

October 23, 2013

ISS Proposes Limited Updates to 2014 Voting Policy

Proposals Would Provide Greater Flexibility on Board Implementation of Shareholder Proposals and Eliminate One-Year TSR from the Quantitative Pay-for-Performance Analysis

Institutional Shareholder Services, the influential proxy advisory firm, has published for public comment two proposed changes to its proxy voting guidelines for U.S. companies. The proposals are limited and do not include any change related to the effect of longer board tenure on director independence. ISS had previously surveyed institutional investors and public companies on the topic of director tenure and received strong, but deeply split, responses from both constituencies. The proposed changes are:

Board Responsiveness to Shareholder Proposals

- In determining whether to recommend withhold votes against directors, ISS would take a case-by-case approach in assessing whether a company has adequately implemented a shareholder proposal that received majority support in a prior year. ISS would take into consideration (among other things) the company's disclosure on shareholder outreach efforts and the rationale for its level of implementation, as well as the level of support the proposal received.
- This potential broadening of what it means for a board to be "responsive" should be viewed together with last year's change to lower the threshold for when the board *needs* to be responsive – beginning in 2014, the ISS responsiveness analysis will be triggered for directors if a proposal received the support of a majority of votes *cast* (not majority of shares outstanding) in the prior year.

Elimination of One-Year TSR from Pay-for-Performance Analysis

- The second proposed change relates to the pay-for-performance assessment used by ISS to formulate a say-on-pay recommendation. The ISS assessment begins with a quantitative analysis with three components, one of which measures the difference between (a) the percentile rank within the ISS-selected peer group of a company's total shareholder return (or TSR) and (b) the percentile rank within that peer group of a company's CEO pay.
- Under current policies, this metric is calculated on both one-year and three-year bases, weighed 40% and 60%, respectively. The proposed change would eliminate the one-year measurement, and base this aspect of the component solely on three-year TSR, on the theory that this removes volatility and improves comparability of sustained long-term performance.

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Comments on the proposed changes are due by November 4, 2013. The proposals are available at <http://www.issgovernance.com/2014draftpolicycommentperiod>, as are instructions for providing comments.

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