UNITED STATES

Compensation Policies for 2020
Preliminary Frequently Asked Questions

Effective for Meetings on or after February 1, 2020
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Introduction

Each year, ISS publishes Frequently Asked Question (FAQ) documents and a methodological whitepaper designed to help all stakeholders understand upcoming changes to ISS' U.S. compensation-related policies. As in prior years, updated versions of those documents will be published in mid-December 2019.

This preliminary FAQ document sooner addresses certain questions that ISS has received regarding potential changes to the U.S. compensation policies, in advance of the more detailed information to be provided in the comprehensive updates to the FAQs and whitepaper coming in December.

Unless otherwise noted, methodology changes noted in this document are effective for meetings on or after Feb. 1, 2020.

Quantitative Pay-for-Performance Screens

1. Are there any changes to the Financial Performance Assessment (FPA) secondary screen for 2020?

Yes. The Financial Performance Assessment in 2020 will be based on the Economic Value Added (EVA) metrics instead of the GAAP metrics that were used in 2019. The GAAP metrics will continue to be displayed on the research reports for informational purposes but will no longer be a part of the pay-for-performance screens. Other than the change to EVA metrics, the basic operation of the FPA screen as a secondary modifier screen affecting a relatively small number of companies will be the same.

The four EVA metrics to be used in the FPA are: EVA Margin, EVA Spread, EVA Momentum vs. Sales, and EVA Momentum vs. Capital. EVA Metrics are calculated by ISS EVA and are based on audited financial data reported in annual and quarterly public filings. For more information on the EVA methodology and metrics, visit https://www.issgovernance.com/solutions/iss-analytics/iss-eva-resource-center/.

2. Will any of the quantitative pay-for-performance thresholds change for 2020?

Yes. The thresholds that trigger concern on the Relative Degree of Alignment (RDA) and Pay-TSR Alignment (PTA) tests will change as noted in the table below. The Multiple of Median (MoM) thresholds will not change in 2020 and are therefore not included in this table.

2019 VS. 2020 QUANTITATIVE THRESHOLDS: ALL US COMPANIES				
Measure	**Policy Year**	**Eligible for FPA Adjustment**	**Medium Concern**	**High Concern**
Relative Degree of Alignment	2019	-28	-40	-50
Relative Degree of Alignment	**2020**	**-38**	**-50**	**-60**
Pay-TSR Alignment	2019	-13%	-20%	-35%
Pay-TSR Alignment	**2020**	**-22%**	**-30%**	**-45%**

3. Are there any other changes to the quantitative pay-for-performance screens for 2020?

No. However, the ISS research reports will also feature a 3-year Multiple of Median (MoM) view of CEO pay as a measure of long-term pay on a relative basis. The 3-year MoM will not be part of the quantitative screen methodology and will be displayed for informational purposes only.

4. Will the GAAP metrics continue to be used in the pay-for-performance evaluation?

The GAAP metrics will not be used in the quantitative pay-for-performance screen for 2020. However, they will continue to be displayed for informational purposes and they may inform ISS' overall evaluation of long-term pay and performance alignment.

U.S. Equity Plan Scorecard (EPSC)

The below is not an exhaustive list of updates to the Equity Plan Scorecard (EPSC) methodology for 2020. The answers to these questions may be useful in understanding some of the more significant changes to the U.S. EPSC for annual meetings on or after Feb. 1, 2020. Refer to the comprehensive FAQ documents to be published in mid-December for more information.

5. Will the EPSC passing scores change?

No, the passing scores for all U.S. EPSC models will remain the same as in effect for the 2019 proxy season. As in prior years, there will be weighting/point reallocations among some of the individual factors within each EPSC model.

6. Are there any new "overriding" factors?

Yes. ISS is introducing a new negative overring factor for equity plan proposals that contain an "evergreen" funding provision. Evergreen funding refers to a plan provision for automatic share funding additions, typically on an annual basis, over the life of the equity plan. Evergreen features bypass shareholder approval of authorized share increases and may perpetuate plans with shareholder-unfriendly features. Evergreen features are viewed negatively and, in most cases, result in a very high plan cost estimate.

7. Are there any substantive changes to the other EPSC factors?

No. There are no substantive changes to other EPSC factors.

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