MERIDIAN
COMPENSATION PARTNERS, LLC

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Via E-Mail (policy@issgovernance.com)

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Re: Comments on ISS Proposed 2015 Policy Updates

Dear Mr. Retelny, Ms. Bowie and Dr. Carter:

Meridian Compensation Partners, LLC ("Meridian") is pleased to provide the following comments to Institutional Shareholder Services, Inc. (ISS) on its proposed Policy Updates for 2015.

Meridian is one of the largest independent executive compensation consulting firms in North America. We provide trusted counsel to Boards and Management at hundreds of large public and private companies, consulting on executive compensation design issues, corporate governance matters and related disclosures. Our consultants have decades of experience in developing pay solutions that align with shareholder interests, reflect good governance practices and align with company performance.

We strongly support ISS's approach to examine regularly its proxy voting policies, to survey the views of institutional shareholders, companies, and advisors on significant compensation and governance matters and to solicit comments regarding proposed changes to its policies.

Effective for the 2015 proxy season, ISS has proposed revisions to the following U.S. proxy voting policies:

- Equity Plan Proposals, and
- Shareholder Proposals to Separate Role of CEO and Board Chair.

Our comments and suggested changes to these proposed policy updates follow.

Equity Plan Proposals

Current policy. Under its current policy, ISS evaluates a company's equity plan proposal under six governance standards. A failure to meet any of these standards may result in ISS recommending **AGAINST** the proposal.

Proposed policy. ISS proposes to replace its current policy with a "balanced scorecard" approach to evaluating equity plan proposals for U.S. companies. Under the balanced scorecard approach, ISS will evaluate various factors under three broad categories: plan cost, plan features and company grant practices. The proposed policy update does not set forth specific weightings for each category or factor, but asks for feedback on this area.

***Meridian Comment**:* Our comments and recommendations are divided into two parts. In the first part, we recommend that ISS maintain its current policy on equity plan proposals rather than adopt the proposed policy update. In the second part, we comment on the proposed policy update and recommend certain changes to enhance its clarity and transparency.

Comments in Support of Current Policy

In our February 17, 2014 correspondence to ISS, we commented on certain proposed "long-term" policy changes articulated in ISS's Benchmark Policy Consultation, including ISS's proposal to move to a balance scorecard approach to evaluating equity plan proposals. We commented in our February 17 correspondence and reiterate here that we favor ISS **maintaining its current approach** to evaluating equity plan proposals. The current approach is well understood by companies and focuses on key areas of concern of institutional shareholders. In addition, the SVT model adequately identifies outlier situations where the use of equity incentives is well beyond industry norms. In contrast, the balanced scorecard approach would introduce a lack of predictability and transparency to ISS's evaluation process for equity plan proposals.

Moreover, ISS does not present a strong business case for revising its current policy. ISS notes that the balanced scorecard approach "is not designed to increase or decrease the number of companies that would receive adverse vote recommendations." If that is the case, then it is unclear why ISS would propose moving to a more complex, less transparent policy than presently exists only to achieve fairly similar outcomes. More importantly, shareholders have overwhelmingly supported equity plan proposals. As ISS notes in its proposed policy update, "no more than nine equity plan proposals have failed to garner majority support each year (2010 through 2013)." The number of failed equity plan proposals does not demonstrate widespread concern by shareholders regarding equity plan costs, plan features or grant practices.

ISS's principal rationale for changing its policies appears to rest on its belief that due to the "strong market recovery, investors may be more critical of equity transfers to management, especially in the absence of shareholder friendly plan features and grant practices." However, ISS presents no evidence that correlates shareholder views on equity plan proposals to broad price trends (increases or decreases) in equity markets. The above discussed vote outcomes, all of which occurred during the heart of the current bull market, do not support the notion that shareholders will become more critical of equity plan proposals if the bull market progresses.

Comments on Proposed Policy Update

If ISS should adopt the proposed balanced scorecard approach, we recommend that this approach should have the same degree of transparency and clarity as its current policy for evaluating equity plan proposals. This would continue to permit companies to assess their equity plan proposals against ISS standards and industry practices. To enhance the transparency and clarity of the proposed policy update, we address the following items:

- Weighting of each category and factor, and
- Concerns raised by certain factors.

Weighting of Each Category and Factor

The chart below shows each category's suggested weight and the rationale for the weighting.

Category	Suggested Weight	Rationale
Plan Cost	50%	Of the three categories, the Plan Cost category provides the broadest view of the potential transfer of shareholder value to employees and other plan participants and, hence, is the category with the greatest direct impact on shareholders. Therefore, we recommend that this category be assigned the greatest weight.
Grant Practices	30%	A number of Grant Practices factors (e.g., burn rate, estimated duration of the share pool) provide important data on actual and projected transfer of shareholder value on an objective and relative basis thus giving shareholders the opportunity to evaluate the appropriateness of a company's on-going grant practices. Given the importance of this data, we recommend that this category be assigned the second greatest weight.
Plan Features	20%	Generally, investors have not voiced meaningful concerns over specific plan features; except for isolated cases, shareholder vote outcomes suggest strong support for existing plan features. Further, companies should have significant latitude in designing plan terms that meet their particular circumstances and pay philosophies rather than simply hard coding ISS compliant provisions in their equity plans. For these reasons, we recommend that the weight assigned to the Plan Features categories be only 20% of the overall weight.

We are also suggesting that each category factor be assigned a sub-weight as shown in the below chart.

Category	Suggested Category Weight	Factor	Suggested Factor Sub-weight	Factor Overall Weight
Plan Cost	50%	▪ First-tier cost analysis	50%	25.0%
		▪ Second-tier cost analysis	50%	25.0%
		— **Sub-total - Plan Cost**	**100%**	
Grant Practices	30%	▪ 3-year burn rate	30%	9.0%
		▪ Estimated duration of the plan	30%	9.0%
		▪ Proportion of CEO's equity grants subject to performance conditions	15%	4.5%
		▪ Vesting requirements in most recent CEO equity grants	15%	4.5%
		▪ Presence of clawback policy	5%	1.5%
		▪ Presence of shareholding requirements	5%	1.5%
		— **Sub-total - Grant Practices**	**100%**	
Plan Features	20%	▪ Auto single-trigger vesting upon CIC	25%	5.0%
		▪ Discretionary vesting authority	25%	5.0%
		▪ Liberal share recycling	25%	5.0%
		▪ Minimum vesting period	25%	5.0%
		— **Subtotal - Plan Features**	**100%**	

The suggested sub-weights reflect the relative importance that we believe institutional shareholders would assign to each category factor (while preserving ISS's proposed list of factors). We believe that institutional shareholders would consider the factors under the Plan Cost category (and separately under the Plan Features category) as substantially similar in importance. However, we believe that shareholders would hold substantially different views on the relative importance of the factors under the Grant Practices category. These factors cover three distinct areas: (i) the transfer of shareholder value to employees (first two factors), (ii) CEO pay for performance (second two factors) and (iii) two miscellaneous governance policies typically not found in equity plan documents (last two factors).

In the context of an equity plan proposal, shareholders are most concerned about potential and actual transfer of shareholder value to company employees; therefore, we recommend that the first two factors under the grant practices category be assigned the greatest sub-weights.

Shareholders are also concerned about the relationship between CEO pay and performance. However, we believe that the direction of this relationship typically influences shareholder voting on say on pay proposals, ***not*** on equity plan proposals. In fact, ISS statistics cited above on the passing rates of equity plan proposals support this proposition. Nonetheless, we believe it is reasonable for ISS to include factors that relate to whether a company's grant practices enhance the alignment between CEO pay and company performance. Since this area is of lesser concern to shareholders when considering equity plan proposals, we recommend that ISS assign the second two factors significant, but lesser, sub-weights than the first two factors.

We do not believe that shareholders assign any importance to the final two factors when evaluating an equity plan proposal. Therefore, we are recommending that ISS either eliminate these factors (see discussion below) or assign these factors relatively low sub-weights.

Concerns Raised by Certain Factors

We have the following comments and suggestions on the indicate category factors.

- **Automatic single-triggered award vesting upon a change in control**. Generally, the definitions of "single trigger" vesting and "double trigger" vesting are well understood. Single trigger vesting means the vesting of an outstanding equity award solely upon a change in control. Typically, double trigger vesting means the vesting of an outstanding equity award upon a qualifying termination of employment following a change in control. ISS considers the latter form of vesting a "best practice." However, ISS policy does not expressly consider the relatively widespread and rapidly growing practice referred to as "failure to assume/replace" to be a form of double-trigger vesting. Under this form of vesting, an outstanding non-vested equity award would immediately vest upon a change in control only if a successor entity fails to assume or replace the award at the time of the change in control with a qualified "replacement award." Among other features, the replacement award is required to include double trigger vesting provisions. This approach simply recognizes the impracticality of a successor entity continuing an acquired company's equity grants following a change in control, but allows a successor to continue the retentive value of prior equity grants. Therefore, we recommend that ISS policy expressly consider failure to assume/replace as a form of double trigger vesting.

- **Discretionary vesting authority**. The inclusion of discretionary vesting authority in equity plans is a widespread practice that gives companies and their boards the flexibility to accelerate vesting of equity awards in appropriate or unique circumstances. Based on our experience, boards judiciously use this authority. Therefore, we do not believe ISS policy should suggest that the mere existence of such authority is problematic. Rather, we recommend that ISS should apply this factor based on the actual exercise of this authority to determine whether such exercise has been appropriate given the circumstances.

- **Minimum vesting period**. Generally, we oppose a required minimum vesting period. Such a requirement represents an undue restraint on a board's exercise of its fiduciary duty to fashion equity awards in a manner that is in the best interests of the company and shareholders. However, if ISS maintains "minimum vesting period" as a factor, then we recommend that ISS allow for a carve-out of a specified percentage (e.g., 15%) of a share pool that would not be subject to a minimum vesting period. This would give companies the flexibility to grant equity awards with relatively short or no vesting periods if appropriate under the circumstances. In addition, if ISS should have a preferred minimum vesting period for time-based and performance-based awards, then we recommend that those preferences be reflected in the adopted policy update.

- **Estimated duration of plan**. We recommend that ISS evaluate the reasonableness of plan duration on a facts-and-circumstances basis, taking into account various company specific factors, such as market capitalization, industry, growth rate, footprint (i.e., global vs. domestic) and life cycle (e.g., IPO company, mature company). We do not believe a one-size-fits-all approach is appropriate for evaluating the reasonableness of plan duration. However, if ISS should have a preferred plan duration (or preferred range of plan duration), then we recommend that those preferences be reflected in the adopted policy update.
- **Proportion of CEO's most recent equity grants/awards subject to performance conditions ("Performance Ratio")**. We recommend that ISS develop the Performance Ratio based on the CEO's total long-term incentive compensation (i.e., equity and long-term cash awards). By limiting this factor solely to equity awards, the Performance Ratio would not accurately reflect the degree to which a CEO's long-term incentive compensation is performance based. For example, if a CEO's long-term incentives were split between time-based equity awards and performance-based cash awards, the CEO Performance Ratio would be zero percent.
- **Whether the company maintains a clawback policy**. The relevance and purpose of this factor in the context of an equity plan proposal is unclear. Although investors may generally prefer that companies maintain clawback policies, we see no evidence to suggest that such preference influences shareholder voting on equity plan proposals. Unlike the other factors in this category, clawback provisions bear no direct relationship to a company's grant practices or equity plan design. Encouraging companies to implement clawback policies is unwarranted since every exchange-listed U.S. company is subject to the clawback requirements under Sarbanes-Oxley and will be similarly subject to the mandatory recoupment policy under Dodd-Frank once the Securities and Exchange Commission had adopted enabling rules. For these reasons, we recommend that ISS delete this factor from the grant practice category.
- **Whether the company has established post-exercise/vesting shareholding requirements**. This factor reflects neither common or emerging market practice nor "best practice." Typically, companies maintain shareholding requirements in the context of share ownership standards (e.g., an executive must hold a minimum percentage of earned shares until share ownership standards). We believe that robust share ownership standards help to align the interests of shareholders and executives. However, requiring executives to hold a minimum percentage of shares earned after reaching share ownership standards would be excessive. Therefore, we recommend that ISS revise this factor to relate to a company's share ownership standards rather than shareholding requirements.

Shareholder Proposals to Separate Role of CEO and Board Independent Chair

Current policy. ISS's current policy is generally to recommend FOR an independent chair shareholder proposal unless a company satisfies each of six criteria.

Proposed policy. ISS is proposing to modify its current policy in two respects:

- Increase the number of factors considered in evaluating an independent chair shareholder proposal, and
- Move to a "holistic" review that weighs all the relevant factors (i.e., any single factor that may have previously resulted in a FOR or AGAINST recommendation may be mitigated by other positive or negative aspects, respectively).

ISS proposes to add the following new factors to its evaluations of shareholder proposals on an independent chair:

- Absence/presence of an executive chair,
- Recent board and executive leadership transitions,
- Director/CEO tenure, and
- A five-year TSR performance period.

Meridian Comment*:* We believe that ISS's proposed holistic approach to assessing the merits of a shareholder proposal on an independent chair is preferable to its current pass/fail criteria. We also believe that the new factors that ISS is proposing to add to its evaluations of such shareholder proposals are appropriate. Overall, the proposed approach offers a more balanced and nuanced approach to evaluating a complex issue than does ISS's current policy.

We have the following additional comments on the proposed policy update.

We recommend that ISS not weight the factors used to evaluate independent chair proposals. Assigning weights to each factor or particular factors, such as recent changes in a company's board leadership structure, could undermine ISS's proposed holistic approach.

ISS commentary to its proposed policy update suggests that the presence or absence of certain factors may be inherently problematic (from a corporate perspective). However, we do not believe these factors warrant this characterization. Rather, we recommend that ISS should consider the overall context before assessing whether a factor raises governance issues.

For example, ISS cites a recent academic study published in 2010 to support the view that retention of a former CEO in the role of executive chair "***may*** prevent a new CEO from making performance gains by dampening their ability to make strategic changes at the company." This suggests that ISS would consider the presence of an executive chair as problematic. However, the presence of an executive chair can serve the interests of shareholders in several respects: (i) helps to facilitate a smooth leadership transition, (ii) provides continuity during challenging business circumstances and (iii) has institutional knowledge that may prove useful for the incoming CEO. Furthermore, the full board of directors is responsible for creating an environment where a new CEO is encouraged to make appropriate strategic changes at a company and to ensure that an executive chair does not have undue influence over the new CEO.

Similarly, ISS notes in its policy update that "it is debatable whether a lead independent director can act as an effective counterbalance to both a CEO and an executive chair." We believe that ISS should continue to closely evaluate the role and responsibilities of the lead independent director, rather than view the presence of a lead independent director as inherently suspect when a company contemporaneously has an executive chair. In our experience, lead directors regularly provide effective board leadership and permit a board to conduct business effectively in executive session.

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As we previously stated, we strongly support ISS's approach to examine regularly its proxy voting policies and to revise those policies to be responsive to the views of institutional shareholders and issuers.

We are available to discuss our comments with ISS officials at their convenience.

Sincerely,

Meridian Compensation Partners, LLC

Donald G. Kalfen
Partner