

This is in response to your request for comments.

Peer Group Construction

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

JFR: No. Since ISS will continue to do this review in addition to the ISS selected peer group review, it should be adequate. It is appropriate that ISS is using this information in their quantitative review of company performance. Furthermore, this will assist in evaluating companies who do business in more than one industry.

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

JFR: The current size screen should work as well. This will encourage companies to self select companies of similar size (even if the GICS code is not the same as the primary GICS).

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

JFR: For companies that are in multiple industries, some weighting of the different industries in constructing peer group should be completed. Also, for larger companies (Fortune 50 or 100), pay should be compared to both specific and general industry.

Realizable Pay

See attached article that is being published in Journal of Compensation and Benefits entitled "*Performance-Size Your Company's LTI Awards*" (Jan/Feb 2013 edition). This article also discusses realizable pay.

In general, Realizable pay should be defined and should only be used as part of qualitative test.

- How would you define realizable pay?

JFR: Salary, bonus paid and value LTI awards as of the end of most recent fiscal year. The value of the LTI award should be the value of RSUs, *Black-Scholes* value of stock options (using full-term) and intermediate value of performance share awards. If intermediate performance share values are not reported by company in proxy, then the value of the target award (at current stock price) should be used. Of course, this will encourage companies to report intermediate values when their performance is below peer group performance which will skew the results slightly, but will be more accurate.

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

JFR: Black-Scholes ("B-S") value. The LTI award was sized using B-S value and is being expenses using B-S value. Intrinsic value distorts the true value of stock option awards for those options

whose stock price is near to the exercise price. So, if there is 8 years remaining on a stock option award and it is \$1 underwater, it is not fair and accurate to report this as having no value. The use of intrinsic value would cause wild swings in the pay for performance test based on small increases or decreases in stock price, particularly for those companies that rely on stock options to represent significant portion of LTI award (25% or more by weight). This comparison will be made more stark if the peer group uses significantly more or less (by weight) of stock options. Also, the performance period would have to be much longer than three years to use intrinsic value as a measure of pay, particularly for those recently awarded stock options. It is impractical and misleading to try to work around this basic problem.

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

JFR: 3 years. One year is too short and five years is too long (and requires additional information than what is reported in proxy). Also, three years makes the CEO transition issue more problematic. The current CEO should be rated on his or her pay and performance (and not prior CEOs). A five-year period could include three or more CEOs. A three-year period provides for a reasonable time to provide for performance track record. However, the beginning- and end-of-period-stock price data should be smoothed out (perhaps 30 or 60 days) which will provide a more accurate indicator of performance.

Best regards,
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