

June 13, 2002

## **ISS Corporate Governance Quotient**

On June 3, Institutional Shareholder Services (“ISS”) launched the Corporate Governance Quotient (“CGQ”), which is “a new measure to rate companies on their corporate governance structures relative to their peers and an overall market index.”<sup>(1)</sup> The CGQ is a rating based on 51 factors in the seven “core topics” listed below:<sup>(2)</sup>

### **CGQ Core Topics**

1. Board structure and composition
2. Charter and by law provisions
3. Laws of the state of incorporation
4. Executive and director compensation
5. Qualitative factors, including financial performance
6. Director and officer ownership
7. Director education

A company will have two scores: (1) a CGQ relative to its industry (using the 23 industry groups in Standard & Poor’s Global Classification Standard) and (2) a CGQ relative to its market index (i.e., the S&P 500, the S&P midcap 400, the S&P smallcap 600, or an index composed of the remaining companies in the Russell 3000 Index if a company is not in one of the three S&P market indices). The scores will represent the company’s percentile rank, and thus are both relative and dynamic (i.e., they will change as other companies take actions that improve or reduce their scores). A company’s CGQs will appear on the front page of each ISS proxy analysis. A table on the second page of the ISS proxy analysis will provide details on the key factors, both positive and negative, responsible for the company’s CGQs.

The methodology for calculating CGQs is proprietary, but examples of executive and director compensation and ownership factors that will presumably raise a company’s score include:

- Low cost of option plans;
- Conformance with ISS’ option repricing guidelines;
- No non-shareholder-approved option plans;
- No compensation committee interlocks;

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<sup>(1)</sup> CGQs are being calculated for companies comprising the Russell 3000 Index.

<sup>(2)</sup> See [www.isscgq.com](http://www.isscgq.com) for more information, including a list of the 51 factors and ten accredited director education programs.

- No pension plans for nonemployee directors;
- High officer and director ownership, and
- Stock ownership guidelines for executives and directors.

ISS is offering CGQs as a service to its institutional investor clients, by including CGQ scores in its proxy analyses, and as a product for sale to corporations, similar to its Compass Model product, which allows companies to estimate stock plan costs and compare them to an ISS-calculated “allowable cap.” Not all the data for the 51 factors are publicly available, so companies in the Russell 3000 Index are encouraged to register on the CGQ’s website ([www.isscgq.com](http://www.isscgq.com)) and submit non-public data. Companies registering on the site will have access to free features and premium features, which are:

| <u>Free Features</u>   | <u>Premium Features</u>   |
|--|---|
| <ol style="list-style-type: none"> <li>1. All the criteria ISS uses to generate the CGQ scores (on website for all to view)</li> <li>2. A list of ISS-accredited director education programs (on website for all to view)</li> <li>3. Sign up to review and comment on their company’s rating criteria before ISS finalizes the CGQ score</li> </ol> | <ol style="list-style-type: none"> <li>1. View own CGQ and underlying governance rating data on the company in ISS’ database</li> <li>2. Learn how to improve the CGQ</li> <li>3. Search ISS’ database of Russell 3000 companies to view peer companies’ governance data</li> </ol> |

The premium features are obtained by purchasing an annual subscription, which costs between \$9,995 and \$16,995 depending on a company’s market cap size (a maximum of \$16,995 for companies with a market cap of \$800 million or higher). An online demo can be arranged by contacting ISS (301-556-0399). This cost is comparable to the periodic fee to have access to ISS’ Compass Model to calculate plan cost vs. allowable cap for a new or amended stock plan being taken to shareholders (assuming the purchase of “single plan/multiple trials” service).

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This letter is intended to alert compensation professionals about developments that may affect their companies. General questions about ISS and its Corporate Governance Quotient and Compass Model may be addressed to Wendy Hilburn in our New York office at (212) 986-6330 or by email at [wjhilburn@fwcook.com](mailto:wjhilburn@fwcook.com). This letter and other published materials are available on our website, [www.fwcook.com](http://www.fwcook.com).