CAP Alert
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# ISS and Glass Lewis Release 2015 Policy Updates (Compensation)

## ISS RELEASED NEW EQUITY PLAN SCORECARD

ISS released their 2015 policy changes, including a new approach to equity plan approvals. ISS' new policy will evaluate equity plans based on the Equity Plan Score Card ("EPSC"). In the past, ISS assessed equity plans relative to burn rate and Shareholder Value Transfer ("SVT")[1] vs industry benchmarks. Going forward, ISS' scorecard will continue to consider SVT and burn rate, though it will also consider governance factors and recent grants practices relative to the CEO. The scorecard will be structured as follows:

- Cost of Plan (45% Weighting) – This component will be driven by the SVT model, though ISS will be looking at the cost of plans based on two approaches
  - Grants outstanding + shares available for grant + new shares being requested
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  - ISS is using this dual approach so as not to put companies who have significant options outstanding at a disadvantage when requesting new shares
- Grant Practices (35% Weighting) - This component will consider burn rate as well as the form of recent grants for the CEO and other factors (see ISS link below for complete list)
- Plan Features (20% weighting) – This component will consider factors such as single vs. double trigger on change in control, minimum vesting period, authority for Board to use discretion to vest equity (see ISS link below for complete list)

1 Shareholder Value Transfer assesses the cost of an equity plan relative to a company's market cap and then compares the cost to industry benchmark

The results of the scorecard will be compared to relevant benchmark comparison groups[2]. For further details on the EPSC and non-compensation related policies, please visit http://www.issgovernance.com/file/policy/2015USPolicyUpdates.pdf. In addition, to read about CAP's views on these policies, you can review the comment letter we submitted to ISS at: http://www.capartners.com/news/194/61/Comments-on-ISS-Draft-2015-Proxy-Voting-Policies-U-S

## GLASS LEWIS RELEASED ADDITIONAL CONTEXT AND EXPECTATIONS FOR "ONE-OFF" AWARDS

In its 2015 U.S. policy updates related to compensation, Glass Lewis included discussion of how it will analyze special "one-off" awards (e.g., special grants of long-term incentives). While being "wary" of such awards, Glass Lewis has left room to find such awards reasonable with robust disclosure.

*"We generally believe that if the existing incentive programs fail to provide adequate incentive to executives, companies should redesign their compensation programs rather than make additional grants...In certain circumstances additional incentives may be appropriate... companies should provide a… convincing explanation of their necessity…"*

In its 2015 policy release, Glass Lewis also included some clarification regarding its qualitative and quantitative Say on Pay analysis. For the complete guidelines, visit: http://www.glasslewis.com/assets/uploads/2013/12/2015_GUIDELINES_United_States.pdf

2 S&P 500, Russell 3000, Non-Russell 3000, Bankrupt companies, recent IPOs as applicable. Burn rate / SVT will be industry specific


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