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The ISS Global Policy Board is seeking comments regarding recently proposed updates to the 2013 policies for Say-on-Pay and Pay for Performance. Grant Thornton LLP's Compensation & Benefits consulting practice is providing feedback on certain questions posed by the ISS (text from ISS draft policies are included as appropriate in *italics*).

Peer Group Methodology:
The proposed methodology incorporates information from companies' self-selected pay benchmarking peer groups in order to identify and prioritize GICS industry groups beyond the subject company's own GICS classification. The methodology draws peers from the subject company's GICS group as well as from GICS groups represented in the company's peer group, while maintaining the approximate proportions of these industries in the final peer group where possible. The proposed methodology additionally focuses initially at an 8-digit GICS resolution to identify peers that are more closely related in terms of industry. Finally, when selecting peers, the methodology prioritizes peers that maintain the company near the median of the peer group, are in the subject company's peer group, and that have chosen the subject company as a peer.

Are there additional or alternative ways that ISS should use the company's self-selected peer group to inform its peer group construction?

- Peer group construction should examine/screen using capital market considerations such as stock price correlations and return profiles. A Company's stock price movement will have been and will be influenced by the Company's specific equity return profile (i.e., the financial performance of the Company, the nature of its industry cycles, and the trends in capital markets broadly). A peer group intended to measure Relative TSR performance should ideally be composed of peers of a similar equity return profile and positive stock price correlations, or noted differences taken into account prior to concluding upon relative performance.

Since company size is highly correlated with levels of executive pay, what is a reasonable size range (revenue/assets) for peer group construction?

- The ISS' current policy of .5 – 2x revenue/assets is a reasonable guideline, and generally accepted across Boards and the compensation profession.

Are there additional factors that investors should consider in peer group construction for pay-for-performance evaluation?

- Number for FTEs may be a useful screen as well to confirm a solid GICS code match (for example, distribution companies may include leasing agents, tech companies may be a "pass through" value-added reseller ("VAR"), etc.). Such companies will have very different operating and financial structures that would not be gleaned from GICS alone.

Realizable Pay:

ISS is considering adding realizable pay in the qualitative review of the management say-on-pay for large cap companies. Realizable pay will consist of the sum of relevant cash and equity-based grants and awards made during a specified performance period being measured, based on equity award values for actual earned awards, or target values for ongoing awards, calculated using the stock price at the end of the performance measurement period. Realizable pay consideration may mitigate or exacerbate CEO's pay for performance concerns.

How would you define realizable pay?

- We recommend defining realizable pay as the sum of base salary, annual cash incentive earned, value realized on option exercises, value realized on share vesting (time or performance vesting), and amount realizable for in-the-money vested stock options, measured as of fiscal year end.
- If amounts realizable for in-the-money vested stock options are excluded from the calculation, then this analysis may result in dysfunctional (i.e. forced delay) exercise behaviour, discourage stock ownership (i.e. hold onto in-the-money options until exercise gain "fits into" the model), or inadvertently penalize executives based on trading windows, participation in 10b5-1 plans, etc.
- The value of unvested shares (time and performance vesting) and in-the-money unvested options should be excluded. The calculation could possibly include shares and options vesting/exercisable within 60 days of fiscal year end (to be consistent with SEC beneficial ownership table reporting).

Should stock options be considered based on intrinsic value or Black-Scholes value, and what is the rationale for your choice?

- Intrinsic value. Fair value is already a required disclosure in two different SEC compensation tables and used in ISS' quantitative pay-for-performance analysis. This creates an "apples-oranges" calculation that would be difficult to understand exactly what is being measured.
- In addition, target values for on-going awards should not be included in the calculation. Including target values brings fair value back into the realized pay calculation. For a true "apples-apples" comparison, the calculation should focus on amounts realized and realizable.

- If the ISS were to move away from its current quantitative pay-for-performance methodology, then measuring equity award fair value may make sense as a qualitative tool.

What should be an appropriate measurement period for realizable pay? One year, or three years, or five years or others?

- Lesser of CEO tenure and 3- and/or 5-years, with a one year minimum.

Sincerely,

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cc Eric Myszka / Grant Thornton LLP