

# SULLIVAN & CROMWELL LLP

TELEPHONE: 1-212-558-4000  
FACSIMILE: 1-212-558-3588  
WWW.SULLCROM.COM

*125 Broad Street  
New York, NY 10004-2498*

LOS ANGELES • PALO ALTO • WASHINGTON, D.C.

FRANKFURT • LONDON • PARIS

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November 29, 2007

RiskMetrics Group, Inc.  
Nominating and Corporate Governance Committee,  
1 Chase Manhattan Plaza,  
New York, New York 10005.

Re: ISS Corporate Services, Inc. –  
Conflict Policy Review Project

Gentlemen:

You have asked us to review the measures that RiskMetrics Group has taken to mitigate the potential for conflicts of interest that may arise when ISS Governance Services provides a voting recommendation with respect to an issuer that is a client of ISS Corporate Services, Inc. As we have reported to you, it is our view that RiskMetrics Group has established a variety of measures that, taken together, effectively manages this potential for conflict. This letter provides an overview of our review and analysis.

It is our experience that potential for conflict exists in various respects in many services businesses. The general approach is not to eliminate potential for conflict, which could often reduce efficiency, but to manage that potential to minimize the risk of actual conflict occurring. The more drastic alternative of eliminating the potential for conflict would typically be followed only if that potential could not be managed effectively.

## **1. Introduction**

RiskMetrics Group provides proxy advisory services through ISS Governance Services (*ISS*), which advises investors how to vote proxies with respect to the securities of issuers held in their portfolios. At the same time, through its wholly-owned subsidiary ISS Corporate Services, Inc. (*ICS*), RiskMetrics Group provides services to issuers seeking to develop proposals that will ultimately be voted on or seeking generally to improve their corporate governance. The potential for conflict therefore arises when ICS assists an issuer with a proposal and ISS subsequently makes a recommendation to its investor clients with the respect to the same proposal. Likewise, a potential for conflict arises when ICS provides corporate governance advice to an issuer and ISS subsequently makes a

recommendation with respect to a proposal in that same issuer's proxy, including the re-election of the issuer's directors.

## **2. Methodology**

Our review was undertaken under the direction of the Chairman of the Nominating and Corporate Governance Committee of the Board of Directors, and we reported directly to the Board. Our review consisted principally of interviews and the collection and review of various documents. We conducted five phases of on-site interviews, encompassing 19 employees in Rockville, Washington, DC, and New York. Additional discussions were conducted with certain interviewees. We also reviewed a wide variety of paper and electronic documents, including various policies and procedures, contracts, product samples, marketing materials, and regulatory materials. In all cases, individuals we requested to interview and materials we requested to examine were made available to us. We conducted our work between July and October 2007.

Of course, we have not conducted an audit of either the ISS or ICS businesses, and there are various limitations in the review we have undertaken. In particular, we have relied on the institutional knowledge, cooperation and candor of the persons we interviewed and from whom documents were collected and assumed all of the materials we have received are complete and correct. Our conclusions are subject to these limitations.

## **3. Protective Measures**

In our review, we identified a variety of protective measures that ISS has implemented to mitigate the potential for conflict that may arise when ISS provides a voting recommendation with respect to an issuer that is a client of ICS. We grouped the measures into six broad categories, which we discuss in more detail below: internal firewall, external firewall, transparency, disclosure, regulatory oversight, and training & monitoring.

The internal firewall includes functional separation, regulation of communication, technological separation, physical separation, and legal separation. In particular, ICS and ISS maintain separate staff, and communications between the two are highly regulated. For example, ICS and ISS staff are prohibited from discussing a variety of matters, such as the identity of ICS clients, with many necessary communications being conducted through, and filtered by, a "Research Help Desk" that sits above the firewall. ICS and ISS have separate dedicated servers and operate in separate facilities. The separation is emphasized by the fact that ICS is a separate legal entity from ISS.

The external firewall is intended to limit communications with ICS clients. As a general matter, this is accomplished by conducting issuer communications with ISS through the Research Help Desk, which again filters communications. In addition, ICS imposes a "blackout period" on its communications with issuers, prohibiting interactions from the time definitive proxy materials are filed until the day after the meeting. During this period, ICS clients are instructed to call the Research Help Desk.

ISS recommendations are transparent in a variety of respects, which significantly helps mitigate the potential for conflict. In particular, the majority of recommendations are guideline-based, the guidelines are published annually, the voting recommendations are based on publicly-available information, and ISS makes its voting recommendations public. In addition, the research and voting process is described in detail on the ISS website.

Both ISS and ICS provide relevant disclosure. Policies require service agreements entered into by both ISS and ICS to disclose the potential for conflict and the fact that only ISS makes voting recommendations. In addition, all ISS proxy analyses are required to bear a legend indicating that the issuer may be a client of, or affiliated with a client of, RiskMetrics (including ICS). ISS clients are also advised as to how they can receive additional information about an issuer's use of ICS products and services.

ISS is a registered investment advisor and, as such, is subject to the Investment Advisers Act of 1940 and regulation by the Securities and Exchange Commission, and information about the potential for conflict between ISS and ICS, as well as a link to more information about conflict management practices, appears on the ISS Form ADV. In addition, the SEC also has oversight and examination authority over ISS.

ISS's training and compliance program also is directed at this potential conflict. Specific compliance procedures include quarterly test of the ICS/ISS firewall, new hire orientation, and review of certain marketing materials and disclosures. In our interviews, we observed the elements of a strong culture of compliance, as well as an awareness of the potential for conflict and the desire to mitigate it. There is also an ethics hotline available to both ICS and ISS staff for reporting potential issues of concern.

#### **4. Conclusions**

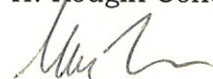
Based on the information we have gathered in the performance of our services and the experience we have gained through our practice, it is our view that RiskMetrics Group's current protections effectively manage the potential for conflict, and perceived conflict, between ICS and ISS. In response to your request, we have also discussed possible enhancements for consideration as part of your continuing program for improvement in the areas of compliance and governance.

This letter is furnished solely to you and may not be relied upon by any other person. Without limiting the preceding, this letter may not be used in furtherance of any offer or sale of RiskMetrics Group securities.

Very truly yours,



H. Rodgin Cohen



Marc R. Trevino