

ISS Updates Pay-for-Performance White Paper with Details on Realizable Pay and Peer Groups

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ISS has updated its pay-for-performance white [paper](#), which is used to explain how it develops recommendations for say-on-pay votes, to include additional information on its recently announced changes involving peer groups and realizable pay.

Peer Groups. ISS will start with the creation of what it calls a “seed group” of peers that include all companies within a subject company’s 4- and 6-digit GICS groups. Companies will be divided into one of four market-cap categories, and peers will be selected within a range of .4X to 2.5X of the revenues or assets (for financial institutions), unless the company’s revenues or assets exceed \$5 billion. Size parameters are crucial, as the methodology will strive to maintain the company within 15% of the median size of the peer group.

Once this “seed group” is created, peers will be chosen based on a priority list that ranks the subject’s own 8-digit GICS group first, followed by the company’s self-selected peers’ 8-digit GICS group if those GICS groups are deemed underrepresented, then the company’s own 6-digit GICS group and its self-selected peers’ 6-digit underrepresented GICS groups. The desired peer group is between 14 to 24 companies.

While most of the discussion surrounding ISS’s change in peer group methodology has been focused on the inclusion of the company’s own named peers in the proxy statement, it is clear that this will only happen if several criteria are met, including the size range and whether those peers’ 8- or 6- digit GICS groups already include many companies in ISS’s initial seed group.

Realizable Pay. This will only factor into a qualitative review of S&P 500 companies and be discussed in cases where the initial quantitative analysis shows a high or medium concern. For these companies, ISS will review whether the total pay granted during a three-year measurement period is significantly higher or lower than its “realizable” value at the end of that period, as part of the qualitative review. The result may mitigate (if realizable pay is lower than granted pay) or exacerbate (if granted pay is higher) the ISS analysis.

Realizable value depends on a specified measurement period and will be calculated as the total of the sum of salary, bonus, short-term (annual) awards, the earned value or target value of long-term awards, the value of share-based awards based on stock price, Black-Scholes value of stock options, change in pension and deferred compensation and all other compensation as reported. Companies that have been reporting a version of “realizable pay” will likely find that ISS will calculate values that may be quite different from their own.

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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