationships and overlaps among the Senior Risk Officer, the Compensation Committee, the Audit Committee and/or the Risk Oversight Committee are evolving.

We are also mindful that improvements in building a strong pay-for-performance alignment could be dampened by an unmeasured reaction to compensation risk. For example, many companies subject to TARP restrictions have pumped up cash salaries and long-term stock “salaries” for executives. A heavy reliance on cash salary is arguably the antithesis of pay-for-performance. Furthermore, mandatory bonus deferrals or incentive award caps combined with deferral above the cap could smooth payouts to the point of blurring the pay-for-performance relationship and creating a timing disconnect with RMG’s TSR performance measures.

RMG’s proposal suggests that the following list of pay practices could lead to inappropriate risk-taking: Guaranteed bonuses, single-performance metric used for short- and long-term plans, high severance packages and high pay opportunities relative to industry peers, mega annual equity grants and disproportionate levels of supplemental pensions. Our comments on this list are as follows:

- The “single-performance metric used for short- and long-term plans” needs clarification. It is intended to mean one performance measure used for both the short- and long-term plans (i.e., EPS for both plans, albeit measured over different time horizons), or does it also include situations where there is one performance measure for short-term performance (i.e., EPS) and a different single measure is used for long-term performance (i.e., TSR)? The latter situation is quite common, and we do not think this



would rise to the level of a risky compensation plan. Moreover, in certain situations, depending on the life cycle of the company, one performance measure for both short- and long-term performance may in fact be appropriate. Consider, for example, a company in dire financial straits that is focused on short- and long-term cash flow generation. In any event, encouraging companies to use too many performance metrics for each type of plan will result in undue complexities. We envision a balanced approach that is tailored to the needs of each company at a specific time.

- Many of the factors cited above may be appropriate, and would not promote undue risk-taking, given a company's particular situation. For example, guaranteed bonuses, a multi-year equity award, and/or supplemental pensions may be necessary and appropriate in the case of recruiting critical mid-career talent. While retention risk is often an overused concept, particularly in a down economy, companies may need to address real retention issues (and not only at the moment that the executive already has another offer in hand). While protecting against undue compensation risk and poor pay practices, it is important to keep in mind the business costs/risk of making the wrong executive hire, undesired turnover, or even an unmotivated management team.
- We would posit that rather than focusing on the list above, RMG consider risk tied to the overall compensation scheme. The ability to consider overall risk may also depend on the nature and quality of required SEC disclosures. Assuming there is sufficient disclosure, more insightful questions (many of which were proposed by the Federal Reserve) that may be asked about risk include:
 - Whether compensation is aligned with time horizon of risk?
 - Whether and how compensation is linked with key business risks?
 - Whether incentives are a large proportion of total compensation?
 - Whether there is an appropriate focus on the long-term alignment with shareholders?
 - Whether incentive compensation will be paid even when risk outcomes are worse than expected?
 - Whether there are protections/caps in place to avoid excessive payouts?
 - Whether the metrics reflect the company's business strategy?
 - Whether there is an appropriate balance and mix of performance incentives?
 - Whether there are appropriate policies and procedures in place to monitor, evaluate, and address compensation risk?

RMG cites the following factors that may mitigate the impact of potentially "risky" incentives, such as claw-back provisions and robust stock ownership guidelines. We would also add to this list factors such as plans that have longer performance periods, that flatten the incentive payout curve for higher levels of performance and that require deferrals or bonus banking of outsized awards for a period of time. In



addition, the company's adoption and disclosure of a risk process and controls should be considered mitigating factors.

In sum, while we are concerned that it's difficult to define the exact risk that may equate to a poor pay practice, we agree that a holistic analysis of compensation in these times would be incomplete without at least considering the topic. Our biggest concern is that, despite RMG's representation that poor pay practices are considered in conjunction and in the context of each company's particular circumstances, RMG will issue a "red flag" rather than a "yellow flag" where it finds one of the enumerated risk behaviors, and automatically withhold votes for directors based on one of these factors. Unfortunately, this is the approach that seems to have been taken with respect to gross-ups payments, despite otherwise good pay practices. We believe that an area as subjective as risk in compensation practices should never serve as an automatic trigger for a withhold vote. An automatic or formulaic approach is particularly inappropriate now because the principles and methodologies for rigorous examination of how compensation risk fits into enterprise risk management are still nascent.

Confirmation of Reversion to 200-day Volatility

Our comment letter to you dated November 4, 2008 had provided some insights regarding use of 200-day vs. 400-day volatility (coupled with 200-day vs. 90-day stock price averages). The 2009 RMG 2009 Policy Guidelines provided that for 12/1/08, 3/1/09, 6/1/09 and 9/1/09 quarterly downloads, RMG would use the 400-day volatility for the SVT calculation, and revert to the 200-day volatility for 12/1/09 and subsequent quarterly data downloads.

As we recover from the recession, the market continues to experience volatility, so we are interested in understanding whether or not RMG intends to extend the 400-day volatility calculation going forward, or whether reversion to the 200-day methodology is the final guidance that should be followed at this point for the quarter beginning 12/1/09? Our research suggests that certain hard-hit industries (e.g., real estate, financial services, etc.) continue to experience significant or increased volatility. In contrast, larger, more stable companies like the Dow Industrials are generally beginning to exhibit a slow downward trend in stock price volatility back to historical levels.

Supplemental Company Peer Group Information in Report to Investors

In our comment letter to you dated November 4, 2008 we noted the importance of providing CEO pay comparisons with reference to the company's disclosed peer group, in addition to the RMG's formula-driven peer group. We believe that the peer group selected by members of the Compensation Committee in conjunction with professional advisors, all of whom are intimately familiar with the specific company's business plans, competitive strategies and compensation philosophy, is a more tailored and appropriate reference point to compare CEO compensation. Investors should have the opportunity to compare, side-by-side, both RMG's CEO pay comparison vis-à-vis the RMG peer group and that of the company's disclosed



peer group, thereby increasing the investor's ability to make informed judgments with respect to each company's executive compensation decision-making.

Increased Clarity of Potential RMG Actions

It is extremely helpful that RMG has provided issuers, investors and professional advisors with significant clarity regarding its key policies (e.g., CEO pay-for-performance, SVT, burn rate, poor pay practices, etc.). With an increasing number of issues to consider, we would also urge RMG to provide greater clarity on the relative importance of these issues. Specifically, we believe all parties would benefit from a clear understanding of which issues are "red flags" that are most likely to result in an "automatic" negative vote (with extremely limited exceptions) and which issues are "yellow flags" that are considered among other factors, but not likely as a standalone to trigger RMG's negative vote.

Thank you very much for soliciting our comments on RMG's proposed 2010 policies. Please feel free to contact Dave Swinford or Yvonne Chen at 212-644-2300 if you have any questions or if you would like to review these comments.

Sincerely,

A handwritten signature in cursive script that reads "Dave Swinford".

David N. Swinford
President and CEO

A handwritten signature in cursive script that reads "Yvonne Chen".

Yvonne Chen
Managing Director