Ten Years Hence: Transparency, Technology and Globalization

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April 16, 2010
Tough to Make Predictions

“IT’S TOUGH TO MAKE PREDICTIONS…ESPECIALLY ABOUT THE FUTURE.”

-- Yogi Berra
Three Trends

- Transparency
- Technology
- Globalization
The World of Finance
Our Business

Investment Services Lines of Business

- Ratings
- Credit Ratings & Research
- Capital IQ Solutions
- Valuation & Risk Strategies
- Equity Research Services
- S&P Indices
Our Business

- 11,000 People in 23 Countries
- $2.6 Billion in Revenue
- Part of The McGraw-Hill Companies (MHP: NYSE)
Standard & Poor’s
Our Founder

Henry Varnum Poor

“The Investor’s Right to Know”
Increasing Focus on Transparency

1375–1425; late ME < ML trānspārent- (s. of trānspārēns) showing through (prp. of trānspārēre), equiv. to L trāns- trans- + pārent- (s. of pārēns), prp. of pārēre to appear; see apparent

“To be seen through”
Increasing Focus on Transparency

Bad Business—CR’s Black List
The lack of transparency within Russell 1000 companies
By Dirk Ollm and Mark Bateman

Frequenting the retail clothier Abercrombie & Fitch requires an act of faith. The shopper is greeted at the entrance by dark shutters and no windows. This signals an exclusive club, rather than a place to buy a polo shirt. But while the air of mystery might succeed in enticing a small customer, that darkness on the edge of commerce is more disturbing in the realm of corporate governance. Abercrombie & Fitch has the dubious distinction of joining 28 other companies on CR Magazine’s “Black List” as examples of companies for whom zero points of relevant data can be found to compare its transparency to that of its colleagues on the Russell 1000 list of large-cap firms.

If the behavior of companies matters to the public, then access to information about their behavior matters too. It matters to investors who compare stock options to the CEO—why the Securities and Exchange Commission requires companies to disclose such packages and the CEO’s exercises of them.

But that’s table stakes. Public companies failing to provide that information are in violation of the law.

Take two other realms. Since it matters whether a company dumps toxic waste into a river, the public values disclosure of disposal policies. Investors and consumers likewise want to know how a company treats its workers, and it follows that they want companies to report on labor policies and workplace safety. The Environmental Protection Agency and the Occupational Safety and Health Administration require some disclosures that are housed in governmental databases, but nothing requires direct, company-level transparency to the public on these issues. (Often, the required reporting covers one facility or an event-specific issue, and the systems are not optimized to generate corporate-level summaries.)

We’ll leave to another time and place the discussion of whether or not disclosure should be governed by regulatory mandate. But even if only for the efficient functioning of our economy, substantially greater transparency offers value.

Adam Smith’s metaphorical invisible hand relied on perfect information, by which he meant comprehensive information. The modern economy is information driven.
## Increasing Focus on Transparency

### Transparency and trust top the list

**U.S. – 2010**

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transparent and honest practices</td>
<td>83%</td>
</tr>
<tr>
<td>Company I can trust</td>
<td>83%</td>
</tr>
<tr>
<td>High quality products or services</td>
<td>79%</td>
</tr>
<tr>
<td>Communicates frequently</td>
<td>75%</td>
</tr>
<tr>
<td>Treats employees well</td>
<td>72%</td>
</tr>
<tr>
<td>Good corporate citizen</td>
<td>64%</td>
</tr>
<tr>
<td>Prices fairly</td>
<td>58%</td>
</tr>
<tr>
<td>Innovator</td>
<td>48%</td>
</tr>
<tr>
<td>Top leadership</td>
<td>47%</td>
</tr>
<tr>
<td>Financial returns</td>
<td>45%</td>
</tr>
</tbody>
</table>

Source: Edelman Trust Barometer 2010

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Financial Reform Legislation

A BILL

To identify and address risks to the stability of the United States financial system through the establishment of the Agency for Financial Stability, to ensure the orderly resolution of failing complex financial institutions in order to minimize economic turmoil and protect the interest of taxpayers, to provide for effective bank supervision through the establishment of the Financial Institutions Regulatory Administration, to enhance the regulation of consumer financial products and services through the establishment of the Consumer Financial Protection Agency, to allow the Federal government to better coordinate and monitor insurance matters through the establishment of the Office of National Insurance in the Department of Treasury, to improve the regulation of derivatives, securities, securities products, credit rating agencies, and hedge funds, to increase investor protections, and for other purposes.

1 Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

3 SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

4 (a) SHORT TITLE.—This Act may be cited as the

5 “Restoring American Financial Stability Act of 2009”.
Lessons From the Financial Crisis

- Increasing transparency by providing the assumptions and criteria used in our ratings analysis

- Answering:
  - How have our ratings performed?
  - What is the ratings process?
  - How do our ratings compare across asset classes?
“Inside” and “Outside” Behaviors

“What Happens in Vegas…”
Technology and the Digital Revolution

- “Groundswell”
- Technology is transforming our businesses
- Social media has had less of an effect on us – but it’s coming
B2B Social Media Marketing Spending

Source: Forrester Research
New Ways to Reach Our Customers

Websites

Email

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Global Office Locations

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It’s A Small And Growing World

- Ten years ago 25% of Standard & Poor’s revenue was from non-U.S. sources.
- Today it’s 40%, and growing.
- Non-U.S. growth is faster than U.S.
Trends

- Increased demand for transparency
- Digital revolution in communication
- It’s a small world