

ISS Gives Information on Its Peer Group Selection and Asks Companies to Provide Input Now on Any Changes Since 2012 Disclosures

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ISS has released a detailed set of [FAQs](#) on how it will select a company's peer group for purposes of conducting its pay-for-performance analysis. ISS uses this peer group to measure a company's total shareholder return and CEO pay in deciding how to recommend for the say-on-pay vote.

The FAQs provide information on how ISS will select 14-24 peers from the company's own GICS code, as well as the GICS code of the peers named in the subject company's proxy statement. Subject to size constraints based on revenues or assets and market value, ISS describes the order in which peers will be selected from the potential universe of companies that will come up based on those GICS codes. Other questions address the use of size parameters, which are clearly key to the selection process, the GICS industry groups (financial services) where assets will be used instead of revenue, and what happens if a company discloses using more than one peer group.

In addition, by December 21st a company can inform ISS of any changes to its peer group since the 2012 disclosures, as a source of input into the ISS peer group selection.

While more information is always useful, this is unlikely to mean that companies will be able to proactively figure out the ISS peer group themselves given the complexity of GICS, the number of potential companies that ISS can choose from under this method and the use of what they term "manual judgment" in the selection process. It appears that again companies will not know who they are being measured against until they receive the ISS report.

For those companies that may have faced a say-on-pay issue last year because of perceived faulty peer groups used by ISS, note that in back-testing this new method against their analysis applied in 2012, ISS indicates that more than 95% of companies would have received the same pay-for-performance analysis.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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