

A New Year Ushers in Yet Another New ISS Governance Methodology
ISS Ends GRId, Announces QuickScore & Opens Data Verification Portal

Last week ISS announced it will replace ISS Governance Risk Indicators (GRId) with [ISS Governance QuickScore](#), a numeric, decile-based score that indicates a company’s relative rank by region. Under QuickScore each company analyzed will receive an overall company score, along with separate category scores for board structure, executive compensation, shareholder rights and audit-related practices. ***From now until February 15th***, companies have the opportunity to review their scores on [ISS’s free data verification portal](#) and correct any errors prior to final publication in late February 2013.

Although QuickScore is similar to GRId in concept, it differs in several meaningful ways:

- QuickScore is a relative assessment against other companies in the same region
 - In the United States, ISS will initiate QuickScore for the top 3,000 companies based on market capitalization with the largest 500 US companies compared separately
 - .. ISS intends to introduce scores relative to industry sector in the latter half of 2013
- QuickScore is quantitatively-driven based on correlations between governance factors and key financial metrics
 - Each governance factor scored is weighted based on past correlation with financial results
- QuickScore replaces GRId’s color-coded concern levels with a numeric, decile-based score
 - Indicates a company’s rank relative to region (i.e. United States)

Companies will receive an overall company score and individual category scores for each of the four categories shown in the table below.

Board Structure	Compensation	Shareholder Rights	Audit Practices
<ul style="list-style-type: none"> • Board Composition • Composition of Committees • Board Practices • Board Policies • Related Party Transactions 	<ul style="list-style-type: none"> • Pay for Performance • Non-Performance Based Pay • Use of Equity • Equity Risk Mitigation • Non-Executive Pay * • Communications and Disclosure • Termination • Controversies 	<ul style="list-style-type: none"> • One Share One Vote • Takeover Defenses • Voting Issues • Voting Formalities • Other Shareholder Rights issues * 	<ul style="list-style-type: none"> • External Auditor • Audit and Accounting Controversies • Other Audit issues *

* Not a relevant sub-category for U.S. companies

A New Year Ushers in Yet Another New ISS Governance Methodology
ISS Ends GRId, Announces QuickScore & Opens Data Verification Portal

ACTION ITEMS

We strongly encourage companies to review their ISS Governance QuickScore by the February 15th deadline in order to correct any errors prior to final publication. If you wish to discuss further, please don't hesitate to contact us. If you need a log-in ID to the free data verification site, you may contact ISS directly at: support@isscorporateservices.com.

U.S. Compensation Questions

Under the methodology for U.S. companies there are 34 compensation-related questions divided among seven categories. The questions are similar to those included in last year's GRId 2.0 assessment and are provided below.

Pay For Performance Subcategory

1. What is the degree of alignment between the company's cumulative 3-year pay percentile rank, relative to peers, and its 3-year cumulative TSR rank, relative to peers?
2. What is the degree of alignment between the company's cumulative 1-year pay percentile rank, relative to peers, and its 1-year cumulative TSR rank, relative to peers?
3. What is the size of the CEO's 1-year cumulative pay, as a multiple of the median pay for company peers?
4. What is the degree of alignment between the company's TSR and change in CEO pay over the past five years?
5. What is the ratio of the CEO's total compensation to the next highest paid executive?

Non-Performance Based Pay Subcategory

6. Are any of the NEOs eligible for multi-year guaranteed bonuses?
7. What is the ratio of the CEO's non-performance-based compensation (All Other Compensation) to Base Salary?

Use of Equity Subcategory

8. Do the company's active equity plans prohibit share recycling for options/SARS?
9. Do the company's active equity plans prohibit option/ SAR repricing?
10. Does the company's active equity plans prohibit option/ SAR cash buyouts?
11. Do the company's active equity plans have an evergreen provision?
12. Do the company's active equity plans have a liberal CIC definition?
13. Has the company repriced options or exchanged them for shares, options or cash without shareholder approval in the last three years?
14. Does the company grant equity awards at an excessive rate, according to ISS policy?

A New Year Ushers in Yet Another New ISS Governance Methodology
ISS Ends GRId, Announces QuickScore & Opens Data Verification Portal

Equity Risk Mitigation Subcategory

15. Did the company disclose a claw back or malus provision?
16. 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?
17. What are the minimum vesting periods mandated in the plan documents, adopted/amended in the last three years, for executives' restricted stock?
18. What is the holding period for stock options (for executives)?
19. What is the holding period for restricted shares (for executives)?
20. What proportion of the salary is subject to stock ownership requirements/guidelines for the CEO?
21. Are directors subject to stock ownership guidelines?
22. Do all directors with more than one year of service own stock?
23. Did any executive or director pledge company shares?
24. Does the company have a policy prohibiting hedging of company shares by employees?

Communications and Disclosure

25. Does the company disclose a performance measure for the short term incentive plan (for executives)?
26. What is the level of disclosure on performance measures for the latest active or proposed long term incentive plan?

Termination Subcategory

27. What's the trigger under the change-in-control agreements?
28. Do equity based plans or long term cash plans vest completely on change in control?
29. What is the multiple of salary plus bonus in the severance agreements for the CEO (upon a change-in-control)?
30. What is the basis for the change-in-control or severance payment for the CEO?
31. Does the company provide excise tax gross-ups for change-in-control payments?
32. What is the length of employment agreement with the CEO?

Controversies Subcategory

33. Has ISS' qualitative review identified a pay-for-performance misalignment?
34. Has ISS identified a problematic pay practice or policy that raises concerns?



CLIENT ALERT

A New Year Ushers in Yet Another New ISS Governance Methodology *ISS Ends GRId, Announces QuickScore & Opens Data Verification Portal*

LINKS

[ISS QuickScore](#)

[ISS Governance QuickScore Data Verification](#)

ABOUT STEVEN HALL & PARTNERS

Steven Hall & Partners is an independent compensation consulting firm, specializing exclusively in the areas of executive compensation, board remuneration, non-profit compensation and related governance issues. By focusing solely on this critical and complex segment of the human resources arena, we are able to provide our clients with the highest quality expertise and best counsel available on a practical basis. For more information, please visit www.shallpartners.com and follow us on Twitter [@SHallPartners](https://twitter.com/SHallPartners).

CONTACTING STEVEN HALL & PARTNERS

This publication is provided by SH&P as a service to clients and colleagues. The information contained in this publication should not be construed as legal, tax or accounting advice. We can assist in developing effective equity award plans and setting key terms. Please call any of our consulting staff listed below, or any member of our staff with whom you have consulted in the past. If you have not received this publication directly from us, you may obtain a copy of any past or future related publications from Kathie Mulroe (212-488-5400; kmulroe@shallpartners.com).

Contact Joseph Sorrentino 212-488-5400 jsorrentino@shallpartners.com