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Institutional Shareholder Services Inc.
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Ladies and Gentlemen:

Thank you for offering Pearl Meyer & Partners ("PM&P") the opportunity to comment on the proposed policy changes that Institutional Shareholder Services Inc. ("ISS") is considering for 2015 (the "Proposed Policy"). As a leading independent executive compensation consulting firm, we share your strong interest in developing and promoting sound corporate governance principles as they relate to executive compensation.

Our brief comments are focused on ISS' proposed amendments to its evaluation of equity compensation plan proposals by implementing an Equity Plan Scorecard ("EPSC") approach. Specifically, ISS has proposed amending its approach to equity plan proposal evaluations by following a scorecard methodology that considers not only plan costs, but also certain plan features and grant practices.

At the outset, we commend ISS for accelerating the release of the proposed and final rules. While companies will still be under tight deadlines in amending their equity plans in an effort to obtain ISS favorable recommendations, ISS has afforded companies an additional few weeks to prepare for the change which is appreciated and encouraged in future years.

Weighting

We believe plan cost should be the most heavily weighted factor as it provides a company the opportunity to set their share request in the most predictable way, based on projected company needs and at ISS objectively-determined thresholds with quantifiable testing. At the end of the day, investors care more about dilution than ISS-unfriendly plan features or grant practices. Plan cost should constitute at least 50% of the scorecard, if not more.

Transparency

Under the old policy, plan cost – which could be calculated after purchasing the ISS Compass Model – led to fairly predictable assessments as to whether equity proposals would receive a favorable ISS recommendation. Under the new scorecard, we are concerned that there will be scarce information to reasonably calculate threshold passing levels. We believe ISS should be as specific as possible in communicating how each element will be weighted and scored so that companies can plan ahead in designing their equity programs going to shareholders. In this regard, we are hopeful that future guidance will include specifics on the following:

- How much will each separate plan feature and grant practice be weighted, and what is the range of scoring within each element? In addition, will there be transparency regarding threshold levels for each "basket" (i.e., cost, features and practices) as well as overall scores?

- The grant practices section focuses on the CEO's most recent equity grants in terms of vesting and performance conditions. Will exceptions be made where ISS expectations are not met in the most recent year, but grants in prior years – which

may still be mid-cycle – have longer vesting or stronger performance contingencies?

- How will ISS give credit for a clawback policy? Will meeting SOX requirements be enough, or will it require something closer to Dodd-Frank Act requirements?

- Will net settlement of options be considered a liberal share counting action if the plan clearly delineates that the full number of underlying awards will count against the plan? In addition, will liberal share counting be grandfathered for those shares that have already been granted where the underlying plan is being put to shareholders for share replenishment?

Flexibility

There are many situations in which exceptions to the “best practices” suggested by ISS are clearly appropriate. We are hopeful that ISS will clearly provide carve-outs in certain situations and not penalize companies for failure to comply with one-size-fits-all maxims. To highlight a few examples:

- Automatic single-trigger vesting is appropriate where acquirer does not assume company stock after a transaction.

- Discretionary vesting may be appropriate in many special situations if deemed critical by the Compensation Committee, such as in the case of long-tenured retirements in good standing. Moreover, even if a plan contains the ability to accelerate vesting, the Committee may never exercise that ability in practice. In that case, will ISS penalize the company for what is contained in the four corners of the plan document? Finally, will companies who are in good standing on ISS’ Pay for Performance Test (“PFP”) be penalized if the plan permits discretionary vesting? We do not believe companies should be punished in the equity plan proposal process if their plan contains discretionary vesting provisions, but the company’s bigger compensation picture under the PFP test is viewed favorably by ISS.

- Minimum vesting periods may not be appropriate in the case of new hires or where the award is issued in arrears based on the prior year’s performance.

- Exceptions to minimum post-exercise/vesting holding periods may be appropriate where there have been long vesting periods, and/or where the executive has already met the company’s share ownership guidelines.

- Companies should not be penalized where CEO equity is not entirely performance-based, but the CEO’s total compensation picture is. Considering only equity awards and ignoring cash-based awards granted under the same omnibus incentive plan provides a flawed comparison among companies with different long-term incentive philosophies. ISS should focus not only on equity awards, but the percent of total long-term incentive awards that are subject to performance conditions under an omnibus plan.

In conclusion, we are very concerned that ISS’ influence in the equity plan proposal process has the potential for even more dire consequences than on Say-on-Pay voting. Unlike an ISS “Against” recommendation on SOP – which may result in ***non-binding*** “Against” votes on pay programs – an ISS “Against” recommendation on an equity plan proposal may ultimately result in an adverse ***binding*** outcome if investors vote against the

plan. Quite simply, there will be no shares available to compensate employees – not just executives – with equity. We also note that at least two questions penalize the company based on only CEO grants (vesting requirements in the most recent grant and proportion of performance-based awards in most recent grant). If ISS renders an "Against" vote due to CEO grant practices, the entire employee population will suffer as the plan may not pass, resulting in no equity available in the compensation program generally. This poses a clear risk to shareholders if companies cannot attract, retain and motivate critical talent through cash-based programs.

Thus, it is critical that ISS provide as much transparency as possible so that companies can fully understand which factors put a plan at risk for receiving an "Against" vote. Furthermore, we would urge ISS not to apply a one-size-fits-all mentality in reviewing plan features and grant practices. Applying a dogmatic process to unique situations could result in compensation programs devoid of equity – a result which most would agree is not optimal to sustain long-term talent or company performance.

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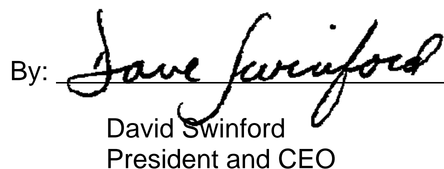
Thank you very much for soliciting our comments on ISS' Proposed Policy. Please feel free to contact me (david.swinford@pearlmeyer.com), or Deb Lifshey (deborah.lifshey@pearlmeyer.com) if you have any questions or would like to review these comments.

Sincerely,

PEARL MEYER & PARTNERS

By: 

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