



Global Industry Classification Standard (GICS) Code 5020 Implementation

Frequently Asked Questions

Published: September 20, 2018

Table of Contents

INTRODUCTION	3
PROCEDURAL QUESTIONS	3
1. How will the new GICS code affect the evaluation of equity compensation plans under ISS' U.S. Equity Plan Scorecard?	3
2. How will the new GICS code affect the evaluation of equity plans under ISS' burn rate policy for France?	4
3. How will the new GICS code affect the evaluation of executive compensation?	4
4. How will the new GICS code affect the evaluation of director compensation?	4
5. How will the new GICS code affect Environmental & Social QualityScore?	4
6. How will the new GICS code affect ISS policies, such as the director performance evaluation policy, that examine a company's TSR performance relative to its industry?	5
7. When will Question 130 in Governance QualityScore, which examines each covered company's burn rate relative to its industry, be updated to reflect the new GICS structure?	5

Introduction

On September 28, 2018, S&P Dow Jones Indices and MSCI, Inc. will introduce a new grouping to their Global Industry Classification Standard (GICS) system. This new classification, coded 5020, will be called “Media & Entertainment.” Certain other changes, including renaming the top-level GICS 50 industry, eliminating GICS 2540 (“Media”), and creating six- and eight-digit classifications within GICS 5020, will also be made. For more information on this change, see the [press release](#) issued by S&P Dow Jones Indices and MSCI, Inc. on the topic in November 2017.

Certain ISS policies, procedures, and products rely on GICS classifications, including executive compensation peer group formation, equity compensation plan evaluation, and Environmental & Social QualityScore. This FAQ is designed to answer the most frequently asked questions regarding how the adjustment to GICS structure will impact ISS analyses, and when those changes will be effective.

Procedural Questions

1. How will the new GICS code affect the evaluation of equity compensation plans under ISS’ U.S. Equity Plan Scorecard?

Burn rate thresholds: Immediately, ISS will establish new burn rate thresholds for companies in GICS 5020. These thresholds will be reflective of historical burn rates of companies now included in GICS 5020. These burn rates will be effective for meetings on or after December 1, 2018; the timing is to ensure that SVT benchmarks and burn rate thresholds remain congruent.

Burn rates for GICS 4510 will not be updated as part of the December 1 update, and will be updated as part of ISS’ annual burn rate calculations in December 2018. Note, as of December 1, 2018, GICS 2540 will no longer be used for equity compensation plan evaluation in the U.S.

Within the S&P 500, the burn rate change will affect all companies in GICS 50. As the new benchmark for GICS 50 is substantially greater than the legacy GICS 50 benchmark, there is no prejudicial impact on legacy GICS 50 companies.

Company category	GICS grouping	Mean 3-year Adjusted Burn Rate	3-year Adjusted Burn Rate Standard Deviation	Burn Rate Threshold
S&P 500	50	2.62%	2.47%	4.00%*
Russell 3000 (excluding S&P 500)	5020	4.01%	3.38%	7.39%
Non-Russell 3000	5020	4.66%	3.60%	8.25%

* Limited by the 2% year-over-year maximum change in burn rate threshold.

These burn rate thresholds, along with the thresholds for all other GICS groupings, will be recomputed in the normal December update cycle, effective for shareholder meetings starting on February 1, 2019.

Shareholder Value Transfer (SVT) benchmarks: ISS has performed new regressions for SVT benchmarks for companies in the new GICS 5020. SVT benchmarks have been calculated based on this new model for the September 1 Quarterly Data Download, and are effective for shareholder meetings starting December 1, 2018. For shareholder meetings prior to December 1, the company's SVT benchmarks will be calculated based on its legacy GICS.

2. How will the new GICS code affect the evaluation of equity plans under ISS' burn rate policy for France?

For French companies moving to GICS 5020, the 2018 cap of 1.27% for Technology & Telecom sector will be applied to equity plans for meetings until January 31, 2019. Companies with other GICS classifications will not be impacted.

For meetings starting February 1, 2019, ISS will review the GICS groupings to be used in determining the 2019 burn rate caps, which are typically released in December as part of the European Policy Updates.

3. How will the new GICS code affect peer group construction?

Peer groups used for companies with annual meetings starting September 15, 2018, have been updated to reflect the updated GICS classifications. All subsequent peer group construction cycles will reflect the updated GICS groupings.

4. How will the new GICS code affect the evaluation of director compensation?

Director pay will continue to be evaluated based on comparators in the company's legacy GICS. Director pay will be evaluated within the context of the company's newly-assigned GICS code for meetings starting February 1, 2019.

5. How will the new GICS code affect Environmental & Social QualityScore?

Companies covered by Environmental & Social QualityScore and moving to GICS 5020 (Media & Entertainment) will be subject to a new relative grouping shortly after the GICS updates are effective. The total number of companies in Media will increase from 119 (legacy Media-2540) to 155 in the new structure.

Some companies will be subject to a different scoring model. 33 companies will move from 4510 (Software & Services) to 5020 and will be scored on nine fewer factors than in their prior industry group.

Three companies will move from Retailing (2550) and will be scored on 20 fewer factors. Post-change, companies may [log into E&S QualityScore Data Verification](#) to review the scores and submit changes.

Based on the change in number of factors and new comparative companies, we anticipate that the majority of companies in GICS 5020 will experience a change in their Environment or Social scores. Companies in 4510 (Software & Services) may see a change in the relative scores based on the removal of the 33 companies moving to GICS 5020.

6. How will the new GICS code affect ISS policies, such as the director performance evaluation policy, that examine a company's TSR performance relative to its industry?

ISS will update the GICS groupings used in determining median one-year, three-year, and five-year TSRs in each GICS industry group starting with the September 30, 2018, and will be shown on [this webpage](#) within ISS' Policy Gateway.

7. When will Question 130 in Governance QualityScore, which examines each covered company's burn rate relative to its industry group, be updated to reflect the new GICS structure?

For U.S. companies moving to GICS 5020, answers will be updated to reflect alignment with updated burn rate thresholds upon the annual Governance QualityScore methodology update, typically released in December.

The questions and answers in this FAQ document are intended to provide high-level guidance regarding the way in which ISS' Global Research Department will generally analyze certain issues in the context of preparing proxy analyses and vote recommendations for U.S. companies. However, these responses should not be construed as a guarantee as to how ISS' Global Research Department will apply its benchmark policy in any particular situation.

This document and all of the information contained in it, including without limitation all text, data, graphs, and charts (collectively, the "Information") is the property of Institutional Shareholder Services Inc. (ISS), its subsidiaries, or, in some cases third party suppliers.

The Information has not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body. None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), or a promotion or recommendation of, any security, financial product or other investment vehicle or any trading strategy, and ISS does not endorse, approve, or otherwise express any opinion regarding any issuer, securities, financial products or instruments or trading strategies.

The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information.

ISS MAKES NO EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION AND EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY, AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.

Without limiting any of the foregoing and to the maximum extent permitted by law, in no event shall ISS have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits), or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not by applicable law be excluded or limited.



The Global Leader In Corporate Governance

www.issgovernance.com