

# QualityScore | Summary of 2017 Methodology Updates

## Establishing Global Comparability on Core Governance Practices

Aimed towards the globalization of governance and investment mandates

Investors are increasingly looking for comparability across markets to benchmark core governance practices and risks for companies in different regions. To meet this need, ISS QualityScore has refined its in-depth regional focus to include more factors that are uniform across all markets.<sup>1</sup> This is the first of several changes to come.

Number of Global Core Factors to increase from 6 to 21

### 21 Global Core Factors:

- 7 on **Board Composition**
- 6 on **Committee Composition**
- 1 on **Board Practices**
- 4 on **Audit**
- 2 on **Equity Risk Mitigation**
- 1 on **Shareholder Rights**

### 4 New Factors to be added to QS:

- 1 new factor on **independent composition of the board** (based on a *global ISS classification*)
- Retain existing independent board composition (based on *local practices*)
- 3 new factors on **independent status of key committees**

Pillar	Factor
Audit	Has a regulator initiated enforcement action against the company in the past two years?
Audit	Non-Audit fees represent what percentage of total fees?
Audit	Did the auditor issue an adverse opinion in the past year?
Audit	How many financial experts serve on the audit committee?
Board Structure	How many directors serve on the board?
Board Structure	What is the classification of the Chairman of the Board?
Board Structure	Has the company identified a Senior Independent Director or an independent Lead Director?
<b>Board Structure</b>	<b>What percentage of the board is independent based on an ISS global classification?</b>
Board Structure	What percentage of the board is independent according to ISS' local market classification?
Board Structure	What is the number of women on the board?
Board Structure	What is the proportion of women on the board?
Board Structure	What percentage of the directors attended less than 75% of board and/or key committee meetings?
Board Structure	What's the classification of the chairman of the nominating committee?
Board Structure	What's the classification of the chairman of the compensation committee?
Board Structure	What's the classification of the chairman of the audit committee?
<b>Board Structure</b>	<b>What is the independent status of the nominating committee members?</b>
<b>Board Structure</b>	<b>What percentage of the compensation committee is independent based on an ISS global classification?</b>
<b>Board Structure</b>	<b>What percentage of the audit committee is independent based on an ISS global classification?</b>
Remuneration	What are the minimum vesting periods mandated in the plan documents for executives' stock options or SARS in the equity plans adopted/amended in the last 3 years?
Remuneration	What are the minimum vesting periods mandated in the plan documents, adopted/amended in the last three years, for executives' restricted stock / stock awards?
Shareholder Rights	Does the company have classes of stock with different voting rights?

Shading indicates new factor added to QualityScore

## Raising the Bar for Governance and Board Practices

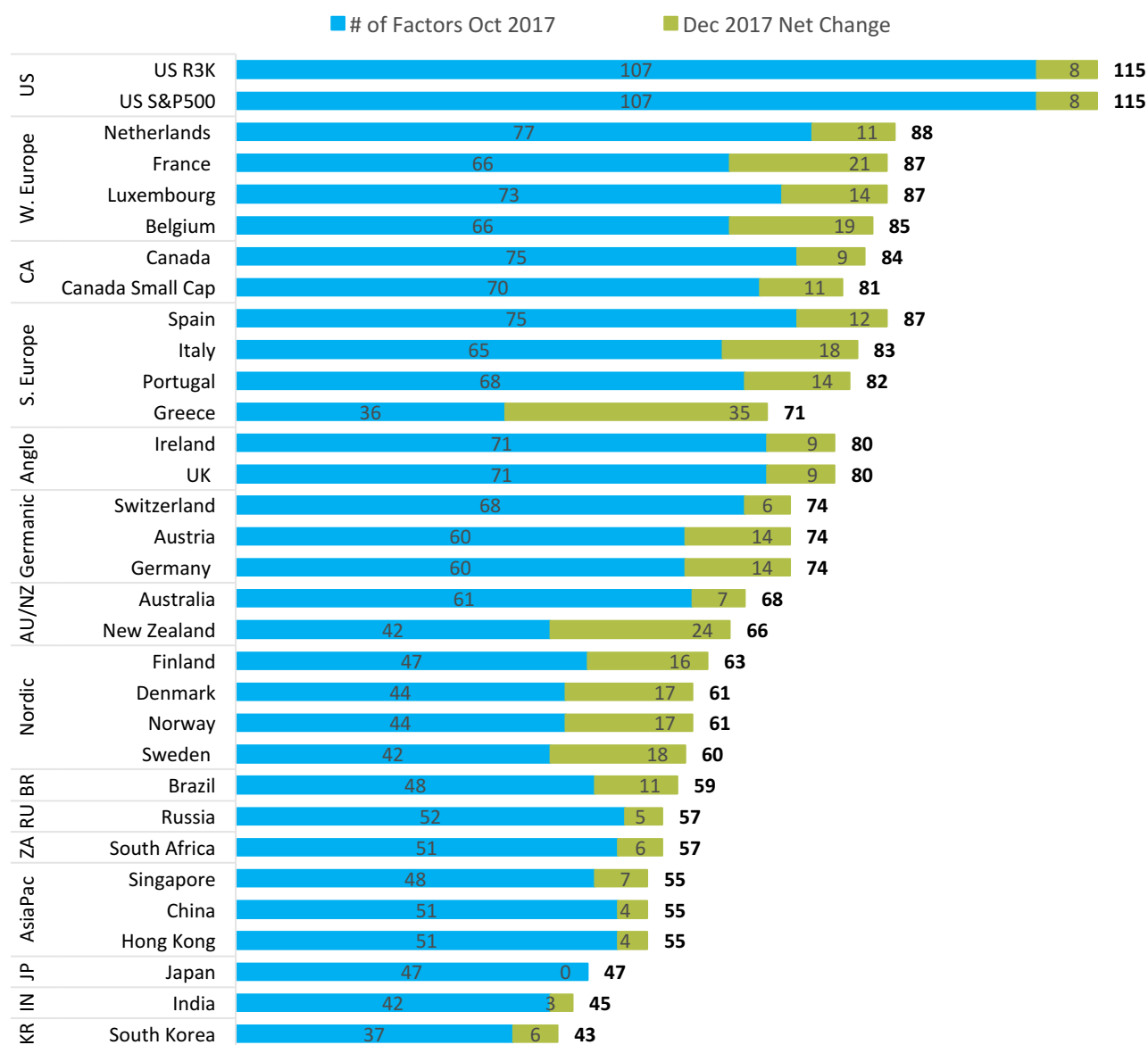
- **Gender Diversity** continues to be a dominant social and economic issue. Forthcoming methodology changes will reward all covered companies for having a higher number and percent of women on the board, globally.
- **Pay for Performance:** In 2016, the three Pay for Performance tests (Relative Degree of Alignment (RDA), Multiple of Median (MOM), and Pay-TSR Alignment (PTA)) were applied to European companies as unscored factors. As of the December 4 release, these will now be scored factors. In the US and Canada, changes to Pay for Performance ISS policy will be applied to the three scored factors (Q228, Q229, Q329).
- **Board & Committee Attendance:** Adding a factor on "percent of the directors that attended less than 75% of board and/or key committee meetings" that is in addition to existing factor "Did any directors attend less than 75% of the aggregate board and applicable key committee meetings without a valid excuse".

<sup>1</sup>Excluding Japan. Japan will only have 11 global factors

## Expanding & Harmonizing The Number of Factors Within a Region

- **Factor Expansion:** There is an average increase of **12 comparable factors** across all regions; Companies in Continental Europe will see an average increase of 16 factors per country, to **76 factors**, overall.
- These additional factors will provide more data to assess and benchmark governance risk, allow for an increased gradation in scoring, and result in more comprehensive governance profiles.
- **Regional Harmonization:** Ensure companies within a given region/country (i.e. Nordics/Norway) have a core base of factors that are comparable to other companies in the region (i.e. Sweden), to provide greater benchmarking capabilities.

### # of QS Factors By Country/Region



For more information on Governance QualityScore email us or check out our websites:

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