U.S. Compensation Policies for 2019

Preliminary Frequently Asked Questions

Effective for Meetings on or after February 1, 2019
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Introduction

Each year, ISS publishes Frequently Asked Question (FAQ) documents and a methodological whitepaper designed to help all stakeholders understand upcoming changes to ISS' U.S. compensation-related policies. As in prior years, updated versions of those documents will be published in mid-December 2018.

This preliminary FAQ document sooner addresses certain questions that ISS has received regarding potential changes to the U.S. compensation policies, in advance of the more detailed information to be provided in the comprehensive updates to the FAQs and whitepaper coming in December.

Unless otherwise noted, methodology changes noted in this document are effective for meetings on and after Feb. 1, 2019.

Quantitative Pay-for-Performance Screens

1. Will any of the quantitative pay-for-performance screens change for 2019?

No. There will be no changes to the quantitative screens for the 2019 proxy season. The secondary Financial Performance Assessment screen will continue to use GAAP/accounting performance measures. However, ISS will continue to explore the potential for future use of Economic Value Added (EVA) measures to add additional insight as part of the financial performance analysis. To that end, EVA measures will be featured in ISS research reports on a phased-in basis over the 2019 proxy season, although not as part of the quantitative screen methodology.

Director Pay Evaluation

2. Are there any changes regarding the application of the excessive non-employee director (NED) compensation policy?

Last year, ISS introduced a policy that provides for potential adverse vote recommendations for the board committee responsible for approving/setting NED pay when there is an established pattern (two or more consecutive years) of excessive pay levels without a compelling rationale or other clearly explained mitigating factors.

In light of recent feedback received through the policy survey and investor roundtables, ISS intends to revise its methodology for identifying NED pay outliers for the purposes of this policy. Further, ISS endeavors to increase the transparency around the methodology used for identifying pay outliers. For these reasons, ISS will not be issuing adverse director recommendations under this policy in 2019; rather, the first possible adverse vote recommendations under this policy will be delayed until 2020. More details on the revised methodology will be provided in the comprehensive FAQ coming in December.

U.S. Equity Plan Scorecard (EPSC)

The below is not an exhaustive list of updates to the Equity Plan Scorecard (EPSC) methodology for 2019. The answers to these questions may be useful in understanding some of the more significant changes to the U.S. EPSC for annual meetings on or after Feb. 1, 2019. Refer to the comprehensive FAQ documents to be published in mid-December for more information.

3. Will the EPSC passing scores change?

No, the passing scores for all U.S. EPSC models will remain the same as in effect for the 2018 proxy season. As in prior years, there will be weighting/point reallocations among some of the individual factors within each EPSC model.

4. Are there any new "overriding" factors?

Yes. In order to address investor concerns around potentially highly dilutive equity compensation programs, ISS is introducing a new negative overriding factor relating to excessive dilution for the S&P 500 and Russell 3000 EPSC models only. The new overriding factor will be triggered when the company's equity compensation program is estimated to dilute shareholders' holdings by more than 20 percent (for the S&P 500 model) or 25 percent (for the Russell 3000 model).

This overriding factor examines share capital dilution (as opposed to voting power dilution) calculated as: (A + B + C) ÷ CSO, where: A = # new shares requested; B = # shares that remain available for issuance; C = # unexercised/unvested outstanding awards; and CSO = common shares outstanding.

5. Are there any substantive changes to the other EPSC factors?

The change in control (CIC) vesting factor will be updated to provide points based on the quality of disclosure of CIC vesting provisions, rather than based on the actual vesting treatment of awards. Specifically, full points for this factor will be earned where the company's equity plan discloses with specificity the CIC vesting treatment for both performance- and time-based awards. If the plan is silent on the CIC vesting treatment for either type of award, or if the plan provides for merely discretionary vesting for either type of award, then no points will be earned for this factor.

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