



# UNITED STATES

## Peer Group Selection Methodology and Issuer Submission Process

### Frequently Asked Questions

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Updated December 13, 2024

New and materially updated questions are highlighted in yellow

*This FAQ is intended to provide general guidance regarding the way in which ISS' Governance Research Department will analyze certain issues in the context of preparing proxy analyses and determining vote recommendations for U.S. companies. However, these responses should not be construed as a guarantee as to how ISS' Governance Research Department will apply its benchmark policy in any particular situation.*

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## Methodology

### 1. How does ISS use peer groups?

Peer groups are primarily used as an input in ISS' quantitative pay-for-performance screen, which identifies companies with significant quantitative misalignment between CEO pay and company performance measured primarily by TSR. Once a company is identified as exhibiting a quantitative misalignment, the compensation program is evaluated qualitatively to identify features and practices that confirm or mitigate the perceived misalignment. Peer groups do not play a significant part in final vote recommendations. While a company may generally select benchmarking peers with which it competes for talent or business, ISS' peer group selection process aims only to select peers that are comparable in terms of size and industry. Given the narrow application of ISS' peer selections to the quantitative screen, ISS does not seek to replicate a peer group that would have been selected by the company for compensation benchmarking purposes.

### 2. What is the ISS peer group selection methodology?

The peer group methodology focuses on identifying companies that are reasonably similar to the subject company in terms of industry profile, size, and market capitalization.

ISS' selected peer group generally contains a minimum of 12 and maximum of 24 companies based on the following factors:

1. the GICS industry classification of the subject company
2. the GICS industry classifications of the company's disclosed benchmarking peers
3. size constraints for both revenue (or assets for certain financial companies) and market value

Subject to the size constraints, and while prioritizing companies that keep the subject company's size closer to the median of the peer group, peers are selected from a potential peer universe in the following order:

1. from the subject's own 8-digit GICS group
2. from the subject's peers' 8-digit GICS groups
3. from the subject's 6-digit GICS group
4. from the subject's peers' 6-digit GICS groups
5. from the subject's 4-digit GICS group

Peers generally will not be chosen from an 8-digit or 6-digit GICS group belonging to only one of the subject company's peers. When choosing peers, priority is given to potential peers within the subject's "first-degree" peer group (the companies that are either in the subject's own peer group, or that have chosen the subject as a peer), and companies with numerous connections (by choosing as a peer or being chosen as a peer) to these first-degree peers. All other considerations being equal, peers closer in size are preferred.

### 3. What are ISS' size parameters for qualifying a potential peer?

ISS applies two size constraints to qualify potential peers:

1. Revenue (or assets for certain financial companies, as noted below)  
In general companies should fall in the range 0.4 to 2.5 times the company's revenue (or assets). These ranges are expanded when the subject company's revenue is larger than \$10 billion or smaller than \$200 million in revenue (assets). Companies smaller than \$100 million in revenue or assets are treated as if they have \$100 million in revenue/assets.

2. Market capitalization.

- Companies are classified into market capitalization buckets as follows (in millions):

Bucket	Low end	High end
Micro	0	200
Small	200	1,000
Mid	1,000	10,000
Large	10,000	No cap

- A potential peer must have a market cap that falls between 0.25 times the low end and 4 times the high end of the subject's market capitalization bucket.
- Peers for companies within the Oil, Gas & Consumable Fuels GICS Industry (as noted below) are based only on market capitalization. For these companies, peers' market capitalization should be within 0.4 to 2.5 times the company's market cap (similar to the revenue or assets parameters under size constraint #1 above).

4. Which industry groups will use assets for size comparisons? Which industry groups will use only market cap for size comparisons?

**Asset-based GICS groups**

Instead of revenue, ISS will use balance sheet assets to qualify peers for companies within the following 8-digit GICS groups. Subject companies within these GICS groups will continue to also be subject to market cap size comparisons.

- 40101010 Commercial Banks
- 40101015 Regional Banks
- 40202010 Consumer Finance
- 40201020 Other Diversified
- 40201050 Commercial & Residential Mortgage Finance

**Market cap-based GICS groups**

Instead of revenue, ISS will use market cap to qualify peers for companies within the following 8-digit GICS groups, using the same guidelines as are used for revenue within other industries. Subject companies in the market cap GICS groups will not be additionally subject to the market cap bucket size comparisons.

- 10102010 Integrated Oil & Gas
- 10102020 Oil & Gas Exploration & Production
- 10102030 Oil & Gas Refining & Marketing
- 10102040 Oil & Gas Storage & Transportation
- 10102050 Coal & Consumable Fuels

Both the subject company *and* a potential peer must be in the asset-based or market cap-based GICS groups listed above in order to be compared on the basis of assets or market cap, respectively. If the subject company's disclosed peers include peers from outside the asset-based or market cap-based GICS groups, ISS' methodology may also select peers from outside these GICS groups, in which case size comparisons will be based on revenues of the subject company and the potential peer.

When a subject company is outside of the asset-based and market cap-based GICS groups listed above but has self-selected peers within those GICS groups, the above comparisons using assets or market cap do not apply; instead, the standard size comparisons based on revenue and market cap of the subject company and the potential peer will apply.

## 5. What characteristics do ISS peer groups generally exhibit?

ISS analysis indicates that the peer group methodology typically provides the following characteristics of a company's projected peers:

- GICS 8-digit Precision: The average company has approximately 79% of potential ISS peer selections based on the company's 8-digit GICS or the 8-digit GICS groups of its self-selected peers.
- GICS 2-digit Precision: No potential peer groups have members based on 2-digit GICS.
- Similarity with company's selected peers: 41% of companies have a potential ISS peer group that overlaps at least 50% of their own.
- On average, potential ISS peer groups contain 38% of the company's self-selected peers.
- Over 85% of potential ISS peer groups maintain the subject within 20% of the peer group median size.

## 6. Will a company's self-selected peers always appear in the ISS peer group, if they meet ISS' size constraints?

No. While the methodology does place a priority on the company's own peer selections, there are a number of reasons why a company-selected peer may not appear in the final ISS list, even if it meets the relevant size (revenue or assets and market capitalization) constraints.

As noted above, the methodology also places priority on other factors as it builds the peer group:

- The company's own 8-digit GICS category
- Maintaining the subject company size at or near the median of its peer group
- Maintaining the approximate distribution of GICS industry codes as reflected in the company's self-selected peer group

As a result of these considerations, a company's self-selected peer may not be included in ISS' peer group, even if it had been included in a previous year. In addition, if a company's self-selected peer is the only peer company in its 6- and 8-digit GICS category, it will generally not be selected by ISS.

## 7. How does ISS obtain revenue, assets, and market capitalization for peer group purposes, and how are peer groups displayed in ISS' research report?

ISS obtains all financial data from Standard & Poor's Compustat, on a trailing 12-month basis. Data is downloaded as of ISS' December 1<sup>st</sup> Quarterly Data Download (QDD) for annual meetings held between February 1<sup>st</sup> and September 15<sup>th</sup>, and as of the June 1<sup>st</sup> QDD for meetings from September 16<sup>th</sup> through January 31<sup>st</sup>.

The ISS research report's pay-for-performance analysis includes a relative size chart (titled "Peer Group Size") comparing the company to ISS' and the company's selected peers, ordinarily using revenue. For companies where all of ISS' peers were selected based on assets, or based on market cap, this chart will display all peers based on the applicable size measure (i.e., assets or market cap). In all other cases, including when some but not all of ISS' peers were selected based on assets/market cap, the chart will continue to display all peers based on revenue.

## 8. When will a company's peer group have fewer than 24 members?

In general, the closer the industry match, the larger the subject size of the peer group: for direct matches to the company's own 8-digit GICS, as many as 24 peers may be chosen. For matches of the company's peers' 8-digit GICS, as many as 18 peers may be chosen, falling to a maximum of 14 peers when choosing from the company's 4-digit GICS. More peers, however, may be selected in order to bring the subject company's size closer to the median of its peers. ISS' methodology generally aims to select at least 14 peers, although in exceptional cases a peer group

may have 12 or 13 members when the standard methodology fails to identify sufficient acceptable peers. A company's peer group will never have fewer than 12 members.

#### 9. How does ISS treat foreign-domiciled or privately-held company peers?

ISS uses these peers only to identify the GICS industry groups represented in the company's peer group, if relevant industry data is readily available. Only U.S. Domestic Issuers (required to file a DEF 14A) may be included as ISS-selected peers. Privately-held companies or foreign-domiciled companies (that are not DEF 14A filers) are not included as ISS-selected peers. When a company's selected peer group includes privately held or foreign-domiciled companies, those companies may not be included in the list of company-selected peers displayed in ISS' research report.

#### 10. Does ISS remove companies from its peer groups that are no longer publicly traded at the time of the subject company's annual meeting?

ISS will select peers that are publicly traded and have sufficient pay, TSR, and financial data as of the date that data is downloaded (i.e., the applicable Quarterly Data Download) for each peer construction period. However, peers that are no longer publicly traded (e.g., taken private, are acquired, etc.) after this point will be displayed in the list of ISS-selected peers in ISS' research report and will not be removed from the peer group until the next applicable peer construction period.

#### 11. If a company used multiple peer benchmarking groups, which group will ISS use as an input to the process? What does ISS do if a company does not employ a peer group for benchmarking?

ISS uses the company peer group(s) used for CEO pay benchmarking purposes.

If there is no peer group employed, the peer methodology will draw peers from the company's own 8-, 6- and 4-digit GICS groups, subject to ISS' size constraints.

#### 12. Does ISS apply manual judgment in the process of building peer groups?

Yes. ISS will review cases where the standard methodology appears to have produced inappropriate peers and may adjust peer groups in these cases. The basic principles of the methodology will apply: peers should come from similar industries and be of similar size, and company peers should be prioritized where possible. Manual judgment will be applied to peer groups only in extraordinary circumstances when the selected peers are not consistent with the principles of ISS' standard methodology.

#### 13. If the standard methodology fails to yield the minimum number of acceptable peers, what peer group will be used? How will ISS create peer groups for the largest mega cap companies?

ISS will supplement the peer group generated by the standard methodology to achieve a minimum number of peers, which may be 12 peers in limited cases.

For the largest mega cap companies, ISS will also use the standard methodology to identify as many peers as possible for these very large companies. In cases where this does not provide a sufficient number of peers, ISS will supplement these peer groups according to the principles above: peers should come from similar industries and be of similar size, and company peers should be prioritized where possible.

#### 14. When will ISS reconstruct peer groups?

ISS peer groups will be constructed each December, effective for meetings as of February 1<sup>st</sup>. Peer groups for meetings held after September 15<sup>th</sup> will be reconstructed during July and August, after the Russell 3000 Index is updated in July.

#### 15. Can only Russell 3000 and Russell MicroCap companies be used as peer companies? Will ISS use companies that an issuer considers as peers (specified in the proxy) to develop the ISS comparator group?

If a company's disclosed peers are public companies that file DEF 14As, ISS will collect pay data on them even if they are not in the Russell 3000 or Russell MicroCap Indexes. If these companies fit ISS' criteria for peers, then they may be used as ISS peers as of the next update of ISS peer groups.

#### 16. How is the peer selection process different for externally-managed issuers (EMIs)?

Most EMIs do not provide full tabular disclosure of the compensation paid by the external manager to the EMI's executives. For this reason, ISS will not select EMIs as peers for companies that are not externally-managed. An EMI's peer group may include other EMIs as well as peers that are not EMIs. However, if a company internalizes, its peer group will no longer include EMIs as of the next peer construction process to occur after internalization (assuming that the internalization is communicated to ISS prior to that time).

#### 17. What are GICS codes? Who can I contact if I disagree with the GICS classification?

The Global Industry Classification Standard (GICS) was developed by Standard & Poor's and MSCI in response to the financial community's need for a reliable, complete (global) standard industry classification system. GICS codes correspond to various business or industrial activities, such as Oil & Gas Drilling or Wireless Telecommunication Services. GICS is based upon a classification of economic sectors, which is further subdivided into a hierarchy of industry groups, industries and sub-industries. The GICS methodology is widely accepted as the industry analysis framework for investment research, portfolio management, and asset allocation.

ISS does not classify companies into the GICS codes. Please contact Standard & Poor's at 1-800-523-4534 if you believe that a company has been misclassified.

#### 18. Are the pay-for-performance peer group companies the same ones used for Equity Plan Scorecard calculations?

No. ISS' derived pay-for-performance peer group is different from the comparator group used in calculations for the Equity Plan Scorecard. For more information on Equity Plan Scorecard, see the U.S. Equity Compensation Plans FAQ.

#### 19. How are the peer medians calculated for the Components of Pay table?

Medians are separately calculated for each component of pay and for total annual compensation (TC), with equity values based on ISS' valuation methodology. For this reason, the median total compensation of the peer CEOs will not equal the sum of all the peer median pay components, because the values are calculated separately for each pay component; the median TC reflects the median of TC of the peer group constituents.

## Updating Peer Group Information

### 20. If we have made material changes to our peer group since ISS' last report, how can this information be communicated to ISS?

To ensure that this important input to our peer selection process is of the highest possible quality, ISS gives companies an opportunity to indicate changes to their self-selected peer groups since the fiscal year covered by ISS' last report. Taking this extra step of collecting updated information will help produce a better outcome for investors and issuers alike.

If you do not wish to provide this information in advance, no action is required. ISS' data collection process captures the peer group, disclosed as of your latest proxy statement, which was used to determine CEO pay for the prior fiscal year (i.e., fiscal year 2023, for most companies whose last annual meeting was in the first half of 2024). If you do not provide an updated peer group to ISS, the previously collected peer group will be used to determine ISS' peers for your 2025 research report. As in prior years, ISS' peer groups are not finalized until the research is published and will not be released in advance of the publication of the research report.

If you wish to provide updated information on your benchmarking peers, ISS has set up a web form to collect this information. The web form is open to eligible issuers during a specified window of time prior to each peer group reconstruction (typically in November for the December reconstruction period and in July for the July/August reconstruction period). Eligible companies include those in the S&P 500 Index and Russell 3000E Index, and externally-managed issuers (EMIs). The site is available at [www.issgovernance.com/company-peer-group-feedback](http://www.issgovernance.com/company-peer-group-feedback). If you are not disclosing changes to a previously disclosed peer group, you are encouraged to visit the website to verify that ISS has captured the correct peer list from your last proxy statement.

### 21. What will ISS do with the peer group information provided?

The ISS Research team will use peer group information supplied solely for the purpose of constructing peer groups. It will not be shared with any other party within or outside of ISS prior to the publication of the report.

### 22. Do we need to publicly disclose the updated peer group information provided to ISS?

ISS does not require that companies make any special public disclosure of their updated peer group information at the time it is submitted to ISS. We would expect, however, that this list of submitted companies matches the benchmarking peers that are disclosed in the upcoming proxy. ISS encourages issuers to disclose in the proxy the stock ticker for each peer alongside the peer company name to provide for greater certainty that ISS and investors are considering the correct peers.

If the peers submitted to ISS through this process are different from the peers disclosed in the upcoming proxy, ISS may apply additional scrutiny to this variance as part of its pay-for-performance analysis. If there is a significant unexplained discrepancy between submitted peers and those disclosed in the proxy, ISS may in its discretion remove a company from a future peer submission process.

### 23. Which peer group should we provide to ISS?

ISS uses the company peer group used for benchmarking CEO pay decisions. If you use multiple peer groups in the executive compensation process, you should provide the peer group that most closely matches that description.

The peer group provided to ISS should be the group used in making the majority of decisions regarding CEO pay for the fiscal year ending prior to your next annual meeting (i.e., fiscal 2024 for companies whose next meeting is in the spring of 2025).

**24. If we use a market index or broad survey for benchmarking purposes, how should this be communicated?**

There is space to indicate index or surveys used for peer benchmarking in the feedback web form. Given the breadth of market indices and surveys, however, they cannot be directly used in ISS' peer selection methodology.

**25. If we have foreign-domiciled or privately-held peers, how should we convey this information?**

The web form allows you to look up most US publicly traded organizations as well as foreign domiciled companies. You can also add peers that do not appear in the lookup: when you click the "Submit" button, a popup window appears with a comment box, in which you can add privately-held peers or any other peers that do not otherwise appear in the lookup. While ISS' peer selection is restricted to US companies and foreign-incorporated companies that file DEF 14As, ISS may use information from other foreign domiciled peers to identify the 6- and 8-digit GICS groups of potential ISS peers.

**26. We are anticipating making changes to our peer groups for the upcoming fiscal year. Should we send the list reflecting these changes to ISS?**

In most cases, ISS would request that companies not send these changes yet, and instead provide the peer group used for pay decisions for the fiscal year ending prior to your next annual meeting. ISS' aim is to build its peer group from the peers you considered when determining executive pay for the fiscal year to be reviewed in ISS' upcoming report (i.e., the fiscal year ending prior to your next annual meeting, 2024 for most companies whose next annual meeting is in spring of 2025).

**27. Several of our self-selected peers have undergone a business change, and are no longer relevant peers. The compensation committee has not yet formally removed them from our peer group. Should we provide an updated peer list?**

If circumstances have made certain companies in a previously disclosed peer group no longer relevant (e.g., significant business changes, mergers, spinoffs, or bankruptcies), an updated peer group would be helpful for ISS. If changes to your peer group are submitted to ISS which have not yet been finalized by the compensation committee, ISS would expect the list provided to ISS to match the disclosure in the upcoming proxy.

**28. We do not use peer groups in our pay-setting process. We do operate in business lines beyond our primary GICS and would like to provide a list of representative peers as an input to ISS' peer selection methodology. Is that possible?**

Yes. This list of relevant comparators would be useful for ISS' peer selection methodology, provided it will also be disclosed in the upcoming proxy. Submission of representative peers not disclosed in your upcoming proxy statement may result in your company's exclusion from the peer submission process in the future.

**29. What additional information may companies provide to ISS via this process?**

The only information we are seeking at this time is any updates companies have made to their peer groups since the data collected in ISS' last report. As described above, ISS will continue to utilize a consistent methodology to construct peer groups for use in the screening phase of our pay-for-performance evaluations, so only that information is relevant.

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