

ISS Updates Pay-for-Performance Evaluation Methodology for 2017

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On November 8, 2016, the proxy advisory firm Institutional Shareholder Services Inc. (ISS) released [updates](#) to its methodology for making its pay-for-performance evaluations of U.S. public companies for 2017. Pay-for-performance is one of three compensation areas that ISS evaluates when it recommends for or against companies' "say on pay" votes. It can also impact ISS' recommendations regarding director elections (particularly those directors who are on the compensation committee) and shareholder approval of equity compensation plans.

The policy updates for U.S. public companies, effective February 1, 2017 are:

- ISS will determine relative financial performance for six new metrics, as compared to that of the company's ISS peer group, with differing weighting for the metrics depending on the industry. Previously, ISS focused on total shareholder return (TSR), which will remain a metric; and
- This additional information will *not* impact any quantitative screening results during the 2017 proxy season, but
- *May* be referenced in the qualitative review, and its consideration may mitigate or heighten identified pay-for-performance concerns.
- For newly public companies, ISS will consider relative degree of alignment (RDA) in determining the overall quantitative concern only where the company has a minimum of two years of pay and TSR data. RDA measures the degree of alignment between the company's annualized TSR rank and the CEO's annualized total pay rank within a peer group.

In addition, ISS has announced that peer submission windows will open, starting on November 28, 2016 and closing on December 9, 2016, for companies holding shareholder meetings between February 1, 2017 and September 15, 2017, in order for ISS to update the company's peer group.

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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