U.S. Compensation Policies

Frequently Asked Questions

Updated December 20, 2018

New and materially updated questions are highlighted in yellow

This FAQ is intended to provide general guidance regarding the way in which ISS' Global Research Department will analyze certain issues in the context of preparing proxy analyses and determining vote recommendations for U.S. companies. However, these responses should not be construed as a guarantee as to how ISS' Global Research Department will apply its benchmark policy in any particular situation.

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U.S. Executive Pay Overview

1. Which named executive officers' total compensation data are shown in the Executive Pay Overview section?

The executive compensation section will generally reflect the same number of named executive officers as disclosed in a company's proxy statement. However, if more than five named executive officers' total compensation has been disclosed, only five will be represented in the section: the CEO and the four highest paid executives. Current executives will take precedence over terminated executives (except that a terminated CEO whose total pay is within the top five will be included, since s/he was an executive officer within the past fiscal year).

2. There was a CEO transition in the last fiscal year. Which CEO's pay is shown in the report and used for the quantitative screen?

The quantitative pay-for-performance screen will generally use the CEO in office on the last day of the fiscal year; however, the longer tenured former CEO may be displayed where the transition occurs very late in the year. Both CEOs' compensation may be evaluated in the qualitative review.

3. How is Total Compensation calculated?

Total Compensation = Base Salary + Bonus + Non-Equity Incentive Plan Compensation + Stock Awards*+ Option Awards** + Change in Pension Value and Nonqualified Deferred Compensation Earnings + All Other Compensation. The calculation will generally match the Summary Compensation Table with the exception of the equity-based awards, described further below.

*All stock-based awards (both time- and performance-vesting) are calculated by multiplying the number of underlying shares (the target number for performance awards) by the closing stock price on the grant date.

**Option awards are calculated using ISS' Black-Scholes option pricing model.

4. What inputs are used in ISS' Black-Scholes methodology?

Variable	Item	Source	Comments
C	Option Value	Calculated	
S	Stock Price	Proxy	
E	Exercise Price	Proxy	
σ	Volatility	XpressFeed	Historical three-year stock price volatility measured on a daily basis from the date of grant. If a company has not been publicly traded for at least three years, ISS measures volatility from the IPO date through grant date.
Q	Dividend Yield	XpressFeed	Average dividend yield over five years. If a company has not been publicly traded for at least five years, ISS

			averages dividend yield from the IPO date and the grant date of option. Dividend yield is based on each dividend divided by the closing stock price on the last business day before the dividend date. The calculation excludes the payouts of special dividends.
R	Risk Free Rate	Dept of Treasury website	U.S. Government Bond Yield on the date of grant corresponding to the term of the option. For example, if the option has a 10-year term, the risk free rate is the 10-year U.S. Government Bond Yield on the date of grant.
T	Term/Expected Life	Proxy	Full term of the option.
E	Base of Natural Logarithm	N/A	N/A
Ln	Natural Logarithm	N/A	N/A
N(x)	Cumulative Normal Distribution Function	N/A	N/A

5. How is the present value of all accumulated pensions calculated in the CEO Tally Sheet table?

This figure represents the aggregate amounts disclosed as the present value of the benefits for all pension plans (including qualified and non-qualified), as disclosed in the Pension Benefits table of the proxy statement.

6. How is the value of Non-Qualified Deferred Compensation calculated in the CEO Tally Sheet table?

This figure represents the sum of all deferred compensation values, as disclosed in the Non-Qualified Deferred Compensation table.

7. How are Potential Termination Payments calculated in the CEO Tally Sheet table?

The values for an involuntary termination without cause and a change in control related termination are provided as disclosed under the relevant termination scenario in the proxy statement.

8. How are peer medians calculated for the Components of Pay table?

The median is separately calculated for each component of pay and for the total annual compensation. For this reason, the median *total compensation* (TC) of the peer CEOs will not equal the sum of all the peer median pay components, because the values are calculated separately for each pay component; the median TC reflects the median of TC of the peer group constituents.

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Financial Data: Total Shareholder Return and Revenue

9. Where does ISS obtain a company's total shareholder returns (TSRs) and financial/operational data?

ISS obtains TSR and all financial data in the Compensation Profile from Standard & Poor's Compustat and Research Insight. Please refer to the Company Financials FAQ and data definitions.

10. How does Compustat calculate a company's TSRs and financial/operational measures?

For information on how Compustat calculates TSR and financial/operational measures, such as revenue and net income, see the Company Financials data definitions.

11. Why does CEO pay as percent of revenue or net income show as "N/A"?

This will show as "N/A" when the company's revenue or net income is not greater than zero.

Management Say-on-pay (MSOP) and ISS' Executive Pay Evaluation

12. What is ISS' Executive Pay Evaluation policy?

The Executive Pay Evaluation policy consists of three primary areas: Pay for Performance, Problematic Pay Practices, and Compensation Committee Communication and Responsiveness. Recommendations issued under the Executive Pay Evaluation policy may apply to any or all of the following ballot items, depending on the pay issue (as detailed in the policy): Election of Directors (primarily compensation committee members), Advisory Votes on Executive Compensation (management say-on-pay -- MSOP), and/or Equity Plan proposals in certain circumstances.

13. When may ISS' compensation-related recommendations affect director election vote recommendations?

In general, if a company has an MSOP resolution on the ballot, the compensation-related recommendations will be applied to that proposal; however, if egregious practices are identified, or if there are recurring problematic issues or responsiveness concerns, ISS may also recommend withhold/against votes with respect to compensation committee members or, if appropriate, the full board. In addition, if there is no MSOP on the ballot, any adverse recommendations related to executive compensation typically will apply to compensation committee members.

14. A company has not included a say-on-pay proposal on ballot without a valid exemption or has not presented the proposal in adherence with the company's previously adopted frequency. What action is warranted under ISS policy?

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In the absence of clearly disclosed and compelling rationale, failure to adhere to the adopted say-on-pay frequency or failure to include the say-on-pay proposal on the ballot without a valid exemption may result in against or withhold recommendations against incumbent Compensation Committee members/chair or, in exceptional circumstances, the full board. While the SEC rule requires inclusion of say-on-pay proposals at least once every three calendar years, if the company's annual meeting date changes due to, for example, a change in fiscal year, or if the proposal is not presented at a meeting where shareholders may reasonably expect to see it for any other reason, companies should provide an explanation about the timing of the next say-on-pay resolution.

15. If one or more directors received a negative recommendation in the prior year due to ISS' concerns over compensation practices, will it have a bearing on the following year's recommendation?

The prior year recommendation is not a specific consideration in the following year's analysis, although the underlying concern may be. If one or more directors received less than 50 percent of shareholders' support (regardless whether it is a compensation issue), ISS may recommend that shareholders vote against all incumbent board nominees if the company fails to take adequate action to respond to or remediate the issues that led to the low support level. If one or more directors received notable opposition (less than 70% shareholder support), the company should discuss any action or consideration taken to address the concern. A high level of dissent indicates an overall dissatisfaction and the board/committee should be responsive to shareholders' concerns. A lack of discussion or consideration, coupled with existing concerns may have a bearing on the following year's recommendation.

16. If a company receives low support for its say-on-pay proposal, how does ISS assess the board's actions taken in response?

When a say-on-pay proposal receives less than 70% support of votes cast (for and against), ISS will conduct a qualitative review of the compensation committee's responsiveness to shareholder opposition at the next annual meeting.

This review of a company's responsiveness will take into consideration the following:

- The disclosure of details on the breadth of engagement, including information on the frequency and timing of engagements, the number of institutional investors, and the company participants (including whether independent directors participated);
- The disclosure of specific feedback received from investors on concerns that led them to vote against the proposal;
- Specific and meaningful actions taken to address the issues that contributed to the low level of support;
- Other recent compensation actions taken by the company and/or the persistence of problematic issues;
- Whether the issues raised are recurring or isolated;
- The company's ownership structure; and
- Whether the proposal's support level was less than 50 percent, which would warrant the highest degree of responsiveness.

In the case of low support in connection with an unusual situation (such as a proxy contest or bankruptcy), ISS will still review how the board considered investor dissent and took actions to meaningfully respond. If the company has not demonstrated adequate responsiveness, ISS will generally recommend a vote against the say-on-pay proposal and incumbent compensation committee members. ISS may limit the adverse recommendation to the say-on-pay proposal if the board has demonstrated a moderate degree of responsiveness, but which falls short of a sufficiently robust response. In cases of multiple years of insufficient responsiveness indicating a systemic problem around board stewardship and oversight, ISS may recommend against the full board.

17. What impact might an identified pay-for-performance misalignment have on equity plan proposals?

If ISS identifies a significant pay-for-performance misalignment that results in an adverse recommendation on the say-on-pay proposal or compensation committee members, ISS may also recommend a vote against an equity plan proposal on the same ballot. This determination is case-by-case and considerations include, but are not limited to:

- Severity of the pay-for-performance misalignment;
- Whether problematic equity grant practices are driving the misalignment; and/or
- Whether equity plan awards have been heavily concentrated to the CEO and/or the other NEOs (as opposed to the plan being considered broad-based).

Note that problems identified in any of the three above factors may have an adverse implication for the equity plan proposal vote recommendation, depending on the severity of the issues. For further information, see ISS' U.S. Equity Compensation Plans FAQ.

Pay-for-Performance Evaluation

Please also see ISS’ Pay-for-Performance Mechanics white paper for a detailed explanation of the quantitative and qualitative evaluations.

18. How does ISS' quantitative pay-for-performance screen work?

The first step in ISS’ evaluation of pay for performance is a quantitative assessment of how well a company’s CEO pay has been aligned with shareholder returns and fundamental financial performance. The current screen (which applies to all S&P 500 and Russell 3000E Index companies, as well as selected additional companies that are widely held) identifies companies that demonstrate a significant level of misalignment between the CEO's pay and company performance, either on an absolute basis or relative to a group of peers similar in size and industry (see below for more information about ISS peer groups). Four independent measures assess alignment over multiple time horizons. If the result of the screen indicates a pay-for-performance misalignment, ISS performs a more in-depth qualitative review of the company's pay programs and practices to ascertain likely causal factors, or mitigating factors, and a relevant vote recommendation. Note that ISS reviews all companies' Compensation Discussion and Analysis and highlights noteworthy issues to investors regardless of the quantitative concern level.

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

No. There will be no changes to the quantitative screens for 2019. The 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 into a company's financial performance. To that end, EVA measures will be displayed in ISS research reports on a phased-in basis over the 2019 proxy season, although not as part of the quantitative pay-for-performance screen.

20. What are the four measures in ISS' quantitative screen?

ISS' quantitative pay-for-performance screen uses four measures of alignment between executive pay and company performance: three *relative* measures where a company's CEO pay magnitude and the degree of pay-for-performance alignment are evaluated in reference to a group of comparable companies, and one *absolute* measure, where alignment is evaluated independently of other companies' performance. The four measures are:

- **Relative Degree of Alignment (RDA)**. This relative measure compares the percentile ranks of a company's CEO pay and TSR performance, relative to an ISS-developed comparison group, over the prior two-year or three-year period.
- **Multiple of Median (MOM)**. This relative measure expresses the prior year's CEO pay as a multiple of the median CEO pay of its comparison group for the most recently available annual period.
- **Pay-TSR Alignment (PTA)**. This absolute measure compares the trends of the CEO's annual pay and the change in the value of an investment in the company over the prior five-year period.
- **Financial Performance Assessment (FPA)**. This relative measure compares the percentile ranks of a company's CEO pay and financial performance across three or four financial metrics, relative to an ISS-developed comparison group, over the prior two-year or three-year period.

For detailed information on how these measures operate, please see ISS' Pay-for-Performance Mechanics white paper.

21. Given the use of TSR in ISS' quantitative screen, does ISS prefer companies use TSR as an incentive program metric?

While recognizing that investors prefer emphasis on objective and transparent metrics, ISS does not endorse or prefer the use of TSR or any specific metric in executive incentive programs. ISS believes that the board and compensation committee are generally best qualified to determine the incentive plan metrics that will encourage executive decision-making that promotes long-term shareholder value creation.

22. How does the Financial Performance Assessment measure operate?

This relative measure of alignment between CEO pay and company financial performance was first introduced as part of the qualitative evaluation in 2017. For annual meetings on or after Feb. 1, 2018, the FPA measure has been incorporated into the quantitative screen and applied as a secondary measure after the traditional three screens (Multiple of Median, Relative Degree of Alignment, and Pay-TSR Alignment) have been calculated.

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The FPA compares the company's financial and operational performance over the long term versus the ISS peer group. The FPA utilizes three or four financial metrics, which are selected and weighted depending on the company's industry. The potential metrics are:

- Return on invested capital (ROIC)
- Return on assets (ROA)
- Return on equity (ROE)
- EBITDA growth
- Cash flow (from operations) growth

For detailed information on the new FPA measure, please see ISS' Pay-for-Performance Mechanics white paper.

23. How can the FPA result affect the final quantitative concern level?

The FPA may affect the overall quantitative concern level only if a company is (i) a Medium concern under any of the three initial measures (RDA, MOM, PTA), or (ii) a Low concern but bordering the Medium concern threshold under any of the three initial measures. If a company would have a Low concern under the three initial measures, but the result is bordering the Medium concern threshold, a showing of relatively poor fundamental financial performance in the FPA may increase the final quantitative concern level to a Medium. Conversely, if a company would have a Medium concern under the three initial measures, a showing of relatively strong fundamental financial performance in the FPA may reduce the final quantitative concern level to a Low. When the initial three measures exhibit a High concern level or a Low concern level that is not bordering a Medium threshold, the final quantitative concern level will not be eligible for modification by the FPA result.

Note that for the first year of implementation, the number of companies that are potentially affected in this way by the FPA score is limited. ISS back-testing indicates that less than 5% of all companies subject to the quantitative screen will have their overall quantitative concern level modified by the FPA result.

24. How does the initial quantitative pay-for-performance analysis affect the ultimate compensation-related vote recommendation?

The quantitative pay-for-performance analysis serves as an initial screen to identify cases that suggest there has been a significant misalignment of CEO pay and performance. An elevated concern from the quantitative screen results in a more in-depth initial qualitative review of the company's pay programs and practices to identify the probable causes of the misalignment and/or mitigating factors. We note that any company can receive an in-depth qualitative review at ISS' discretion, and ISS reviews all companies' Compensation Discussion and Analysis and highlights noteworthy issues. A company with a Low quantitative concern level may receive an in-depth qualitative review, for example, if the prior say-on-pay proposal received substantial shareholder opposition. While the quantitative screen indicates potential pay-for-performance outliers, it is the result of ISS' in-depth qualitative evaluation that determines the vote recommendation.

25. What are the factors that ISS considers in conducting the qualitative review of the pay-for-performance analysis?

Below are some of the key factors that ISS generally considers in conducting the qualitative review of the pay-for-performance analysis:

- The ratio of performance- to time-based incentive awards;
- The overall proportion of performance-based compensation;
- The completeness of disclosure;
- The emphasis of objective and transparent metrics;
- The rigor of performance goals;
- The application of compensation committee discretion;
- The magnitude of pay opportunities;
- The company's peer group benchmarking practices;
- Actual results of financial/operational metrics, including any non-standard adjustments to results;
- Special circumstances such as CEO and executive turnovers or anomalous equity grant practices (e.g., bi-annual awards, special one-time grants);
- Realizable and realized pay compared to granted pay; and
- Any other factors deemed relevant.

For additional discussion on ISS' qualitative evaluation, please see ISS' Pay-for-Performance Mechanics white paper.

26. If a company received Low concern in the quantitative pay-for-performance model, will ISS still evaluate the company's incentive programs?

Yes, ISS reviews all companies' Compensation Discussion and Analysis and highlights noteworthy issues to investors regardless of the quantitative concern level. This qualitative evaluation, as well as any in-depth qualitative evaluation subsequent to the quantitative screens, is the most important part of the analysis. Problematic incentive designs such as multi-year guaranteed payments, discretionary pay components, inappropriate perquisites (including tax gross-ups) or lack of rigorous goals are generally addressed in the qualitative analysis and may result in a negative recommendation despite a "Low" quantitative concern.

27. How does ISS use realizable pay in its analysis?

ISS' standard research report will generally show three-year realizable pay compared to the three-year granted pay for S&P 1500 companies. See the next question for ISS' definition of realizable pay and how it will be calculated.

Realizable pay may be discussed in the qualitative review. For S&P 1500 companies, we may utilize the realizable pay chart to see if realizable pay is higher or lower than granted pay (see related questions below) and further explore the underlying reasons. For example, is realizable pay lower than granted pay due to the lack of goal achievement in performance-based awards, or simply due to a decline in stock price? Is realizable pay higher than granted pay due to above target payouts in performance-based equity awards (and, if so, are the underlying goals sufficiently rigorous), or is the difference due to increasing stock price?

For all companies, ISS' consideration of realized and/or realizable pay is to assist in determining whether the company demonstrates a strong commitment to a pay-for-performance philosophy. The fact that realizable pay is lower, or higher, than granted pay will not necessarily obviate other strong indications

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that a company's compensation programs are not sufficiently tied to performance goals designed to enhance shareholder value over time. However, in the absence of such indications, realizable pay that demonstrates a pay-for-performance commitment will be a positive consideration.

28. How is realizable pay computed?

ISS' goal is to calculate an estimated amount of "realizable pay" for the CEOs of S&P 1500 companies. It includes the cash and benefit values actually paid, and the value of any amounts "realized" (i.e., exercised or earned due to satisfaction of performance goals) from incentive grants made during a specified measurement period*, based on their value as of the end of the measurement period. Equity grants made during the measurement period that remain on-going as of the end of the period (i.e., not yet earned or forfeited) will be revalued using the company's stock price at the end of the period. For periods that include multiple CEOs, the departed CEO's pay (excluding any grants forfeited) will be valued as of his/her termination date.

In short, realizable pay includes all non-incentive compensation amounts delivered during the measurement period, plus the value of equity or long-term cash incentive awards made during the period and either earned or, if the award remains on-going, revalued at target level as of the end of the measurement period. The total realizable value for these grants and payments will thus be the sum of the following:

- Base salary reported for all years in the measurement period;
- Bonus reported for all years;
- Short-term (typically annual) awards reported as Non-Equity Incentive Plan Compensation for all years;
- For all prospective long-term cash awards made during the measurement period, the earned value of the award (if earned during the same measurement period) or its target value in the case of on-going award cycles;
- For all share-based awards made during the measurement period, the value (based on stock price as of the end of the measurement period) of awards made during the period (less any shares/units forfeited due to failure to meet performance criteria); or, if awards remain on-going, the target level of such awards;
- For stock options granted during the measurement period, the net value realized with respect to such granted options which were also exercised during the period; for options granted but not exercised during the measurement period, ISS will re-calculate the option value, using the Black-Scholes option pricing model, as of the end of the measurement period;
- Change in Pension Value and Nonqualified Deferred Compensation Earnings reported for all years; and
- All Other Compensation reported for all years.

*Generally three fiscal years, based on the company's fiscal year. For realizable pay calculated as part of ISS' 2019 analyses, this will generally consist of fiscal years 2016 through 2018.

Note that ISS' realizable pay amount will be based on a consistent approach, using information from company proxy disclosures. Since current SEC disclosure rules are designed to enumerate "grant-date" pay rather than realizable pay, these estimates will be based on ISS' best efforts to determine necessary inputs to the calculation. In cases where, for example, it is not sufficiently clear whether an applicable

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award has been earned or forfeited during a measurement period, ISS will use the target award level granted.

29. How does ISS calculate the "granted pay" that is compared to a CEO's "realizable pay"?

The CEO's "granted pay" presented in the "3-Year granted vs. realizable CEO pay" chart is calculated as the sum of the following for the 3-year measurement period:

- Base salary reported for all years in the measurement period;
- Bonus reported for all years;
- Target short-term (typically annual) awards reported as Non-Equity Incentive Plan Awards in the Grants of Plan-Based Awards table, for all years; if a target award is not determinable, none will be included;
- Target long-term cash awards made during the measurement period (as reported in the Grants of Plan-Based Awards table, or elsewhere in the CD&A);
- The grant-date value of all share-based awards made during the measurement period;
- For stock options granted during the measurement period, grant-date value is calculated by ISS using the Black-Scholes option pricing model, per ISS' standard stock option valuation methodology.
- Change in Pension Value and Nonqualified Deferred Compensation Earnings reported for all years; and
- All Other Compensation reported for all years.

30. Why doesn't ISS use the intrinsic value (exercise price minus current market price) of stock options when calculating realizable pay?

Top executives' stock options typically expire after seven to 10 years, meaning that even if an option is underwater in the first few years after its grant, there is a substantial likelihood it will ultimately deliver some value to the holder prior to expiration. Shareholders recognize that, in considering "realizable" pay as a pay-for-performance factor, it is important to include the economic value of underwater options (which will also reflect the impact of a lower stock price, if applicable).

31. A company would like to disclose ongoing and/or completed performance-based equity awards for awards made in the past three years. What type of disclosure format would ISS suggest?

Disclosure of ongoing or completed performance-based equity awards in a consistent manner would facilitate ISS' calculation of realizable pay (which is based on a best efforts extraction of necessary information from proxy statements). If a company has awarded performance-based equity awards in the past three years, disclosure of the awards in the following table would be helpful:

Grant Date	Threshold Payout (#)	Target Payout	Maximum Payout	Performance Period*	Target/Actual Earned Date	Actual Payout
3/1/2009	100,000	150,000	200,000	1 year	6/1/2010	180,000
3/1/2010	150,000	200,000	250,000	3 years	6/1/2012	Not yet determined

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*Performance period does not include any subsequent time-vesting requirement.

32. With respect to pay-for-performance alignment and realizable pay calculations, how will ISS treat CEOs who have not been in the position for three years?

The quantitative methodology will analyze total CEO pay for each year in the analysis without regard to whether all years are the same or different CEOs. If that analysis indicates significant pay-for-performance misalignment, the ensuing qualitative analysis may take into account any relevant factors related to a change in CEO during the period. However, given an apparent disconnect between performance and CEO pay, shareholders would expect the new CEO's pay package to be substantially performance-based.

For years when a company has more than one CEO, only one CEO's pay will be included to calculate granted pay (generally the CEO who was in the position at or near the end of the fiscal year) for purposes of the pay-for-performance quantitative screen. CEO base salary will be annualized.

With respect to realizable pay, ISS will include both pay packages and calculate the realizable amount, as of the end of the measurement period, of the Summary Compensation Table pay reported for the CEO in office on the last day of each fiscal year in the measurement period. Pay for a terminated CEO (including the value of unforfeited awards as if they were paid out on the last day of service or the end of the fiscal year, based on information in disclosures) will also be included in realizable pay.

33. How is three-year total shareholder return (TSR) calculated? How are "peaks and valleys" accounted for in the five-year analysis?

The Relative Degree of Alignment (RDA) measure uses annualized three-year TSR – i.e., the annualized rate of the three 12-month periods in the three-year measurement period (calculated as the geometric mean of the three TSRs). TSR reflects stock price appreciation plus the impact of reinvestment of dividends (and the compounding effect of dividends paid on reinvested dividends) for the period.

In the Pay-TSR Alignment (PTA) assessment, indexed TSR represents the value of a hypothetical $100 investment in the company, assuming reinvestment of dividends. The investment starts on the day five years prior to the month-end closest to the company's most recent fiscal year end and is measured on the subsequent five anniversaries of that date. The Pay-TSR Alignment (PTA) measure (as outlined in ISS' Pay-For-Performance Mechanics white paper) is designed to account for the possibility of "bumps" in the overall trend.

34. What TSR time period will ISS use for the subject company and the peers for purposes of calculating the RDA measure?

TSRs for the subject company and all its peers are measured for the same period; that is, the three-year period ending closest to the fiscal-year end of the subject company. Beginning with meetings on or after Feb. 1, 2018, ISS will also smooth the TSR calculation by averaging the closing prices across all trading days contained in the beginning and end months of the TSR measurement period. The impact of dividends and stock splits occurring during the averaging period will be factored into the calculation of

TSR. Before this change, TSR was measured from point-to-point on the beginning day and end day of the measurement period.

35. For companies with meetings early in the year, whose latest year peer CEO pay has not yet been released, what pay data does ISS use?

ISS uses the latest compensation data available for the peer companies, some of which may be from the previous year.

36. What are the minimum time periods of data needed for the quantitative screen measures? Does lack of sufficient data affect whether a company would be used as a peer?

The absolute PTA measure generally requires five years of TSR and pay data, while the relative RDA and FPA measures generally require three years of TSR/financial and pay data. However, the PTA measure can still be run on a more-limited four years of data, and the RDA and FPA measures can be run on two years of data (assuming five or three years of complete data is unavailable). The relative MOM measure requires one year of pay data.

A company's limited life as a publicly traded company will also be considered as part of any qualitative evaluation. Generally, only companies with three full years of data will be peer companies. In limited circumstances, a company with less than three years of data may be used when the quantitative evaluation focuses on less than three years.

37. How does ISS take the year-over-year change in pension benefits value into account in assessing CEO pay?

ISS includes changes in pension value in our pay assessments because companies that do not offer supplemental defined benefit pensions (SERPs) to their top executives often provide for post-retirement compensation through larger grants of equity-based awards and thus could be disadvantaged in company-to-company pay comparisons if SERP-related compensation is omitted from the annual figures. Because ISS' quantitative analysis has a long-term orientation, pay anomalies caused by issues such as a single large increase in year-over-year pension accumulations (e.g., due to interest rate changes) should not have a significant impact on the results. However, such anomalies are considered in the qualitative evaluation.

38. What actions can the company take to address concerns when ISS has issued an adverse recommendation on the basis of a pay-for-performance disconnect?

The pay-for-performance evaluation is a case-by-case analysis, and actions intended to address concerns should be tailored according to the underlying issues identified in the pay-for-performance disconnect. Prospective commitments to increase the proportion of performance-based pay in the future may not adequately address concerns, and companies should provide sufficient information on award size, performance goals, and vesting design. Modifications to existing recent awards to strengthen their performance linkage would be a more significant mitigator. As an example, if the primary source of a

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NEO pay increase is due to time-vested equity awards, a remedy could be for the company to add performance vesting criteria to a majority of those awards.

Any pay-for-performance action(s) should be disclosed in a public filing, such as a Form 8-K or DEFA 14A. Based on the additional disclosure, ISS may change its vote recommendation if the company's actions sufficiently remedy the pay-for-performance disconnect. However, ISS' recommendation will depend on the company providing compelling and sufficient evidence of action to strengthen the performance-linkage to its executives' compensation and comprehensive additional disclosure.

39. When will ISS consider equity awards to be performance-conditioned?

For purposes of calculating the CEO's equity pay mix, ISS determines the proportion of equity awards (by value) that are time-based vs. performance-conditioned. In order for equity awards to be considered performance-conditioned, the company should disclose the details of the performance metric(s) (e.g., return on equity) and the associated goals (e.g., 15 percent) associated with the performance awards at the time they are made. From this disclosure, shareholders will know the minimum level of performance required for any equity grants to be earned. Performance-conditioned equity awards do not include standard time-based stock options or performance-accelerated grants. Instead, performance-conditioned equity awards are performance-contingent in that the individual will not receive the grant if the performance goal is unmet.

Premium-priced options must have a meaningful premium (typically at least 110 percent of the stock price on the date of grant, although a higher premium may be required for stock trading at a low price) in order to be classified by ISS as performance-conditioned. For equity awards that are contingent on stock price goals, the price condition should be both meaningful and required to be maintained for at least 20 consecutive trading days (or 30 calendar days) before vesting in order for the grant to be considered performance-conditioned. Market stock units that pay out at target without requiring an increase in stock price will not be considered performance-conditioned.

40. What level of disclosure is necessary to enable shareholders to assess the rigor of incentive programs?

In order for shareholders to assess the rigor of performance-based bonus and equity incentive programs, the company needs to disclose the performance measures and goals and corresponding payout opportunities. To ensure complete and transparent disclosure, the company should disclose the following:

- The metric(s) used (and rationale for the selections);
- The goal(s) that were set for each metric and the target (and, if relevant, threshold and maximum) payout level(s) set for each NEO;
- The reason that each goal was determined to be appropriate for incentive pay purposes (including the expected difficulty of attaining each goal);
- The actual results achieved with respect to each goal; and
- The resulting award (or award portion) paid (or payable) to the NEO with respect to each goal.

If a target performance goal was set at or below the prior year's analogous goal or achieved result against that goal, the company should explain the reasoning for this and how it was considered when determining the related payout opportunities.

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41. Will ISS consider the timing of equity grants (such as for grants made subsequent to the applicable performance year) when conducting its pay-for-performance evaluation?

Grant timing issue can be problematic for investors evaluating the relationship between performance and pay. The value of equity grants generally represents a significant proportion of top executives' pay; if the grants are made subsequent to the "performance year," disclosures in the Grants of Plan-Based Awards Table may distort the pay-for-performance link.

Some investors believe that equity awards can incentivize and retain executives for past and future performance; therefore, adjustments for such timing issues may not be relevant. In addition, ISS' pay-for-performance analysis has a long-term orientation, where these types of timing issues are less relevant than in an evaluation of one year's pay. Nevertheless, ISS may consider the timing of equity awards made early in a fiscal year in its qualitative assessment if complete disclosure and discussion is made in the proxy statement.

In order to ensure that pay-for-performance alignment is perceived, the company should discuss the specific pre-established performance measures and goals that resulted in equity awards made early in the next fiscal year. A general reference to last year's performance is not considered sufficient and meaningful to shareholders. If the company makes equity grants early in each year, based on the prior year's specific performance achievement, shareholders should not be required to search for the information outside of the proxy statement in order to make a year-over-year comparison. Instead, companies should provide information about grants made in relation to the most recently completed fiscal year in the proxy statement for the shareholder meeting that follows that fiscal year (aligned with other compensation reported for that year). Many companies provide an alternate summary compensation table that takes into account the recent equity awards made in the current fiscal year, which is helpful for investors.

In order for ISS to compute the adjusted total compensation and include it for purposes of our narrative discussion and analysis, companies need to make transparent and complete disclosure in the proxy statement; ISS will not search for the companies' Form 4 or other filings to make such adjustments but rather will rely on the specific grant disclosures found in the proxy statement.

42. How does ISS analyze "front-loaded" awards intended to cover future years?

Very large awards that are intended to cover future years of grants limit the board's ability to meaningfully adjust future pay opportunities in the event of unforeseen events or changes in either performance or strategic focus. For this reason, ISS is unlikely to support grants that cover more than four years (i.e. the grant year plus three future years). Commitments not to grant additional awards over the covered period should be firm. Given that such awards typically provide for exceptionally large pay opportunities, usual pay-for-performance considerations are more closely scrutinized, including completeness of disclosure, emphasis on transparent and rigorous performance criteria, and stringent vesting provisions that limit windfall risk.

43. A company grants time-vesting equity awards that were contingent on meeting specific performance criteria. Does ISS consider such awards to be performance-conditioned?

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ISS will generally consider such awards to be performance-conditioned if the performance measurement period, metrics, and goals were pre-established and are disclosed in the proxy statement.

44. How does ISS capture transition period compensation?

Given that disclosure of transition period compensation varies across companies, ISS is unable to apply a standardized methodology in all cases. When transition periods represent an extension of a recently completed fiscal year (until the start of a new fiscal year period), ISS will generally include transition period pay as part of the most recently completed fiscal year pay. Cash pay components such as base salary and bonus will be annualized and equity pay components will be added, subject to a company-specific case-by-case review.

45. How does ISS evaluate pay-for-performance alignment at companies that are not subject to the quantitative screen?

For companies outside the Russell 3000E Index (which includes all companies in the Russell 3000 and Russell Microcap indexes), ISS reviews the CD&A, including the Summary Compensation Table and other compensation tables, to assess the level of NEOs' pay relative to internal standards developed to identify potential egregious pay levels and problematic compensation practices (similar to the Problematic Pay Practices component of the Executive Pay Evaluation Policy). If that evaluation does not identify any significant concerns, the ISS research report indicates that (and notes any items that shareholders may nevertheless wish to consider). If significant concerns are identified, the ISS analysis addresses them to determine whether or not the situation warrants an adverse recommendation.

Determining Peer Companies

The peer selection FAQs have been omitted from this document. Complete information on the methodology used for pay-for-performance peer groups and ISS' incorporation of company-selected peers is available in ISS' U.S. Peer Group Selection FAQ.

Problematic Pay Practices

46. What is ISS' Problematic Pay Practices evaluation?

Pay elements that are not directly based on performance are generally evaluated on a case-by-case basis considering the context of a company's overall pay program and demonstrated pay-for-performance philosophy. Based on input from client surveys and roundtables, ISS has identified certain practices that are contrary to a performance-based pay philosophy, which are highlighted in the list below. ISS evaluates these practices on a case-by-case basis, considering the facts and circumstances disclosed.

- Egregious employment contracts:
  - Contracts containing multi-year guarantees for salary increases, non-performance-based bonuses, or equity compensation;
- New CEO with overly generous new-hire package:
  - Excessive "make whole" provisions without sufficient rationale;

- Problematic termination-related equity vesting provisions;
- Any of the problematic pay practices listed in this policy;
- Abnormally large bonus payouts without justifiable performance linkage or proper disclosure:
  - Performance metrics that are changed, canceled, or replaced during the performance period without adequate explanation of the action and the link to performance;
  - Incentive payouts despite failure to achieve pre-established threshold performance criteria;
- Egregious pension/SERP (supplemental executive retirement plan) payouts:
  - Inclusion of additional years of service not worked that result in significant benefits provided in new arrangements;
  - Inclusion of performance-based equity or other long-term awards in the pension calculation;
- Excessive Perquisites:
  - Perquisites for former and/or retired executives, such as lifetime benefits, car allowances, personal use of corporate aircraft, or other inappropriate arrangements;
  - Extraordinary relocation benefits (including any home loss buyouts);
  - Excessive amounts of perquisites compensation;
- Problematic severance and/or change in control provisions:
  - Change in control cash payments exceeding 3 times base salary plus target/average/most recent bonus (or that include equity gains or other pay elements into the calculation basis);
  - New or materially amended arrangements that provide for change-in-control payments without loss of job or substantial diminution of job duties (such as provided by a problematic Good Reason definition, or by single-triggered or modified single-triggered provisions, where an executive may voluntarily leave for any reason and still receive the change-in-control severance package);
  - New or materially amended employment or severance agreements that provide for an excise tax gross-up. Modified gross-ups would be treated in the same manner as full gross-ups;
  - Excessive payments upon an executive's termination in connection with performance failure;
  - Liberal change in control definition in individual contracts or equity plans which could result in payments to executives without an actual change in control occurring;
  - A problematic "Good Reason" termination definitions that present windfall risks, such as definitions triggered by potential performance failures;
- Tax Reimbursements: Excessive reimbursement of income taxes on executive perquisites or other payments (e.g., related to personal use of corporate aircraft, executive life insurance, bonus, restricted stock vesting, secular trusts, etc.; see also excise tax gross-ups above);
- Dividends or dividend equivalents paid on unvested performance shares or units;
- Internal pay disparity: Excessive differential between CEO total pay and that of next highest-paid named executive officer (NEO);
- Repricing or replacing of underwater stock options/stock appreciation rights without prior shareholder approval (including but not limited to cash buyouts, option exchanges, and certain voluntary surrender of underwater options where shares surrendered may subsequently be re-granted);
- Shifts away from performance-based compensation to discretionary or fixed pay elements, including changes made in light of the removal of 162(m) deductions;
- Other pay practices that may be deemed problematic in a given circumstance but are not covered in the above categories.

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47. Which problematic practices are most likely to result in an adverse recommendation?

The list below highlights the problematic practices that carry significant weight and will likely result in adverse vote recommendations:

- Repricing or replacing of underwater stock options/SARS without prior shareholder approval (including cash buyouts and voluntary surrender of underwater options);
- Extraordinary perquisites or tax gross-ups;
- New or materially amended agreements that provide for:
  - Excessive termination or CIC severance payments (generally exceeding 3 times base salary and average/target/most recent bonus);
  - CIC severance payments without involuntary job loss or substantial diminution of duties ("single" or "modified single" triggers) or in connection with a problematic Good Reason definition;
  - Problematic "Good Reason" termination definitions that present windfall risks, such as definitions triggered by potential performance failures;
  - CIC excise tax gross-up entitlements (including "modified" gross-ups);
  - Multi-year guaranteed awards that are not at risk due to rigorous performance conditions;
  - Liberal CIC definition combined with any single-trigger CIC benefits;
- Insufficient executive compensation disclosure by externally-managed issuers (EMIs) such that a reasonable assessment of pay programs and practices applicable to the EMI's executives is not possible; or
- Any other provision or practice deemed to be egregious and present a significant risk to investors.

48. How does ISS evaluate "Good Reason" termination definitions?

Change-in-control severance payable in connection with a "Good Reason" termination should be limited to circumstances that are reasonably viewed as an adverse constructive termination. Typical "Good Reason" definitions include, for example, a negative change to the executive's title/role, function or compensation.

ISS reviews Good Reason definition provisions to determine whether they present a potential windfall risk. To that end, definitions that are triggered by circumstances reflecting potential performance failures, such as a company bankruptcy or delisting, are considered problematic. Definitions that are triggered by a successor's failure to assume a specific agreement will no longer trigger the problematic pay practices policy.

49. What level of compensation disclosure by externally-managed issuers (EMIs) would be sufficient to enable a reasonable assessment of pay programs to make an informed say-on-pay vote and avoid an adverse say-on-pay recommendation?

Although EMIs are required to present a say-on-pay vote, most EMIs provide little, if any, disclosure regarding the compensation arrangements between their executive officers and the external manager. Based on ISS' review of EMI compensation disclosure, most EMIs provide only the aggregate

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management and incentive fees paid to the manager. Without more information, shareholders are unable to make a reasonable assessment of pay programs and practices applicable to the EMI's executives, and therefore are unable to cast an informed say-on-pay vote. In assessing whether an EMI has provided sufficient compensation disclosure to allow for an informed say-on-pay vote, ISS will look for all of the following disclosures:

- The portion of the EMI’s management fee that is allocated to NEO compensation paid by the external manager (aggregated values for all NEOs is acceptable);
- Of this compensation, the breakdown of fixed vs. variable/incentive pay; and
- The metrics utilized to measure performance to determine NEOs’ variable/incentive pay.

If the EMI is unable to determine the portion of the management fee that is allocated to NEO compensation with reasonable certainty, the company should provide a reasonable estimate of this amount with an explanation of the methodology.

While the above does not represent a complete picture of executive compensation, it represents the minimum disclosure necessary to enable shareholders to reasonably evaluate pay arrangements between the EMI's executives and the external manager. Absent this disclosure, ISS will generally recommend against the EMI's say-on-pay proposal.

50. If a company becomes a "smaller reporting company" under the SEC's revised definition, how will ISS assess reduction in compensation disclosure?

The SEC recently changed the definition of a "smaller reporting company" (SRC) that will expand the number of companies qualifying as an SRC. While SRCs have scaled-back compensation disclosure requirements, they are still required to hold say-on-pay votes. Completeness of disclosure is an important pay-for-performance consideration. Companies with scaled compensation disclosure requirements should continue to provide sufficient disclosure to enable investors to make an informed say-on-pay vote. ISS is unlikely to support a say-on-pay proposal if compensation disclosure is such that shareholders cannot meaningfully assess the board’s compensation philosophy and practices.

51. After incentive awards were earned below target, a company granted special retention awards to executives. How would ISS view such awards?

Investors do not expect boards to reward executives when performance goals are not achieved, whether by lowering or waiving goals (a problematic pay practice) or granting other awards to compensate for the absent incentive payouts. Investors recognize, however, that retention of key talent may be critical to performance improvements and future shareholder value. Companies that grant special retention awards of cash or equity to executives when regular incentive plan goals are not met should provide clear and compelling rationale in their proxy disclosure. Awards should be conservative and should be an isolated/non-routine occurrence. The awards should also include performance conditions and limitations on termination-related vesting, as these will strengthen alignment of pay and performance going forward and avoid "pay for failure" scenarios if the executive is not retained.

52. How will ISS evaluate problematic pay practices relating to agreements or decisions in the current fiscal year as opposed to those from the most recently completed fiscal year?

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For problematic provisions (excise tax gross-ups, single-trigger severance, etc.) contained in a new/materially amended executive agreement, ISS will generally issue an adverse recommendation when such provisions are disclosed by the company, even if the problematic agreement was entered into or amended after the most recent fiscal year end. For example, if a company with a calendar fiscal year discloses a new problematic agreement entered into in February following the FY end, ISS will generally recommend against the current say-on-pay proposal.

However, in certain cases ISS may wait to further evaluate the problematic issue in the following year, when our analysis could be informed by additional information that would be disclosed in the following year's proxy statement. For example, ISS may wait until the following year in the case of a potentially problematic equity grant to a new CEO hired in February after the FY end, in order to evaluate the grant in the context of the new CEO's total pay as disclosed in the following year's proxy statement.

53. While guaranteed multi-year awards are problematic, is providing a guaranteed target pay opportunity for what ISS considers a performance-based vehicle acceptable?

While guaranteeing any executive pay elements (outside of salary and standard benefits) is not considered best practice, if the payout of such an award ultimately depends on the attainment of rigorous performance goals (i.e., no payout would occur if performance is below a specified standard), this would generally mitigate concerns about the guaranteed award opportunity.

54. How will ISS view existing/legacy problematic provisions in executive agreements?

While maintaining problematic provisions in legacy arrangements (i.e. agreements not entered into or amended in the most recently completed fiscal year) is a concern, such legacy arrangements generally will not on their own result in an adverse vote recommendation. However, legacy problematic provisions will be considered as part of the holistic analysis, and they should be removed whenever the agreement is materially amended or extended (see related questions below).

55. Are material amendments to existing contracts a trigger for analysis with respect to problematic existing contract provisions?

Shareholders are concerned with the perpetuation of problematic practices; thus, new or recently amended agreements will receive the highest scrutiny and weight in ISS' analysis. New or recently amended agreements are considered an opportunity for the board to fix problematic issues. Note that if an individual becomes party to a pre-existing arrangement (for example, an umbrella severance plan) as a result of becoming a named executive officer at the company, that arrangement will be considered "new" for that individual and therefore will trigger the policy.

56. Would a legacy employment agreement that is automatically extended but is not otherwise materially amended warrant an adverse vote recommendation if it contains a problematic pay practice?

Automatically renewing/extending agreements (including agreements that do not specify any term) are not considered a best practice, and existence of a problematic practice in such a contract is a concern. However, if an auto-renewing employment agreement is not materially amended, its automatic extension will not on its own result in an adverse vote recommendation. An amendment is considered "material" if it involves *any* change that is not merely administrative or clarifying.

57. What if a problematic pay practice is contained under a separate plan or agreement that runs indefinitely, but an executive has a separate employment agreement that is extended or modified?

The policy relevant for "new or extended executive agreements" applies to any and all agreements or plans under which the executive whose contract is being entered into or modified is covered. In other words, ISS may view entering into a new executive agreement (or modifying an existing agreement) as also being a modification or extension of the executive's separate arrangement that contains a problematic provision. To avoid triggering the problematic pay practice policy, the new or modified agreement should include a removal of the executive's entitlement to the problematic pay practice under the separate agreement.

58. If a company put a problematic pay practice provision in new or modified agreements in the last fiscal year, what action can they take to prevent an adverse recommendation from ISS?

The company can remove that provision from the agreement and disclose this action in a public filing.

59. How would ISS view any compensation program changes made in light of the removal of 162(m) deductions?

While the tax deduction for performance pay afforded under 162(m) provided an added benefit, it was seldom a primary reason behind investors' expectation for performance-based programs. Shifts away from performance-based compensation to discretionary or fixed pay elements will be viewed negatively.

Frequency of Advisory Vote on Executive Compensation

60. What is ISS' policy on say-on-pay frequency?

Based on feedback from investors, ISS will generally recommend in favor of annual say-on-pay votes, which provide the highest level of accountability and clearest channel for shareholder communication. In the 2016 ISS Policy Survey, two-thirds of investor respondents indicated they preferred annual say-on-pay frequency. Holding a say-on-pay vote every year enables the vote to correspond to the majority of the information presented in the accompanying proxy statement and allows investors to comment upon issues in annual incentive programs (which have come up more frequently in recent years) in a timely fashion.

61. What are the implications if a board adopts a frequency that is less frequent than the frequency supported by a majority or plurality of shareholders?

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If the board adopts a longer frequency for say-on-pay votes than approved by a majority or plurality of shareholder votes, ISS will generally issue adverse recommendations for compensation committee members.

62. In the event that a company does not present shareholders with a say-on-pay vote where one would otherwise be expected, what are the vote recommendation implications?

If there is no say-on-pay or say-on-pay frequency vote on the ballot where one would otherwise be expected, and the company does not provide an explanation for the omission, ISS will generally recommend against the compensation committee chair (or full committee/board, as appropriate) until the company presents shareholders with an advisory vote on executive compensation. A company that is exempt from the say-on-pay requirements (i.e. an "emerging growth company" under the JOBS Act) should provide an explanation of this in the proxy statement.

Advisory Vote on Golden Parachutes (SOGP)

63. How does ISS evaluate the treatment of equity awards upon a change-in-control?

The automatic full vesting of equity awards upon a CIC (i.e. single trigger) is viewed as a poor practice. Vesting acceleration should require both a CIC and qualifying involuntary termination event (i.e. double-trigger). ISS considers windfall potentials when evaluating equity award treatment upon a CIC. Factors considered include, but are not limited to:

- Maintaining of vesting criteria. Maintaining vesting criteria on converted awards is a good practice, as it retains their retention and incentive qualities.
- Pro rata vesting. A best practice is pro rata vesting, based on actual goal achievement (in the case of performance awards) and/or the partial completion of the vesting period. Deeming performance awards earned above “target level” without clear rationale is problematic.
- The elapsed vesting period. The acceleration of awards granted shortly before a CIC, at which point only a fraction of the original vesting period has elapsed, is viewed as a greater windfall.
- Magnitude of accelerated awards. Auto-acceleration concerns are exacerbated when the awards make up the majority of NEOs' golden parachutes. Also, if accelerated awards granted in the cycle before the CIC are larger in magnitude as compared to prior award cycles, the company should explain the reason for this in the merger proxy.

64. How does ISS determine whether specified golden parachute payouts are excessive?

In evaluating disclosed payouts related to a change in control with respect to the SOGP proposal, ISS may consider a variety of factors, including the value of the payout on an absolute basis (e.g., relative to an executive's annual compensation) or one or total payouts relative to the transaction's equity value. There are no bright line thresholds for these considerations, since they are made in conjunction with other factors in ISS' review.

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65. How will ISS consider existing problematic change-in-control severance features in its SOGP evaluation?

ISS considers both new and existing problematic features and practices. Recent amendments that incorporate problematic features will tend to carry more weight on the overall analysis. However, the presence of multiple legacy problematic features will also be closely scrutinized.

Other Compensation Topics

Non-Employee Director Pay

66. How does ISS evaluate management advisory proposals seeking shareholder approval of non-employee director pay?

In evaluating non-employee director pay programs, ISS looks for reasonable practices that adequately align the interests of directors with those of shareholders. ISS considers director pay composition, magnitude, and other qualitative features. Also relevant to this analysis is whether the equity plan under which director grants are made warrants support (if it is on the ballot).

A director pay program should incorporate meaningful director stock ownership and/or holding requirements (i.e. at least 4X the annual cash retainer). When equity is a much larger component of the director pay mix, the ownership and holding requirements should be more robust. It is considered a problematic practice for non-employee directors to receive performance-vesting equity awards, retirement benefits, or other perquisites. The magnitude of director pay is also considered, and the presence of a meaningful limit on annual director pay is a positive feature. Finally, shareholders expect quality and transparent disclosure of director pay decisions, including detailed disclosure on each pay element.

67. How does ISS apply its policy around "excessive" levels of non-employee director pay?

Last year, ISS announced a policy to potentially issue adverse vote recommendations for board members responsible for approving/setting non-employee director (NED) pay when there is a recurring pattern of excessive pay magnitude without a compelling rationale. Adverse recommendations may result when a pattern of excessive NED pay, without compelling rationale, is identified in two or more consecutive years.

ISS has updated the methodology to identify NED pay outliers (as described below) following additional investor feedback. As before, following a quantitative identification of an NED pay outlier, a qualitative evaluation of the company's disclosure will determine if concerns are adequately mitigated.

In consideration of the methodology change, adverse recommendations will not be issued under this policy until meetings occurring on or after Feb. 1, 2020 (i.e. for companies where ISS has identified excessive NED pay without compelling rationale in both 2019 and 2020).

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In evaluating the company's disclosed rationale, the following circumstances, if within reason and adequately explained, would typically mitigate concern around high NED pay:

- Onboarding grants for new directors that are clearly identified to be one-time in nature;
- Special payments related to corporate transactions or special circumstances (such as special committee service or requirements related to extraordinary need); or
- Payments made in consideration of specialized scientific expertise (as may be necessary in certain industries such as biotech/pharma);

Payments in connection with separate consulting agreements will be assessed case-by-case with particular focus on the company’s rationale. Payments to reward general performance/service will generally not be viewed as compelling rationale.

68. What is ISS' methodology to identify non-employee director pay outliers?

The methodology for identifying non-employee director (NED) pay outliers has been updated following feedback received through the policy survey and investor roundtables. The purpose is to identify pay outliers, representing individual NED pay figures above the top 2-3% of all comparable directors. ISS will compare individual NED pay totals within the same index and sector. Directors will be compared to other directors within the same two-digit GICS group and within the same index grouping. Index groupings for purposes of this policy are as follows: S&P500, combined S&P400 and S&P600, remainder of the Russell 3000 Index, and the Russell 3000-Extended.

The revised methodology recognizes that board-level leadership positions, limited to non-executive chairs and lead independent directors, often are recognized with a pay premium as compared to other directors. For non-executive directors who serve in these board leadership positions, the policy will identify outliers as compared to others within the same category of board leadership (still considering index and sector).

The revised methodology also considers limited instances of narrow distributions of NED pay within any particular sector-index grouping. In groups where there is not a pronounced difference in pay magnitude between the top 2-3% of directors and the median director, this may be considered as a mitigating factor.

Miscellaneous Questions

69. How does ISS approach U.S.-listed companies with multiple executive compensation proposals on the ballot as a result of the company's incorporation in a foreign country?

A growing number of companies worldwide are incorporated in one country and listed in another. This can create an additional layer of complexity when evaluating compensation proposals, as these cross-market companies may be required to present multiple pay proposals on the ballot as a result of being subject to the requirements of both markets. This presents a challenge for shareholders to determine the market perspective to be used in their voting decisions for these proposals.

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For U.S.-listed proxy (DEF 14A) filers that have multiple executive pay proposals on the ballot as a result of the company's foreign incorporation, ISS will generally align the vote recommendation of the foreign compensation proposal to the U.S. management say-on-pay (SOP) recommendation (or pay-for-performance evaluation, in the event there is no SOP on ballot) so long as the foreign proposal is reasonably analogous to the SOP (i.e. its focus is on top executive pay). This applies only to U.S. proxy (DEF 14A) filers, since they are subject to the same SOP and compensation disclosure requirements as other U.S. companies (conversely, Foreign Private Issuers are exempt from the U.S. SOP requirements).

This approach avoids conflicting vote recommendations for proposals essentially covering the same pay programs. If the focus of the foreign pay proposal is not reasonably analogous to the U.S. SOP, then the policy of the country that requires it to be on ballot would continue to apply. Nevertheless, ISS may highlight in the analysis of the foreign proposal aspects of the pay program that would raise concerns from the foreign market's policy perspective.

As an example, a company incorporated in the U.K. but listed in the U.S. may be required to hold up to three separate votes on executive compensation at the annual meeting, including two separate backward-looking advisory votes, as mandated by U.S. and by U.K. law, as well as a forward-looking binding vote to approve remuneration policy required under U.K. law. In this example, the foreign proposal is reasonably analogous to the SOP, therefore the vote recommendations for both the backward- and forward-looking U.K. proposals would be aligned to the U.S. SOP recommendation.

70. How does ISS consider the CEO pay ratio disclosure?

ISS research reports will display the company's disclosed (i) median employee pay figure, and (ii) the CEO pay ratio from the current and prior year (as available). Currently, the CEO pay ratio does not impact vote recommendations. ISS will continue to assess the CEO pay ratio data and will continue to receive feedback from investors on the usefulness and application of this disclosure.

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