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May 26, 2011

**Ernst & Young Buys Assets of Proxy Governance**

by Robert Kropp

The purchase of the proxy advisory firm's assets will add to Ernst & Young's newly established Corporate Governance Group.

SocialFunds.com – Ernst & Young, a professional services firm and one of the Big Four auditors, announced this week that it had purchased the assets of Proxy Governance (PGI), a proxy advisory firm. The acquisition closed on February 1st.

According to a press release, the addition of PGI's corporate governance team, research application, and database of corporate governance information will help Ernst & Young's newly established Corporate Governance Group advise corporate clients on "the governance and shareholder engagement needs facing boards and senior executives."

Ernst & Young's press release stated that the acquisition comes at a time when "the corporate governance environment in the US and globally is in flux, with several significant new requirements in effect and others pending."

As the Center On Executive Compensation reported in February, institutional ownership of the 1,000 largest corporations grew from 47% in 1987 to 76% in 2007. Institutional investors frequently rely on the proxy voting recommendations of proxy advisory firms such as PGI.

PGI was a relatively small player in the proxy advisory field, which is dominated by Institutional Shareholder Services (ISS) and Glass Lewis. According to law professor Tamara Beinfanti, ISS (now part of MSCI) holds 61% of market share for proxy advisors, while Glass Lewis holds 37%.

In December, 2010, Glass Lewis announced that it had entered into an agreement with PGI to provide proxy voting and advisory services to PGI's clients. PGI, which was formed in 2004, subsequently announced that it would not be providing proxy voting or advisory services after the end of 2010. A message on PGI's website states, "PGI's operations have formally come to an end."

"PGI's mission has been to bring much needed competition and innovation to corporate governance and proxy voting services," the statement continued.

Concerns over potential conflicts of interest at proxy advisory firms that also serve as consultants to corporations have led the Securities and Exchange Commission (SEC) to propose a regulatory framework for proxy advisory firms. The Mill stein Center for Corporate Governance and Performance has recommended that proxy advisory firms avoid conflict of interest by adopting "a code of professional ethics for the governance industry modeled on similar codes for other industries."

However, other stakeholders have gone further with their recommendations. The Shareholder Communications Coalition recommended that the SEC require proxy advisory services to register as investment advisors. It also recommended that the SEC "require conflicts of interest disclosure for proxy advisory firms."



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