



EUROPE

Compensation Policies for 2020 Preliminary Frequently Asked Questions

Effective for Meetings on or after February 1, 2020
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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' compensation-related policies.

This preliminary FAQ document sooner addresses certain questions that ISS has received regarding potential changes to the European compensation policies, in advance of the more detailed information to be provided in the comprehensive updates to the FAQs and whitepaper coming before the 2020 season commences.

Unless otherwise noted, methodology changes noted in this document are effective for meetings on or after Feb. 1, 2020.

Quantitative Pay-for-Performance Screens

1. Will ISS add a Financial Performance Assessment (FPA) to the European pay-for-performance screens?

No. A Financial Performance Assessment (FPA) will not be added as a modifier to the European pay-for-performance screens for 2020. However, ISS will explore the potential for future use of Economic Value Added (EVA) measures to add additional insight into a company's financial performance. To that end, EVA measures will be displayed in European ISS research reports during the 2020 proxy season, although not as part of the quantitative pay-for-performance screen – i.e., they will be for display-only and will not be used as a scoring element.

The EVA display will apply only to companies under pay-for-performance coverage.

The four EVA metrics to be displayed are: EVA Margin, EVA Spread, EVA Momentum vs. Sales, and EVA Momentum vs. Capital. EVA Metrics are calculated by ISS EVA and are based on audited financial data reported in public filings. For more information on the EVA methodology and metrics, visit <https://www.issgovernance.com/solutions/iss-analytics/iss-eva-resource-center/>.

2. Will any of the quantitative pay-for-performance thresholds change for 2020?

Yes. The thresholds that trigger concern for all tests will be updated for 2020. Thresholds for each test (RDA, MOM, and PTA) are determined for each market, ultimately deriving different sets of thresholds for STOXX600 vs. non-STOXX600 companies, and segmenting those by country pay band.

3. Are there any other changes to the quantitative pay-for-performance model for 2020?

No. There are no other substantive changes to the European pay-for-performance model for 2020.

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