

Client Alert

ISS Releases Updated Policies for 2018

EXEQUITY

Independent Board and
Management Advisors

On November 16, 2017, ISS released its updated policies for 2018.¹ The updated policies apply to shareholder meetings on and after February 1, 2018. The United States policy updates that are focused on compensation matters include:

- **Board Accountability**—ISS will generally vote against members of the board committee responsible for approving/setting non-employee director compensation if there is a pattern (i.e., two or more years) of awarding excessive non-employee director compensation without disclosing a compelling rationale or other mitigating factors. As a practical matter, this policy will not be applied until 2019.
- **Pay-for-Performance (P4P) Policy**—Starting in 2018, ISS will add a new test to its quantitative P4P assessment. The new test will measure relative CEO pay against three to four relative financial performance metrics (which will vary by industry), all measured over a three-year period. This new test will join the Relative Degree of Alignment (RDA), Multiple of Median (MOM), and the Pay-TSR Alignment (PTA) tests to comprise the new quantitative tests ISS will use to assess P4P alignment which will help inform its vote recommendation on Say-on-Pay (SOP) votes. ISS has not yet given any indication of how the new financial performance metrics test will be applied or weighted relative to the existing tests.
- **Advisory Votes on Executive Compensation: Compensation Committee Communications and Responsiveness**—This policy focuses on a company's response in its next proxy statement to an SOP vote that received less than 70% support. ISS has updated the policy to identify additional information that it wants companies' subsequent-year proxies in such situations to report, including the timing and frequency of shareholder engagements, whether independent directors participated, the specific concerns raised by dissenting shareholders, and disclosure of specific and meaningful action taken to address shareholders' concerns.

Exequity Comment: *ISS indicated that it will provide specific details around the mechanics of its new quantitative P4P screening methodology in an updated P4P white paper. However, ISS did not give a time for the release of that white paper. Until then, we will not know any specifics with respect to how ISS intends to apply the new financial assessments, what the implications are for other portions of the quantitative P4P tests, or for overall P4P determinations by ISS. We expect ISS will issue its updated white paper in late January or early February as it has done in the past when the P4P methodology white paper was updated. We expect ISS to issue guidance mid-December 2017 regarding burn rate benchmark levels for the 2018 proxy season.*

¹ The updated 2018 ISS policies can be found at: <https://www.issgovernance.com/policy-gateway/latest-policies/>.



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