

ISS Updates Executive Compensation and Equity Plan FAQs

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As described in [our recent memorandum](#), ISS will be using other financial and operational metrics in addition to TSR in evaluating say-on-pay. In a [recently updated FAQ](#) on its executive compensation policies, this is called the Relative Pay and Financial Performance Assessment.

ISS will introduce this assessment for companies in the Russell 3000E beginning with meetings on or after February 1, 2017. The Russell 3000E Index includes the 4,000 largest publicly traded U.S. companies. According to the updated FAQ, a company's proxy report will include a standardized comparison of CEO pay and a company's financial and operational performance rankings relative to the ISS-defined peer group. Up to six financial metrics and TSR will be used, depending on the company's GICS industry group. The metrics could include cash flow, revenue or EBITDA growth and return on assets, equity or invested capital.

ISS explains that the metrics and weightings will vary by GICS industry group and are based on extensive back testing. The data source is S&P Compustat and metrics are generally measured over the trailing 12 quarters or 16 quarters for growth metrics. ISS refers to its [pay for performance white paper](#) for more information.

This assessment is not part of the say-on-pay quantitative screen for 2017 and may instead be used as part of the qualitative review to provide a broader view of the company's performance for the pay-for-performance analysis. It may help explain the initial quantitative screen results. For example, TSR returns may be low but financial and operational performance may prove to be quite strong. However, both underperforming TSR and these relative financial results would likely exacerbate say-on-pay concerns.

ISS' policy on say-on-pay frequency will be to generally recommend in favor of annual votes. A few other FAQs have been updated as well, primarily related including the analysis of the results of financial and operational metrics in other FAQs.

The [equity plan FAQs](#) have also been updated. It addresses questions including how shares will be counted for purposes of the burn rate when a company grants performance-based awards, how ISS evaluates an equity plan proposal seeking approval of one or more plan amendments or evaluates proposals that include 162(m) reapproval along with plan amendments, along with FAQs describing new changes to the equity plan scorecard policy for 2017.

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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