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**Institutional Shareholder Services Releases**  
**Governance QuickScore Model Updates**

On January 27, 2014, Institutional Shareholder Services (ISS) released its Governance QuickScore 2.0 technical document outlining key changes to the governance scoring model for 2014. The complete technical document can be found on ISS's website at [www.issgovernance.com/files/ISSGovernanceQuickScore2.0.pdf](http://www.issgovernance.com/files/ISSGovernanceQuickScore2.0.pdf).

The ISS Governance QuickScore model ("QuickScore 1.0") was introduced in 2013 as a tool to measure governance-related risk across four pillars: Audit, Board Structure, Compensation and Shareholder Rights.<sup>1</sup> In January 2014, ISS announced that the QuickScore model would be updated for 2014 ("QuickScore 2.0").<sup>2</sup> On January 27, 2014, ISS released the QuickScore 2.0 technical document outlining the following key enhancements and updates for U.S. companies in 2014:<sup>3</sup>

- The scoring will now be continually updated based on governance changes disclosed in publicly available materials ("event-driven updates").
- Governance factors have been added and updated to incorporate and weigh additional governance practices, increase data availability and screening, strengthen company profile reports, and better differentiate companies.
- "Zero-weight" governance factors that do not impact a company's scoring are now included in the model to provide additional insight into a company's governance structures and practices.
- The scoring of questions and pillars have been modified to better align with ISS voting policies, company performance on quantitative modeling, and global governance standards and best practices.

A summary of new factors of interest and zero-weight factors is provided on the following page. In addition, a complete comparison of the governance factors evaluated for U.S. companies under QuickScore 1.0 and QuickScore 2.0 is provided in the Attachment. The comparison identifies new, deleted, moved, and zero-weight factors under each of the four governance pillars.

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<sup>1</sup> See our alert letter "[Institutional Shareholder Services Announces New Governance QuickScore Model](#)" dated January 3, 2013.

<sup>2</sup> See our alert letter "[ISS Announces Updates to Governance QuickScore and Window Period for Issuer Review](#)" dated January 14, 2014.

<sup>3</sup> Non-U.S. company updates are also covered in the document, but are outside the scope of this alert letter.

Noteworthy new factors now considered under the model include:

PILLAR	NEW FACTOR	ISS'S VIEW
Board	What proportion of non-executive directors on the board has lengthy tenure?	A tenure of greater than nine years is considered excessive and could compromise a director's independence.
	What percentage of directors received shareholder approval rates below the average level?	Directors that receive less than 95% shareholder approval warrant further evaluation.
	What is the average size of outside directors' compensation as a multiple of the median of company peers?	High average total compensation per director as a multiple of the median total compensation among ISS-selected peers is a potential governance concern.
Compensation	What is the degree of alignment between the company's annualized 3-year pay percentile rank, relative to its peers, and its 3-year annualized TSR rank, relative to peers?	Update required to align with ISS's Pay for Performance Evaluation applied when determining its say-on-pay vote recommendations.
	Did the most recent Say-on-Pay proposal receive shareholders' support below the industry-index level?	Level of shareholder support on the most recent say-on-pay proposal relative to support levels at S&P 1500 and Russell 3000 companies in the same 4-digit GICS group should be considered.

In addition, zero-weight governance factors for U.S. companies still reflected in QuickScore 2.0 that have no impact on the scoring are:

PILLAR	FACTOR
Audit	How many financial experts serve on the audit committee?
Board	How many directors serve on the board?
	What is the number / proportion of women on the board?
	What percentage of the board consists of family members of majority shareholders, executives and former executives (within the past five years)?
	What percentage of the board are former or current employees of the company?
Compensation	What is the degree of alignment between the company's cumulative 3-year pay percentile rank, relative to its peers, and its 3-year cumulative TSR rank, relative to peers? ( <i>replaced by "annualized" 3-year comparison under new factors summarized above</i> )
	What is the degree of alignment between the company's cumulative 1-year pay percentile rank, relative to its peers, and its 1-year cumulative TSR rank, relative to peers?
	What is the length of the employment agreement with the CEO?

Finally, the QuickScore 2.0 technical document provides additional detail with respect to the standards applied by ISS when evaluating certain governance factors related to executive and board of director compensation. In particular, the document indicates that director stock ownership guidelines that are not definitive (e.g., ownership is “encouraged” or “stressed”) will be treated as “not disclosed” under the model. Also, the document clarifies that the ratio of CEO All Other Compensation to CEO base salary will raise the model’s governance risk concern if it exceeds 75%.

\* \* \* \* \*

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**Comparison of "Audit" Questions for U.S. Companies**

<b>QuickScore 1.0</b>	
<b>External Auditor (2 questions)</b>	Non-Audit fees represent what percentage of total fees?
	Did the auditor issue an adverse opinion in the past year?
<b>Audit and Accounting Controversies (6 questions)</b>	Has the company restated financials for any period within the past two fiscal years?
	Has the company made non-timely financial disclosure filings in the past two fiscal years?
	Has a securities regulator initiated enforcement action against the company in the past two fiscal years?
	Has a securities regulator taken enforcement action against a director or officer of the company in the past two fiscal years?
	Is a director or officer of the company currently under investigation by a regulatory body?
Has the company disclosed any material weaknesses in its internal controls in the past two fiscal years?	

<b>QuickScore 2.0</b>	
<b>External Auditor (2 questions)</b>	Non-Audit fees represent what percentage of total fees?
	Did the auditor issue an adverse opinion in the past year?
<b>Audit and Accounting Controversies (6 questions)</b>	Has the company restated financials for any period within the past two fiscal years?
	Has the company made non-timely financial disclosure filings in the past two fiscal years?
	Has a securities regulator initiated enforcement action against the company in the past two fiscal years?
	Has a securities regulator taken enforcement action against a director or officer of the company in the past two fiscal years?
	Is a director or officer of the company currently under investigation by a regulatory body?
Has the company disclosed any material weaknesses in its internal controls in the past two fiscal years?	
<b>Other Audit Issues (1 question)</b>	How many financial experts serve on the audit committee?*

\* Indicates factor carries zero weight; included for informational purposes only.

Questions in yellow are new.

Questions in green have been moved to or from a different category.

### Comparison of "Board Structure" Questions for U.S. Companies

<b>QuickScore 1.0</b>	
<b>Board Composition</b> (5 questions)	What is the independent director composition of the board?
	What is the classification of the chairman of the board?
	Has the company identified a senior independent director?
	What percentage of the board consists of family members?
	What percentage of the board are former or current employees of the company?
<b>Committee Composition</b> (3 questions)	What percentage of nominating committee members are independent based on ISS Standards?
	What is the independent status of the compensation committee members?
	What is the independent status of the audit committee members?
<b>Board Practices</b> (4 questions)	Does the CEO serve on an excessive number of outside boards? How many boards does the CEO sit on?
	How many non-executives serve on an excessive number of outside boards? How many directors serve on an excessive number of outside boards?
	Did any directors attend less than 75% of the board meetings without a valid excuse?
	How many directors received withhold / against votes of 50% or greater at the last annual meeting?
<b>Board Policies</b> (1 question)	Does the company disclose board/governance guidelines?
<b>Related Party Transactions</b> (3 questions)	What percent of the directors were involved in material related party transactions (RPTs)?
	Do the directors with related party transactions (RPTs) sit on key board committees?
	Are there material related party transactions (RPTs) involving the CEO?

<b>QuickScore 2.0</b>	
<b>Board Composition</b> (8 questions)	How many directors serve on the board? *
	What is the number / proportion of women on the board? *
	What is the independent director composition of the board?
	What proportion of non-executive directors on the board has lengthy tenure?
	What is the classification of the chairman of the board?
	Has the company identified a senior independent director?
	What percentage of the board consists of family members of majority shareholders, executives and former executives (within the past five years)? *
	What percentage of the board are former or current employees of the company? *
<b>Committee Composition</b> (3 questions)	What percentage of nominating committee members are independent based on ISS Standards?
	What is the independent status of the compensation committee members?
	What is the independent status of the audit committee members?
<b>Board Practices</b> (10 questions)	Does the CEO serve on an excessive number of outside boards? How many boards does the CEO sit on?
	How many non-executives serve on an excessive number of outside boards? How many directors serve on an excessive number of outside boards?
	Did any directors attend less than 75% of the board meetings without a valid excuse?
	How many directors received withhold / against votes of 50% or greater at the last annual meeting?
	What percentage of directors received shareholder approval rates below the average level (less than 95%)?
	What is the average size of outside directors' compensation as a multiple of the median of company peers?
	Are directors subject to stock ownership guidelines? <sup>(1)</sup>
	Do all directors with more than one year of service own stock? <sup>(1)</sup>
	Did any executive or director pledge company shares? <sup>(1)</sup>
	Does the company have a policy prohibiting hedging of company shares by employees? <sup>(1)</sup>
<b>Board Policies</b> (1 question)	Does the company disclose board/governance guidelines?
<b>Related Party Transactions</b> (3 questions)	What percent of the directors were involved in material related party transactions (RPTs)?
	Do the directors with related party transactions (RPTs) sit on key board committees?
	Are there material related party transactions (RPTs) involving the CEO?

<sup>(1)</sup> Question moved from "Equity Pay Risk Mitigation" subcategory in 1.0 to "Board Practices" in 2.0

\* Indicates factor carries zero weight; included for informational purposes only.

Questions in yellow are new.

Questions in green have been moved to or from a different category.

### Comparison of "Compensation" Questions for U.S. Companies

<b>QuickScore 1.0</b>	
<b>Pay for Performance (5 questions)</b>	What is the degree of alignment between the company's cumulative 3-year pay percentile rank, relative to its peers, and its 3-year cumulative TSR rank, relative to peers?
	What is the degree of alignment between the company's cumulative 1-year pay percentile rank, relative to its peers, and its 1-year cumulative TSR rank, relative to peers?
	What is the size of the CEO's 1-year cumulative pay, as a multiple of the median pay for company peers?
	What is the degree of alignment between the company's TSR and change in CEO pay over the past five years?
	What is the ratio of the CEO's total compensation to the next highest paid executive?
<b>Non-performance based pay (2 questions)</b>	Are any of the NEOs eligible for multi-year guaranteed bonuses?
	What is the ratio of the CEO's non-performance-based compensation (All Other Compensation) as a percentage to Base Salary?
<b>Use of Equity (7 questions)</b>	Do the company's active equity plans prohibit share recycling for options/SARs?
	Do the company's active equity plans prohibit option/SAR repricing?
	Do the company's active equity plans prohibit option/SAR cash buyouts?
	Do the company's active equity plans have an evergreen provision?
	Do the company's active equity plans have a liberal CIC definition?
	Has the company repriced options or exchanged them for shares, options or cash without shareholder approval in the last three years?
	Does the company grant equity awards at an excessive rate, according to ISS policy?

<b>QuickScore 2.0</b>	
<b>Pay for Performance (6 questions)</b>	What is the degree of alignment between the company's cumulative 3-year pay percentile rank, relative to its peers, and its 3-year cumulative TSR rank, relative to peers? *
	What is the degree of alignment between the company's cumulative 1-year pay percentile rank, relative to its peers, and its 1-year cumulative TSR rank, relative to peers? *
	What is the size of the CEO's 1-year cumulative pay, as a multiple of the median pay for company peers?
	What is the degree of alignment between the company's TSR and change in CEO pay over the past five years?
	What is the ratio of the CEO's total compensation to the next highest paid executive?
	What is the degree of alignment between the company's annualized 3-year pay percentile rank, relative to its peers, and its 3-year annualized TSR rank, relative to peers?
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**Comparison of "Compensation" Questions for U.S. Companies**

QuickScore 1.0	
<b>Equity Pay Risk Mitigation (10 questions)</b>	Did the company disclose a claw back or malus provision?
	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?
	What are the minimum vesting periods mandated in the plan documents, adopted/amended in the last three years, for executives' restricted stock?
	What is the holding period for stock options (for executives)?
	What is the holding period for restricted shares (for executives)?
	What proportion of the salary is subject to stock ownership requirements/guidelines for the CEO / Is the CEO subject to stock ownership guidelines?
	Are directors subject to stock ownership guidelines? <sup>(1)</sup>
	Do all directors with more than one year of service own stock? <sup>(1)</sup>
	Did any executive or director pledge company shares? <sup>(1)</sup>
	Does the company have a policy prohibiting hedging of company shares by employees? <sup>(1)</sup>
<b>Communications and Disclosure (2 questions)</b>	What is the level of disclosure on performance measures for the short term incentive plan?
	What is the level of disclosure on performance measures for the latest active or proposed long term incentive plan?

QuickScore 2.0	
<b>Equity Pay Risk Mitigation (6 questions)</b>	Did the company disclose a claw back or malus provision?
	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?
	What are the minimum vesting periods mandated in the plan documents, adopted/amended in the last three years, for executives' restricted stock?
	What is the holding period for stock options (for executives)?
	What is the holding period for restricted shares (for executives)?
	What proportion of the salary is subject to stock ownership requirements/guidelines for the CEO?
<b>Communications and Disclosure (2 questions)</b>	Does the company disclose a performance measure of the short term incentive plan (for executives)?
	What is the level of disclosure on performance measures for the latest active or proposed long term incentive plan?

<sup>(1)</sup> Questions moved from "Equity Pay Risk Mitigation" subcategory in 1.0 to "Board Practices" in 2.0

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**Comparison of "Compensation" Questions for U.S. Companies**

QuickScore 1.0	
<b>Termination</b> (9 questions)	What's the trigger under the change-in-control agreements?
	Do the company's equity-based or other long term plans vest completely on a change-in-control?
	What is the multiple of salary plus bonus in the severance agreements for the CEO (upon a change-in-control)?
	What is the basis for the change-in-control or severance payment for the CEO?
	Does the company provide excise tax gross-ups for change-in-control payments?
	What is the length of the employment agreement with the CEO?
<b>Controversies</b> (2 questions)	Has ISS' qualitative review identified a pay-for-performance misalignment?
	Has ISS identified a problematic pay practice or policy that raises concerns?

QuickScore 2.0	
<b>Termination</b> (6 questions)	What's the trigger under the change-in-control agreements?
	Do the company's equity-based or other long term plans vest completely on a change-in-control?
	What is the multiple of salary plus bonus in the severance agreements for the CEO (upon a change-in-control)?
	What is the basis for the change-in-control or severance payment for the CEO?
	Does the company provide excise tax gross-ups for change-in-control payments?
	What is the length of the employment agreement with the CEO? *
<b>Controversies</b> (3 questions)	Has ISS' qualitative review identified a pay-for-performance misalignment?
	Has ISS identified a problematic pay practice or policy that raises concerns?
	Did the most recent Say-on-Pay proposal receive shareholders' support below the industry-index level?

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### Comparison of "Shareholder Rights" Questions for U.S. Companies

<b>QuickScore 1.0</b>	
<b>One Share One Vote</b> (2 questions)	Does the company have classes of stock with different voting rights?
	Are there any directors on the board who are not up for election by all classes of common shareholders?
<b>Takeover Defenses</b> (13 questions)	Are all directors elected annually?
	Is the board authorized to issue blank check preferred stock?
	Does the company have a poison pill (shareholder rights plan) in effect?
	What is the trigger threshold for the poison pill?
	Does the poison pill have a sunset provision?
	Does the poison pill have a Three-Year Independent Director Evaluation (TIDE) provision?
	Does the poison pill have a qualified offer clause?
	What is the expiration date of the poison pill?
	Is the poison pill designed to preserve tax assets (NOL pill)?
	When was the poison pill implemented or renewed?
	Does the company's poison pill include a modified slow-hand or dead-hand provision?
	Does the company have a majority vote standard in uncontested elections?
	If the company has a majority voting standard, is there a plurality carve-out in the case of contested elections?
<b>Voting Issues</b> (2 questions)	Does the company require a super-majority vote to approve amendments to the charter and/or bylaws?
	Does the company require a super-majority vote to approve mergers/business combinations?
<b>Voting Formalities</b> (4 questions)	What is the percentage of share capital needed to convene a special meeting?
	Can shareholders act by written consent?
	Has the board failed to implement a shareholder resolution supported by a majority vote?
	Are there material restrictions as to timing or topics to be discussed, or ownership levels required to call the meeting?

<b>QuickScore 2.0</b>	
<b>One Share One Vote</b> (2 questions)	Does the company have classes of stock with different voting rights?
	Are there any directors on the board who are not up for election by all classes of common shareholders?
<b>Takeover Defenses</b> (13 questions)	Are all directors elected annually?
	Is the board authorized to issue blank check preferred stock?
	Does the company have a poison pill (shareholder rights plan) in effect?
	What is the trigger threshold for the poison pill?
	Does the poison pill have a sunset provision?
	Does the poison pill have a Three-Year Independent Director Evaluation (TIDE) provision?
	Does the poison pill have a qualified offer clause?
	What is the expiration date of the poison pill?
	Is the poison pill designed to preserve tax assets (NOL pill)?
	When was the poison pill implemented or renewed?
	Does the company's poison pill include a modified slow-hand or dead-hand provision?
	Does the company have a majority vote standard in uncontested elections?
	If the company has a majority voting standard, is there a plurality carve-out in the case of contested elections?
<b>Voting Issues</b> (2 questions)	Does the company require a super-majority vote to approve amendments to the charter and/or bylaws?
	Does the company require a super-majority vote to approve mergers/business combinations?
<b>Voting Formalities</b> (4 questions)	What is the percentage of share capital needed to convene a special meeting?
	Can shareholders act by written consent?
	Has the board adequately addressed a shareholder resolution supported by a majority vote?
	Are there material restrictions as to timing or topics to be discussed, or ownership levels required to call the meeting?

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