Governance Risk Indicators 2.0

Technical Document

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An MSCI Brand

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Executive Summary

Two years ago, ISS launched Governance Risk Indicators (GRId) as a new measure of governance-related risk. It drew on ISS' long experience in providing rigorous, market-specific evaluations of companies' corporate governance practices, and represented a new and unique approach to modeling governance risk. It was designed to:

1) Provide institutional investors with an understanding of high-level areas of concern across a portfolio, together with analytical tools to help them dive deeply into governance at individual companies.
2) Provide companies with a basis for aligning their corporate governance structure and practices with shareholder interests

Over the past two years, institutional investors have used GRId to flag potential risk in their portfolios, identify issues and companies for engagement, and analyze companies as part of the investment process. Similarly, GRId has provided corporate issuers deeper insight into investor perspectives on their governance practices. And the goals that motivated our initial launch of GRId in 2010 remain as important as ever today. Two years further into the financial crisis, understanding the potential impact of governance-related risk remains of critical importance to the financial community and to corporate boards.

We have received much feedback from clients and the market over the past two years as well. Much of this feedback has focused on two basic themes. First, is a desire from investors and the market as a whole for consistency and alignment of the ratings with ISS vote recommendations. An important feature of GRId is its linkage to ISS policy, and we have paid special attention in these new updates to improving the alignment of GRId ratings to the analytical conclusions of ISS research. This is tightly coupled with our overriding goal of GRId 2.0: that the ratings clearly reflect the level of governance-related concern at companies. To that end, in addition to our traffic light system, we will begin displaying the company's actual score in each of the categories of Board, Compensation, Audit and Shareholder Rights.

Second, investors have asked us for more – more markets covered, more data points, more details in the ratings, more access to data. Over the course of 2012 we will be addressing this feedback in a number of ways: by expanding the number of GRId questions, tripling the number of markets covered, providing numerical scores, and other innovations to enhance the usefulness of GRId tools.

GRId for 2012

Over the next year, ISS will roll out a series of updates and enhancements to the GRId methodology, updates that will be included in GRId 2.0:

- GRId 2.0 updates to the content and ratings methodology for the U.S. market have been launched prior to proxy season. These updates are described in greater detail below.
- Launch of GRId 2.0 content and ratings methodology for the other six current GRId markets (Canada, United Kingdom, France, Netherlands, Germany and Sweden) will occur following the 2012 proxy season, during the third quarter of 2012.
- New markets in Europe and Asia-Pacific, reflecting the constituents of the developed-market MSCI EAFE index, will be added to the GRId coverage universe in the second half of 2012.

More details on expanded coverage and the rollout of GRId 2.0 to Canada and the EAFE markets, including a full description of the methodology for these markets, will be available in Q2 2012.

GRId 2.0 U.S. Highlights

The updates represented in GRId 2.0 are evolutionary, rather than revolutionary, but they are quite important as they will provide clearer and more comprehensive ratings of a company's governance risk profile. The fundamental objectives and tenets of GRId have not changed. But we have taken this opportunity to make significant changes where required, in order to be responsive to client feedback, enhance the usefulness of the ratings, and better align GRId with ISS shareholder meeting research and analysis.

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Reflecting market feedback, these updates largely follow two basic tracks:

First, the content has evolved to provide more and better insight into governance issues. More than 30 questions have been added or revised in the U.S. methodology, including questions incorporating ISS' new pay-for-performance quantitative methodology and executive compensation data, additional information on related-party transactions and board relationships, as well as a more comprehensive evaluation of takeover defenses. Questions and answers have been reformulated to provide a clearer sense of underlying data. Subcategories have been reorganized into a more logical analytical framework.

Second, the ratings methodology has been rebuilt to provide more reliable and more transparent flags of governance-related risk, together with better alignment of GRId ratings to the analytical approach of ISS proxy research. We have refined the scoring mechanism in order to ensure that the risks connected with individual governance practices are properly reflected in the high-level scores and concerns. And we will be providing category-level scores as well as ratings, in order to better communicate the degree of concern for each company.

Each of these tracks is described in fuller detail in the sections that follow.

More information on GRId is available at www.issgovernance.com/grid-info. We continue to solicit your feedback as well; feel free to contact us at GRId-comments@issgovernance.com.

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GRId 2.0 Content Evolution

First, what has not changed: GRId's basic objectives and structure remain substantially the same. GRId evaluates companies' governance practices on four dimensions: Audit, Board, Shareholder Rights and Compensation. The methodology remains tailored to the individual markets that it covers – from the questions that are asked, to the scoring and rating of a company's particular practices. The ratings continue to reference market-specific governance best practices and the practices embedded in ISS' benchmark proxy voting policies when it evaluates companies. And finally, GRId is still an absolute measure, where a company's own practices are the only input into the ratings methodology.

What has changed is in response to a range of client and market feedback about GRId, and falls largely into four categories:

- Reworking of the Compensation category
- Refinement and reorganization of subcategories within categories
- More data transparency
- New questions

Please note: these updates apply to the GRId 2.0 methodology for the US. For the other six markets currently covered by GRId, the methodology remains substantially the same as described in the Technical Document of September 15, 2011 and summarized in Appendix II. Fully updated methodologies will be released before these are updated and market coverage expands in the second half of 2012.

Updates to Compensation

Compensation was a high priority in the GRId 2.0 updates. On top of this list was the inclusion of aspects of ISS' pay for performance evaluation – which now comprises multiple new questions within the Compensation category, directly drawing upon ISS' new quantitative methodology. (For more details on ISS' new pay for performance model, visit the ISS Policy Gateway at www.issgovernance.com/policy). Other highlights include the following: Questions on equity-based pay have been updated to better capture the range of possible responses. Several questions on equity pay have been updated to reflect a larger range of answers and to provide better access to the

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underlying data. Data from ISS' new Executive Compensation database has been tapped to provide more insight into the magnitude of severance pay and perquisites.

In addition, the subcategories in compensation have been realigned in order to better reflect the framework of ISS' principles for evaluating "Say on Pay." The new categories are: pay for performance, non-performance based pay, the use of equity, equity risk mitigation, communication & disclosure, and termination/severance. These new categories will help better align concern levels with the analytical approach taken on compensation by ISS research.

Subcategory Refinement

Other categories have also been reorganized to better group questions. The former "Board Practices" category has been separated into two subcategories, "Board Practices" and "Board Policies" – which reflect the behavior of the board (overboarding, attendance) and the governance policies of the board, respectively. A new Related Party Transactions chapter has been added to help flag this concern more effectively. In Audit, the subcategories have been reorganized to focus on the role of the external auditor and the presence of audit or accounting controversies.

Data Transparency

In a number of places, additional questions and/or refined answers provide a better view of the underlying data. For example, in the Shareholder Rights category, the poison pill section has a number of new questions to provide more detail regarding the features of pills. For example, the former question on pills ("Is there a shareholder rights plan that has not been approved by shareholders?") has been divided into two questions: the first regarding the presence of a pill, and the second whether the pill has been approved by shareholders. Similarly, questions regarding independent chair/lead director/combined CEO-Chair have been separated to provide a detailed view of board leadership structures.

New and Modified Questions

Within each section, GRId 2.0 has added new questions, or in some cases divided existing questions into two or three questions, in order to provide better transparency into underlying data.

These lists summarize newly added or modified questions – the details for which are provided in the U.S. Methodology Appendix below.

Audit

- Has a securities regulator taken enforcement action against a director or officer of the company in the past two fiscal years?
- Is a director or officer of the company currently under investigation by a regulatory body?

Board

- What is the classification of the Chairman of the Board?
- Are the roles of Chairman and CEO separated?
- Has the company identified a lead/senior independent director?
- What percentage of the board is related to executives or majority shareholders of the company? What percentage of the board are former executives of the company?Can directors hire own advisors without management approval?
- Are there related-party transactions involving the CEO?

Shareholder Rights

- Does the company have a poison pill (shareholder rights plan) in effect?
- What is the trigger threshold for the poison pill?
- Is the poison pill designed to preserve tax assets (NOL pill)?

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- Was the poison pill approved by shareholders?
- When was the poison pill implemented or renewed?
- Does the company's poison pill include a modified slow-hand or dead-hand provision?
- If the company has a majority voting standard, is there a plurality carve-out in the case of contested elections?
- Are there material restrictions as to timing or topics to be discussed, or ownership levels required to call a special meeting?

Compensation

- What is the degree of alignment between the company's cumulative 3-year pay percentile rank, relative to peers, and its 3-year cumulative TSR rank, relative to peers?
- What is the degree of alignment between the company's cumulative 1-year pay percentile rank, relative to peers, and its 1-year cumulative TSR rank, relative to peers?
- What is the size of the CEO's 1-year cumulative pay, as a multiple of the median pay for company peers?
- What is the degree of alignment between the company's TSR and change in CEO pay over the past five years?
- What is the ratio of the CEO's total compensation to the next highest paid executive?
- Did the CEO receive tax gross-ups on perks other than relocation and other broad-based benefits?
- Did the company provide dividends on unvested performance shares in the last fiscal year?
- Has the company reimbursed NEOs for losses on sale of a home?
- Did the company pay tax gross-ups on a secular trust?
- What is the ratio of the CEO's non-performance-based compensation (All Other Compensation) to Base Salary?
- Does the company's active equity plans prohibit option/ SAR cash buyouts?
- Do the company's active equity plans prohibit share recycling for options/SARS?
- Do the company's active equity plans prohibit option/ SAR repricing?
- Do the company's active equity plans have an evergreen provision?
- Do the company's active equity plans have a liberal CIC definition?
- What are the minimum vesting periods mandated in the plan documents for executives' stock options or SARS in the equity plans adopted/amended in the last 3 years?
- What are the minimum vesting periods mandated in the plan documents, adopted/amended in the last three years, for executives' restricted stock?
- What proportion of the salary is subject to stock ownership requirements/guidelines for the CEO / Is the CEO subject to ownership guidelines
- Did any executive or director pledge company shares?
- Does the company have a policy prohibiting hedging of company shares by employees?
- What is the level of disclosure on performance measures for the latest active or proposed long term incentive plan
- What is the multiple of salary plus bonus in the severance agreements for the CEO (upon a change-in-control)?
- What is the multiple of salary plus bonus in the severance agreements for executives excluding the CEO (upon a change-in-control)?
- What is the basis for the change-in-control or severance payment for the CEO
- What is the basis for the change-in-control or severance payment for executives excluding the CEO
- What is the amount of the CEO's estimated non-Change-in-Control severance amount as of the end of the last fiscal year, as a multiple of the executives' average salary + bonus over the past three years?

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GRId 2.0 Ratings Methodology

Summary of Key Changes

Concurrently with the content refinements in GRId 2.0, ISS has re-engineered the rating methodology with three chief objectives:

- To “think like an analyst” – to flag governance-related risk through data-driven concern levels;
- To incorporate more of the factors underlying ISS vote recommendations into the GRId ratings; and
- To streamline the scoring process and provide improved transparency into how governance factors are connected to levels of concern.

At a high level, the rating framework for GRId 2.0 remains consistent with the prior version: GRId asks questions about a company’s corporate governance practices, answers those questions using data collected from publicly disclosed sources, scores these answers based on market-specific considerations of local and best practice, and, finally, aggregates those scores in order to determine an overall score and concern level for each of the four primary rating categories (Audit, Board, Compensation and Shareholder Rights). The ratings continue to be scored on an absolute basis – the sole determinant of a company’s GRId rating and score is therefore its own practices.

The primary changes to the GRId ratings approach center on the scoring part of this process: how answers to questions are scored, and how these scores are aggregated into levels of concern for the categories.

In brief: the new scoring methodology is intended to enable particular issues to drive levels of concern – to reflect how certain items may be critically important to the evaluation of governance risk. Rather than adding answers into a weighted composite score, the approach more closely resembles a decision tree, evaluating each answer and determining the extent to which it contributes to a level of concern.

Practically speaking, this implies three significant changes to the scoring approach, which is described in greater detail in the next section:

<u>Explicit weights have been eliminated</u>. In the prior GRId methodology, answers were scored on a standard 10-point scale from -5 to +5, questions were weighted within their subcategories, and finally subcategories were weighted within their categories. In the new GRId methodology, all of these factors are subsumed into the number of points that are assigned to each answer. The number of points therefore directly reflects the relative significance of any particular answer within its category and subcategory – and carries an implicit weight by virtue of its points.

<u>Implicit “weights” add to more than 100%</u>. This marks a critical departure: if an answer by itself should raise a concern, it is assigned sufficient points to yield a concern. If multiple questions within a subcategory have answers that might raise a concern, each of them can carry sufficient points to yield a concern. Accordingly, when scores are summed at the subcategory level, they are bounded within a range that reflects the significance of the subcategory for the overall category level of concern. This approach enables the methodology to effectively transmit individual risk indicators to the overall level of concern, while also ensuring that a significant concern within one subcategory does not “drown out” the signal from other subcategories. This mechanism also allows the new methodology to circumvent the effect where a highly weighted question that is not relevant for a particular company effectively reduces the effect of other factors for that company.

<u>Thresholds for concern levels are standardized and normalization of scores has been simplified</u>. The scoring methodology is calibrated so that particular scores are targeted to reflect levels of concern. The elimination of weights and bounding of subcategory scores means that the total category scores will fall within a predefined range that is consistent across all categories, simplifying the normalization of scores to a 0-100 point scale. In addition, the thresholds between low and medium concerns and between medium and high concerns are directly targeted by the scores assigned to answers, and thus are identical across all categories and across all markets. Given this consistency, ISS will begin reporting scores as well as concern levels in proxy analyses.

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Scoring and Rating for GRId 2.0

Questions, Answers & Data

At the core of GRId remains a series of questions designed to evaluate a company's corporate governance practices and performance. These questions are classified into high-level categories of Audit, Board, Shareholder Rights and Compensation, as well as appropriate subcategories. For example, question B1.8 is: "Are the roles of Chairman and CEO separated?" This question falls under the Board Category, and under the Board Composition subcategory.

As in the prior version, a set of possible answers are defined for each question. The questions are answered for a company using data collected by the ISS research and data teams. In some cases, multiple data elements may be used to derive the answer to a question – for example, the level of board independence is derived from the profiles of each board member. In other cases, the question is answered directly (such as the separation of Chairman and CEO question above). Wherever possible, the answers are constructed to clearly reflect the facts in the underlying data.

A complete list of questions and answers for the U.S. GRId 2.0 methodology are reviewed in detail in Appendix I, below. For the other six GRId markets (Canada, the United Kingdom, Netherlands, France, Germany, and Sweden) the questions and answers remain as summarized below in Appendix II and detailed in the Technical Document of September 15, 2011; fully updated methodologies will be released when these are updated in the second half of 2012.

Scoring

The scoring methodology begins with a definition of thresholds of concern:

- -25 points represents medium concern
- -50 points represents high concern

Each answer is assigned a number of points, based on the relative importance of the question and the nature of market practice. The basic principle remains, that negative scores represent practices that fall short of market practice and therefore tend to raise concerns, zero/neutral scores represent practices that meet market practice, local governance codes, and/or ISS voting policy on the topic, while positive scores indicate best practices that may mitigate concerns elsewhere. Numeric answers are typically given scores by a formula – for instance, board independence scores range from highly negative (-40 for a board with less than 50% non-independent board members) to positive (+25 for a 75% independent board).

The number of points assigned to an answer is designed to communicate a level of concern. If an answer by itself should drive a medium level of concern in its category, it will receive -25 points. If it is significant enough to warrant high concern – then it will receive -50 points. Positive points imply that the answer both approaches best practices and may also mitigate concerns elsewhere.

Special consideration is given to how questions interact with one another. For instance, while the presence of a poison pill will receive negative points, other questions regarding the pill will receive positive points if they tend to make the pill less concerning: e.g., shareholder approval, qualified-offer clauses, high triggers, etc. The points are constructed to ensure that a non-shareholder-approved pill will receive sufficient negative points to trigger a concern, but that a shareholder-approved pill with positive features and a high threshold may receive zero points and not contribute to concern at all.

Rating

Scores are calculated for subcategories by summing the answer scores for that subcategory, subject to a floor and a ceiling that is established for the category. These boundaries represent the maximum concern that the questions within the subsection can add to – or subtract from – the overall level of concern for the category.

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These floors and ceilings provide a flexible mechanism to convey concern levels from single questions, without overwhelming the methodology. For instance, in the Termination subcategory (in Compensation), a number of questions receive positive points if there is no employment agreement in place. These positive scores may mitigate other negative scores within the subcategory, but the total number of positive points in the section is capped at +15 and thus will not overwhelm the rest of the Compensation section. Similarly, in the Board Policies section, the presence or absence of policies such as disclosed governance guidelines, and the ability of independent directors to meet without management or hire advisors each can mitigate or raise concerns (as appropriate), but the overall levels of concern or mitigation that the Board Policies subcategory can contribute to the overall Board concern level are capped at -15 and +12, respectively.

To calculate an overall category score, the subcategory scores are summed, subject to a category-level floor and ceiling of -75 and +25, respectively. Finally, 75 points are added to normalize this score to a scale between 0 and 100.

The thresholds for concern levels are therefore as follows for all categories:

- <= 25 points indicates **High** concern
- <= 50 points indicates **Medium** concern
- > 50 points indicates **Low** concern

Please note: the specific scoring and points cited as examples here are illustrative in nature.

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Appendix I. U.S. Methodology

Following is a list of all questions in the GRId 2.0 U.S. methodology, including a definition of the question, an indication of the possible answers to each question and how they are derived, a rationale for including the question within the GRId methodology, and an indication of the contribution of the question towards concern levels in the methodology.

Please note: gaps in numbering are spaces for questions applicable in the GRId 2.0 methodology for other markets, to be launched in the second half of 2012. A listing of all questions current for all markets as of February 24, 2012, with a mapping of the old numbering system to the GRId 2.0 numbering, is available in Appendix II.

Audit

The audit category in GRId comprises two subcategories in the US: External Auditor and Audit and Related Controversies.

Risk factors identified in either of these subcategories are sufficient to elevate a company's concern level for the Audit category to High.

1 – External Auditor

A1.1 - Non-Audit fees represent what percentage of total fees? (Q1)

Definition: This question evaluates whether non-audit fees constitute a majority of fees paid to the company's external auditor.

Answers: This calculated answer is based on the total of "other" fees and non-audit fees, divided by the total of other fees, non audit fees, audit fees, audit-related fees, tax fees, tax compliance fees, tax advice fees and transaction-related fees, as applicable.

Rationale: The practice of auditors providing non-audit services to companies can prove problematic. While large auditors may have effective internal barriers to ensure that there are no conflicts of interest, an auditor's ability to remain objective is questionable when fees paid to the auditor for non-audit services, such as management consulting and special situation audits, exceed the standard annual audit fees. While some compensation for non-audit services is customary, the importance of maintaining the independence of the auditor is paramount, and an ideal gauge for that is the portion non-audit fees comprise of total audit fees.

Scoring Approach: If a majority of fees to the company's external auditor exceed 50%, a moderate concern may be raised in the Audit category. Other answers will be treated as neutral.

A1.2 - Did the auditor issue an adverse opinion in the past year? (Q2)

Definition: This question will evaluate whether or not a company received an adverse opinion from its auditor, having received either an unqualified opinion, qualified opinion, adverse opinion, or going concern determination.

Answers: Answers include Adverse, Unqualified, Qualified, and Going Concern.

Rationale: Auditor opinion reports are critical to ensuring a company's financials are presented correctly and free of material misstatements. In the U.S., an adverse auditor opinion is when the auditor believes that no part of the company's financial statements should be relied on. A qualified auditor opinion is when the auditor believes that in general the financial statements can be relied upon with certain exceptions.

Scoring Approach: An adverse or qualified opinion will contribute significantly to the level of concern in the Audit category. Other answers will be treated as neutral.

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2 – Audit and accounting controversies

A2.1 - Has the company restated financials for any period within the past two fiscal years? (Q3)

Definition: This question will evaluate whether the company has or has not restated its financials for any period within the past two fiscal years, or if the information is not disclosed.

Answers: Yes or No.

Rationale: Companies may restate their financials due to misrepresentation or accounting irregularities, for example, or, in other cases, due clerical errors in the production of financial statements or business combinations. GRId will consider the former, focusing on those restatements that pose a material risk to shareholders and/or stakeholders. Restatements can result in significant reputational, legal, and financial risks, as evidenced by the number of U.S. companies that have in recent years been forced to restate their financials as a result of options backdating.

Scoring Approach: An answer of Yes may raise a moderate level of concern in the Audit category. Other answers will be treated as neutral.

A2.2 - Has the company made late financial disclosure filings in the past two fiscal years? (Q4)

Definition: GRId will consider whether or not the company filed late, or there is no disclosure to indicate it has done so.

Answers: Yes or No.

Rationale: Late financial filings could result in penalties for the issuer and adversely impact the company's reputation and shareholder value.

Scoring Approach: An answer of Yes will raise a moderate level of concern in the Audit category. Other answers will be treated as neutral.

A2.3 - Has a securities regulator taken enforcement action against the company in the past two fiscal years? (Q5)

Definition: This question will evaluate whether or not a company was subject to enforcement action by a regulator within the past two fiscal years. Evidence of enforcement action against U.S. companies includes Wells Notice disclosures found in one or more of the two preceding form 10-K filings, or equivalent enforcement actions taken by federal and state regulatory bodies.

Answers: Answers include Yes and No.

Rationale: Enforcement actions could result in significant penalties for the issuer and adversely impact the company's reputation and shareholder value.

Scoring Approach: An answer of Yes will contribute significantly to the level of concern in the Audit category. Other answers will be treated as neutral.

A2.4 - Has a securities regulator taken enforcement action against a director or officer of the company in the past two fiscal years? (Q200)

Definition: New question. This question will evaluate whether or not a director or officer of the company was subject to enforcement action by a regulator within the past two fiscal years. Evidence of enforcement action against U.S. companies is defined as Well Notice disclosures found in one or more of the two preceding form 10-K filings.

Answers: Yes or No.

Rationale: Enforcement actions could result in significant penalties for the issuer and adversely impact the company's reputation and shareholder value.

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Scoring Approach: An answer of Yes will contribute significantly to the level of concern in the Audit category. Other answers will be treated as neutral.

A2.5 - Is a director or officer of the company currently under investigation by a regulatory body? (Q201)

Definition: New question. This question will evaluate whether or not a director or officer of the company was under investigation by a regulator within the past two fiscal years. Evidence of regulatory investigation action against U.S. companies is defined as a relevant disclosure found in one or more of the two preceding form 10-K filings. The definition will vary in other jurisdictions based on local interpretations of what constitutes enforcement action.

Answers: Yes or No.

Rationale: Disclosed investigations indicate the potential for controversy that could result in enforcement actions, significant penalties for the issuer and adversely impact the company's reputation and shareholder value.

Scoring Approach: An answer of Yes will raise a moderate level of concern in the Audit category. Other answers will be treated as neutral.

A2.6 - Has the company disclosed any material weaknesses in its internal controls in the past two fiscal years? (Q8)

Definition: GRId will evaluate and consider whether material weaknesses, if any, over the past two fiscal years were: the same over consecutive years; different weaknesses; evidenced in the most recent fiscal year; or the previous period; or if the information is not disclosed.

Answers: Answers address whether a material weakness has been disclosed in one or both years, and whether the material weakness was the same across both years.

Rationale: Companies with significant material weaknesses potentially have ineffective internal controls, which may lead to inaccurate financial statements, hampering shareholders' ability to make informed investment decisions, and may lead to a weakening in public confidence and shareholder value.

Scoring Approach: Persistent material weaknesses in internal controls will raise significant concerns in the Audit category. If the weaknesses are not persistent over two fiscal years, or the cause of the weaknesses has changed year over year, moderate concerns may be raised. Other answers will be treated as neutral.

Board

The Board category comprises six subcategories: Board Composition, Composition of the Committees, Board Practices, Board Policies, and Related Party Transactions.

1– Board Composition

Board Composition focuses on the independence of the board of directors and the structure of board leadership. Risks identified in the Board composition subcategory may elevate the overall Board concern level to high; mitigating practices in this subcategory may reduce overall Board concern levels to a moderate degree.

B1.2 - What is the independent director composition of the Board? (Q10)

Definition: GRId will consider the percentage of independent directors (as defined by ISS) on a company's board, or whether no information is given. ISS' definition of independence is specified in ISS' U.S. Policy, available on the ISS Policy Gateway.

Answers: This calculated field represents the percentage of independent directors as a proportion of all directors.

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Rationale: The relationship between the proportion of independent directors and various company performance factors is viewed by many as critical to firm performance. For instance, a working paper which evaluated the linkage between board composition and company productivity found a positive relationship between the percentage of outsiders on so-called monitoring committees (i.e., audit, compensation, and nominating committees) and the factors associated with the benefits of monitoring. These factors included the firm's outstanding debt and free cash flow (Klein). Another study found a significant correlation between board independence and firm performance as measured by Return on Assets (Elgaied & Rachdi 2008). Other researchers found a positive link between enhanced firm value and boards which have audit committees that are composed of a majority of independent finance-trained directors (Chan & Li 2008).

Scoring Approach: A board lacking a majority of independent members will raise significant concerns. Majority-independent boards will not raise a concern, with a greater degree of independence somewhat mitigating concerns elsewhere in the category.

B1.7 - What is the classification of the Chairman of the Board? (Q14)

Definition: Updated approach. In order to provide more granular detail regarding board leadership, this question has been divided, and now considers solely the classification (independence) of the Chairman of the Board. The separation of chair and CEO positions and the type of board leadership are considered in questions B1.8 and B1.9, respectively.

Answers: The chairman can be classified as an executive, as an affiliated non-executive, as independent, or as a former CEO. The ISS definition of independence is detailed in ISS Policy.

Rationale: A growing number of good-governance advocates believe that having the same person hold the positions of chairman and CEO calls into question whether the board can adequately oversee and evaluate the performance of senior officers (including the CEO) and the company. This has been driven home by the rash of accounting scandals at U.S. firms such as Tyco International and WorldCom. More recently, the global financial crisis has laid bare the need for boards to assess and oversee a broad spectrum of long-term risk exposures, the ability to do so effectively can be weakened in the absence of independent leadership. As noted in a 2009 policy brief published by Yale University's Millstein Center for Corporate Governance and Performance, the "independent chair curbs conflicts of interest, promotes oversight of risk, manages the relationship between the board and CEO, serves as a conduit for regular communication with shareowners, and is a logical next step in the development of an independent board."

Scoring Approach: For questions B1.7-B1.8, a combined Chair/CEO will raise a moderate level of concern, while a non-independent chair (former CEO or other affiliated outsider) will contribute a smaller degree of concern in the Board category. A fully independent chair will mitigate concern in the Board category to a small degree.

B1.8 - Are the roles of Chairman and CEO separated? (Q15)

Definition: New question. GRId will consider whether the company splits the roles of chairman and CEO, or whether no information is given.

Answers: Yes or No.

Rationale: See above.

Scoring Approach: See above.

B1.9 - Has the company identified a Senior or Lead Independent Director? (Q16)

Definition: New question. This question addresses whether there is a lead independent director with clearly delineated and comprehensive duties.

Answers: Yes, no, or not disclosed.

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Rationale: A lead independent director provides an important leadership function for a board with a combined CEO/chair structure. An effective lead director's functions may include, but are not limited to, the following: presides at all meetings of the board at which the chairman is not present, including executive sessions of the independent directors; serves as liaison between the chairman and the independent directors; approves information sent to the board; approves meeting agendas for the board; approves meeting schedules to assure that there is sufficient time for discussion of all agenda Items; has the authority to call meetings of the independent directors; and if requested by major shareholders, ensures that he is available for consultation and direct communication.

Scoring Approach: The presence of a lead independent director will mitigate to some degree concerns raised by a non-independent Chair or combined CEO-Chair structure. The absence of a lead independent director will raise a small additional degree of concern; a non-independent lead director slightly less. In the case where there is an independent chair (and thus no lead independent director), this question will be effectively treated as neutral.

B1.12 - What percentage of the board is related to executives or majority shareholders of the company? (Q205)

Definition: New question. This question elaborates on the general issue of board independence and addresses whether members of the board are related (per the SEC definition of family membership) to any executive officers or significant shareholders of the company.

Answers: The question calculates the percentage of the board with family relationships.

Rationale: This question provides more detail regarding the level of board independence by specifically noting a particular type of affiliation that is defined by the SEC and by exchange listing standards.

Scoring Approach: The presence of a significant number of family members on the board of directors will raise a small degree of concern in the Board Composition subcategory.

B1.13 - What percentage of the board are former executives of the company? (Q206)

Definition: New question. This question elaborates on the general question of board independence and addresses whether members of the board are former executives of the company. The definition of former executives follows ISS' classification of directors, which applies a cooling-off period of 5 years for executives other than the CEO (more information is available via the ISS Policy Gateway).

Answers: The question calculates the percentage of the board who are former executives of the company.

Rationale: This question provides more detail regarding the level of board independence by specifically noting a particular type of affiliation that may suggest the ongoing influence of former executives or founders on the board.

Scoring Approach: The presence of a significant number of former executives on the board of directors may raise a small degree of concern in the Board Composition subcategory.

2 – Composition of the Committees

The Composition of the Committees subcategory focuses on the independence of the three key committees of the board of directors: nomination, compensation and audit. Multiple concerns identified here can raise a high level of concern in the Board category.

B2.1.1 - What is the independent status of the nominating committee members? (Q19)

Definition: GRId will consider the percentage of independent members, if no information is given, if no committee exists, or if there is no clear nomination process.

Answers: The percentage of independent members of the nominating committee is calculated.

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Rationale: Most nominating committees are responsible for developing a policy on the size and composition of the board and for identifying and approving nominees for vacant positions on the board of directors. The committee should have the benefit of the CEO's involvement in the selection process, but the responsibility for selection of board nominees should be that of independent directors.

Scoring Approach: Nomination committees with less than 100 percent independent membership will raise increasing levels of concern in the Composition of the Committees Subsection, with a moderate concern being raised for independence levels below 75 percent.

B2.2.1 - What is the independent status of the compensation committee members? (Q25)

Definition: GRId will consider the percentage of independent members, if no information is given, or if no committee exists.

Answers: The percentage of independent members of the compensation committee is calculated.

Rationale: The compensation committee makes recommendations and sets guidelines for the compensation of executives of the company. Best practice dictates the panel should be composed solely of independent directors.

Scoring Approach: Compensation committees with less than 100 percent independent membership will raise increasing levels of concern in the Composition of the Committees Subsection, with a moderate concern being raised for independence levels below 75 percent.

B2.3.1 - What is the independent status of the audit committee members? (Q31)

Definition: GRId will consider the percentage of independent members, if no information is given, or if no committee exists.

Answers: The percentage of independent members of the audit committee is calculated.

Rationale: Like other key board committees, audit panels should ideally be comprised solely of independent non-executives to ensure no possibility of conflict of interest with regard to the company's accounts.

Scoring Approach: Audit committees with less than 100 percent independent membership will raise increasing levels of concern in the Composition of the Committees Subsection, with a moderate concern being raised for independence levels below 75 percent.

3 – Board Practices

The Board Practices subcategory focuses on issues surrounding the ability of directors to discharge their duties, such as overboarding and attendance. Issues identified here can raise a moderate level of concern in the Board category.

B3.2 - How many boards of directors does the CEO serve on? (Q37)

Definition: GRId will consider the number of seats held by the CEO on boards of publicly traded companies, or whether no information is given.

Answers: Number of board seats.

Rationale: The Chief Executive role is a position of great responsibility and time demands. Sitting on multiple outside boards may threaten the ability of the CEO to attend to the business of his or her primary employer.

Scoring Approach: Excessive board memberships (more than three total boards) may raise a low-to-moderate level of concern.

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B3.3 - How many non-executives serve on an excessive number of outside boards? (Q38)

Definition: GRId will consider the number of board seats held by non-executives to determine if they are excessive, as defined by market, or whether no information is given. ISS' benchmark policy defines excessive in the U.S. as more than six public company board seats.

Answers: Number of executives serving on more than six public company boards.

Rationale: Directors with an excessive number of board seats may not have sufficient time to devote to the needs of individual boards.

Scoring Approach: Excessive outside board memberships among non-executives may raise a moderate level of concern.

B3.8 - Did any directors attend less than 75% of the board meetings without a valid excuse? (Q45)

Definition: GRId will consider the number of directors who attended less than 75 percent of board meetings, with consideration given to whether the absenteeism lacked a valid excuse (e.g., illness, funeral obligation, service to the nation, etc.).

Answers: Percentage of directors attending fewer than 75% of meetings without an explanation.

Rationale: Directors who do not attend a sufficient number of board meetings are not fulfilling their obligation to represent shareholders and provide oversight and direction to management.

Scoring Approach: Patterns of absenteeism among directors may raise a low to moderate level of concern. Other responses will be treated as neutral.

B3.9 - How many directors received withhold/ against votes of 50% or greater at the last annual meeting? (Q49)

Definition: GRId will consider the number of directors with majority opposition at the last annual meeting, or if the information is not disclosed.

Answers: Number of directors.

Rationale: Significant opposition to a board member typically signifies a lack of accountability, responsiveness, independence, and/or competence on the part of the targeted director, warranting further evaluation.

Scoring Approach: Two or more directors receiving majority opposition at the prior annual meeting will raise a moderate level of concern; one director receiving majority opposition would raise a smaller level of concern. Other responses will be treated as neutral.

4 – Board Policies

The Board Policies subcategory focuses on the policies surrounding the operation of the board of director, especially the independent directors. The questions in this subcategory contribute and/or mitigate levels of concern to a small degree in the Board category as a whole.

B4.2 - Does the company disclose board/governance guidelines? (Q46)

Definition: GRId will consider whether or not the company publicly discloses board/governance guidelines. When considering answers to this question, GRId will look for guidelines disclosed as a single document rather than multiple separate documents covering various elements of governance.

Answers: Yes or No.

Rationale: New York Stock Exchange listed companies are required to publicly disclose board/corporate governance guidelines. Other exchanges, however, do not yet mandate such disclosure.

Scoring Approach: A negative answer will contribute a minor level of concern in the Board Policies section; an affirmative answer will mitigate other questions in the subcategory.

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B4.3 - Did outside directors meet without management present? (Q47)

Definition: GRId will consider whether or not directors met in the absence of management (i.e., "executive sessions"), or if the information is not disclosed.

Answers: Yes or No.

Rationale: The ability of independent directors to meet without management is an important factor in their ability to represent shareholders and provide independent oversight of management.

Scoring Approach: A negative answer will contribute a minor level of concern in the Board Policies section; an affirmative answer will mitigate other questions in the subcategory.

B4.4 - Can directors hire own advisors without management approval? (Q48)

Definition: New question. GRId will consider whether or not directors have the authority to hire their own advisors. Authority for the entire board to hire outside advisors without first obtaining management approval should be given explicitly.

Answers: Yes, No, or Not disclosed.

Rationale: The ability of independent directors to hire their own advisors is an important factor in their ability to represent shareholders and provide independent oversight of management.

Scoring Approach: A negative answer will contribute a minor level of concern in the Board Policies section; an affirmative answer will mitigate other questions in the subcategory.

5 – Related Party Transactions

This subcategory focuses on related-party transactions with members of the board and with executives. These transactions have the potential to undermine the independence of the board of directors and at times may serve to separate management interests from those of shareholders. The presence of significant related-party transactions can raise a moderate level of concern in the Board category.

B5.1 - What percent of the directors were involved in material RPTs? (Q50)

Definition: GRId will consider the percentage of directors involved in material related party transactions, or if no information with which to make a determination is given. In the U.S., a material transactional relationship is defined as one that: includes grants to non-profit organizations; exists if the company makes annual payments to, or receives annual payments from, another entity exceeding the greater of $200,000 or 5 percent of the recipient's gross revenues, in the case of a company which follows NASDAQ listing standards; or the greater of $1,000,000 or 2 percent of the recipient's gross revenues, in the case of a company which follows NYSE/Amex listing standards. In the case of a company which follows neither of the preceding standards, ISS will apply the NASDAQ-based materiality test. (The recipient is the party receiving the financial proceeds from the transaction.)

Answers: Percentage of directors involved in RPTs.

Rationale: Related party transactions can lead to conflicts of interest that may compromise independence, particularly in instances where participation or ties to transactions are not fully disclosed.

Scoring Approach: Companies where 50 percent of board members are involved in material RPTs would raise a moderate level of concern, with lower levels of concern raised for lower proportions of the board's having such involvement. The absence of material RPTs among board members will be treated as neutral.

B5.2 - Do the directors with RPTs sit on key board committees? (Q51)

Definition: GRId will consider whether or not directors with material related-party transactions (RPTs) sit on key committees, if it is not applicable, or if information with which to make a determination is not given. See above for a definition of material RPTs. Key committees are defined as nomination, audit and compensation.

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Answers: Yes and no. Consideration will be given to a director with an RPT who chairs a key committee.

Rationale: The independence of the nomination, audit and compensation committees is vital to their effective oversight of these key board functions. The existence of transactional relationships with the company has the potential to undermine this independence and the appearance of independence.

Scoring Approach: The presence of directors with RPTs on key board committees may raise a low to moderate level of concern in the Board category, while their absence (or the absence of any directors with RPTS) will be treated as neutral.

B5.3 - Are there related-party transactions involving the CEO? (Q216)

Definition: New question. GRId will consider whether the CEO has engaged in material related-party transactions with the company.

Answers: Yes and no.

Rationale: The CEO's special role in the company demands special attention to even the appearance of self-dealing.

Scoring Approach: An affirmative answer may contribute to a low to moderate level of concern for the Board category, while the absence of RPTs will be treated as neutral.

Shareholder Rights

The Shareholder Rights category comprises the subcategories of One Share-One Vote, Takeover Defenses, Voting Issues (such as supermajority provisions), and Voting Formalities (such as special-meeting rights).

1 – One Share - One Vote

One Share-One Vote focuses on whether certain classes of shareholders have rights disproportionate to their economic rights, such as special voting rights or board representation.

S1.1 - Does the company have classes of stock with different voting rights? (Q54)

Definition: GRId will consider whether or not the company has stock classes with different voting rights. GRId will apply a double materiality test to companies with stock classes with different voting rights. In case of multiple voting rights, the impact of the multiple voting shares relative to the total number of votes will be measured. Similarly if a company has issued non-voting shares, the impact of the non-voting shares relative to the total share capital will be measured.

The second part of the materiality test will measure the level of free float of the multiple voting shares or voting shares (in the case of issuance of non-voting shares) in order to see if minority investors can choose the degree to which voting rights are distorted. A high level of free float will not lead to significant adverse scoring as minority investors will be able to buy and sell such shares on the market more easily than if the free float of such shares would be limited.

Answers: Yes or No.

Rationale: Dual-class capital structures can serve to entrench certain shareholders and management, insulating them from possible takeovers or other external influence or action. The interests of parties with voting control may not be the same as those of shareholders constituting a majority of the company's outstanding capital. Additionally, research suggests that companies with dual-class capital structures or other antitakeover mechanisms often trade at a discount to similar companies without such structures.

Scoring Approach: The presence of multiple classes of stock with different voting rights will raise a moderate to significant concern in the Shareholder Rights category, while a single class of stock will be treated as neutral.

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S1.2 - Are there any directors on the board who are not up for election by all classes of common shareholders? (Q55)

Definition: GRId will consider whether or not some directors are not elected by all classes of common stock.

Answers: Yes or No.

Rationale: Barring some holders of common stock from voting on directors may serve to entrench board members and perpetuate control by certain blocks or groups.

Scoring Approach: The presence of directors not elected by all shareholders may raise a moderate concern, while the absence of such will be treated as neutral.

2 – Takeover Defenses

This subcategory focuses on mechanisms that may serve to disempower shareholders from exercising their right to accept an attractive takeover offer. The presence of multiple takeover defenses may elevate the Shareholder Rights concern level to high; while the absence of takeover defenses may mitigate concerns elsewhere in the category.

S2.7 - Are all directors elected annually? (Q77)

Definition: GRId will consider whether or not all directors are elected each year, rather than in staggered terms—often referred to as a classified board. GRId will also consider whether or not companies are transitioning to a declassified board, as defined when a company receives shareholder approval for the switch, but annual elections of all members has not yet commenced.

Answers: Yes; No; or In the process of transitioning to a declassified board.

Rationale: Classifying the board makes it more difficult to change control of a company through a proxy contest involving the election of directors. Because only a minority of the directors is elected each year, a dissident will be unable to win control of the board in a single election and would need two years to gain control of the company unless there are vacancies in the other classes.

Studies have shown a negative correlation between the existence of a classified board and a firm's value. In a 2005 study, Bebchuk and Cohen provide suggestive evidence that staggered boards at least partly bring about, not merely reflect, an economically significant reduction in firm value. A 2007 study by Faleye also shows a correlation between the existence of a classified board and a reduction in firm value, and suggests that by insulating management from market discipline, classified boards cause such reduction in firm value through managerial entrenchment and diminished board accountability.

Scoring Approach: The presence of a classified board may raise a moderate concern, while a declassified board will provide a degree of mitigation to other takeover defenses.

S2.8 - Is the board authorized to issue blank check preferred stock? (Q83)

Definition: GRId will consider whether or not the board is authorized to issue “blank check” preferred stock.

The terms of blank check preferred stock give a company’s board the power to issue shares of preferred stock at its discretion, with voting, conversion, distribution, and other rights to be determined by the board at the time of issue.

Answers: Yes; No, and Yes, but declawed (not to be used as an antitakeover defense)

Rationale: Blank check preferred stock can be used for sound corporate purposes such as raising capital or making acquisitions. In these cases, blank check implies flexibility in meeting the company’s broad finance needs. By not establishing the terms of preferred stock at the time the class of stock is created, companies maintain the flexibility to tailor their preferred stock offerings to prevailing market conditions.

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Nevertheless, blank check preferred stock is also suited for use as an entrenchment device. Albeit less common today, one powerful takeover defense is the placement of large blocks of corporate securities, or blank check preferred stock, with friendly third parties—the so-called “white knight” rescue. Blank check preferred stock would not be as objectionable to shareholders if a company stated in writing that such shares would be “declawed” and not be used to thwart a potential takeover.

Scoring Approach: An authorization to issue blank check preferred stock may raise a moderate level of concern; the absence of this authorization may mitigate some concern in the takeover defenses subcategory. Declawed stock will be treated as neutral.

S2.9.1 - Does the company have a poison pill (shareholder rights plan) in effect? (Q78)

Definition: Modified question. GRId will consider whether or not the company has a shareholder plan in effect, and treats separately (under question S2.9.8) whether the poison pill has been approved by shareholders.

Answers: Yes and no.

Rationale: Institutional investors view poison pills as among the most onerous of takeover defenses that may serve to entrench management and have a detrimental impact on their long-term share value. While recognizing that boards have a fiduciary duty to use all available means to protect shareholders' interests, investors often argue that, as a best governance principle, boards should seek shareholder ratification of a poison pill (or an amendment thereof) within a reasonable period.

Scoring Approach: The poison pill questions (S8.1.1 through S8.1.10) are scored together, with possible concerns ranging from neutral/minimal to high. The presence of a poison pill by itself will contribute moderately towards the concern level for the pill, with the features of the pill adding to, or subtracting from, the overall level of concern as delineated below. A sufficiently shareholder-friendly pill may be treated as neutral. The absence of a pill will not mitigate concerns elsewhere in the Takeover Defenses subcategory or Shareholder Rights category.

S2.9.2 - What is the trigger threshold for the poison pill? (Q79)

Definition: Modified question. GRId will consider the trigger percentage for the pill. Whether the pill is designed to preserve tax benefits on Net Operating Losses (“NOL pills”) is now treated in question 2.8.7.

Answers: Percent threshold or no poison pill in effect.

Rationale: Poison pill triggers typically range from 10 to 25 percent, with the overwhelming majority of U.S. companies with pills maintaining a 15 percent trigger.

Scoring Approach: Pills with triggers of 10% or below will add to the overall pill level of concern as detailed under S2.9.1, while pills with triggers over 10% will mitigate the overall pill level of concern. The absence of a pill will be treated as neutral.

S2.9.3 - Does the poison pill have a sunset provision? (Q80)

Definition: GRId will consider whether or not the plan includes a provision terminating the pill within a specified time period.

Answers: Yes, no, or no pill in effect.

Rationale: Poison pills with scheduled dates of termination mean that the decision to maintain the poison pill must be periodically revisited and, ideally, resubmitted for shareholder approval. See also S2.9.6 and S2.9.8, below.

Scoring Approach: The presence of a sunset provision will mitigate the concern level raised by the presence of a pill.

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S2.9.4 - Does the poison pill have a TIDE provision? (Q81)

Definition: GRId will consider whether or not the plan includes a Three-Year Independent Director Evaluation (TIDE) provision.

Answers: Yes, no, or no pill in effect.

Rationale: TIDE provisions require the company's independent directors to review the plan every three years to evaluate whether it is still in shareholders' best interest.

Scoring Approach: The presence of a TIDE provision will mitigate the concern level raised by the presence of a pill.

S2.9.5 - Does the poison pill have a qualified offer clause? (Q82)

Definition: GRId will consider whether or not the plan includes a clause allowing shareholders to redeem the pill in the face of a *bona fide* takeover offer.

Answers: Yes, no, or no pill in effect.

Rationale: Well-designed pills provide the company with negotiating power and time to receive the best possible offer for shareholders. Qualified offer clauses empower shareholders to redeem the pill and accept a valid takeover offer.

Scoring Approach: The presence of a qualified offer clause will mitigate the concern level raised by the presence of a pill.

S2.9.6 - In how many years will the poison pill expire? (Q91)

Definition: GRId will consider the number of years until sunset of the plan, or if not applicable.

Answers: Number of years, or no pill in effect.

Rationale: While long-term pills may tend to serve as a device to entrench management, shorter-term pills are more likely to be in response to particular market or company circumstances, and will require, ideally, the board to revisit the decision to institute the rights plan.

Scoring Approach: Pills with short durations (under 3 years) until expiration will slightly mitigate the concern level raised by the pill.

S2.9.7 - Is the poison pill designed to preserve tax assets (NOL pill)? Q220)

Definition: New question. GRId will consider whether the pill is designed to preserve tax assets.

Answers: Yes, no, or no pill in effect.

Rationale: NOL pills are designed to preserve tax assets per IRS rules where these tax-loss assets are forfeited upon change in control, and as such are designed to preserve shareholder value.

Scoring Approach: A pill designed to protect Net Operating Losses will mitigate concern raised by the poison pill, notably in the case of low-threshold pills.

S2.9.8 - Was the poison pill approved by shareholders? (Q221)

Definition: New question. GRId will inquire whether the poison pill was approved by a majority of shareholders. Voting results are considered as a majority of votes cast, abstentions included but excluding broker non-votes.

Answers: Yes, no, or no pill in effect. Pills that have not been submitted to a vote of shareholders will receive an answer of "no."

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Rationale: While recognizing that boards have a fiduciary duty to use all available means to protect shareholders' interests, investors often argue that, as a best governance principle, boards should seek shareholder ratification of a poison pill (or an amendment thereof) within a reasonable period.

Scoring Approach: A pill that has not been approved by shareholders will contribute an additional level of concern; the presence of shareholder approval will mitigate the overall pill level of concern.

S2.9.9 - How long has it been since the poison pill was implemented or renewed? (Q222)

Definition: New question. GRId will inquire how long ago the board most recently took action on the pill, whether to implement it or renew it.

Answers: Number of years, or no poison pill in effect.

Rationale: A more recently implemented pill deserves additional scrutiny.

Scoring Approach: Pills that were implemented more than 5 years ago will slightly mitigate concern, while more recently implemented or renewed pills will raise a small amount of concern.

S2.9.10 - Does the company's poison pill include a modified slow-hand or dead-hand provision? (Q223)

Definition: New question. GRId will inquire as to whether the implementation of the pill inhibits or prohibits the ability of future boards of directors to redeem the pill.

Answers: Yes, no, or no poison pill in effect.

Rationale: “Dead hand” and “slow hand” provisions that prevents the removal of the poison pill is an egregious and unjustifiable violation of shareholders’ rights to accept an attractive takeover offer, even after replacing members of the board.

Scoring Approach: The presence of a dead-hand provision will significantly compound the concern raised by the poison pill; other answers are treated as neutral.

S2.10 - Does the company have a majority vote standard in uncontested elections? (Q52)

Definition: GRId will consider the voting standards for electing directors to the board.

Answers: Majority vote standard with and without resignation policy; and plurality standard with and without resignation policy.

Rationale: A majority vote standard requires that for directors to be elected (or re-elected) to serve on the company's board they must receive support from holders of a majority of shares voted. A plurality standard only requires the most votes, meaning a director nominee in an uncontested election can be elected to the board with, in theory, a single vote.

A majority vote standard, in combination with a plurality standard in elections with more nominees than seats, and a director resignation policy to address post-election results, has emerged in the U.S. in the last few years as a catalyst to make director elections meaningful rather than merely symbolic. One could argue that boards elected under such a majority vote structure are sufficiently accountable to shareholders.

The majority voting election standard (in uncontested elections), coupled with a post-election "director resignation policy" has emerged as the current best practice: shareholders have a clear, legally significant vote, and the board retains the ability to address the situation of "holdover" directors to accommodate both shareholder concerns and the need for stability and continuity of the board.

By adopting both majority voting and a director resignation policy, it is unnecessary to substitute one for the other; the two can co-exist. Majority voting, by itself, does not address the holdover situation if a director fails to get majority support. On the other hand, plurality voting coupled with a director resignation policy lacks teeth: the incumbent director still determines whether to tender his or her resignation. However, if majority voting creates holdover directors, the fate of the director is in the hands of the board.

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Scoring Approach: A plurality voting standard without a director resignation policy may raise a moderate level of concern, with a resignation policy slightly reducing that level of concern. For companies with a majority voting policy, those without a director resignation policy will be treated as neutral, while the presence of a strong majority-voting policy with director resignation policy may mitigate concerns elsewhere in the Takeover Defenses section.

S2.11 - If the company has a majority voting standard, is there a plurality carve-out in the case of contested elections? (Q224)

Definition: New question. GRId will inquire as to whether the majority voting standard – if in place – does not apply in the case of contested elections.

Answers: Yes, no, and no majority vote standard.

Rationale: The absence of a carve-out for contested elections may serve as a takeover defense, since in a contested election it is possible that no candidate will receive an absolute majority of votes, which is effectively a result in favor of incumbents.

Scoring Approach: The absence of a carve-out for contested elections will remove most positive effect of having a majority voting standard in question S2.10, above.

3 – Voting Issues

These questions focus on whether a supermajority vote is required under certain circumstances. Negative responses here may contribute a low to moderate level of concern to the Shareholder Rights category, while positive features may provide a small degree of mitigation to concerns in this category.

S3.1 - Does the company require a super-majority vote to approve amendments to the charter and bylaws? (Q89)

Definition: GRId will consider whether or not a super-majority vote is required, or if no information is given. Supermajority is typically defined as a threshold of 67 percent or beyond a simple majority.

Answers: Yes and no.

Rationale: Supermajority provisions violate the principle that a simple majority of voting shares should be all that is necessary to effect change regarding a company and its corporate governance provisions. Requiring more than this may permit management to entrench itself by blocking amendments that are in the best interests of shareholders.

Scoring Approach: Companies with supermajority provisions may raise a moderate level of concern within shareholder rights. Companies without supermajority provisions may slightly mitigate concerns elsewhere in majority rights.

S3.2 - Does the company require a super-majority vote to approve mergers/business combinations? (Q90)

Definition: GRId will consider whether or not a super-majority vote is required, or if no information is given. Supermajority is typically defined as a threshold of 67 percent or beyond a simple majority.

Answers: Yes, no, with attention paid to whether the company is a controlled entity.

Rationale: Supermajority provisions violate the principle that a simple majority of voting shares should be all that is necessary to effect a merger. For companies that are controlled, however, supermajority provisions may help ensure that the controlling shareholder cannot unilaterally force a merger despite the opposition of minority shareholders.

Scoring Approach: Companies with supermajority provisions may raise a moderate level of concern within shareholder rights, but controlled entities will raise only a lower degree of concern. Companies without these supermajority provisions may slightly mitigate concerns elsewhere in majority rights.

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4 – Voting Formalities

This section focuses on shareholders' rights to make their voice heard through convening special meetings and/or written consent solicitations. Risks identified in this section may raise a moderate level of concern; best practices provide a low to moderate degree of mitigation for other concerns in the Shareholder Rights category.

S4.1 - What is the percentage of share capital needed to convene a special meeting? (Q97)

Definition: GRId will consider whether shareholders can call a special meeting, and, if so, the percentage required.

Answers: Percentage of share capital, or no right to call special meeting.

Rationale: Most U.S. state corporation statutes allow shareholders to call a special meeting when they want to take action on certain matters that arise between regularly scheduled annual meetings. Sometimes this right applies only if a shareholder or group of shareholders owns a specified percentage of the outstanding shares (10 percent is a common requirement). The percentage of shareholder votes required to force the company to call the meeting depends on the state statute, as does the company's ability to limit or deny altogether shareholders' right to call a special meeting.

In terms of day-to-day governance, shareholders may lose an important right – the ability to remove directors or initiate a shareholder resolution without having to wait for the next scheduled meeting – if they are unable to call a timely special meeting. Shareholders could also be powerless to respond to a beneficial offer if a bidder cannot call a special meeting. Therefore, the inability to call a special meeting and the resulting insulation of management may result in the decline of corporate performance and shareholder returns.

Scoring Approach: The absence of a right to call a special meeting, or thresholds of greater than 15%, may raise a moderate degree of concern. Lower thresholds will raise a lesser degree of concern, with thresholds under 10% providing a small degree of mitigation within the Shareholder Rights category.

S4.2 - Can shareholders act by written consent? (Q98)

Definition: GRId will consider whether or not shareholders can act by written consent, or if the information is not disclosed.

Answers: Yes or no.

Rationale: Consent solicitations can be advantageous to both shareholders and management in that the process does not involve the expense of holding a physical meeting, and it is easier for shareholders who can simply respond to the proposal by mail. A consent solicitation is similar to a proxy solicitation: consents are mailed to shareholders for their vote and signature and delivered to management. The only procedural difference is that the consent process ends with delivery of the consents. If enough consents are returned, the subject of the consent is deemed ratified. In contrast, a proxy solicitation must end with a meeting because proxy cards merely authorize the indicated "proxy" to cast a vote at a shareholder meeting. A signed consent card is itself the final vote and, as such, does not require a vote by proxy at a shareholder meeting.

Limitations on written consent are clearly contrary to shareholder interests. In terms of day-to-day governance, shareholders may lose an important right – the ability to remove directors or initiate a shareholder resolution without having to wait for the next scheduled meeting – if they are unable to act by written consent. Beneficial tender offers also may be precluded because of a bidder's inability to take action by written consent.

Scoring Approach: The absence of a shareholder right to act by written consent may raise some degree of concern within the shareholder rights category; the presence of this right mitigates some concern.

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S4.3 - Has the board failed to implement a shareholder resolution supported by a majority vote? (Q99)

Definition: GRId will consider whether or not majority support for shareholder proposals was evidenced, and, if so, the board has ignored majority support of outstanding shares over one year, and majority support of votes cast over two years.

Answers: Yes and no.

Rationale: Directors should be responsive to the company's owners, particularly in regard to shareholder proposals that receive a majority vote.

Scoring Approach: The presence of a shareholder resolution that has not been implemented will raise a significant level of concern in the shareholder rights section; otherwise the question is treated as neutral.

S4.4 - Are there material restrictions as to timing or topics to be discussed, or ownership levels required to call the meeting? (Q225)

Definition: <u>New question</u>. GRId will inquire as to whether there are material restrictions to the right to call a special meeting of shareholders. Material restrictions include: restrictions that prohibit special meetings more than 90 days away from the prior (or planned future) annual meeting date, restrictions that may be interpreted to preclude director elections or other significant business, and restrictions that effectively raise the ownership threshold required to call the meeting.

Answers: Yes, no, or not applicable (no right to call meeting).

Rationale: The right to call a special meeting is only meaningful if shareholders can accumulate their positions to meet ownership thresholds, can use it to vote on important issues, and can call meetings in a timely fashion. Material restrictions vitiate the right.

Scoring Approach: The presence of material restrictions will remove any positive/mitigating effect from the formal presence of a special meeting right.

Compensation

The Compensation category comprises sections that correspond to ISS' evaluation of Say on Pay for the U.S.: pay for performance, non-performance based pay, use of equity, equity risk mitigation, communication & disclosure and termination.

1 – Pay for performance

The primary factors identified in this section (C1.5, C1.6, C1.7, and C1.8) are the quantitative measures incorporated in ISS' evaluation of executive compensation for proxy analyses and are being incorporated into GRId as compensation-related risk indicators. For more details on the new ISS methodology, see the "Evaluating Pay for Performance Alignment," available at www.issgovernance.com/policy.

This year, a substantial majority of institutional respondents to ISS' 2011 policy survey confirmed two factors as relevant to evaluating pay-for-performance alignment: pay relative to peers and pay increases that are inconsistent with the company's performance trend. Most issuer respondents also indicated that pay versus peers is an appropriate factor and that pay increases in light of company performance should be a consideration. In addition, both institutions and issuers have contended in roundtables and other feedback that pay−performance alignment should be viewed in a long-term context.

The pay-for-performance measures are based on the most recently available proxy disclosures for pay and matching performance periods.

Factors in this section may raise a high level of concern for the Compensation category; there are no mitigating questions in this subcategory.

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C1.5 - What is the degree of alignment between the company's cumulative 3-year pay percentile rank, relative to peers, and its 3-year cumulative TSR rank, relative to peers? (Q226)

Definition: New question. This measure addresses the question: Is the pay opportunity delivered to the CEO commensurate with the performance achieved by shareholders, relative to a comparable group of companies, over a three-year period? This relative measure compares the percentile ranks of a company's CEO pay and TSR performance, relative to an industry-and-size derived comparison group, over a three-year period.

Answers: This measure ranges from -100 (representing high pay for low performance) to 100 (representing low pay for high performance), with a median of approximately 0.

Rationale: See section heading.

Scoring Approach: The three-year measure constitutes 60% of the total relative degree of alignment measure, and are combined with the one-year alignment measure in C1.6 below which represents 40% of the total. A composite measure lower than -30 may contribute to a moderate degree of concern in the Compensation category, rising to a significant level of concern when falling below -50. Other measures or insufficient data will be treated as neutral.

C1.6 - What is the degree of alignment between the company's cumulative 1-year pay percentile rank, relative to peers, and its 1-year cumulative TSR rank, relative to peers? (Q227)

Definition: New question. This measure addresses the question: Is the pay opportunity delivered to the CEO commensurate with the performance achieved by shareholders, relative to a comparable group of companies, over a one-year period? This relative measure compares the percentile ranks of a company's CEO pay and TSR performance, relative to an industry-and-size derived comparison group, over a one-year period.

Answers: This measure ranges from -100 (representing high pay for low performance) to 100 (representing low pay for high performance), with a median of approximately 0.

Rationale: See section heading.

Scoring Approach: See above.

C1.7 - What is the size of the CEO's 1-year cumulative pay, as a multiple of the median pay for company peers? (Q228)

Definition: New question. This relative measure expresses the prior year's CEO pay as a multiple of the median pay of its ISS-determined comparison group for the same period. Calculating this measure is straightforward: the company's one-year CEO pay is divided by the median pay for the comparison group.

Answers: This measure ranges from 0 (CEO has no pay) to 25 times median. The median company in 2011 paid its CEO close to 1 times the median of its peer group.

Rationale: See section heading.

Scoring Approach: Multiples of greater than 2.33 will begin to raise a pay-for-performance concern, with a maximum moderate-high concern reached at 3.33x median. Other measures or insufficient data will be treated as neutral.

C1.8 - What is the degree of alignment between the company's TSR and change in CEO pay over the past five years? (Q229)

Definition: New question. This absolute measure compares the trends of the CEO's annual pay and the value of an investment in the company over the prior five-year period. The measure is calculated as the difference between the slopes of weighted linear regressions for pay and for shareholder returns over a five-year period. This difference indicates the degree to which CEO pay has changed more or less rapidly than shareholder returns over that period.

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Answers: This measure ranges from approximately -100% to approximately +100%, negative scores indicating misalignment, with a median of approximately -3%.

Rationale: See section heading.

Scoring Approach: Measures below -30% may raise a moderate level of concern, rising to significant concern for measures below -45%. Other measures or insufficient data will be treated as neutral.

C1.12 - What is the ratio of the CEO's total compensation to the next highest paid executive? (Q232)

Definition: New question. GRId will measure the CEO's total compensation as a ratio of the next highest-paid executive pay

Answers: A ratio, or insufficient data.

Rationale: Internal pay parity ratios among executives are an indicator of potential succession-planning challenges within the organization, which may yield high future payouts if the current CEO departs, as well as signaling the potential that pay levels for the CEO are excessive.

Scoring Approach: Very high ratios may contribute a small amount of concern within the pay-for-performance subcategory; otherwise this question will be treated as neutral.

2 – Non-performance based pay

This subcategory focuses on elements of pay programs that are disconnected from performance considerations, or tend to erode the relationship between pay and performance. Concerns identified in this section can raise a moderate level of concern for the Compensation category; there are no mitigating questions in this subcategory.

C2.1 - Did the company provide dividends on unvested performance shares in the last fiscal year? (Q234)

Definition: New question. GRId will inquire as to whether the company paid dividends on unvested performance shares.

Answers: Yes or no.

Rationale: This form of payment for unvested, performance-based equity compensation breaks the connection between pay and performance.

Scoring Approach: The provision of dividends on unvested performance shares may raise a low to moderate level of concern; other answers are treated as neutral.

C2.2 - Has the company reimbursed NEOs for losses on sale of a home? (Q235)

Definition: New question. GRId will inquire as to whether home-sale loss provisions have been made for executives in the past fiscal year.

Answers: Yes or no.

Rationale: Special payments for executives suffering losses in the housing downturn are a form of non-performance based pay that is unwarranted.

Scoring Approach: The presence of reimbursements may raise a low to moderate degree of concern; otherwise the question is treated as neutral.

C2.3 - Did the CEO receive tax gross-ups on perks other than relocation and other broad-based benefits? (Q157)

Definition: Modified question. GRId will consider whether or not tax gross-ups were provided to the CEO in the past fiscal year, or if the company has committed to ending the practice.

Answers: Yes; Yes, but with a commitment to end the practice, or No.

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Rationale: Reimbursement of income taxes on most executive perks is viewed negatively, as executive officers are paid competitively and reasonably and should pay the income tax on their personal perks. There is no de minimis threshold for this question and the focus is typically on personal aircraft usage, car allowances, executive life insurance, financial planning and other special, executive-only perquisites. Tax gross ups for relocations, which are typically broad-based but counted as a perquisite, is a notable exception. Also, tax gross ups for spousal travel to business events (not personal) would not be an issue.

Scoring Approach: The presence of tax gross-ups may raise a low to moderate degree of concern; otherwise the question is treated as neutral.

C2.4 - Are any of the NEOs eligible for multi-year guaranteed bonuses? (Q156)

Definition: GRId will consider whether or not named executive officers are eligible for multi-year guaranteed bonuses. A one-year guarantee made upon hire is not considered problematic and is often in consideration of the executive foregoing bonus eligibility at the former employer or leaving something else of monetary value.

Answers: Yes or no.

Rationale: Multi-year bonus guarantees are considered problematic under ISS' *Problematic Pay Practices* policy and sever the pay-for-performance linkage.

Scoring Approach: The presence of multi-year guaranteed bonuses may raise a low to moderate degree of concern; otherwise the question is treated as neutral.

C2.5 - Did the company pay tax gross-ups on a secular trust? (Q236)

Definition: New question. GRId will consider whether tax gross-ups are paid on the compensation deferred via a secular trust vehicle but taxable upon vesting.

Answers: Yes or no.

Rationale: Tax gross-ups on deferred compensation constitute non-performance based compensation under ISS policy.

Scoring Approach: The presence of tax gross-ups may raise a low to moderate degree of concern; otherwise the question is treated as neutral.

C2.7 - Are executives given credit toward pension for years not worked? (Q164)

Definition: GRId will consider whether or not any current named executive officers can receive pension credit for years not worked.

Answers: Yes or no.

Rationale: Inclusion of additional pension credit for time not worked is considered to be a problematic pay practice and a particularly costly perquisite. Often the additional credit is provided as an offset to benefits lost from a previous employer. Pension provided by a former employer is often used as a retention tool, rather than a means of leverage to receive higher pay at a new employer.

Scoring Approach: The presence pension service credits for years not worked may raise a low to moderate degree of concern; otherwise the question is treated as neutral.

C2.10 - What is the ratio of the CEO's non-performance-based compensation (All Other Compensation) to Base Salary? (Q237)

Definition: New question. GRId will consider the ratio of all other compensation – typically incorporating perks and other non-performance-based payments – to base salary, to determine whether significant additional compensation is being delivered through this conduit.

Answers: All other compensation as a percentage of base salary.

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Rationale: High levels of perks and other payments, such as payments-in-lieu of perks, are aggregated in the All Other Compensation amount. If these are greater than base salary it may reflect a significant additional compensation stream.

Scoring Approach: A high (greater than 75%) ratio may raise a minor level of concern; otherwise the question is treated as neutral.

3 - Use of equity

This section addresses how the company uses equity as part of its long-term compensation program, focusing on the effect of equity grants on shareholders through dilution, and the shareholder-friendliness of provisions such as repricing, recycling, buyouts, etc. Shareholder-friendly equity provisions may somewhat mitigate concerns elsewhere in the compensation section.

C3.1 - Do the company's active equity plans prohibit share recycling for options/SARS? (Q129)

Definition: Modified question. GRId will consider whether or not recycling of stock options or stock appreciation rights is prohibited in the equity plans proposed in the past three years, or if it is not applicable to the company. Sourcing of the relevant information will be from plan documents and will only consider employee plans (excluding plans for directors). The language of this question has been revised from "permit" to "prohibit."

Answers: Answers include yes, not applicable, no (plan adopted in past 3 years permits recycling) and no (plan proposed in the prior year permits recycling). The latter answer includes plans on the current ballot.

Rationale: Companies with liberal share counting provisions receive more utilization for their shares than those without the provision. Liberal use occurs when one or more of the following occur (i) tendered shares in payment of an option are recycled, (ii) withheld for taxes are added back in, (iii) actual stock-settled SARs/shares delivered are the only ones counted against the plan reserve.

Scoring Approach: A recently-proposed plan that fails to prohibit recycling may raise a moderate concern; plans adopted in prior years may raise a lower level of concern. The prohibition of share recycling may mitigate concerns elsewhere in the equity subcategory. Not applicable responses are treated as neutral.

C3.2 - Do the company's active equity plans prohibit option/ SAR repricing? (Q138)

Definition: Modified question. GRId will consider whether or not repricing of stock options or stock appreciation rights is prohibited in the equity plans proposed in the past three years, or if it is not applicable to the company. Sourcing of the relevant information will be from plan documents and will only consider employee plans (excluding plans for directors). The question has been revised from "permit" to "prohibit," and to consider cash buyouts separately (see C3.3, below).

Answers: Answers include:

- Yes
- Not applicable
- Equity plans are silent on repricing,
- No (plan adopted in past 3 years permits repricing) and
- No (plan proposed in the prior year permits repricing). This includes plans on the current ballot.

Rationale: This question addresses whether the compensation plan documents expressly permit option repricing without prior shareholder approval. Option repricing occurs when companies adjust outstanding stock options to lower the exercise price. Option exchange occurs when the company cancels underwater options and re-grants new options. Option replacements may be accomplished through option swaps, option re-grants or cash, as described below.

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Scoring Approach: A recently-proposed plan that fails to prohibit repricing may raise a moderate concern; plans adopted in prior years may raise a lower level of concern. The prohibition of share repricing may mitigate concerns elsewhere in the equity subcategory. Not applicable responses are treated as neutral.

C3.3 - Does the company's active equity plans prohibit option/ SAR cash buyouts? (Q238)

Definition: New question. GRId will consider whether or not cash buyouts of stock options or stock appreciation rights is prohibited in the equity plans proposed in the past three years, or if it is not applicable to the company. Sourcing of the relevant information will be from plan documents and will only consider employee plans (excluding plans for directors).

Answers: Answers include:

- Yes
- Not applicable
- Equity plans are silent on cash buyouts,
- No (at least one plan adopted in past 3 years permits cash buyouts) and
- No (a plan proposed in the prior year permits cash buyouts). This includes plans on the current ballot.

Rationale: Nasdaq and the New York Stock Exchange Euronext state that repricings are subject to shareholder approval unless the (shareholder approved) plan specifically states otherwise. However, the rules on both exchanges leave the door open for companies to exchange underwater stock options for a cash settlement, without seeking shareholder approval of the exchange.

Scoring Approach: A recently-proposed plan that fails to prohibit cash buyouts may raise a moderate concern; plans adopted in prior years may raise a lower level of concern. The prohibition of share repricing may mitigate concerns elsewhere in the equity subcategory. Not applicable responses are treated as neutral.

C3.4 - Do the company's active equity plans have an evergreen provision? (Q239)

Definition: New question. GRId will consider whether the equity plan has an evergreen provision, by which shares available for the plan are automatically replenished without a shareholder vote.

Answers: Answers include:

- No
- Not applicable
- Yes (at least one plan adopted in past 3 years contains an evergreen provision) and
- Yes (a plan proposed in the prior year contains an evergreen provision). This includes plans on the current ballot.

Rationale: Best practice dictates that shareholders approve the replenishment of shares available for an equity compensation plan.

Scoring Approach: A recently-proposed plan that contains an evergreen provision may raise a moderate concern; plans adopted in prior years may raise a lower level of concern. Not applicable responses are treated as neutral

C3.5 - Do the company's active equity plans have a liberal CIC definition? (Q240)

Definition: New question. GRId will consider whether the equity plan has a liberal change-in-control definition, under which executives may be entitled to receive accelerated vesting of equity grants without loss of employment.

Answers: Answers include:

- No
- Not applicable
- Yes (at least one plan adopted in past 3 years contains a liberal CIC provision) and

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- Yes (a plan proposed in the prior year contains a liberal CIC provision). This includes plans on the current ballot.

Rationale: While change-in-control agreements have their place in order to insulate executives from loss of employment in conjunction with a change in control, liberal change-in-control agreements may improperly incentivize transactions in order to more quickly realize unvested pay.

Scoring Approach: A recently-proposed plan that contains a liberal CIC definition may raise a moderate concern; plans adopted in prior years may raise a lower level of concern. Not applicable responses are treated as neutral

C3.6 - Has the company repriced options or exchanged them for shares, options or cash without shareholder approval in the last three years? (Q139)

Definition: GRId will consider whether or not shareholder approval was obtained in the event of any repricing or exchanges. Despite any provisions in the Plan allowing repricing, this factor addresses actual repricing activity without prior shareholder approval.

Answers: Yes, in the past three years; yes, in the past fiscal year, and no.

Rationale: Per ISS' policy and compensation best practices espoused by investors, repricings should be put to shareholder vote.

Scoring Approach: Repricing of options in the prior year without shareholder approval will raise a high degree of concern; in the past three years will raise a moderate level of concern. Other responses are treated as neutral.

C3.10 - Does the company grant equity awards at an excessive rate, according to ISS policy? (Q130)

Definition: GRId will evaluate and consider burn rates, based on ISS' benchmark policy. Burn rate is an analysis of the rate at which stock options are granted, often referred to as share utilization. Burn rates are considered excessive where average annual option grants exceed 2 percent of outstanding shares over the past three years OR exceed one standard deviation from the industry mean. For more details, see the ISS Policy Gateway.

Answers: A numeric burn rate is classified into the following categories.
- No options granted
- Average burn rate is less than 2% or within one standard deviation of industry mean
- Average burn rate is greater than 2% or beyond one standard deviation from the industry mean
- Average burn rate is greater than 2% or beyond one standard deviation from the industry mean, and the company has made a commitment to keep its equity burn rate within one of these thresholds.

Rationale: High rates of equity granting tend to dilute existing shareholders or demand that the company undertake stock repurchase plans to counteract dilution.

Scoring Approach: High burn rates may raise a moderately high level of concern within the use of equity category; the presence of a commitment to reduce burn rate substantially reduces this effect. Other responses are treated as neutral.

C3.11 - If a new or amended broad-based plan is proposed, then what is the expected duration of shares? (Q141)

Definition: GRId will consider whether plans have been proposed in the current calendar year, and the expected duration of shares expressed as the number of years. For purposes of this question, performance shares are included when earned, and calculations for any fungible plans would be based on the highest number of shares that potentially could be granted.

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GRId's evaluation of the duration will be based on how long the new share reserve will last based on historical utilization rates. Calculations will be made by dividing the number of new shares proposed to be added plus shares available under an equity compensation program by the estimated number of shares to be issued annually under an equity compensation program. The estimated number of shares to be issued annually is determined by multiplying the company's unadjusted three-year average burn rate (number of shares subject to time-based awards granted divided by weighted common shares outstanding during the past three fiscal years divided by three) by the company's most recent weighted common shares outstanding.

Answers: Number representing the duration of shares.

Rationale: Three to five year durations are considered best practice.

Scoring Approach: Durations of 7 years will raise a low to moderate level of concern, declining to neutral at approximately 5 years, with durations of under 5 years receiving a minor degree of mitigation. If there is no plan on the ballot, the question is treated as neutral.

4 – Equity Pay Risk Mitigation

The questions in this subcategory address whether there the company's pay programs contain provisions that tend to mitigate the risks and potential executive-shareholder misalignment that can be embedded within equity pay grants. The absence of effective equity pay mitigation may raise a moderate level of concern within the Compensation category, while the presence of equity pay mitigation can reduce levels of concern to a limited extent.

C4.1 - Did the company disclose a claw back or malus provision? (Q155)

Definition: GRId will consider whether or not a claw back provision is disclosed. GRId defines claw back as referring to a company's ability to recoup performance-based awards in the event of fraud, restatement of results, errors/omissions or other events as may be determined. Claw-back provisions for U.S. companies would be those tied specifically to the issuer, rather than compliance with Section 304 of the Sarbanes-Oxley Act.

Answers: Yes or no.

Rationale: The presence of claw back provisions may help ensure that real pay is not given for fictitious performance.

Scoring Approach: The presence of claw back provisions may provide a low to moderate mitigation of concerns.

C4.2.1 - What are the minimum vesting periods mandated in the plan documents for executives' stock options or SARS in the equity plans adopted/amended in the last 3 years? (Q131)

Definition: GRId will consider the minimum vesting period in terms of number of months before any options/SARs would vest, or if no information is given. Sourcing of the relevant information will be from plan documents rather than individual grant agreements or the proxy statement. When evaluating this question for U.S. companies, GRId will consider vesting periods stipulated in equity plans for any and all participants.

Answers: Number in months, or not applicable

Rationale: A minimum vesting period ensures employee retention and alignment with shareholder interest.

Scoring Approach: Minimum vesting periods of 24 months or less may contribute a minor amount of concern, with periods of 60 months or more providing a moderate level of mitigation of concern.

C4.2.2 - What are the minimum vesting periods mandated in the plan documents, adopted/amended in the last three years, for executives' restricted stock? (Q132)

Definition: GRId will consider the vesting period in terms of number of months, or if the company does not grant restricted stock or the question is not applicable. Sourcing of the relevant information will be from plan

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documents or the proxy statement. When evaluating this question for U.S. companies, GRId will consider vesting periods stipulated in equity plans for any and all participants.

Answers: Number of months, or not applicable.

Rationale: A minimum vesting period ensures employee retention and alignment with shareholder interest.

Scoring Approach: Minimum vesting periods of 24 months or less may contribute a minor amount of concern, with periods of 60 months or more providing a moderate level of mitigation of concern.

C4.3 - What is the holding period for stock options (for executives)? (Q134)

Definition: GRId will consider the required post-exercise holding period, if any, based on the number of months or if the period extends to or through retirement, or if no options are granted, or no information is given in the proxy statement. A meaningful portion of net shares held would generally be viewed as 50 percent or more, and when evaluating this question for U.S. companies, GRId will consider holding periods stipulated for named executive officers.

Answers:

- Number of months
- Until end of employment
- Until stock ownership guidelines are met
- Explicit disclosure of no holding period
- Company is silent on holding periods
- Not applicable

Rationale: Executives should hold a meaningful portion of the shares acquired after exercise. Research points to superior financial performance when officer and director stock ownership falls within a certain range. These are requirements to retain ownership of a portion of shares acquired after the exercising of an option, once specified stock ownership guidelines have been met by the executive and he/she is able to exercise the options. It is generally net of taxes, and may be offered as a percentage of shares acquired. The guidelines can apply to restricted shares as well. The holding requirements of the stock can be for a set number of years following the exercising of the option or through the term of the executive's employment or retirement, or a specified length of time following departure from company (hold until after retirement).

Scoring Approach: Robust holding periods, defined as more than 24 months, to the end of employment, or until stock ownership guidelines are met, may mitigate a moderate level of concern; while substandard holding periods of less than 24 months will contribute a minor level of concern.

C4.4 - What is the holding period for restricted shares (for executives)? (Q135)

Definition: GRId will consider the required post-exercise holding period, if any, based on the number of months or if the period extends to or through retirement, or if no options are granted, or no information is given in the proxy statement. A meaningful portion of net shares held would generally be viewed as 50 percent or more, and GRId will consider holding periods stipulated for named executive officers.

Answers:

- Number of months
- Until end of employment
- Until stock ownership guidelines are met
- Explicit disclosure of no holding period
- Company is silent on holding periods
- Not applicable

Rationale: See above.

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Scoring Approach: Robust holding periods, defined as more than 24 months, to the end of employment, or until stock ownership guidelines are met, may mitigate a moderate level of concern; while substandard holding periods of less than 24 months will contribute a minor level of concern.

C4.5 - What proportion of the salary is subject to stock ownership requirements/guidelines for the CEO / Is the CEO subject to ownership guidelines? (Q145)

Definition: Modified question. GRId will consider the percentage/multiple of salary subject to stock ownership requirements, or if no information is disclosed. Answers to this question now report the actual multiple rather than a classification as “robust” or “standard” or “substandard.”

Answers: A percentage of salary, or non disclosure.

Rationale: Best practice dictates that executives attain substantive share ownership by a certain time after appointment to better align their interests with those of shareholders.

Scoring Approach: Multiples of less than three times salary or nondisclosure would contribute a low to moderate level of concern, with concern declining until ownership guidelines cover multiples of six times salary or greater, which would provide a minor degree of mitigation in the category.

C4.8 - Are directors subject to stock ownership guidelines? (Q143)

Definition: GRId will evaluate and consider stock ownership guidelines for directors. In cases where details regarding ownership are vague or otherwise not definitive (e.g., ownership is "encouraged" or "stressed") with regard to the mandatory nature of the ownership requirement or level of holdings, ISS will deem the information “not disclosed.” In addition, multiples will generally be based on the cash portion of retainers.

Answers: Answers include: robust (at least five times the annual retainer), standard (three to four times), substandard (less than three times), or no information given. Retention requirements mandating that stock awards be held until retirement or the end of board service are deemed “robust” ownership guidelines with respect to this question.

Rationale: Best practice dictates that directors maintain a meaningful level of share ownership by a certain time after appointment to better align their interests with those of shareholders.

Scoring Approach: Substandard requirements or nondisclosure would contribute a low to moderate level of concern, with standard guidelines being treated as neutral, and robust guidelines providing a minor degree of mitigation in the category.

C4.9 - Do all directors with more than one year of service own stock? (Q144)

Definition: GRId will consider whether or not stock is owned by directors with more than one year of service, or if the information is not disclosed (based on beneficial ownership, as reported). In cases where details regarding ownership are vague or otherwise not definitive with regard to the mandatory nature of the ownership requirement or level of holdings, ISS will deem the information “not disclosed.”

Answers: Yes, no, or not disclosed.

Rationale: Similar to the stock ownership rationale above, all directors should maintain an equity stake in the company.

Scoring Approach: Instances where not all directors own stock may raise a low-moderate level of concern. Other responses will be treated as neutral.

C4.10 - Did any executive or director pledge company shares? (Q243)

Definition: New question. GRId will consider whether company executives have pledged company shares

Answers: Yes, no, or not disclosed.

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Rationale: The prospect that an executive or director may be forced to sell a substantial amount of shares poses significant risks for other shareholders, who may see the value of their shares decline. In addition, a highly leveraged executive may be incentivized to riskier behavior.

Scoring Approach: Instances where executives or directors have pledged shares may raise a low level of concern. Other responses will be treated as neutral.

C4.11 - Does the company have a policy prohibiting hedging of company shares by employees? (Q244)

Definition: New question. GRId will consider whether the company has instituted a policy that prohibits hedging of company shares (typically through derivatives).

Answers: Yes, no, and not disclosed.

Rationale: Best practice is to incorporate prohibitions on hedging transactions within companies' insider trading policies. Hedging executives against losses in company shares breaks the alignment between shareholder and executives that equity grants are intended to build.

Scoring Approach: The presence of a policy prohibiting hedging may mitigate concerns, while the absence of a hedging policy will contribute a small amount amount of concern. Other responses will be treated as neutral.

5 – Non-executive pay

Not evaluated separately for the U.S. market

6 – Communications and disclosure

This subcategory focuses on the quality of disclosure surrounding short- and long-term performance metrics. It does not focus on the quality or challenging nature of the metrics themselves.

C6.5 - What is the level of disclosure on performance measures for the short term incentive plan? (Q113)

Definition: GRId will consider the level and type of disclosure of specific performance criteria and disclosed hurdle rates for short-term, typically annual, cash incentive plans. By definition, the plan is one-year or less in the U.S. A performance measure can be any type of objective pre-determined goal, often financial in nature, such as earnings per share or earnings before interest, tax, depreciation and amortization.

Answers: Answers include: full disclosure, partial disclosure, no performance conditions, and no short-term incentive/bonus.

Rationale: Poor or missing disclosure of the financial basis for performance metrics make it difficult for investors to judge the quality and/or rigor of these metrics.

Scoring Approach: The absence of disclosure may raise a low to moderate level of concern, while partial disclosure will contribute a lower level of concern. Full disclosure will provide a small degree of mitigation of concerns.

C6.6 - What is the level of disclosure on performance measures for the latest active or proposed long term incentive plan? (Q246)

Definition: Modified question. GRId will evaluate and consider whether performance conditions for the latest proposed long-term incentive plans proposed are disclosed and measured by including, for example, targets compared with peer group performance, etc. This question combines several questions that examined disclosure of performance measures for different long-term pay instruments

Answers: Answers include: full disclosure, partial disclosure, no performance conditions, and no short-term incentive/bonus.

Rationale: Poor or missing disclosure of the financial basis for performance metrics make it difficult for investors to judge the quality and/or rigor of these metrics.

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Scoring Approach: The absence of disclosure may raise a low to moderate level of concern, while partial disclosure will contribute a lower level of concern. Full disclosure will provide a small degree of mitigation of concerns.

7 – Termination

This subcategory focuses on termination-related factors, including the vesting of equity, the size of cash severance payments, and the events that trigger change-in-control payments. Factors in this subcategory may raise moderate to high levels of concern, while best practices may slightly mitigate concerns found elsewhere in the Compensation category.

C7.1 - What's the trigger under the change-in-control agreements? (Q148)

Definition: GRId will evaluate and consider the type of trigger employed in change-in-control agreements, and the year the change-in-control agreement was entered into.

Answers: Single trigger entered into during the prior year; Single trigger entered to prior to the past year; Double trigger; No change-in-control agreements or a change-in-control severance plan (excluding equity-only plans) exist.

Rationale: A single trigger requires only a change in control and no subsequent termination of employment for the executive to receive their exit pay package. A modified single trigger is similar, but provides a unique window period during which time the executive can leave employment for any reason. In both instances, the executive can unilaterally decide whether or not to continue employment and may not be sufficiently motivated to stay with the company long term given the prospect of unconditional payment. Moreover, if the board of the new company wishes to retain the services of the executive, they may negotiate any contract under circumstances that give the executive considerable leverage in seeking retention payments or additional compensation.

Scoring Approach: A single trigger for change-in-control agreements may raise a moderate level of concern, with new agreements in the past year will raise a more significant level of concern. Double-trigger agreements will be treated as neutral, while the absence of an employment agreement will carry a small mitigating weight.

C7.2 - Do the CEO’s outstanding equity awards vest upon a change in control? (Q153)

Definition: <u>New question</u>. GRId will consider vesting triggers for the CEO’s outstanding equity awards.

Note: while question C3.5 regarding liberal change-in-control definition in recently approved plans is similar in concept, it considers the provisions of the recently approved equity plan, while C7.2 considers the CEO’s outstanding equity awards.

Answers: Answers include: No; Yes, fully vesting; Yes, pro-ratio vesting; Yes, continued exercise; Board discretion; Yes, if grants are not assumed by the surviving entity; and Not applicable.

Rationale: While change-in-control agreements have their place in order to insulate executives from loss of employment in conjunction with a change in control, accelerated vesting of equity grants tends to disconnect pay from performance and may incentivize executives to pursue transactions not in the best interests of shareholders.

Scoring Approach: Full vesting of equity grants may raise a moderate level of concern, with slightly less concern in the case of board discretion and pro-ratio vesting. The absence of accelerated vesting will provide a small degree of mitigation of concerns. Other responses are treated as neutral.

C7.4 - What is the multiple of salary plus bonus in the severance agreements for the CEO (upon a change-in-control)? (Q161)

Definition: <u>Modified question</u>. GRId will consider what multiple of salary the CEO will receive under employment agreements due to a change-in-control event.

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Answers: Multiplier number, or No information

Rationale: Under ISS' benchmark policy, payments that are in excess of a three times base and bonus multiple are problematic in all instances and considered excessive for all named executive officers. Multiples below three times base and bonus (note -- multiples of greater than 2.5 times will be rounded up to three) are considered acceptable, per ISS' policy.

Scoring Approach: Multiples over 3 times may contribute a low to moderate level of concern, increasing as the multiplier increases. The absence of a employment agreement will be treated as neutral.

C7.5 - What is the basis for the change-in-control or severance payment for the CEO? (Q247)

Definition: New question. GRId will consider what the basis upon which change-in-control payments for the CEO are calculated.

Answers: Answers include: Salary, Salary + Highest Bonus, Salary + Target Bonus, Salary + Average Bonus, Salary + Most Recent Bonus, Salary + Maximum Bonus; and not applicable/no information.

Rationale: Payments based on target or actual bonuses are acceptable. The U.S. Internal Revenue Service (IRS), in defining an excessive "golden parachute" subject to tax consequences, bases the figure on average compensation over the past five years. A payment based on the maximum bonus, or particularly on the "greater of" actual and maximum, is considered excessive even when following the three times standard.

Scoring Approach: Change-in-Control payments based on Salary + Target and Salary + Maximum bonuses will contribute a small level of concern, while payments based on Salary + Most Recent or Highest Paid bonus will contribute slightly less concern. Other responses will be considered as neutral.

C7.6 - What is the multiple of salary plus bonus in the severance agreements for executives excluding the CEO (upon a change-in-control)? (Q160)

Definition: See above, C7.4.

Answers: See above, C7.4.

Rationale: See above, C7.4.

Scoring Approach: See above, C7.4.

C7.7 - What is the basis for the change-in-control or severance payment for executives excluding the CEO? (Q248)

Definition: See above, C7.5.

Answers: See above, C7.5.

Rationale: See above, C7.5.

Scoring Approach: See above, C7.5.

C7.10 - Does the company provide excise tax gross-ups for change-in-control payments? (Q162)

Definition: GRId will consider whether or not gross-ups for change-in-control payments are made, whether the company provided gross-ups, but made a commitment not to provide them upon change-in-control in the future, whether the company implemented gross-up provisions in a contract that was new or materially amended within the past year, and whether the company provides tax gross-ups in one or more contracts, but none were entered into or materially amended last year. The question applies to all executives, not just the CEO.

Answers: Answers include No; Yes, gross-ups are present in agreement that was made or materially amended in the prior year; Yes, but not in a new or materially amended agreement; and Yes, but the company has made a commitment not to provide these payments in future agreements.

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Rationale: An excise tax is an additional tax imposed by the IRS for change-in-control related severance pay that exceeds more than three times an executive's average income--including salary, bonus, and the gains on any equity compensation--over the previous five years. While excise tax-gross-ups became somewhat common during the 1990s, recent shareholder opposition to the practice has led many companies to eliminate the provision, reducing packages to the extent that the excise tax will not be triggered. Executive officers should be responsible for their individual tax liabilities. Common market practice does not justify extraordinary financial burdens to companies and their shareholders. Finally, the excise tax gross-up provision leads to such substantial increases in potential termination payments that the provision may encourage executives to negotiate merger agreements that may not be in the best interests of shareholders.

In some instances, the company may commit to lower a severance payment to just below the cap in certain very limited circumstances, but to pay a gross-up if the payment exceeds that level. Creating a very limited circumstance under which gross-ups will not be paid does not address the fundamental problems with these features.

Scoring Approach: The implementation of excise tax gross-ups in the prior year may raise a moderate to significant level of concern, with lower concerns raised for companies implementing gross-ups in prior years or having made commitments not to do so in the future.

C7.11 - What is the length of employment agreements with the CEO? (Q163)

Definition: GRId will consider whether information is provided and whether not an agreement is in place. If so, GRId will consider the number of years, as disclosed in company proxy statements, and whether the agreement is on a fixed basis. Evaluation will be based on analysis of individual severance and employment agreements, though not umbrella plans.

Answers: No agreement in place; number of years for auto-renewing agreements; number of years for fixed agreements; no disclosure.

Rationale: Best practices dictate that companies should enter into employment contracts under limited circumstances for a short time period (e.g., new executive hires for a three-year contract) for a finite number of executives. The agreements should not have an automatic renewal feature and should have a specified termination date. An auto-renew feature indicates that the agreement can be extended in perpetuity, for all intents and purposes, unless either party provides direction to the contrary pursuant to a defined notice period.

Scoring Approach: Longer-term agreements of more than 5 years may begin to raise concern, with a moderate level of concern reached at agreements of 10 years or more. Short-term agreements may slightly mitigate concerns elsewhere. The absence of an agreement may mitigate concerns to some degree as well.

C7.12 - What is the amount of the CEO's estimated non-Change-in-Control severance amount as of the end of the last fiscal year, as a multiple of the executives' average salary + bonus over the past three years? (Q249)

Definition: New question. GRId will measure the total severance amount for non-change-in-control termination as disclosed in the Compensation Discussion & Analysis section of the proxy, as a percentage of the CEO’s average salary and bonus over the last three years.

Answers: Measured as a number, or as insufficient data for companies lacking three years of pay data.

Rationale: Pay-for-failure represents a broader failure of the overall compensation program and is the ultimate disconnect between pay and performance.

Scoring Approach: Significant multiples (greater than six times) will make a small contribution to degree of concern, rising somewhat for multiples greater than 10. Other responses will be treated as neutral.

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Appendix II. GRId Questions for All Markets

The following table enumerates all GRId questions for the seven markets (US, Canada, United Kingdom, France, Germany, Netherlands and Sweden). The scoring and methodology for the US questions are detailed in Appendix I, above. Scoring and methodology for the other six markets remain as detailed in the GRId Technical Document revised September 15, 2010.

GRId 1.0	GRId 2.0	Question	US	Canada	France	Germany	Nether-lands	Sweden	UK
Audit									
1	A1.1	Non-Audit fees represent what percentage of total fees?	◆	◆	◆	◆	◆	◆	◆
2	A1.2	Did the auditor issue an adverse opinion in the past year?	◆	◆	◆	◆	◆	◆	◆
3	A2.1	Has the company restated financials for any period within the past two fiscal years?	◆	◆	◆	◆	◆	◆	◆
4	A2.2	Has the company made late financial disclosure filings in the past two fiscal years?	◆	◆	◆	◆	◆		
5	A2.3	Has a securities regulator taken enforcement action against the company in the past two fiscal years?	◆	◆	◆	◆	◆	◆	◆
NEW (200)	A2.4	Has a securities regulator taken enforcement action against a director or officer of the company in the past two fiscal years?	◆						
NEW (201)	A2.5	Is a director or officer of the company currently under investigation by a regulatory body?	◆						
8	A2.6	Has the company disclosed any material weaknesses in its internal controls in the past two fiscal years?	◆	◆					
6	A3.1	How many financial experts serve on the audit committee?			◆	◆	◆		◆
7	A3.2	Does the company disclose a whistleblower protection policy?					◆		
Board									
9	B1.1	How many directors serve on the board?					◆		◆
10	B1.2	What is the independent director composition of the Board?	◆	◆	◆	◆	◆	◆	◆
11	B1.4	What is the independent director composition of the Board (shareholder elected board members)?						◆	
13	B1.6	What proportion of directors sit on the board for an excessive length of time?					◆		
14	B1.7	What is the classification of the Chairman of the Board?	◆	◆	◆	◆	◆		◆
15	B1.8	Are the roles of Chairman and CEO separated?	◆	◆	◆		◆		◆
16	B1.9	Has the company identified a Senior Independent or Lead Director?	◆						◆
17	B1.10	What is the term of mandate proposed for supervisory board members (at the latest general meeting)?					◆		
18	B1.11	What is the term of mandate proposed for executive board members?					◆		

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GRId 1.0	GRId 2.0	Question	US	Canada	France	Germany	Nether-lands	Sweden	UK
NEW (205)	B1.12	What percentage of the board is related to executives or majority shareholders of the company?	◆						
NEW (206)	B1.13	What percentage of the board are former executives of the company?	◆						
19	B2.1.1	What is the independent status of the nominating committee members?	◆	◆	◆	◆	◆		◆
23	B2.1.2	What's the classification of the chairman of the nominating committee?			◆	◆	◆		
24	B2.1.3	Is the Chairman of the board of directors a member of the nomination committee?			◆				
25	B2.2.1	What is the independent status of the compensation committee members?	◆	◆	◆	◆	◆		◆
27	B2.2.2	Are there executives on the compensation committee?			◆		◆	◆	
28	B2.2.3	What's the classification of the chairman of the compensation committee?			◆	◆	◆		◆
29	B2.2.4	Is the Chairman of the board of directors a member of the compensation committee?					◆		◆
30	B2.2.5	Are there compensation committee members sitting on each others' boards?				◆	◆		
31	B2.3.1	What is the independent status of the audit committee members?	◆	◆	◆	◆	◆		◆
33	B2.3.2	Are there executives on the audit committee?			◆			◆	
34	B2.3.3	What's the classification of the chairman of the audit committee?			◆	◆	◆		◆
35	B2.3.4	Is the Chairman of the board of directors a member of the audit committee?					◆		◆
36	B3.1	Do executives serve on outside boards?			◆	◆	◆	◆	
37	B3.2	How many boards of directors does the CEO serve on?	◆		◆	◆	◆	◆	
38	B3.3	How many non-executives serve on an excessive number of outside boards?	◆		◆	◆	◆	◆	
39	B3.3.1	Does the Chair serve on an excessive number of outside boards?			◆	◆	◆	◆	
42	B3.5	What is the overall attendance of the members of the Board of Directors?			◆		◆	◆	◆
43	B3.6	Did all directors attend at least 50% of the board meetings?				◆			
44	B3.7	What percentage of the directors attended less than 75% of the board meetings?			◆		◆		◆
45	B3.8	Did any directors attend less than 75% of the board meetings without a valid excuse?	◆	◆					
49	B3.9	How many directors received withhold/ against votes of 50% or greater at the last annual meeting?	◆	◆					
41	B4.1	Does the company disclose a policy requiring an annual performance evaluation of the board?		◆	◆	◆	◆	◆	◆
46	B4.2	Does the company disclose board/governance guidelines?	◆						
47	B4.3	Can outside directors meet without management present?	◆	◆					

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GRId 1.0	GRId 2.0	Question	US	Canada	France	Germany	Nether-lands	Sweden	UK
48	B4.4	Can directors hire own advisors without management approval?	◆	◆					
100	B4.6	Does the company allow the Chairman a second or casting vote at director meetings in the event of a tie?		◆					
50	B5.1	What percent of the directors were involved in material RPTs?	◆	◆					
51	B5.2	Do the directors with RPTs sit on key board committees?	◆	◆					
NEW (216)	B5.3	Are there related-party transactions involving the CEO?	◆						

Shareholder Rights

GRId 1.0	GRId 2.0	Question	US	Canada	France	Germany	Nether-lands	Sweden	UK
54	S1.1	Does the company have classes of stock with different voting rights?	◆	◆	◆	◆	◆	◆	◆
55	S1.2	Are there any directors on the board who are not up for election by all classes of common shareholders?	◆	◆					
56	S1.3	Is there a sunset provision on the company's unequal voting structure?		◆					
57	S1.4	What is the proportion of multiple voting rights (or voting certificates) relative to the total number of voting rights?			◆		◆	◆	◆
58	S1.5	What is the level of free float of the multiple voting rights or voting certificates?			◆		◆	◆	◆
59	S1.6.1	What percentage of the company's shares is represented by depositary receipts where a foundation votes unexercised proxies?					◆		
60	S1.6.2	Has the company indicated to eliminate the system of depositary receipts?					◆		
61	S1.6.3	Are depositary receipt holders restricted in their voting rights?					◆		
63	S1.7	What percentage of the company's share capital is made up of non-voting shares?		◆		◆			◆
64	S1.8	What is the level of free float of voting shares in relation to the non-voting shares?				◆			◆
65	S1.9	Does the company have an absolute voting right ceiling?			◆	◆	◆	◆	
66	S1.10	Does the company have a relative voting right ceiling?			◆	◆	◆	◆	
67	S1.11	Does the company have an ownership ceiling?			◆	◆	◆	◆	◆
68	S1.12	Does the company have ownership ceilings for specific parties?			◆	◆	◆	◆	◆
69	S1.13	Do shareholders or the State have the priority right?			◆	◆	◆	◆	◆
72	S2.1	Does the company have targeted stock placement that can be used as a takeover defense?			◆		◆		
73	S2.2	Does the company maintain pre-emptive rights in the event of a takeover bid?			◆		◆		
74	S2.3	Can the company target repurchased shares in the event of a takeover bid			◆		◆		

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GRId 1.0	GRId 2.0	Question	US	Canada	France	Germany	Nether-lands	Sweden	UK
76	S2.4	What percentage of its share capital can the company increase (with respect of pre-emptive rights) in the event of a takeover bid?			◆				
75	S2.5	What is the effect of the takeover defenses?			◆	◆	◆	◆	◆
77	S2.7	Are all directors elected annually?	◆	◆					
83	S2.8	Is the board authorized to issue blank check preferred stock?	◆	◆					
78	S2.9.1	Does the company have a poison pill (shareholder rights plan) in effect?	◆						
79	S2.9.2	What is the trigger threshold for the poison pill?	◆						
80	S2.9.3	Does the poison pill have a sunset provision?	◆						
81	S2.9.4	Does the poison pill have a TIDE provision?	◆						
82	S2.9.5	Does the poison pill have a qualified offer clause?	◆						
91	S2.9.6	In ho many years will the poison pill expire?	◆						
NEW (220)	S2.9.7	Is the poison pill designed to preserve tax assets (NOL pill)?	◆						
NEW (221)	S2.9.8	Was the poison pill approved by shareholders?	◆						
NEW (222)	S2.9.9	How long has it been since the poison pill was implemented or renewed?	◆						
NEW (223)	S2.9.10	Does the company's poison pill include a modified slow-hand or dead-hand provision?	◆						
52	S2.10	Does the company have a majority vote standard in uncontested elections?	◆	◆					
NEW (224)	S2.11	If the company has a majority voting standard, is there a plurality carve-out in the case of contested elections?	◆						
89	S3.1	Does the company require a super-majority vote to approve amendments to the charter and bylaws?	◆						
90	S3.2	Does the company require a super-majority vote to approve mergers/business combinations?	◆						
88	S3.3	Up to what percentage of the share capital can the company waive pre-emptive rights?			◆	◆	◆	◆	
84	S3.4	What proportion of shares must be represented at the general meeting to cancel the binding nature of the nomination of supervisory board members (and or executive board members)?					◆		
53	S3.5	Did the company have a slate ballot at its last shareholders' meeting?		◆					
97	S4.1	What is the percentage of share capital needed to convene a special meeting?	◆						
98	S4.2	Can shareholders act by written consent?	◆						
99	S4.3	Has the board failed to implement a shareholder resolution supported by a majority vote	◆	◆					
NEW (225)	S4.4	Are there material restrictions as to timing or topics to be discussed, or ownership levels required to call the meeting?	◆						
92	S4.5	What percentage of the vote enables shareholders to add proposals to the agenda of the annual meeting?					◆		

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GRId 1.0	GRId 2.0	Question	US	Canada	France	Germany	Nether-lands	Sweden	UK
101	S4.9	Is shareholder quorum for shareholders' meetings at least 2 persons representing at least 25% of the outstanding shares?		◆					

Compensation/Remuneration

GRId 1.0	GRId 2.0	Question	US	Canada	France	Germany	Nether-lands	Sweden	UK
114	C1.1	Is there a cap on CEO' annual bonus?			◆	◆	◆	◆	◆
115	C1.2	Is there a cap on executives' annual bonus?			◆	◆	◆	◆	◆
116	C1.3	What percentage of the annual bonus for CEO is or can be deferred?		◆	◆	◆	◆		◆
117	C1.4	What percentage of the annual bonus for Executives is or can be deferred?		◆	◆	◆	◆		◆
NEW (226)	C1.5	What is the degree of alignment between the company's cumulative 3-year pay percentile rank, relative to peers, and its 3-year cumulative TSR rank, relative to peers?	◆						
NEW (227)	C1.6	What is the degree of alignment between the company's cumulative 1-year pay percentile rank, relative to peers, and its 1-year cumulative TSR rank, relative to peers?	◆						
NEW (228)	C1.7	What is the size of the CEO's 1-year cumulative pay, as a multiple of the median pay for company peers?	◆						
NEW (229)	C1.8	What is the degree of alignment between the company's TSR and change in CEO pay over the past five years?	◆						
126	C1.11	Can the performance hurdles of the long-term cash or equity based plans be retested?							◆
NEW (232)	C1.12	What is the ratio of the CEO's total compensation to the next highest paid executive?	◆						
119	C1.14	What is matched?			◆		◆	◆	◆
120	C1.15	If there is matching, what is the matching ratio?			◆		◆	◆	◆
NEW (234)	C2.1	Did the company provide dividends on unvested performance shares in the last fiscal year?	◆						
NEW (235)	C2.2	Has the company reimbursed NEOs for losses on sale of a home?	◆						
157	C2.3	Did the CEO receive tax gross-ups on perks other than relocation and other broad-based benefits?	◆						
156	C2.4	Are any of the NEOs eligible for multi-year guaranteed bonuses?	◆	◆					
NEW (236)	C2.5	Did the company pay tax gross-ups on a secular trust?	◆						
154	C2.6	Does the company provide loans to executives?		◆		◆	◆		◆
164	C2.7	Are executives given credit toward pension for years not worked?	◆	◆					
118	C2.8	Is part of the bonus granted or to be granted guaranteed?		◆			◆		◆
159	C2.9	Did the company grant a one-off reward to any of its executives?				◆	◆	◆	◆

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GRId 1.0	GRId 2.0	Question	US	Canada	France	Germany	Nether-lands	Sweden	UK
NEW (237)	C2.10	What is the ratio of the CEO's non-performance-based compensation (All Other Compensation) to Base Salary?	◆						
129	C3.1	Do the company's active equity plans prohibit share recycling for options/SARS?	◆						
138	C3.2	Do the company's active equity plans prohibit option/ SAR repricing?	◆	◆					
NEW (238)	C3.3	Does the company's active equity plans prohibit option/ SAR cash buyouts?	◆						
NEW (239)	C3.4	Do the company's active equity plans have an evergreen provision?	◆						
NEW (240)	C3.5	Do the company's active equity plans have a liberal CIC definition?	◆						
139	C3.6	Has the company repriced options or exchanged them for shares, options or cash without shareholder approval in the last three years?	◆	◆					
137	C3.8	Has the company backdated options within the past two years?		◆					◆
127	C3.9.1	What is the total proportion of all outstanding equity based plans towards the share capital?			◆	◆	◆	◆	◆
128	C3.9.2	Is there a maximum level of dilution per year?				◆	◆		◆
130	C3.10	Does the company grant equity awards at an excessive rate, according to ISS policy?	◆						
141	C3.11	If a new or amended broad-based plan is proposed, then what is the expected duration of shares?	◆						
136	C3.12	What are the pricing conditions for stock options granted to executives?			◆	◆	◆	◆	◆
155	C4.1	Did the company disclose a claw back or malus provision?	◆	◆			◆		◆
131	C4.2.1	What are the minimum vesting periods mandated in the plan documents for executives' stock options or SARS in the equity plans adopted/amended in the last 3 years?	◆	◆	◆	◆	◆	◆	◆
132	C4.2.2	What are the minimum vesting periods mandated in the plan documents, adopted/amended in the last three years, for executives' restricted stock?	◆	◆	◆	◆	◆	◆	◆
133	C4.2.3	What are the vesting periods mandated in the plan documents, adopted/amended in the last three years, for executives' other long-term plan?		◆	◆	◆	◆	◆	◆
134	C4.3	What is the holding period for stock options (for executives)?	◆	◆	◆	◆	◆		◆
135	C4.4	What is the holding period for restricted shares (for executives)?	◆		◆	◆	◆		◆
145	C4.5	What proportion of the salary is subject to stock ownership requirements/guidelines for the CEO ?	◆				◆		◆
142	C4.5.1	Is the CEO subject to stock ownership guidelines?		◆					

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GRId 1.0	GRId 2.0	Question	US	Canada	France	Germany	Nether-lands	Sweden	UK
146	C4.6	What proportion of the salary is subject to stock ownership requirements/guidelines for the other executives?					◆		◆
140	C4.7	What is the aggregate level of stock ownership of the officers and directors, as a percentage of shares outstanding?				◆	◆	◆	◆
143	C4.8	Are directors subject to stock ownership guidelines?	◆	◆					
144	C4.9	Do all directors with more than one year of service own stock?	◆	◆					
NEW (243)	C4.10	Did any executive or director pledge company shares?	◆						
NEW (244)	C4.11	Does the company have a policy prohibiting hedging of company shares by employees?	◆						
103	C5.1	Do NEDs receive compensation other than board/committee attendance fees?		◆					◆
104	C5.2	Does the company provide loans to directors?		◆		◆	◆		◆
108	C5.4	Does the Chairman participate to equity based plans?			◆				
109	C5.5	Do directors participate to equity based plans?		◆			◆	◆	
110	C5.6	Do directors participate to performance related remuneration?							◆
112	C6.1	Does the company disclose details of individual executives' remuneration?			◆	◆	◆	◆	
102	C6.2	Does the company disclose details of individual director remuneration?			◆	◆	◆	◆	
113	C6.5	What is the level of disclosure on performance measures for the short term incentive plan?	◆	◆	◆	◆	◆	◆	◆
NEW (246)	C6.6	What is the level of disclosure on performance measures for the latest active or proposed long term incentive plan	◆						
121	C6.6.1	Does the company disclose a performance measure for matching ?			◆			◆	◆
122	C6.6.2	Does the company disclose a performance measure for stock options plans (for executives)?		◆	◆	◆	◆	◆	◆
123	C6.6.3	Does the company disclose a performance measure for restricted share plans (for executives)?		◆	◆	◆	◆	◆	◆
125	C6.6.5	Does the company disclose a performance measure for other long term plans (for executives)?			◆	◆	◆	◆	◆
148	C7.1	What's the trigger under the change-in-control agreements?	◆	◆					
153	C7.2	Do the CEO's outstanding equity awards vest upon a change in control?	◆	◆			◆		◆
150	C7.3	In the event of termination of the contract of executives, does the equity based remuneration vest?			◆				◆

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GRId 1.0	GRId 2.0	Question	US	Canada	France	Germany	Nether-lands	Sweden	UK
161	C7.4	What is the multiple of salary plus bonus in the severance agreements for the CEO (upon a change-in-control)?	◆	◆					
149	C7.4.1	What is the level of severance agreements for the CEO?			◆	◆	◆	◆	◆
NEW (247)	C7.5	What is the basis for the change-in-control or severance payment for the CEO	◆						
160	C7.6	What is the multiple of salary plus bonus in the severance agreements for executives excluding the CEO (upon a change-in-control)?	◆	◆					
147	C7.6.1	What is the level of severance agreements for executives?			◆	◆	◆	◆	◆
NEW (248)	C7.7	What is the basis for the change-in-control or severance payment for executives excluding the CEO	◆						
151	C7.8	How long is the notice period for executives if the company terminates the contract?						◆	◆
152	C7.9	How long is the notice period for the CEO if the company terminates the contract?						◆	
162	C7.10	Does the company provide excise tax gross-ups for change-in-control payments?	◆						
163	C7.11	What is the length of employment agreements with the CEO?	◆						
NEW (249)	C7.12	What is the amount of the CEO's estimated non-Change-in-Control severance amount as of the end of the last fiscal year, as a multiple of the executives' average salary + bonus over the past three years?	◆						

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Appendix III. Summary of Revisions

Revisions March 6, 2012

Added question numbers used in GRID data verification site.

Table of contents added to provide quick links to individual questions.

Scoring approach for B1.9 (Q16 – Has the company identified a lead or senior independent director) clarified for cases where there is an independent chair.

Text for B1.12 (Q205 – What percentage of the board is related to executives…) changed to clarify that question refers to relatives of company executives or majority shareholders.

Text for B1.13 (Q206 – What percentage of the board are former executives…) changed to clarify that question refers to former executives of the company.

Text for B3.2 (Q37 – How many boards of directors does the CEO serve on) changed to clarify that all boards (including the subject company) are considered when counting boards.

Definition for B4.4 (Q48 (Can directors hire own advisors) clarified.

Scoring approach for B5.2 (Q51 – Directors with RPTs on key board committees) clarified for the case of no directors with RPTs.

Text for S2.9.6 (Q91 – In how many years will the poison pill expire) changed to clarify that question counts years until expiration of pill.

Text for S2.9.9 (Q222 – How long has it been since the poison pill was implemented) changed to clarify that the question counts years since pill was established/renewed.

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