

# **Transparency and Disclosure: Overview of Methodology and Study Results—United States**

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## Executive Summary

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At a time when distrust of corporate management is at an all-time high and the media are increasing their focus on corporate governance, Standard & Poor's has published a study that examines the transparency and disclosure (T&D) practices of major public companies around the globe. This article describes how the Standard & Poor's T&D study was conducted and what the findings reveal, addressing such questions as: Which companies provide the most extensive disclosure in their basic corporate filings? Which companies disclose above and beyond what the law requires? Are there significant differences among the T&D practices of various regions and within regions? What is the significance of the T&D rankings? How can T&D be improved?

The Standard & Poor's T&D study was conducted as part of Standard & Poor's initiative to introduce new governance information and analytical services. The study is a proprietary evaluation of corporate disclosure patterns of more than 1,500 companies: those included in the Standard & Poor's Global 1200 index as well as more than 300 companies in the S&P/IFCI emerging markets indices. The study was launched in 2001 for emerging market companies in Latin America and Asia, and in 2002 the study was extended to the S&P/TOPIX 150 in Japan. The study, which examines the constituents of the S&P 500 in the U.S., combines many core competencies of Standard & Poor's, including the ability to provide objective benchmarks and analytics (such as those used by Standard & Poor's Governance Services) and the ability to compile and analyze a broad range of corporate data from around the globe (relying on the Standard & Poor's Compustat database). The T&D methodology incorporates disclosure items from the criteria that Standard & Poor's Governance Services uses in its interactive corporate governance scoring service.

In order to assess T&D practices, the study identifies 98 disclosure items, classified into three broad categories:

- Ownership structure and investor rights
- Financial transparency and information disclosure
- Board and management structure and process

The study indicates whether these individual items are disclosed, focusing primarily on annual reports as the primary source of corporate disclosure. However, in certain jurisdictions where additional forms of regulatory filings are prominent features of public disclosure, the study expands its scope to include other source documents. In the U.S., for example, the study evaluates disclosure patterns both on annual reports alone and on a composite basis, which incorporates annual reports, 10-Ks, and proxy statements.

The study's initial findings include:

Dramatic differences in how much companies disclose, both among regions and countries and within regions and countries. The U.S. (composite basis) and the U.K. demonstrate the highest levels of disclosure globally, with Latin American and Asian emerging markets comparing the least favorably. Even where detailed disclosure is mandated by law, companies exercise much discretion about what they disclose—with some companies demonstrating higher discretionary disclosure standards compared with local norms.

In the U.S., there is a notable difference between the T&D rankings based on annual reports alone and T&D rankings on a composite basis, which include, in addition to the annual reports, the regulatory-driven 10-K and proxy statements. While U.S. composite

disclosure levels were consistently high, disclosure levels based on annual reports alone, a more discretionary form of disclosure, were much more variable. It is noteworthy that some companies provide considerable disclosure in their annual reports, whereas others make relatively little informational use of the annual report. In this latter case, companies with low annual report disclosure rankings appear to rely to a large extent on regulatory filings to serve as their main disclosure documents.

The amount of information companies provide in their annual reports is correlated to market risk and valuations. The significance of the U.S. T&D rankings was explored by comparing Standard & Poor's rankings with factors affecting the cost of capital. We found that companies with higher T&D rankings (on both an annual report-only and composite basis) have lower market risk. In addition, companies with higher T&D rankings based on annual reports alone tend to have higher price-to-book ratios. Our preliminary empirical findings indicate that companies can lower the cost of equity capital by providing higher transparency and disclosure.

Non-financial disclosure in annual reports needs improvement. Across the board, the most extensive disclosure is provided in the area of financial information. Disclosure levels are lowest in the areas of ownership structure, investor rights, and management and board structures and processes. Those companies that ranked highest in this study practice a greater level of non-financial disclosure along with full financial disclosure. In particular, the differences in results between U.S. companies on annual reports alone and on a composite basis are largely due to non-financial disclosure. This suggests that if there is a clear area in which improvement is needed, it is in these non-financial categories.

While the Standard & Poor's T&D study focuses on disclosure, it does not endeavor to assess the quality of the information provided. Furthermore, the study cannot control the accuracy of disclosure and it is not meant to identify forensically any disclosure that may be incorrect or fraudulent. This study is based on the information disclosed in key public documents; it does not include all of the different types of company disclosure that may exist. Company web sites and other types of reports may provide additional information germane to stakeholders; however, for purposes of consistent, objective, global comparison, this study focuses on core public disclosure documents. Finally, it must be noted that while T&D are key components of corporate governance, T&D rankings are not proxies for corporate governance. Standard & Poor's interactive corporate governance scoring service is a much more detailed in-depth analysis of the corporate governance practices of companies that have an interest in a more thorough diagnostic.

Thorough corporate governance assessments require a more flexible and qualitative analytical approach. Standard & Poor's corporate governance scoring service is a separate analytical process, involving assessment of individual company governance standards through interactive discussions with company managers and board directors. This interactive analytical process is better positioned to account for qualitative features of individual company governance practices that require assessment on a case-by-case basis. Notwithstanding the limitations of this study, the Standard & Poor's T&D study enables valuable benchmarking and reveals some interesting findings. T&D results should be viewed together with many other key sources of information for financial stakeholders, including information provided by Standard & Poor's such as credit ratings, equity analysis, assessment of "core earnings," default studies, valuation analysis, and corporate governance scorings, all of which, taken together, provide extensive analysis of risk and value.

## Background on the Transparency and Disclosure Study

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T&D are fundamental components of corporate governance. Greater transparency and better disclosure keep corporate stakeholders better informed about the way a company is being managed. In addition, studies suggest that better disclosure has a positive impact on the efficient functioning of capital markets.<sup>1</sup> To contribute to further research and analysis in this area, Standard & Poor's has introduced the new T&D rankings to provide an objective, transparent, globally consistent, and replicable measurement of the levels of disclosure provided by the largest and most liquid companies in more than 30 countries. The key characteristics of Standard & Poor's T&D rankings are shown in Appendix 1.

Standard & Poor's launched T&D rankings in 2001, beginning with an empirical analysis of T&D rankings for more than 300 large and liquid companies in emerging markets. Company results can be accessed at <http://www.governance.standardandpoors.com>. Our results suggest that for emerging markets, firms with higher T&D are valued higher than comparable firms with lower T&D.<sup>2</sup> The T&D study was then expanded in 2002 to include the companies contained in the S&P/TOPIX 150 in Japan. The study now being released examines the T&D patterns of the constituents of the S&P 500 in the U.S. Given the recent heightened importance of corporate governance in the U.S., the study addresses a number of questions, including: Which companies provide the most disclosure in their basic corporate filings? Which companies disclose above and beyond what the law requires? What is the significance of the T&D rankings? How can T&D be improved?

## Overview of Transparency and Disclosure Rankings Methodology

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Academic researchers, practitioners, and regulators have analyzed and emphasized the role of disclosure in reducing information asymmetry between insiders (management or majority shareholders) and outsiders (minority shareholders, creditors, and other stakeholders). Good corporate governance includes a vigilant board of directors, timely and adequate disclosure of financial information, meaningful disclosure about the board and management process, and a transparent ownership structure identifying any conflicts of interests between managers, directors, shareholders, and other related parties.

Accordingly, Standard & Poor's examines company annual reports for 98 possible information items ("attributes") broadly divided into three sub-categories:

- Ownership structure and investor rights
- Financial transparency and information disclosure
- Board and management structure and process

These categories broadly correspond to the analytical criteria employed in Standard & Poor's corporate governance scoring process. They address disclosure patterns along a broad spectrum of factors that affect corporate governance practices. This presentation

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<sup>1</sup> Healy & Palepu (2001) review research on financial reporting and voluntary disclosure of information by management, and conclude that the increased pace of entrepreneurship and globalization has increased the value of reliable information in capital markets. Verecchia (2001) provides a comprehensive review of theoretical research on disclosure related issues over the last two decades.

<sup>2</sup> Academic researchers have also begun to analyze T&D rankings. Durnev & Kim (2002), for example, found that Standard & Poor's T&D rankings are correlated with other governance measures and that company level rankings are useful in understanding financial decision-making at the company level.

format provides analysts and investors the flexibility to focus on specific investment analysis needs. One point is awarded for each attribute that is found to be present.

Companies are ranked in decile order. The overall ranking reflects the ratio of the number of present attributes out of the possible 98. Individual rankings for each of the three sub-categories are also calculated. Appendix 2 below outlines the methodology in further detail, and Appendix 3 lists the 98 individual disclosure items used in the study.

As with all studies it is important to recognize the scope of this project. The study focuses on the existence of disclosure for individual items; it does not endeavor to assess the quality of the information provided. Furthermore, the study is not meant to identify forensically any disclosure that may be incorrect or fraudulent. It should also be noted that this study is based on the information disclosed in key public documents; it does not include all of the different types of company disclosure that may exist. Company websites and other types of reports may provide additional information very germane to stakeholders; however, for purposes of consistent, objective and global comparison, this study focuses on the core public disclosure documents.

Standard & Poor's T&D analysis focuses on annual reports only, with the exception of the U.S., France, and Japan, where other regulatory filings are evaluated as well, given the relative prominence of regulatory filings in these markets. A focus on annual reports facilitates analysis and comparison of companies around the globe. Academic researchers have identified annual reports as the principal communication device available to companies.<sup>3</sup> Policymakers have also emphasized the importance of disclosing information plainly in annual reports.<sup>4</sup>

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<sup>3</sup> For example, Botosan (1997) states  
"Although the annual report is only one means of corporate reporting, it should serve as a good proxy for the level of voluntary disclosure provided by a firm across all disclosure avenues. This is because annual report disclosure levels are positively correlated with the amount of disclosure provided via other media (Lang and Lundholm (1993)). The annual report is the focus of my disclosure index because the annual report is generally considered to be one of the most important sources of corporate information."

As another example, Knutson (1992, 7) states  
"At the top of every analyst's list (of financial reports used by analysts) is the annual report to shareholders. It is the major reporting document and every other financial report is in some respect subsidiary of supplementary to it."

<sup>4</sup> On July 9, 2002, President George W. Bush said to Wall Street leaders  
"The SEC currently requires the annual disclosure of a CEO's compensation. But that information is often buried in long proxy statement -- proxy statements, and seldom seen -- seldom seen -- by shareholders. I challenge every CEO in America to describe in the company's annual report -- prominently, and in plain English -- details of his or her compensation package, including salary and bonus and benefits. And the CEO, in that report, should also explain why his or her compensation package is in the best interest of the company he serves." (Emphasis added.)

Moreover, a briefing paper on executive compensation published by The Conference Board's Commission on Public Trust and Private Enterprise published in September 2002 reinforces this point by drawing conclusions that support corporate disclosure in more user-friendly formats. In particular the paper emphasizes the need for "conspicuous" disclosure that "should not only be in plain English, but in plain sight as well."

Finally, it must be noted that T&D rankings, while key components of corporate governance, are not proxies for corporate governance and should not be interpreted as corporate governance scores.

Appendix 4 presents Standard & Poor's T&D rankings for S&P 500 companies.

## Transparency and Disclosure Rankings Across Countries and Regions

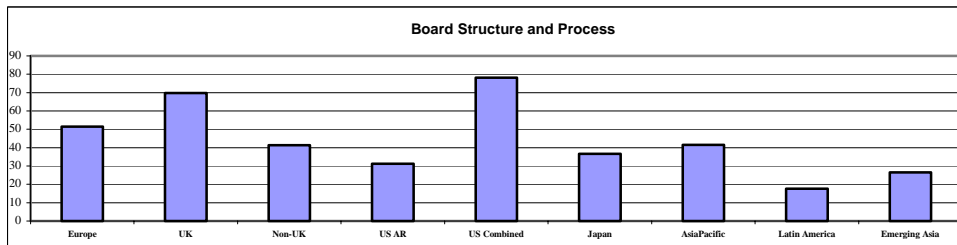
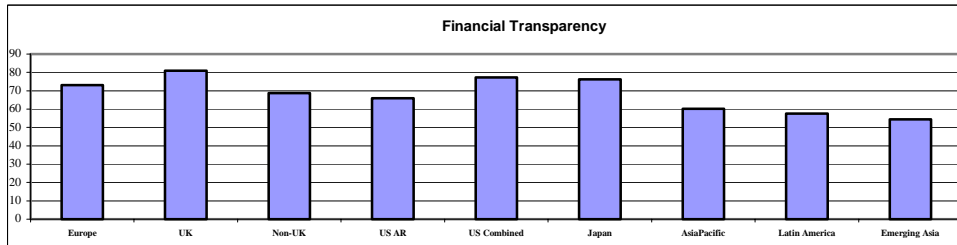
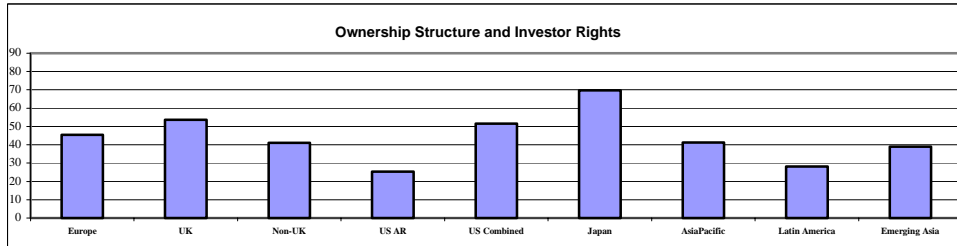
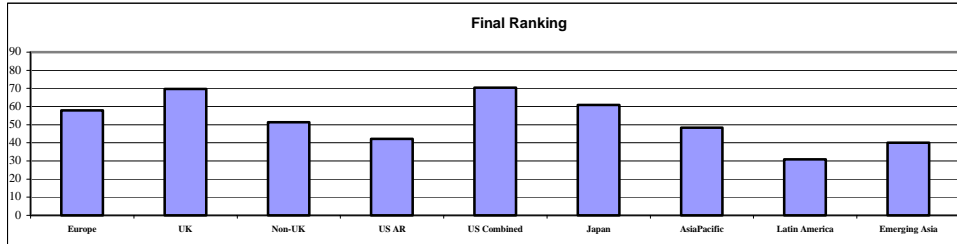
Table 1 and Chart 1 present the distribution of the T&D results across the range of countries and regions represented in the study. The results show the U.K. and U.S. (composite basis) compare most favorably globally. Although these results do not specifically isolate Australia from the Asia-Pacific results, Australian companies' disclosure levels are comparable to those of the U.K. and the U.S. The transparency rankings for Continental Europe and developed Asia are somewhat lower, and are comparable with transparency results of U.S. companies on an annual reports-alone basis. Emerging Asia and Latin America show the lowest disclosure rankings with weak disclosure patterns across the board, particularly with regard to management/board disclosure.

**Table 1: Distribution of Transparency and Disclosure Rankings for Global Markets**

	<i>Composite</i>	<i>Ownership Structure and Investor Rights</i>	<i>Financial Transparency</i>	<i>Board Process and Structure</i>	<i>Number of Companies</i>
<i>Europe</i>	58	46	73	51	351
<i>U.K.</i>	70	54	81	70	124
<i>Non-U.K.</i>	51	41	69	41	227
<i>U.S. (annual report)</i>	42	25	66	31	500
<i>U.S. (combined)</i>	70	52	77	78	500
<i>Japan</i>	61	70	76	37	150
<i>Asia-Pacific</i>	48	41	60	42	99
<i>Latin America</i>	31	28	58	18	89
<i>Emerging Asia</i>	40	39	54	27	253

Source: Standard & Poor's

**Chart 1: Dispersion of Transparency and Disclosure Rankings Across Regions: Final Ranking and Sub-components**



Source : Standard & Poor's



Table 2 shows the distribution of T&D rankings and the three sub-components of the T&D rankings by region, and highlights key similarities and differences in transparency across regions. The principal similarity across regions is that disclosure of financial information is consistently higher than that of ownership, investor rights, or board information. The clear differences that emerge on a country or regional basis show that local requirements and norms drive disclosure patterns in individual regions. However, the fact that there are differing disclosure distributions among companies within a given country, as Table 2 shows, suggests that the companies themselves are the most decisive factor in the level of T&D. For example, the high rankings of certain Chinese companies in the study is most likely the result of their decision to conform to the listing and disclosure standards in London and Hong Kong, rather than the domestic norm in China. By “bonding” themselves to the disclosure standards of the most demanding financial markets, many emerging market issuers may be wishing to signal that their management, governance, and transparency practices are at a world class, and not just a regional, level.

**Table 2: Distribution of Composite Transparency and Disclosure Rankings and Sub-components Within Countries and Regions**

Final Rank	Cumulative proportion falling below				Deviation from U.K.	Sub-Rank: Ownership	Cumulative proportion falling below				Deviation from U.K.
	40	60	70	80			40	60	70	80	
U.S. (annual rpt)	32%	98%	98%	99%	-170	U.S. (annual rpt)	96%	99%	99%	100%	-115
U.S. (combined)	0%	1%	41%	99%	16	U.S. (combined)	8%	84%	98%	99%	-9
Europe	10%	52%	81%	99%	-85	Europe	34%	82%	97%	100%	-34
U.K.	0%	3%	55%	99%	0	U.K.	8%	73%	98%	100%	0
Non-U.K.	15%	78%	95%	100%	-131	Non-U.K.	48%	87%	96%	100%	-52
Asia-Pacific	24%	75%	95%	100%	-137	Asia-Pacific	43%	84%	95%	100%	-43
Japan	0%	87%	95%	100%	-125	Japan	0%	7%	95%	100%	77
Emerging Asia	50%	96%	100%	100%	-189	Emerging Asia	43%	91%	99%	100%	-54
Sub-Rank: Financial	Cumulative proportion falling below				Deviation from U.K.	Sub-Rank: Board	Cumulative proportion falling below				Deviation from U.K.
	40	60	70	80			40	60	70	80	
U.S. (annual rpt)	8%	16%	49%	97%	-115	U.S. (annual rpt)	73%	98%	98%	98%	-214
U.S. (combined)	0%	0%	13%	59%	-17	U.S. (combined)	0%	1%	7%	44%	100
Europe	1%	13%	38%	75%	-72	Europe	36%	55%	79%	99%	-117
U.K.	0%	0%	7%	48%	0	U.K.	0%	6%	50%	96%	0
Non-U.K.	1%	21%	56%	90%	-113	Non-U.K.	55%	81%	95%	100%	-179
Asia-Pacific	10%	44%	76%	98%	-173	Asia-Pacific	48%	81%	89%	98%	-164
Japan	0%	0%	48%	90%	-83	Japan	88%	100%	100%	100%	-236
Emerging Asia	17%	72%	94%	98%	-226	Emerging Asia	77%	100%	100%	100%	-225

Source: Standard & Poor's

## Significance of Transparency and Disclosure Rankings for U.S. Companies

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From a review of the wide distribution of results on an annual reports-only basis, it is clear that U.S. companies exercise considerable discretion regarding what is disclosed in annual reports compared with other forms of regulatory or voluntary disclosure. Chart 2 shows the diverse distribution of U.S. results for annual reports-only (the first to the eighth deciles) compared with a more concentrated distribution (mostly seventh and eighth deciles) for companies on a composite basis, which includes 10-Ks and proxy statements. It is clear that some companies rely on these regulatory filings to provide the substance of detailed disclosure, whereas other U.S. companies use their annual reports as a framework for a more complete basis of disclosure.

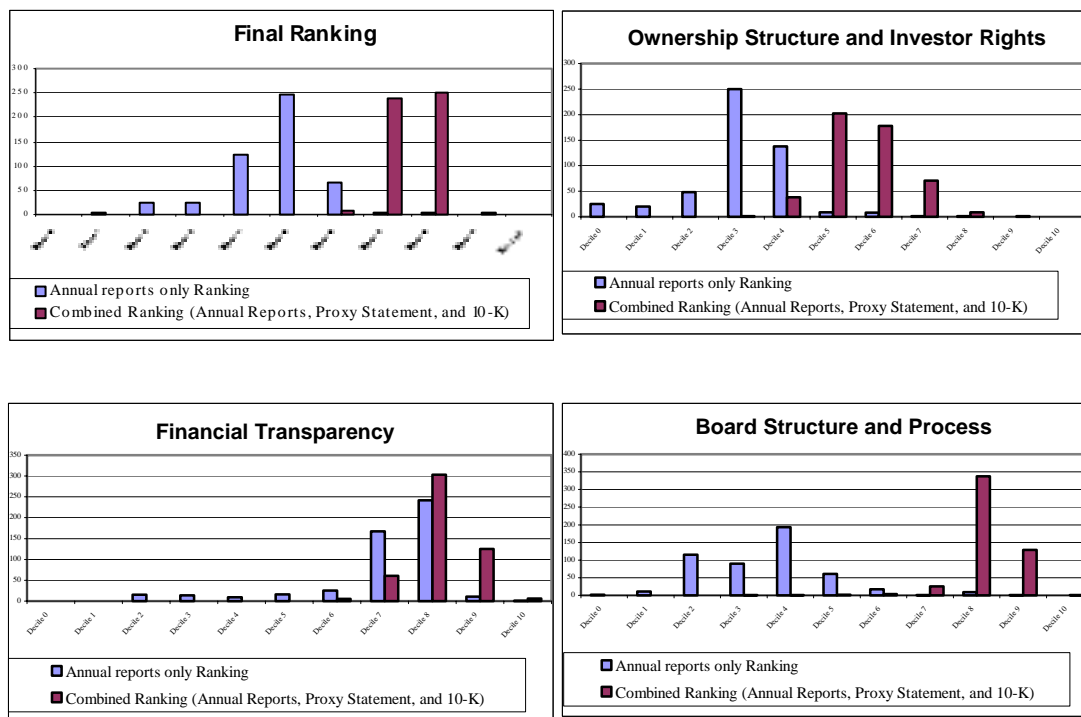
### *Areas for improvement*

Chart 2 also shows the different distributions of T&D rankings broken down into the three broad categories of ownership structure and investor rights, financial transparency and information disclosure, and board management structure and process. The findings clearly demonstrate that the strongest, most uniform disclosure is provided in the area of financial information. If there is room for improvement, it is in providing more information on ownership structure, investor rights, and board and management structure and process. For example, six of the least commonly disclosed items by U.S. companies in their annual reports are:

- Any discussion of, or reference to, a corporate governance charter or code of best practices
- The text of a corporate governance charter or code of best practices
- The companies' top three shareholders
- The form in which directors' salaries are paid (cash, shares, etc.)
- The date on which each director joined the board
- The names of the directors on the nomination committee

Although U.S. companies disclose more financial information in their annual reports than any other type of information, Standard & Poor's findings suggest that there is room for improvement in this area. For example, there is increasing focus on the conflict of interest faced by external auditors who, on the one hand act on behalf of shareholders in the audit process and, on the other hand, look to management to generate consultancy fees. Arthur Levitt, the former SEC Chairman, explains this conflict of interest in detail in a forthcoming book. Excerpts from the book, appearing in the September 30, 2002, edition of the *BusinessWeek* describe the SEC's efforts to curtail the scope of consulting services provided by audit firms, and improve the disclosure of non-audit fees paid to, external auditors. Despite this inherent conflict of interest and SEC efforts to enhance disclosure, the study finds that most U.S. companies did not disclose in their annual reports the amount paid in audit and non-audit fees to the external auditor.

**Chart 2: Comparing Transparency and Disclosure Rankings on Annual Reports Basis and Composite Basis**



Source: Standard & Poor's

Next, significance of T&D for U.S. companies is examined by exploring the relationship between the rankings and other variables, including empirical factors affecting cost of capital.<sup>5</sup> Preliminary results suggest that for the U.S. companies studied, T&D rankings (on both an annual report and composite bases) are inversely related to market risk. T&D rankings based only on annual reports are positively related to price-to-book ratios.

<sup>5</sup> While the importance of transparency and disclosure is recognized in theory, Botosan (1997) argues that the empirical link between asset pricing and disclosure is weak, fueling an ongoing debate among practitioners regarding the benefits of enhanced disclosure. Healy & Palepu (2001) identify the difficulty in measuring the extent of voluntary disclosure and the lack of replicability of the few measures developed by academics as the major limitations in the empirical analysis of the impact of transparency and disclosure on asset prices and hence on capital markets. Since the first empirical tests of the Capital Asset Pricing Model in late 1960s, academic researchers have used the CRSP database on equity prices provided by the University of Chicago and the S&P Compustat database on fundamentals provided by Standard & Poor's to ascertain return generating factors, or equivalently, factors determining the cost of equity capital. Hawawini & Keim (2000) provide an extensive summary of this research. Fama & French (1992) present detailed analysis of return generating factors in the U.S. equity market and conclude that an empirical extension of CAPM warrants the inclusion of size and price-to-book factors.

*Transparency and disclosure and market risk*

Market risk measures the systematic, undiversifiable risk in an equity investment. Cost of capital is typically higher for companies with higher systematic risk. Chart 3 presents scatterplots of the market risk against T&D based on annual reports only and on annual report, 10-K and proxy statement disclosure, respectively. These charts show a clear inverse relationship between T&D rankings and market risk (i.e., companies with lower T&D rankings have higher market risk). Correlation of market risk to both annual report-based and composite-based T&D rankings is negative 0.26.

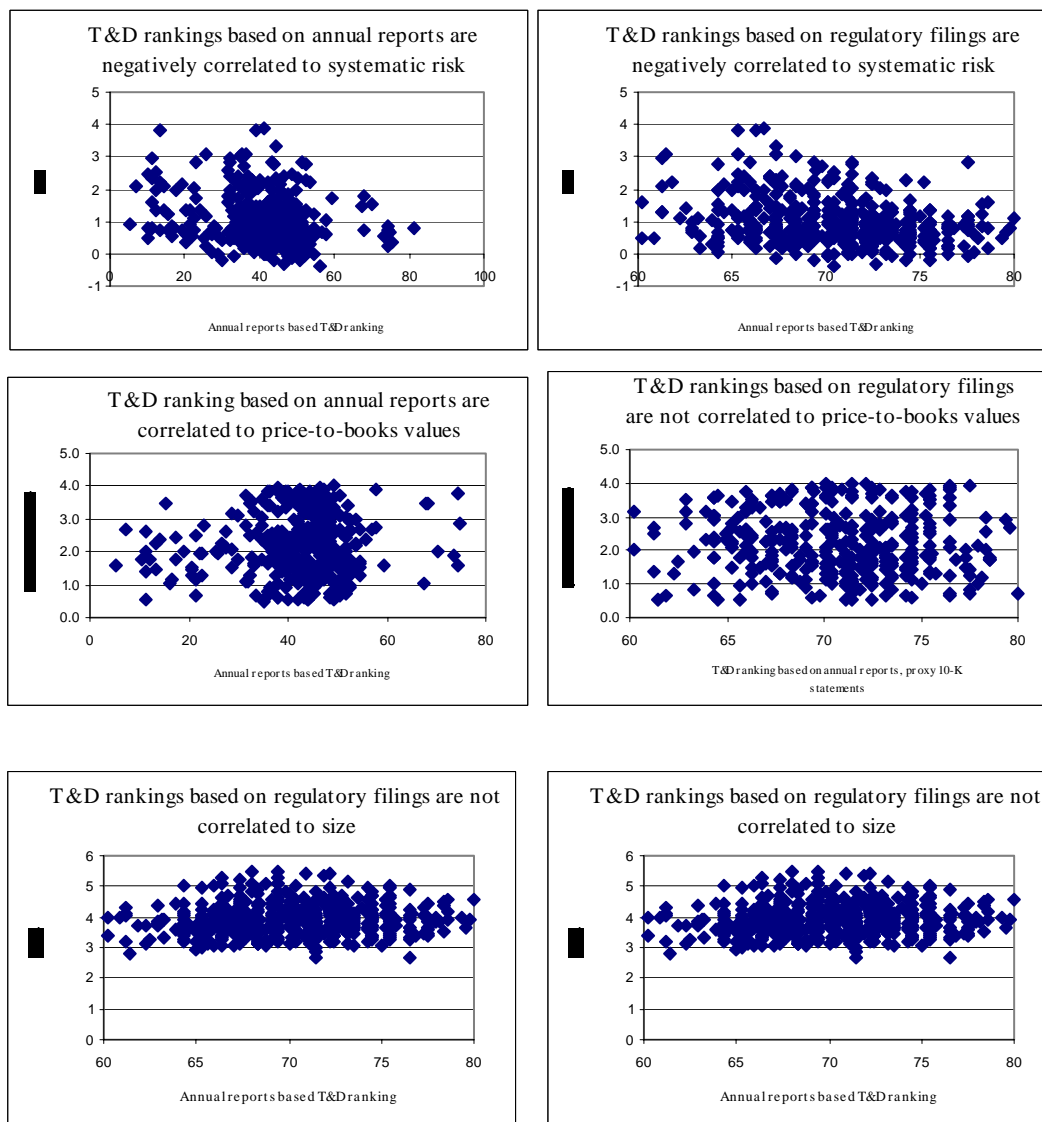
The inverse relationship between disclosure and market risk is intuitive—the lower the disclosure, the less information there is about the company and therefore the higher the market risk and the higher the cost of capital. Companies that distinguish themselves by disclosing more information lower their market risk and therefore lower their cost of capital.

*Transparency and disclosure and price-to-book*

Empirically, price-to-book has proved to be a good predictor of cost of capital for companies as well as for markets. Standard & Poor's and several other index providers use price-to-book to identify growth and value splits. Chart 3 also presents scatterplots of price-to-book against T&D based on annual reports only and T&D based on annual reports, 10-Ks, and proxy statements, respectively.

Annual report-based T&D rankings and price-to-book have a positive correlation of 0.07, with a t-statistic of 1.36, significant at 10%, whereas T&D rankings based on annual report, 10-K, and proxy statement disclosure and price-to-book have a correlation of negative 0.01. The fact that a positive correlation exists between T&D rankings based on annual reports only and price-to-book, but not for T&D rankings based on all disclosure documents, suggests that U.S. companies that provide more voluntary disclosure in their annual reports command a higher stock price.

**Chart 3: Correlation of Transparency and Disclosure Rankings with Systematic Risk, Price-to-Book, and Size**



Source: Standard & Poor's

These correlations are significant because they suggest that the market pays a premium for companies that provide more information in their annual reports than is required by regulation. Companies that earned high T&D rankings for their annual report disclosure typically provided information in their annual reports that is also required in other documents (e.g., executive compensation information typically found only in proxy statements).

*Transparency and disclosure and other findings*

In addition, our research suggests that smaller companies generally provide less disclosure. The last two panels in Chart 3 explore correlations between Standard & Poor's T&D rankings and size as measured by the log of market capitalization. Specifically, the fifth panel shows a positive relationship between size and Standard & Poor's T&D rankings based solely on annual reports, with a correlation of 0.14. In Standard & Poor's sample, small companies tend to disclose less in their annual reports, which is consistent with the hypothesis proposed by several academic researchers that the size premium is related to the lack of information available on small companies. The correlation between size and T&D rankings based on annual report, 10-K, and proxy, and size, is a little lower at .06. The lower correlation is not surprising, as the reporting regime is the same for small and large companies. Once again, evidence suggests that the larger corporations may provide more robust disclosure in their annual reports as a best practice—not because it is required by regulation.

Our analysis begins to answer some questions on the relevance of transparency and disclosure. Standard & Poor's anticipates that future studies will provide a time series of data and scope for more intensive analysis to establish robust correlations between disclosure and valuations.

## Conclusion

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Standard & Poor's has always championed transparency—adopting, promoting, and developing new analytical methodologies that bring clarity and consistency to the information available to investors and analysts.<sup>6</sup> Standard & Poor's T&D rankings have a wide distribution across countries and regions and reveal some interesting findings about practices within and among the different countries and regions. For U.S. companies, there are significant differences in the amount of disclosure provided in annual reports. T&D rankings based on annual reports for the U.S. companies studied are correlated to the determinants of expected returns, such as market risk, size, and the price-to-book ratio. Most telling are the findings that suggest that companies which voluntarily disclose more in their annual reports than is required may command a higher stock price and that such additional disclosure may be a best practice.

This innovative tool enables investors, analysts, researchers, and regulators to examine several hypotheses on the investment implications of poor T&D, improve investment openness, enhance the effectiveness of regulation, and perform diagnostics on the corporate governance health of companies. Standard & Poor's intends to continue this study on an annual basis. The study complements Standard & Poor's existing research and analytical services in the corporate governance area. By making these results publicly

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<sup>6</sup> Despite considerable regulatory effort and theoretical and empirical research on fair disclosure, academics and practitioners alike often debate the question of to disclose or not to disclose. For example, Botosan (1997) cites two conflicting claims on the effect of disclosure on cost of capital. The first, Special Committee on Financial Reporting of the American Institute of Certified Public Accountants (1994), stated that an important benefit of greater disclosure is a lower cost of equity capital. The second, the Financial Executives Institute, argued that the enhanced disclosure would add to share price volatility, thereby increasing risk and cost of capital. The debate on the importance of disclosure continues to date. For example, McKinsey has conducted numerous surveys of investors that document investors' willingness to pay a premium for companies with better governance practices, which presumes greater disclosure.

available, Standard & Poor's also provides an independent and objective basis of reference to market participants with an interest in transparency and corporate governance.

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## Appendix 1: Key Characteristics of Standard & Poor's Transparency and Disclosure Benchmark

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### **Objective**

Standard & Poor's provides a range of corporate governance analyses and services, the crux of which is the Corporate Governance Score (CGS). CGSs are based on an assessment of the qualitative aspects of corporate governance practices of a company. T&D rankings provide an objective assessment that complements, but does not replace, the CGS in an overall corporate governance evaluation of an individual company.

### **Transparent**

The methodology for assessing T&D rankings is well-documented and publicly available. The list of questions and the universe of companies analyzed is publicly available, and academic researchers have replicated the methodology in their independent research.

### **Verifiable**

As the T&D rankings are objective and the methodology for their computation is transparent, practitioners and researchers can analyze sample companies and verify the T&D rankings.

### **Broad**

T&D rankings parallel Standard & Poor's CGS and provide a measure of transparency with three broad categories of corporate governance: ownership structure and investor rights; financial transparency; and board structure and processes. Previous measures have tended to focus on only one or two dimensions.

### **Practical**

The methodology, with 98 questions in three categories and 12 sub-categories, is designed to balance the conflicting requirements of the range of issues analyzed and the tractability of the analysis. Standard & Poor's consults leading academics and practitioners to maintain the comprehensiveness and practical usefulness of the rankings.

### **Flexible**

The practical levels of aggregation in the T&D methodology allow investors and analysts to focus on specific issues of interest and/or match the level of T&D detail with the investment or analytical issue in focus.

### **Predefined Global Universe**

T&D rankings are currently computed for all S&P Global 1200 companies and the largest and most liquid S&P/IFCI companies. Taking the index constituents as the universe of analyses eliminates the potential of sample selection bias. Standard & Poor's global indices cover more than 30 countries and are consistently defined across markets, enhancing researchers' ability to compare T&D rankings across markets and sectors.

## Appendix 2: Methodology for Standard & Poor's Transparency and Disclosure Rankings

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T&D rankings are developed from analysis of the latest available annual reports, and assess the level of T&D of companies in emerging markets (Asia, Latin America, Central and Eastern Europe, and Africa) as well as developed markets (Europe, developed Asia, and the U.S.).

T&D is evaluated by searching company annual reports (both English and local language) for the 98 possible attributes broadly divided into the following three broad categories:

- Ownership structure and investor rights (28 attributes)
- Financial transparency and information disclosure (35 attributes)
- Board and management structure and process (35 attributes)

Each question is evaluated on a binary basis to ensure objectivity, and rankings for the three broad categories and an overall ranking is developed from the answers to individual questions. The following are some examples of questions:

### **Ownership Structure and Investor Rights**

Does the annual report contain:

- A description of the share classes?
- A review of shareholders by type?
- A description of the voting rights?

### **Financial Transparency and Information Disclosure**

Does the annual report contain information on:

- The company's accounting policy?
- Consistency of company accounting with the international accounting standards (IAS or U.S. GAAP)?
- Efficiency indicators (return of assets, return on equity, etc.)?

### **Board and Management Structure and Processes**

Does the annual report contain:

- A list of board members?
- A list of board committees?
- A list of audit committee members?
- Details of directors' remuneration and performance related pay?
- Related party transactions?

The Standard & Poor's T&D rankings will eventually cover about 1,500 companies from the S&P Global 1200 Index and an additional 300 leading companies in the S&P/IFCI emerging markets index. The S&P Global 1200 represents leading global companies and includes the S&P 500, 150 companies in Japan, and 350 companies in Europe. These 1,500 companies cover more than 40 markets and represent about 75% of the world's tradable market capitalization.

## Appendix 3: 98 Individual Transparency and Disclosure Questions

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### **Ownership Structure and Investor Rights**

#### *Transparency of ownership*

- Provide a description of share classes?
- Provide a review of shareholders by type?
- Provide the number of issued and authorized but non-issued ordinary shares? (2)
- Provide the par value of issued and authorized but non-issued ordinary shares? (2)
- Provide the number of issued and authorized but non-issued shares of preferred, non-voting, and other classes? (2)
- Provide the par value of issued and authorized but non-issued shares of preferred, non-voting, and other classes? (2)
- Does the company disclose the voting rights for each class of shares?

#### *Concentration of ownership*

- Top 1, 3, 5, or 10 shareholders disclosed? (4)
- Shareholders owning more than 10, 5, or 3 percent is disclosed? (3)
- Does the company disclose percentage of cross-ownership?

#### *Voting and shareholder meeting procedures*

- Is there a calendar of important shareholder dates?
- Review of shareholder meetings (could be minutes)?
- Describe procedure for proposals at shareholder meetings?
- How shareholders convene an extraordinary general meeting?
- How shareholders nominate directors to board?
- Describe the process of putting inquiry to board?
- Does the annual report refer to or publish Corporate Governance Charter or Code of Best Practice? (2)
- Are the Articles of Association or Charter Articles of Incorporation published?

### **Financial Transparency and Information Disclosure**

#### *Business focus*

- Is there a discussion of corporate strategy?
- Report details of the kind of business it is in?
- Does the company give an overview of trends in its industry?
- Report details of the products or services produced/provided?
- Provide a segment analysis, broken down by business line?
- Does the company disclose its market share for any or all of its businesses?
- Does the company report basic earnings forecast of any kind? In detail? (2)
- Disclose output in physical terms?
- Does the company give an output forecast of any kind?
- Does the company give characteristics of assets employed?
- Does the company provide efficiency indicators (ROA, ROE, etc.)?
- Does the company provide any industry-specific ratios?
- Does the company disclose its plans for investment in the coming years?
- Does the company disclose details of its investment plans in the coming years?

#### *Accounting policy review*

- Provide financial information on a quarterly basis?
- Does the company discuss its accounting policy?
- Does the company disclose accounting standards it uses for its accounts?

- Does the company provide accounts according to the local accounting standards?
- Does the company provide accounts in alternate internationally recognized accounting method? Does the company provide each of the balance sheet, income statement, and cash-flow statement by internationally recognized methods? (4)
- Does the company provide a reconciliation of its domestic accounts to internationally recognized methods?

*Accounting policy details*

- Does the company disclose methods of asset valuation?
- Does the company disclose information on method of fixed assets depreciation?
- Does the company produce consolidated financial statements?

*Related party structure and transactions*

- Provide a list of affiliates in which it holds a minority stake?
- Does the company disclose the ownership structure of affiliates?
- Is there a list/register of related party transactions?
- Is there a list/register of group transactions?

*Information on auditors*

- Does the company disclose the name of its auditing firm?
- Does the company reproduce the auditors' report?
- Disclose how much it pays in audit fees to the auditor?
- Disclose any non-audit fees paid to auditor?

**Board Structure and Process**

*Board structure and composition*

- Is there a chairman listed?
- Detail about the chairman (other than name/title)?
- Is there a list of board members (names)?
- Are there details about directors (other than name/title)?
- Details about current employment/position of directors provided?
- Are details about previous employment/positions provided?
- Disclose when each of the directors joined the board?
- Classifies directors as an executive or an outside director?

*Role of the Board*

- Details about role of the board of directors at the company?
- Is there disclosed a list of matters reserved for the board?
- Is there a list of board committees?
- Review last board meeting (could be minutes)?
- Is there an audit committee?
- Disclosure of names on audit committee?
- Is there a remuneration/compensation committee?
- Names on remuneration/compensation committee)?
- Is there a nomination committee?
- Disclosure of names on nomination committee?
- Other internal audit function besides audit committee?
- Is there a strategy/investment/finance committee?

*Director training and compensation*

- Disclose whether they provide director training?
- Disclose the number of shares in the company held by directors?
- Discuss decision-making process of directors' pay?
- Are specifics of directors' salaries disclosed (numbers)?
- Form of directors' salaries disclosed (cash, shares, etc.)?
- Specifics disclosed on performance-related pay for directors?

*Executive compensation and evaluation*

- List of the senior managers (not on the board of directors)?
- Backgrounds of senior managers disclosed?
- Number of shares held by the senior managers disclosed?
- Disclose the number of shares held in other affiliated companies by managers?
- Discuss the decision-making of managers' (not board) pay?
- Numbers of managers' (not on board) salaries disclosed?
- Form of managers' (not on board) salaries disclosed?
- Specifics disclosed on performance-related pay for managers?
- Details of the CEO's contract disclosed?

## Appendix 4: Individual Company Results: S&amp;P 500 Constituents

Company Name	Composite Rankings based on Annual Report, 10-K, and Proxy Statement				Rankings based on Annual Report			
	Final Ranking	Sub-Ranking 1	Sub-Ranking 2	Sub-Ranking 3	Final Ranking	Sub-Ranking 1	Sub-Ranking 2	Sub-Ranking 3
		Ownership Structure and Investor Rights	Financial Transparency and Information Disclosure	Board and Management Structure and Processes		Ownership Structure and Investor Rights	Financial Transparency and Information Disclosure	Board and Management Structure and Processes
3M CO	7	5	8	8	5	4	8	4
ABBOTT LABORATORIES	7	5	8	8	4	3	7	2
ACE LIMITED	7	5	8	9	5	3	7	4
ADC TELECOMMUNICATIONS INC	7	4	8	9	5	3	8	5
ADOBE SYSTEMS INC.	7	5	8	8	5	3	8	3
ADVANCED MICRO DEVICES	8	5	9	9	4	2	8	2
AES CORP. (THE)	8	6	8	8	4	3	8	2
AETNA INC	8	7	9	9	6	4	8	4
AFLAC INC	7	4	8	8	5	3	7	4
AGILENT TECHNOLOGIES INC	7	5	7	8	5	3	7	4
AIR PRODUCTS & CHEMICALS INC	8	6	9	9	5	4	8	4
ALBERTO-CULVER CO -CL B	7	5	7	8	5	3	7	4
ALBERTSONS INC	8	6	8	9	5	4	7	5
ALCOA INC	8	6	9	8	6	4	8	6
ALLEGHENY ENERGY INC	8	5	9	9	6	4	8	4
ALLEGHENY TECHNOLOGIES INC	8	6	8	8	5	3	7	4
ALLERGAN INC	8	7	9	8	5	3	7	4
ALLIED WASTE INDS INC	8	7	8	9	5	4	8	4
ALLSTATE CORP	7	5	8	8	2	1	4	2
ALLTEL CORP	7	6	8	8	5	4	7	4
ALTERA CORP	7	5	8	8	4	2	8	2
AMBAC FINANCIAL GP	8	6	8	8	5	4	8	4
AMERADA HESS CORP	7	7	8	7	5	3	8	4
AMEREN CORP	7	4	8	8	5	3	8	3
AMERICAN ELECTRIC POWER	8	7	8	8	4	1	7	3
AMERICAN EXPRESS	8	5	8	9	4	2	8	3
AMERICAN GREETINGS -CL A	8	7	8	8	5	4	7	3
AMERICAN INTERNATIONAL GROUP	7	5	8	8	4	3	8	3
AMERICAN PWR CNVRSION	6	4	7	8	2	0	2	2
AMERICAN STANDARD COS INC	7	5	8	8	4	3	7	3
AMERISOURCEBERGEN CORP	7	5	8	8	5	4	8	4
AMGEN INC	8	6	8	8	4	3	8	2
AMR CORP/DE	8	6	8	8	4	3	8	3
AMSOUTH BANCORPORATION	8	5	8	9	5	3	8	3
ANADARKO PETROLEUM CORP	7	5	8	8	3	0	5	2
ANALOG DEVICES	7	5	8	8	4	3	6	2
ANDREW CORP	7	5	8	8	5	3	8	5
ANHEUSER-BUSCH COS INC	8	5	9	8	5	3	9	4
AON CORP	8	7	8	9	4	4	7	2
APACHE CORP	8	6	8	8	5	4	8	4
APOLLO GROUP INC -CL A	6	4	8	6	4	3	7	2
APPLE COMPUTER INC	8	6	8	8	6	5	8	7
APPLERA CORP APPLIED BIOSYS	8	6	9	9	5	3	8	4
APPLIED MATERIALS INC	7	6	8	8	2	0	3	3
APPLIED MICRO CIRCUITS CORP	7	5	8	8	5	3	7	4
ARCHER-DANIELS-MIDLAND CO	7	6	8	8	5	3	7	5
ASHLAND INC	8	6	9	8	6	5	8	4
AT&T CORP	8	6	9	9	6	3	8	5
AT&T WIRELESS SERVICES INC	8	6	9	8	5	3	8	4
AUTODESK INC	7	5	7	8	4	3	7	2
AUTOMATIC DATA PROCESSING	7	4	9	8	5	3	8	4
AUTOZONE INC	7	6	7	9	5	2	6	4
AVAYA INC	7	4	8	8	4	3	8	1
AVERY DENNISON CORP	8	6	9	8	5	3	8	4
AVON PRODUCTS	8	6	8	9	4	2	7	3
BAKER-HUGHES INC	9	8	9	9	5	2	8	3
BALL CORP	8	5	8	9	5	3	8	4
BANK OF AMERICA CORP	7	6	8	8	5	4	8	3
BANK OF NEW YORK CO INC	7	5	8	9	4	3	8	2
BANK ONE CORP	8	5	8	8	5	4	8	4

## Appendix 4 continued: Individual Company Results: S&amp;P 500 Constituents

Company Name	Composite Rankings based on Annual Report, 10-K, and Proxy Statement				Rankings based on Annual Report			
	Final Ranking	Sub-Ranking 1	Sub-Ranking 2	Sub-Ranking 3	Final Ranking	Sub-Ranking 1	Sub-Ranking 2	Sub-Ranking 3
		Ownership Structure and Investor Rights	Financial Transparency and Information Disclosure	Board and Management Structure and Processes		Ownership Structure and Investor Rights	Financial Transparency and Information Disclosure	Board and Management Structure and Processes
BARD (C.R.) INC	8	7	9	8	4	3	6	3
BAUSCH & LOMB INC	9	8	9	9	5	4	6	4
BAXTER INTERNATIONAL INC	7	4	8	9	5	2	8	3
BB&T CORP	8	5	9	9	3	3	5	2
BEAR STEARNS COMPANIES INC	7	4	9	8	5	3	8	3
BECTON DICKINSON & CO	8	7	7	8	5	4	7	4
BED BATH & BEYOND INC	6	4	8	6	4	3	7	2
BELLSOUTH CORP	7	5	9	8	3	0	6	3
BEMIS CO	8	5	8	9	5	3	7	4
BEST BUY CO INC	8	6	9	8	5	3	8	2
BIG LOTS INC	7	5	8	8	4	2	7	2
BIOGEN INC	7	6	8	8	5	3	7	4
BIOMET INC	8	5	9	8	4	3	8	1
BJ SERVICES CO	7	5	8	8	5	4	8	2
BLACK & DECKER CORP	7	6	7	8	4	3	6	3
BLOCK H & R INC	7	5	8	9	5	3	7	4
BMC SOFTWARE INC	7	6	7	8	5	4	7	4
BOEING CO	8	5	9	9	5	3	8	4
BOISE CASCADE CORP	8	7	8	8	5	4	8	2
BOSTON SCIENTIFIC CORP	8	6	8	8	5	4	7	4
BROADCOM CORP -CL A	7	6	8	7	5	4	7	3
BROWN-FORMAN -CL B	7	5	8	7	5	2	8	4
BRUNSWICK CORP	8	7	8	9	5	4	7	5
BURLINGTON NORTHERN SANTA FE	8	6	9	8	6	4	8	5
BURLINGTON RESOURCES INC	8	6	9	8	6	4	8	5
CALPINE CORP	8	8	8	8	5	4	8	2
CAMPBELL SOUP CO	8	7	9	8	5	4	8	4
CAPITAL ONE FINL CORP	7	5	9	8	5	3	8	4
CARDINAL HEALTH INC	7	4	8	8	3	1	5	2
CARNIVAL CORP	8	6	9	8	4	2	7	2
CATERPILLAR INC	8	5	8	8	6	4	7	6
CENDANT CORP	8	5	9	8	4	3	8	1
CENTEX CORP	8	6	9	8	5	3	8	4
CENTURYTEL INC	8	7	9	8	4	2	6	5
CHARTER ONE FINL INC	8	6	8	9	5	3	8	3
CHEVRONTEXACO CORP	8	6	9	9	6	4	8	6
CHIRON CORP	8	6	9	9	2	1	3	2
CHUBB CORP	7	5	9	8	5	3	8	3
CIENA CORP	7	5	8	7	5	3	8	4
CIGNA CORP	7	6	8	8	5	4	7	4
CINCINNATI FINANCIAL CORP	8	6	8	8	5	3	7	5
CINERGY CORP	8	5	10	8	6	3	9	4
CINTAS CORP	7	5	8	7	4	3	7	2
CIRCUIT CITY STR CRCT CTY GP	8	6	9	9	6	4	8	4
CISCO SYSTEMS INC	7	4	8	8	5	3	7	4
CITIGROUP INC	7	5	8	8	4	3	7	3
CITIZENS COMMUNICATIONS CO	8	6	8	8	5	2	7	5
CITRIX SYSTEMS INC	7	5	8	9	4	3	7	2
CLEAR CHANNEL COMMUNICATIONS	7	5	8	8	2	0	5	2
CLOROX CO/DE	8	6	8	8	4	2	6	3
COCA-COLA CO	8	5	9	8	5	3	8	4
COCA-COLA ENTERPRISES	8	6	9	9	5	3	8	2
COLGATE-PALMOLIVE CO	8	6	8	9	5	4	7	5
COMCAST CORP -CL A SPL	8	6	8	8	8	6	8	8
COMERICA INC.	7	5	8	8	5	4	7	4
COMPUTER SCIENCES CORP	7	6	8	8	5	4	6	4
COMPUWARE CORP	8	6	8	8	4	3	8	2
CONAGRA FOODS INC	7	6	8	8	5	3	8	3
CONCORD EFS INC	7	5	8	8	4	2	7	3
CONSOLIDATED EDISON INC	8	6	8	9	3	1	6	3

## Appendix 4 continued: Individual Company Results: S&amp;P 500 Constituents

Company Name	Composite Rankings based on Annual Report, 10-K, and Proxy Statement				Rankings based on Annual Report			
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		Ownership Structure and Investor Rights	Financial Transparency and Information Disclosure	Board and Management Structure and Processes		Ownership Structure and Investor Rights	Financial Transparency and Information Disclosure	Board and Management Structure and Processes
CONSTELLATION ENERGY GRP INC	8	5	9	9	5	3	8	4
CONVERGYS CORP	7	5	7	9	5	4	7	5
COOPER INDUSTRIES LTD	7	5	8	8	6	4	8	5
COOPER TIRE & RUBBER	8	6	8	8	5	4	8	4
COORS (ADOLPH) -CL B	7	6	9	6	5	3	8	3
CORNING INC	7	6	8	8	4	3	7	2
COSTCO WHOLESALE CORP	7	5	8	8	4	3	7	2
COUNTRYWIDE CREDIT IND INC	8	5	8	9	4	3	8	2
CRANE CO	7	6	8	8	5	3	8	4
CSX CORP	8	7	9	8	5	3	8	4
CUMMINS INC	7	5	6	8	3	0	3	5
CVS CORP	8	7	8	8	5	4	7	4
DANA CORP	8	7	9	9	6	3	8	5
DANAHER CORP	8	7	8	8	4	2	8	2
DARDEN RESTAURANTS INC	8	6	9	8	5	3	8	3
DEERE & CO	7	4	8	8	5	3	8	4
DELL COMPUTER CORP	8	5	8	9	3	1	3	4
DELPHI CORP	7	5	8	8	4	3	8	3
DELTA AIR LINES INC	8	8	8	8	6	4	8	5
DELUXE CORP	7	5	8	8	4	3	8	3
DEVON ENERGY CORP	8	7	8	8	6	4	8	6
DILLARDS INC -CL A	7	6	7	7	4	4	7	2
DISNEY (WALT) CO	8	5	8	8	5	3	8	4
DOMINION RESOURCES INC	8	5	9	9	5	3	8	3
DONNELLEY (R R) & SONS CO	8	6	8	9	6	4	8	5
DOVER CORP	7	5	7	7	3	1	5	3
DOW CHEMICAL	8	5	9	8	5	2	8	4
DOW JONES & CO INC	8	9	8	8	5	3	8	4
DTE ENERGY CO	7	4	9	8	5	3	7	5
DU PONT (E I) DE NEMOURS	7	5	8	8	5	4	8	4
EASTMAN CHEMICAL CO	7	6	8	8	5	3	7	5
EASTMAN KODAK CO	7	4	8	8	5	3	7	4
EATON CORP	8	5	9	9	5	3	8	3
ECOLAB INC	8	6	8	8	5	4	7	4
EDISON INTERNATIONAL	7	5	8	9	5	2	7	5
EL PASO CORP	8	5	9	8	2	0	4	2
EMC CORP/MA	7	4	8	8	2	0	3	2
EMERSON ELECTRIC CO	7	5	7	7	4	3	7	4
ENGELHARD CORP	8	6	9	8	5	3	8	3
ENTERGY CORP	8	6	9	9	6	3	9	4
EOG RESOURCES INC	8	6	8	9	6	4	8	4
EQUIFAX INC	7	5	8	8	4	3	8	2
EQUITY OFFICE PROPERTIES TR	8	6	8	8	5	4	8	3
EQUITY RESIDENTIAL	8	6	9	8	4	4	8	2
EXELON CORP	8	7	9	8	5	3	8	2
EXXON MOBIL CORP	8	5	9	8	5	2	8	4
FAMILY DOLLAR STORES	7	6	7	7	4	3	6	2
FANNIE MAE	8	6	9	9	5	4	8	3
FEDERAL HOME LOAN MORTG CORP	8	7	8	9	5	4	8	3
FEDERATED DEPT STORES	7	6	7	9	5	4	7	4
FEDEX CORP	8	6	9	8	5	3	8	3
FIFTH THIRD BANCORP	8	7	8	8	5	3	8	2
FIRST DATA CORP	8	5	8	9	5	2	8	3
FIRSTENERGY CORP	7	5	8	8	6	3	8	5
FISERV INC	7	5	7	8	4	2	7	3
FLEETBOSTON FINANCIAL CORP	7	6	8	8	3	1	5	3
FLUOR CORP	8	7	8	9	5	3	7	5
FORD MOTOR CO	8	6	9	9	6	4	8	6
FOREST LABORATORIES -CL A	7	5	8	8	4	3	8	2
FORTUNE BRANDS INC	7	5	9	8	5	3	8	3



## Appendix 4 continued: Individual Company Results: S&amp;P 500 Constituents

Company Name	Composite Rankings based on Annual Report, 10-K, and Proxy Statement				Rankings based on Annual Report			
	Final Ranking	Sub-Ranking 1	Sub-Ranking 2	Sub-Ranking 3	Final Ranking	Sub-Ranking 1	Sub-Ranking 2	Sub-Ranking 3
		Ownership Structure and Investor Rights	Financial Transparency and Information Disclosure	Board and Management Structure and Processes		Ownership Structure and Investor Rights	Financial Transparency and Information Disclosure	Board and Management Structure and Processes
FPL GROUP INC	8	6	8	8	5	4	8	4
FRANKLIN RESOURCES INC	7	6	7	7	4	3	7	3
FREPRT MCMOR COP&GLD -CL B	8	7	9	8	5	3	8	4
GANNETT CO	7	5	8	8	5	3	8	4
GAP INC	8	6	8	8	5	4	7	5
GATEWAY INC	7	5	8	8	4	4	8	2
GENERAL DYNAMICS CORP	8	6	8	9	4	3	8	2
GENERAL ELECTRIC CO	7	4	9	8	6	3	8	5
GENERAL MILLS INC	8	5	8	9	5	2	7	4
GENERAL MOTORS CORP	8	5	9	8	5	2	7	4
GENUINE PARTS CO	7	5	8	7	4	3	7	2
GEORGIA-PACIFIC CORP	8	6	8	9	3	1	3	4
GILLETTE CO	7	5	7	9	5	4	6	4
GOLDEN WEST FINANCIAL CORP	7	6	7	8	4	3	7	3
GOODRICH CORP	8	7	8	8	5	4	7	4
GOODYEAR TIRE & RUBBER CO	8	5	8	9	5	3	7	5
GRAINGER (W W) INC	8	7	8	9	8	7	8	8
GREAT LAKES CHEMICAL CORP	7	5	7	9	5	3	7	5
GUIDANT CORP	7	5	8	8	4	2	7	3
HANCOCK JOHN FINL SVCS INC	8	5	9	9	5	3	8	4
HARLEY-DAVIDSON INC	7	5	8	8	4	3	8	2
HARRAHS ENTERTAINMENT INC	8	7	8	8	5	3	7	3
HARTFORD FINL SVCS GRP INC	7	5	8	9	4	3	4	4
HASBRO INC	8	7	8	8	4	3	7	2
HCA INC	8	7	8	9	4	2	8	2
HEALTH MANAGEMENT ASSOC	7	6	8	8	4	3	7	3
HEINZ (H J) CO	7	5	8	8	5	3	8	5
HERCULES INC	7	6	8	9	4	3	7	2
HERSHEY FOODS CORP	8	6	9	8	5	4	7	4
HEWLETT-PACKARD CO	8	8	8	9	7	6	8	8
HILTON HOTELS CORP	8	6	9	8	5	3	8	4
HOME DEPOT INC	7	4	8	8	5	3	7	4
HONEYWELL INTERNATIONAL INC	8	6	8	8	6	4	8	5
HOUSEHOLD INTERNATIONAL INC	8	7	8	10	6	4	8	5
HUMANA INC	8	7	8	9	4	3	5	4
HUNTINGTON BANCSHARES	7	5	8	8	2	0	3	3
ILLINOIS TOOL WORKS	7	5	7	8	4	2	7	2
IMS HEALTH INC	7	6	6	8	4	4	5	4
INGERSOLL-RAND CO LTD	8	6	8	9	4	1	8	4
INTEL CORP	7	5	8	8	5	3	8	4
INTERPUBLIC GROUP OF COS	8	5	9	9	5	3	7	5
INTL BUSINESS MACHINES CORP	7	5	8	8	5	4	8	3
INTL FLAVORS & FRAGRANCES	7	5	8	8	4	3	7	3
INTL GAME TECHNOLOGY	7	6	8	7	4	2	7	2
INTL PAPER CO	8	7	8	9	5	3	8	4
INTUIT INC	8	5	8	8	5	3	7	4
ITT INDUSTRIES INC	8	5	9	9	5	4	8	4
J P MORGAN CHASE & CO	7	5	8	8	5	4	7	3
JABIL CIRCUIT INC	7	5	8	8	3	0	5	3
JDS UNIPHASE CORP	8	7	8	8	4	4	7	0
JEFFERSON-PILOT CORP	7	5	8	8	4	3	8	3
JOHNSON & JOHNSON	7	4	8	8	5	3	8	5
JOHNSON CONTROLS INC	8	7	9	8	5	3	8	4
JONES APPAREL GROUP INC	7	5	8	8	2	0	2	2
KB HOME	8	6	8	9	5	3	8	4
KELLOGG CO	8	5	8	9	5	3	7	5
KERR-MCGEE CORP	8	6	8	8	5	3	8	4
KEYCORP	8	6	8	8	5	4	8	3
KEYSPAN CORP	8	5	9	8	6	4	8	4
KIMBERLY-CLARK CORP	7	5	9	8	5	3	8	4

## Appendix 4 continued: Individual Company Results: S&amp;P 500 Constituents

Company Name	Composite Rankings based on Annual Report, 10-K, and Proxy Statement				Rankings based on Annual Report			
	Final Ranking	Sub-Ranking 1	Sub-Ranking 2	Sub-Ranking 3	Final Ranking	Sub-Ranking 1	Sub-Ranking 2	Sub-Ranking 3
		Ownership Structure and Investor Rights	Financial Transparency and Information Disclosure	Board and Management Structure and Processes		Ownership Structure and Investor Rights	Financial Transparency and Information Disclosure	Board and Management Structure and Processes
KINDER MORGAN INC	7	6	8	7	4	3	8	2
KING PHARMACEUTICALS INC	7	5	7	8	4	2	6	2
KLA-TENCOR CORP	7	5	8	8	1	0	2	2
KNIGHT-RIDDER INC	8	6	9	8	5	3	8	4
KOHL'S CORP	7	6	8	8	5	3	7	4
KROGER CO	8	6	9	9	8	6	9	8
LEGGETT & PLATT INC	8	6	9	9	6	3	8	6
LEHMAN BROTHERS HOLDINGS INC	7	5	8	8	4	4	7	2
LEXMARK INTL INC -CL A	8	5	8	9	2	1	3	2
LILLY (EL) & CO	7	5	8	8	5	3	7	4
LIMITED BRANDS INC	8	6	9	9	5	3	8	4
LINCOLN NATIONAL CORP	8	6	8	9	6	4	8	6
LINEAR TECHNOLOGY CORP	7	7	7	7	4	3	7	1
LIZ CLAIBORNE INC	8	7	9	9	5	3	7	4
LOCKHEED MARTIN CORP	7	6	8	9	5	3	6	4
LOEWS CORP	7	6	8	8	5	3	7	4
LOUISIANA-PACIFIC CORP	8	6	8	9	5	3	8	3
LOWE'S COS	7	6	8	8	5	4	7	4
LSI LOGIC CORP	7	6	8	8	2	1	2	2
MANOR CARE INC	7	4	8	8	5	3	7	3
MARATHON OIL CORP	7	5	8	8	5	3	8	5
MARRIOTT INTL INC	8	7	8	8	5	4	8	4
MARSH & MCLENNAN COS	7	5	8	8	5	3	7	4
MARSHALL & ILSLEY CORP	7	6	7	8	2	0	3	3
MASCO CORP	8	6	9	8	5	4	8	4
MATTEL INC	8	6	8	9	5	4	7	5
MAXIM INTEGRATED PRODUCTS	7	6	8	8	4	3	7	2
MAY DEPARTMENT STORES CO	7	7	8	8	5	4	7	4
MAYTAG CORP	7	6	7	9	2	1	2	2
MBIA INC	8	6	9	9	6	4	8	4
MBNA CORP	7	6	7	8	4	4	7	2
MCDONALD'S CORP	8	5	10	9	8	5	9	8
MCGRAW-HILL COMPANIES	8	5	9	8	6	4	8	4
MCKESSON CORP	8	7	8	9	5	4	8	3
MEADWESTVACO CORP	8	6	8	9	5	3	8	4
MEDIMMUNE INC	8	7	8	8	5	3	7	4
MEDTRONIC INC	8	6	8	8	5	3	7	5
MELLON FINANCIAL CORP	7	4	8	9	5	3	7	3
MERCURY INTERACTIVE CORP	7	5	8	8	4	3	7	2
MEREDITH CORP	8	7	8	8	6	4	8	5
MERRILL LYNCH & CO	8	7	9	9	5	4	8	4
METLIFE INC	8	6	9	9	5	3	8	4
MGIC INVESTMENT CORP/WI	7	5	8	8	4	3	8	2
MICRON TECHNOLOGY INC	7	5	8	8	2	0	2	2
MICROSOFT CORP	7	5	8	8	4	1	8	2
MILLIPORE CORP	7	5	8	8	3	1	5	4
MOLEX INC	7	5	9	8	5	3	8	2
MOODYS CORP	7	6	8	8	6	4	8	4
MORGAN STANLEY DEAN WITTER	8	7	8	8	6	6	8	4
MOTOROLA INC	8	6	8	8	4	3	5	3
NABORS INDUSTRIES LTD	7	5	8	8	4	3	8	2
NATIONAL CITY CORP	8	6	8	9	6	5	8	5
NATIONAL SEMICONDUCTOR CORP	7	5	8	8	5	3	7	4
NAVISTAR INTERNATIONAL	8	6	9	8	6	4	8	5
NCR CORP	7	6	8	9	5	3	7	4
NETWORK APPLIANCE INC	7	6	7	8	4	3	7	2
NEW YORK TIMES CO -CL A	7	5	8	8	2	0	2	2
NEWELL RUBBERMAID INC	7	5	7	8	1	0	2	2
NEWMONT MINING CORP	8	7	8	8	4	4	8	2
NEXTEL COMMUNICATIONS	7	7	7	8	2	0	2	2

## Appendix 4 continued: Individual Company Results: S&amp;P 500 Constituents

Company Name	Composite Rankings based on Annual Report, 10-K, and Proxy Statement			Rankings based on Annual Report				
	Final Ranking	Sub-Ranking 1 Ownership Structure and Investor Rights	Sub-Ranking 2 Financial Transparency and Information Disclosure	Sub-Ranking 3 Board and Management Structure and Processes	Final Ranking	Sub-Ranking 1 Ownership Structure and Investor Rights	Sub-Ranking 2 Financial Transparency and Information Disclosure	Sub-Ranking 3 Board and Management Structure and Processes
NICOR INC	8	5	9	8	5	4	8	4
NIKE INC -CL B	7	6	8	8	5	4	7	4
NISOURCE INC	8	7	9	8	6	5	8	3
NOBLE DRILLING CORP	8	6	8	8	4	3	8	1
NORDSTROM INC	7	6	8	8	5	3	7	4
NORFOLK SOUTHERN CORP	7	5	8	8	5	3	7	4
NORTHERN TRUST CORP	8	6	8	8	5	4	8	4
NORTHROP GRUMMAN CORP	8	8	8	9	6	4	8	5
NOVELL INC	8	6	8	8	6	4	7	4
NOVELLUS SYSTEMS INC	7	5	8	8	4	3	7	2
NUCOR CORP	8	7	9	8	4	3	8	2
OCCIDENTAL PETROLEUM CORP	8	6	9	8	6	4	8	4
OFFICE DEPOT INC	7	5	8	8	5	3	7	4
OMNICOM GROUP	7	6	7	8	5	3	7	4
ORACLE CORP	7	5	7	8	3	3	4	2
PACCAR INC	7	5	9	8	5	3	8	4
PACTIV CORP	7	5	7	8	4	3	7	3
PALL CORP	7	5	8	8	4	3	7	1
PARAMETRIC TECHNOLOGY CORP	7	5	7	8	4	3	7	2
PARKER-HANNIFIN CORP	8	5	8	9	6	3	8	6
PAYCHEX INC	7	4	9	7	5	2	8	3
PENNEY (J C) CO	8	6	8	9	6	4	8	5
PEOPLES ENERGY CORP	7	4	8	9	5	3	8	4
PEOPLESOFT INC	7	6	6	8	1	0	2	1
PEPSI BOTTLING GROUP INC	7	6	8	8	5	4	7	4
PEPSICO INC	7	5	8	8	5	3	8	4
PERKINELMER INC	8	6	8	8	4	3	7	2
PFIZER INC	8	5	8	8	5	4	8	4
PG&E CORP	7	5	9	8	6	4	8	5
PHARMACIA CORP	8	6	8	9	5	4	7	3
PHELPS DODGE CORP	8	5	9	8	5	3	8	4
PHILIP MORRIS COS INC	8	6	8	8	5	3	8	5
PINNACLE WEST CAPITAL	7	5	8	8	5	2	8	4
PITNEY BOWES INC	8	7	8	8	5	4	8	2
PLUM CREEK TIMBER CO INC	7	5	7	8	4	3	7	3
PMC-SIERRA INC	7	6	8	8	4	3	7	2
PNC FINANCIAL SVCS GROUP INC	7	5	8	8	5	2	8	4
POWER-ONE INC	8	6	9	7	5	4	8	2
PPG INDUSTRIES INC	7	4	8	8	6	3	8	6
PPL CORP	8	5	9	8	6	5	8	4
PRAXAIR INC	8	7	8	8	5	4	7	4
PRICE (T. ROWE) GROUP	7	5	7	8	4	3	7	2
PROCTER & GAMBLE CO	7	5	7	8	4	3	7	3
PROGRESS ENERGY INC	9	8	9	9	6	4	9	4
PROGRESSIVE CORP-OHIO	7	5	8	8	5	3	8	4
PROVIDIAN FINANCIAL CORP	7	5	8	8	4	2	8	3
PUBLIC SERVICE ENTRP	8	6	10	8	3	3	5	1
PULTE HOMES INC	8	6	9	8	5	3	8	4
QLOGIC CORP	7	7	7	8	3	3	4	2
QUALCOMM INC	7	4	8	8	2	0	3	2
QUINTILES TRANSNATIONAL CORP	7	5	8	7	2	0	4	2
RADIOSHACK CORP	8	5	8	8	5	4	8	4
RATIONAL SOFTWARE CORP	7	4	7	8	4	2	6	2
RAYTHEON CO	8	6	8	8	4	3	8	3
REEBOK INTERNATIONAL LTD	7	5	8	8	5	3	7	3
REGIONS FINL CORP	7	4	8	8	3	3	3	2
ROBERT HALF INTL INC	7	5	8	8	4	2	7	2
ROCKWELL AUTOMATION	7	6	8	8	5	3	8	3
ROCKWELL COLLINS INC	7	4	8	8	4	3	7	2
ROHM & HAAS CO	7	5	7	8	5	3	6	6

## Appendix 4 continued: Individual Company Results: S&amp;P 500 Constituents

Company Name	Composite Rankings based on Annual Report, 10-K, and Proxy Statement				Rankings based on Annual Report			
	Final Ranking	Sub-Ranking 1	Sub-Ranking 2	Sub-Ranking 3	Final Ranking	Sub-Ranking 1	Sub-Ranking 2	Sub-Ranking 3
		Ownership Structure and Investor Rights	Financial Transparency and Information Disclosure	Board and Management Structure and Processes		Ownership Structure and Investor Rights	Financial Transparency and Information Disclosure	Board and Management Structure and Processes
ROWAN COS INC	7	6	8	8	5	3	8	3
RYDER SYSTEM INC	8	6	8	9	5	4	8	4
SAFECO CORP	7	5	8	9	5	4	7	5
SAFEWAY INC	7	5	8	8	4	3	7	3
SANMINA-SCI CORP	6	5	6	7	2	1	2	2
SARA LEE CORP	8	6	8	9	6	5	8	5
SBC COMMUNICATIONS INC	7	5	8	8	5	3	7	4
SCHLUMBERGER LTD	7	5	7	8	5	4	6	4
SCHWAB (CHARLES) CORP	7	6	8	8	5	3	8	4
SCIENTIFIC-ATLANTA INC	7	5	7	8	2	0	4	2
SEALED AIR CORP	7	7	7	8	5	4	7	4
SEARS ROEBUCK & CO	8	7	9	8	5	4	8	4
SEMPRA ENERGY	8	5	8	8	5	2	8	3
SHERWIN-WILLIAMS CO	8	7	8	8	5	4	8	3
SIEBEL SYSTEMS INC	7	5	8	7	4	2	8	2
SIGMA-ALDRICH	8	5	8	8	4	2	8	2
SIMON PROPERTY GROUP INC	8	7	8	8	5	4	8	4
SLM CORP	8	7	7	8	4	3	5	3
SNAP-ON INC	8	6	8	8	5	3	7	5
SOLECTRON CORP	7	5	7	8	4	3	6	2
SOUTHERN CO	7	4	9	9	6	3	8	6
SOUTHTRUST CORP	7	5	9	7	3	3	4	2
SOUTHWEST AIRLINES	8	5	9	8	5	3	9	4
SPRINT FON GROUP	8	7	9	8	6	2	8	5
SPRINT PCS GROUP	8	7	9	8	6	2	8	6
ST JUDE MEDICAL INC	7	6	8	8	5	4	7	4
ST PAUL COS	8	6	9	9	5	3	8	3
STANLEY WORKS	8	6	8	8	5	4	8	4
STAPLES INC	7	6	8	8	5	3	8	4
STARBUCKS CORP	7	6	8	7	4	3	7	3
STARWOOD HOTELS&RESORTS WRLD	8	7	8	8	5	4	8	4
STATE STREET CORP	7	5	8	8	5	4	8	2
STILWELL FINL INC	8	5	8	9	5	4	8	4
STRYKER CORP	7	6	7	8	5	3	7	4
SUN MICROSYSTEMS INC	7	5	8	8	4	3	7	2
SUNOCO INC	8	6	8	8	5	4	8	4
SUNTRUST BANKS INC	8	6	8	8	5	3	8	3
SUPERVALU INC	8	6	8	8	5	2	7	4
SYMBOL TECHNOLOGIES	7	5	7	8	4	3	7	2
SYNOVUS FINANCIAL CP	8	6	10	9	8	6	10	9
SYSCO CORP	7	5	8	8	6	3	8	6
TARGET CORP	8	6	8	9	5	3	7	4
TECO ENERGY INC	8	5	9	8	5	3	8	4
TEKTRONIX INC	7	7	7	8	4	3	6	2
TELLABS INC	8	6	8	9	5	3	8	4
TEMPLE-INLAND INC	8	7	9	9	5	3	8	4
TENET HEALTHCARE CORP	8	6	8	8	5	3	7	4
TERADYNE INC	7	5	8	8	4	2	7	3
TEXAS INSTRUMENTS INC	7	6	8	8	7	6	8	8
TEXTRON INC	7	6	8	8	5	3	7	4
THERMO ELECTRON CORP	8	7	9	8	4	3	8	2
TIFFANY & CO	8	6	8	8	5	4	8	3
TIJ COMPANIES INC	8	6	8	9	5	4	7	4
TMP WORLDWIDE INC	8	6	8	8	6	4	8	4
TORCHMARK CORP	8	7	9	8	8	6	9	8
TOYS R US INC	7	6	8	8	4	2	7	3
TRANSOCEAN INC	7	5	8	8	7	5	8	8
TRIBUNE CO	8	7	9	8	3	1	3	3
TRW INC	8	7	7	9	5	4	7	5
TUPPERWARE CORP	7	6	7	8	5	4	7	4

## Appendix 4 continued: Individual Company Results: S&amp;P 500 Constituents

Company Name	Composite Rankings based on Annual Report, 10-K, and Proxy Statement			Rankings based on Annual Report				
	Final Ranking	Sub-Ranking 1 Ownership Structure and Investor Rights	Sub-Ranking 2 Financial Transparency and Information Disclosure	Sub-Ranking 3 Board and Management Structure and Processes	Final Ranking	Sub-Ranking 1 Ownership Structure and Investor Rights	Sub-Ranking 2 Financial Transparency and Information Disclosure	Sub-Ranking 3 Board and Management Structure and Processes
TXU CORP	8	5	10	9	3	1	7	2
U S BANCORP	8	5	9	8	5	3	8	4
UNION PACIFIC CORP	8	5	9	9	6	3	8	5
UNION PLANTERS CORP	7	5	8	8	3	2	5	2
UNISYS CORP	8	6	8	9	6	4	7	6
UNITED STATES STEEL CORP	7	4	9	8	5	3	8	4
UNITED TECHNOLOGIES CORP	7	5	8	8	5	3	7	4
UNITEDHEALTH GROUP INC	7	5	7	8	5	3	7	4
UNIVISION COMMUNICATIONS INC	7	7	8	7	3	3	4	2
UNOCAL CORP	8	6	9	9	6	4	8	4
UNUMPROVIDENT CORP	8	5	8	9	5	3	8	4
UST INC	8	6	9	8	6	3	8	5
VERITAS SOFTWARE CO	7	6	8	8	5	4	8	4
VERIZON COMMUNICATIONS	8	7	9	8	5	4	8	2
VF CORP	8	8	8	9	6	4	8	6
VIACOM INC -CL B	7	5	8	8	4	2	7	3
VISTEON CORP	7	4	7	9	5	3	7	4
VULCAN MATERIALS CO	8	6	8	8	5	3	8	4
WACHOVIA CORP	8	5	9	9	6	4	8	4
WALGREEN CO	7	5	9	8	6	4	8	5
WAL-MART STORES	8	6	8	8	4	3	7	2
WASHINGTON MUTUAL INC	8	5	8	9	3	2	5	2
WASTE MANAGEMENT INC	8	6	8	9	5	3	7	4
WATERS CORP	7	5	7	8	4	3	6	2
WATSON PHARMACEUTICALS INC	7	5	8	8	4	3	7	3
WELLPOINT HLTH NETWRK -CL A	7	5	8	8	4	3	5	4
WELLS FARGO & CO	8	5	9	9	5	4	9	3
WENDY'S INTERNATIONAL INC	8	7	9	8	4	4	7	2
WEYERHAEUSER CO	8	5	9	8	5	3	8	4
WHIRLPOOL CORP	8	6	8	8	5	4	8	4
WINN-DIXIE STORES INC	7	6	7	9	4	3	6	4
WORTHINGTON INDUSTRIES	7	5	8	8	5	3	7	4
WRIGLEY (WM) JR CO	8	7	8	8	5	3	6	5
WYETH	8	7	8	9	5	4	8	4
XILINX INC	7	6	8	8	4	3	7	2
XL CAPITAL LTD	8	5	8	9	5	3	7	5
YAHOO INC	7	5	8	8	4	3	7	3
YUM BRANDS INC	8	5	10	8	5	3	8	4
ZIMMER HLDGS INC	7	5	7	9	4	2	6	3
ZIONS BANCORPORATION	7	5	8	8	5	3	8	4

The T&D study examines the companies that were members of the S&P 500 Index both on June 30, 2002 and on September 30, 2002. It excludes companies for which there may be some regulatory inquiries relating to their public filings. The study also excludes companies for which Standard & Poor's had incomplete information as of June 30, 2002.