

Companies Need to Verify Data for ISS QuickScore Product by February 15th

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ISS has announced a replacement to its GRID (governance risk indicators) product named QuickScore. 3,000 U.S. companies by market cap, with the largest 500 compared separately from the remaining U.S. coverage universe, will be assessed on four categories: board, compensation, shareholder rights, and audit, and will also receive an overall Governance QuickScore and assessment.

Globally, 40-80 governance factors are being measured where companies are judged to either meet, exceed or 'fall short' of what ISS deems to be market best practices. Each factor falls within one of the subcategories in the four categories. For example, the subcategories within the 'Board' category include board and committee composition, board practices and policies and related party transactions.

What appears to distinguish this product from GRID is the attempted linkage to financial metrics. For each governance factor, ISS will analyze the correlation with 16 performance and risk factors that include 2 market-related factors (such as Tobin's Q, the market measure of firm value), 9 profitability factors (such as EBITDA and net profit margin), 2 risk-related factors (such as volatility and the Z score of Altman's bankruptcy measure) and 3 valuation factors (such as price to book, cash flow and earnings ratios). The higher the correlation, the higher the weights allocated for each of the ratings factors. The algorithm then creates a raw score for each of the four categories that translates into a QuickScore (between 1 to 10 with 1 being indicative of lower governance risk) based on the raw scores of other companies in the index or region, so this is a relative standard that measures companies against each other.

The important things to keep in mind:

- The data site for issuer verification starts January 28th and remains open until February 15th, but companies that submit requests for corrections by February 8th will receive earlier feedback (by February 15th) than those that apply later. ISS intends to launch the product in late February/early March. Whether or not the product turns out to be meaningful to investors, companies would still benefit from having the information on which the scores are based be accurate, so they should take the opportunity to verify the underlying data.
- Only the subcategories for each of the four categories are shown in the report, so unlike GRID, the report will now have a standardized appearance across companies. There may be a red flag or a green star (replacing the arrows that were used in GRID) next to a particular subcategory to highlight either significantly positive or negative impacts on the score. While the scores for each of the four categories are absolute, the overall score (the QuickScore, which is highlighted in a big box on the side) is based on a relative evaluation to other companies. With a simple scoring system of only 1 to 10, it will be much easier to spot companies that ISS believes to have governance issues, which may turn out to be the biggest impact of this product.
- The technical [document](#) is global so note that only certain questions apply to U.S. companies. While the document lists the factors in each category, there is no way to tell how the answer affects the scoring. For example, one question asks 'what is the independent director composition of the board?' There is no indication of what percentage of independent directors would be considered best practices, neutral or poor practices. Unless more information is forthcoming, QuickScore is unfortunately truly opaque at the moment.

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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