STEVEN HALL & PARTNERS
EXECUTIVE COMPENSATION

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To Whom It May Concern:

We appreciate the opportunity to comment on the 2012 Draft Policies.

Evaluation of Executive Pay (Management Say-on-Pay) (US)

Overall, we are concerned about the lack of clarity and transparency in the proposed policy change. Without the purchase of the new ISS product and associated consulting services, how will companies be able to evaluate the likely result of the model? As currently stated, we do not believe there is adequate detail to fully appraise the proposed methodology. Our responses to the specific questions on which you are seeking feedback can be found below.

We believe that the proposed pay-for-performance evaluation is fundamentally flawed due to the use of TSR as the sole quantitative factor to judge performance. While TSR performance is certainly important, we believe that there are potential adverse consequences associated with creating a disproportionate focus on stock price performance at the expense of other operational and financial metrics which should also contribute to long-term returns to shareholders. By continuing to use TSR as the sole quantitative benchmark for corporate performance and relegating an analysis of operational and financial performance metrics to the qualitative assessment, we believe that the proposed policy puts many Compensation Committees in the position of having to choose between doing the right thing for the long-term value of the company and doing the right thing to secure ISS approval of the MSOP proposal.

TSR as the sole quantitative factor may also fail to account for crucial strategic or operational changes made by companies which have negative short-term implications, but are expected to improve long-term growth and drive creation of shareholder value.

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The proposed new approach, with an increased focus on a longer time period, is an improvement over the previous methodology that had too much emphasis on the year over year change in CEO pay. However, we question the relevance of the results derived under the proposed methodology, as pay and TSR may not align during the same timeframe. The proposed model evaluates performance based on how historical TSR is aligned with historical pay, of which a significant component typically consists of equity awards which are designed to align pay on a prospective basis.

Key in the analysis of a company's relative alignment is use of an appropriate peer group. For purposes of assessing relative alignment of pay and performance, we suggest using the peer group disclosed in the proxy statement, assuming the companies meet the generally accepted revenue range of 0.5x up to 2.0x. Company-selected peer groups are carefully chosen by Directors and executives with a sophisticated understanding of the company's business to reflect the best and most appropriate comparators available.

Since the Say on Pay vote asks shareholders to approve the pay for all Named Executive Officers, we are concerned that the proposed methodology focuses exclusively on CEO pay and does not appear to consider the pay of the other Named Executive Officers, either individually, or in aggregate with the CEO.

As part of the proposed qualitative review, we encourage you to change the methodology related to stock options that vest based on service only. As stock appreciation from grant date is required for there to be any value to an optionee, we, along with most companies, Compensation Committees and compensation consultants, consider these awards to be performance-based.

In addition to the specific feedback requested, we have the following questions:

- How will "strong", "satisfactory" and "weak" alignment between TSR and CEO pay be defined?

- How will the pay of a new CEO be evaluated in the relative and absolute alignment analyses?

- What is the multiple of the CEO's total pay relative to the peer group median that may lead you to identify cases where a high performing company may nevertheless be overpaying? And is that judgment based on a one-year period or some other timeframe? This appears to be a subjective, confusing and unnecessary qualifier.

- In determining peer group members, how will a company's "lifecycle maturity phase" impact the market cap range selected?

- Please advise on the expected timing and uploading of the compensation database as we are concerned about the potential mismatch between proxy compensation information and historical TSR data.

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- How does ISS propose to assess the rigor of performance goals?

- What methodology will be utilized for non-Russell 3000 companies?

Without further clarification, we do not think the proposed new approach will be beneficial in indentifying companies with a strong pay for performance alignment. In addition, the qualitative review appears subjective, vague and lacking in transparency.

<u>Board Response to Management Say-on-Pay Vote (U.S.)</u>

It is critical that companies understand the views of their shareholders as they relate to executive compensation. However, we do not believe that there should be a bright line test for a percentage that elicits a response. In our view, that percentage will differ based on each company's situation and shareholder profile.

In some shareholder outreach efforts of which we are aware, a minority shareholder objects to a compensation-related matter, not on the basis of any underlying compensation issue, but rather as an attempt to have the company agree to other decisions, often of a strategic nature, that may not be in line with the views of the majority of shareholders. We are concerned that the proposed policy is not nuanced enough to fully capture the Board's response in these instances.

We also believe accountability should be based on the results of more than just one "poor" Say on Pay vote, permitting Committees sufficient time to solicit detailed feedback and implement thoughtful and responsive solutions.

<u>Equity Plans Related to Section 162(m) (U.S.)</u>

In our view, the only "problematic feature" that we deem to outweigh the potential tax deduction on performance-based compensation is a feature permitting repricing without shareholder approval. Otherwise, we believe ISS should continue its historical policy of recommending that investors support equity plan proposals put to shareholder vote solely for the Section 162(m) compliance.

Thank you for the opportunity to review and provide comments to the proposed updates to ISS' proxy voting guidelines.

Sincerely,

Joseph Sorrentino
Managing Director