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ISS Releases 2014 Policy Updates

On November 21, 2013, Institutional Shareholder Services (ISS) released updates to its proxy voting policies covering the U.S., Canada, Europe and Asia-Pacific markets. The 2014 updated policies are applicable to companies with annual meetings on or after February 1, 2014. Compared to prior years, changes to ISS' compensation policies were minimal; updates to the U.S. and Canada compensation policies are summarized below. Updated policy documents and FAQs will be released in December. Information on the policy updates can be found at www.issgovernance.com/policy/2014/policy_information.

Also, in a departure from past updates, ISS is requesting feedback on policy issues that could lead to changes to be effective in 2015. The single compensation policy issue under review relates to the development of an equity plan scorecard of a plan's features and governance for use in conjunction with existing evaluation criteria (e.g., shareholder value transfer and burn rate) for equity plan vote recommendations. Comments can be sent via email through February 28, 2014, to policy@issgovernance.com.

U.S. Policy Updates

The principal compensation policy change relates to ISS' methodology for evaluating pay-for-performance alignment. The relative degree of alignment (RDA) quantitative test has been modified to evaluate total shareholder return (TSR) performance and average annual CEO pay over the latest three years only rather than apply a weighted approach that places a greater emphasis on the most recent year.[1] No changes to the thresholds for low, medium and high concern on all three quantitative pay-for-performance tests (i.e., RDA, multiple of median and pay-TSR alignment) were announced, but apparently were under review.

Another update to note is that ISS will begin to include three-year realizable pay charts as part of the qualitative pay-for-performance reviews for all S&P 1500 companies, not just S&P 500 companies as was the case in 2013.

Canadian Policy Updates

The same update to the U.S. RDA test will apply under the Canada compensation policy to companies listed on the Toronto Stock Exchange (TSX).

[1] Under the current RDA test, one-year TSR and CEO pay is weighted 40% and three-year is weighted 60%.

In addition, the non-employee director participation/director limit considerations policy has been updated. Under the current policy, ISS has supported director stock plan proposals that limit the aggregate share reserve for all director grants to between 0.25% and 1% of shares outstanding, depending on company market cap size, and annual equity grants per director of up to $100,000. In recognition that the per-director limit has not been updated since the policy was introduced and the demands on directors have increased, a new limit of $150,000 per director will apply if the equity grant is not in the form of stock options. The $100,000 per director limit will continue to apply for stock options to reflect investor sentiment that stock options are not an appropriate form of compensation for directors.

Finally, ISS will oppose all repricing proposals by companies listed on the TSX and TSX Venture Exchange, and the exceptions under the current policy, for which ISS would support a repricing proposal, will be eliminated. The exceptions under the current policy were (1) a value-for-value exchange is proposed; (2) the five top paid officers and all non-employee directors are excluded; and (3) options exercised do not go back into the plan or the company commits to an annual burn rate cap. The U.S. policy on repricings remains unchanged.

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General questions about this letter can be addressed to Wendy Hilburn at (212) 299-3707 or wjhilburn@fwcook.com. Copies of this letter and other related materials are available on our website at www.fwcook.com.