

Frederic W. Cook & Co., Inc.

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November 3, 2014

**Institutional Shareholder Services Releases**  
**Governance QuickScore 3.0 Updates**

On October 29, 2014, Institutional Shareholder Services (ISS) released its Governance QuickScore 3.0 technical document outlining key changes to the governance scoring model for 2015.<sup>1</sup> No major design changes were disclosed. The data verification site for the model opens on November 3, 2014.

Last week, ISS released the technical document to the third iteration of its Governance QuickScore model (i.e., “QuickScore 3.0”).<sup>2</sup> The model was introduced in 2013 as a replacement to its Governance Risk Indicators (GRId) and is designed to measure governance-related risk across four pillars: Audit & Risk Oversight, Board Structure, Compensation and Shareholder Rights & Takeover Defenses. The technical document identifies refinements to the governance factors considered under the QuickScore model, but no major design changes are disclosed.

QuickScore serves as an indicator as to how ISS evaluates governance practices when determining its proxy vote recommendations for a company. The QuickScore 3.0 updates are designed to better align the model with ISS’ voting policies and the market view of corporate governance. A complete comparison of the governance factors evaluated for U.S. companies under QuickScore 2.0 and QuickScore 3.0 is provided in the Attachment.<sup>3</sup> The comparison identifies new, re-categorized, modified and zero-weight factors under each of the four governance pillars.

For U.S. companies, noteworthy new factors include:

<b>PILLAR</b>	<b>NEW FACTOR</b>	<b>ISS VIEW</b>
Board Structure	Does the company disclose a policy requiring an annual performance evaluation of the board?	The board, committees and each individual director should be regularly assessed regarding their effectiveness and contribution. This question will evaluate whether the company organizes board evaluations, and the nature of such evaluation (frequency, individual, outside assessment).

<sup>1</sup> The complete technical document may be requested for download at [www.issgovernance.com/governance-solutions/investment-tools-data/quickscore-issuer-downloads](http://www.issgovernance.com/governance-solutions/investment-tools-data/quickscore-issuer-downloads).

<sup>2</sup> See our alert letters “[Institutional Shareholder Services Announces New Governance QuickScore Model](#)” dated January 3, 2013 and “[Institutional Shareholder Services Releases Governance QuickScore Model Updates](#)” dated February 3, 2014 for additional background.

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

<b>PILLAR</b>	<b>NEW FACTOR</b>	<b>ISS VIEW</b>
Board Structure (continued)	Has ISS' review found that the Board of Directors recently took action that materially reduces shareholder rights?	Unilateral boardroom adoption of bylaw amendments that diminish shareholder rights are not favorable. Amendments that are considered material include, but are not limited to: diminishing shareholder rights to call a special meeting/act by written consent, classifying the board, increasing authorized capital, and lowering quorum requirements, without shareholder approval.
Shareholder Rights & Takeover Defenses	Is there a sunset provision on the company's unequal voting structure?	For companies with unequal voting structures, sunset provisions with set conditions upon which the unequal voting structure will be terminated and an equal voting structure will take place is favored.
	Does the company have a controlling shareholder?	When there is a controlling shareholder, the minority shareholders may face challenges in matters where their interests diverge from those of the majority shareholder. <b><i>Zero-weight factor for informational purposes only.</i></b>

In addition, two factors have been modified from QuickScore 2.0 to 3.0:

<b>PILLAR</b>	<b>QUICKSCORE 2.0</b>	<b>QUICKSCORE 3.0</b>
Compensation	Did the most recent Say-on-Pay proposal receive shareholders' support below the industry-index level?	Did the most recent Say-on-Pay proposal receive shareholders' support below 70%?
Board Structure	What percentage of directors received shareholder approval rates below 95%?	What percentage of directors received shareholder approval rates below 80%?

Finally, two zero-weight governance factors under QuickScore 2.0 will now be weighted under QuickScore 3.0:

<b>PILLAR</b>	<b>QUICKSCORE 3.0</b>
Audit & Risk Oversight	How many financial experts serve on the audit committee?
Board Structure	What is the number / proportion of women on the board?

Similar to prior years, ISS has not and is not expected to release specific scoring and weighting associated with each governance factor.

QuickScore 3.0 Key Dates

Also, similar to prior years, ISS is providing companies with access to a portal to verify the data collected under QuickScore 3.0. Key dates in the data verification process are summarized below:

November 3: ISS QuickScore 3.0 data verification site opens. Free company log-ins can be obtained by emailing [contactus@isscorporatesolutions.com](mailto:contactus@isscorporatesolutions.com).

November 14: Data verification site is closed until QuickScore 3.0 launch.

November 24: ISS QuickScore 3.0 launch date. Data verification site re-opens.

\* \* \* \* \*

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

<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?
<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's average 3-year equity grant rate exceed its industry/index burn rate cap?

<b>QuickScore 3.0</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?
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Questions in yellow are new.

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

Questions in orange previously carried zero weight, but are now weighted.

Questions in purple are materially amended.

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

<b>QuickScore 2.0</b>	
<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</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?
<b>Termination (6 questions)</b>	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 (3 questions)</b>	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?
	(threshold revised to 70%) <sup>(1)</sup>

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<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</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?
	Did the most recent Say-on-Pay proposal receive shareholders' support below 70%? (threshold revised from industry index average) <sup>(1)</sup>
<b>Termination (6 questions)</b>	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 (2 questions)</b>	Has ISS' qualitative review identified a pay-for-performance misalignment?
	Has ISS identified a problematic pay practice or policy that raises concerns?

<sup>(1)</sup> Question moved from "Controversies" subcategory in 2.0 to "Communications and Disclosure" in 3.0

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### Comparison of "Audit & Risk Oversight" Questions for U.S. Companies

<b>QuickScore 2.0</b>	
<b>External Auditor</b> (2 questions)	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</b> (6 questions)	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 regulator taken enforcement action against the company in the past two fiscal years?
	Has a regulator taken enforcement action against a director or officer of the company in the past two fiscal years?
	Is the company, 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</b> (1 question)	How many financial experts serve on the audit committee? *

<b>QuickScore 3.0</b>	
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	Has a regulator taken enforcement action against the company in the past two fiscal years?
	Has a regulator taken enforcement action against a director or officer of the company in the past two fiscal years?
	Is the company, 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</b> (1 question)	How many financial experts serve on the audit committee?

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

<b>QuickScore 2.0</b>	
<b>Board Composition (8 questions)</b>	How many directors serve on the board? *
	What is the number / proportion of women on the board? *
	What percentage of the board is independent under ISS' standards?
	What proportion of non-executive directors on the board has lengthy tenure?
	Is the board chair independent?
	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 consists of former or current employees of the company? *
<b>Committee Composition (3 questions)</b>	What percentage of nominating committee members are independent based on ISS' standards?
	What percentage of the compensation committee is independent based on ISS' standards?
	What percentage of the audit committee is independent based on ISS' standards?
<b>Board Practices (10 questions)</b>	Does the CEO serve on an excessive number of outside boards?
	How many non-executives 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 95%? (threshold revised to 80%)
	What is the average size of outside directors' total compensation as a multiple of the peer median?
	Do all directors with more than one year of service own stock?
	Did any executive or director pledge company shares?
	Are directors subject to stock ownership guidelines? <sup>(1)</sup>
	Does the company have a policy prohibiting hedging of company shares by employees? <sup>(1)</sup>
<b>Board Policies (1 question)</b>	Does the company disclose board/governance guidelines?
<b>Related Party Transactions (3 questions)</b>	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 3.0</b>	
<b>Board Composition (8 questions)</b>	How many directors serve on the board? *
	What is the number / proportion of women on the board?
	What percentage of the board is independent under ISS' standards?
	What proportion of non-executive directors on the board has lengthy tenure?
	Is the board chair independent?
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	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 80%? (threshold revised from 95%)
	What is the average size of outside directors' total compensation as a multiple of the peer median?
	Do all directors with more than one year of service own stock?
	Did any executive or director pledge company shares?
<b>Board Policies (4 questions)</b>	Are directors subject to stock ownership guidelines? <sup>(1)</sup>
	Does the company have a policy prohibiting hedging of company shares by employees? <sup>(1)</sup>
	Does the company disclose board/governance guidelines?
	Does the company disclose a policy requiring an annual performance evaluation of the board?
<b>Related Party Transactions (3 questions)</b>	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>Board Controversies (2 questions)</b>	Has the board adequately addressed a shareholder resolution supported by a majority vote? <sup>(2)</sup>
	Has ISS' review found that the board of directors recently took action that materially reduces shareholder rights?

<sup>(1)</sup> Question moved from "Board Practices" subcategory in 2.0 to "Board Policies" in 3.0

<sup>(2)</sup> Question moved from "Voting Formalities" subcategory in 2.0 to "Board Controversies" in 3.0

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

<b>QuickScore 2.0</b>	
<b>One Share One Vote</b> (2 questions)	Does the company have classes of common 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?
	If the company has a majority voting standard, is there a plurality carve-out in the case of contested elections?
	Does the company have a majority vote standard in uncontested elections? <sup>(1)</sup>
<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?
	Are there material restrictions as to timing or topics to be discussed, or ownership levels required to call the meeting?
	Has the board adequately addressed a shareholder resolution supported by a majority vote? <sup>(2)</sup>

<b>QuickScore 3.0</b>	
<b>One Share One Vote</b> (3 questions)	Does the company have classes of common stock with different voting rights?
	Are there any directors on the board who are not up for election by all classes of common shareholders?
	Is there a sunset provision on the company's unequal voting structure?
<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?
	If the company has a majority voting standard, is there a plurality carve-out in the case of contested elections?
	Does the company have a controlling shareholder? *
<b>Meeting &amp; Voting Related Issues</b> (6 questions)	Does the company have a majority vote standard in uncontested elections? <sup>(1)</sup>
	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?
	What is the percentage of share capital needed to convene a special meeting?
	Can shareholders act by written consent?
	Are there material restrictions as to timing or topics to be discussed, or ownership levels required to call the meeting?

<sup>(1)</sup> Question moved from "Takeover Defenses" subcategory in 2.0 to "Meeting & Voting Related Issues" in 3.0

<sup>(2)</sup> Question moved from "Voting Formalities" subcategory in 2.0 to "Board Controversies" in 3.0

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