

Release of ISS' 2016-2017 Policy Survey Results

■ By **Margaret Engel** and **Eric Hosken**

ISS released the results of its 2016-2017 policy survey on September 29, 2016. The survey results will play an important role in shaping ISS' policies for the 2017 proxy season. ISS Indicated that a draft of their 2017 policy updates will be published in late October, subject to public comment. Final policy updates are scheduled for publication in mid-November, with policy updates effective February 1, 2017.

417 organizations participated in ISS' survey, including 115 institutional investors and 270 corporate issuers. 33% of investor responses came from institutions with \$100 billion in assets or more, while 25% came from institutions with \$10 - \$100 billion in assets.

Highlights of the survey results related to U.S. executive compensation and corporate governance topics are summarized below:

Say on Pay Frequency: Survey participants were asked whether they favored annual, biennial or triennial say on pay proposals. Fully 66% of investors favored annual say on pay votes. Corporate issuers were more likely to favor biennial or triennial votes, but fully 42% voted for annual say on pay proposals. Based on the results of the survey, we do not expect ISS to make any changes to its existing policy of supporting annual say on pay vote frequency.

Metrics for Pay-for-Performance Alignment: ISS currently uses Total Shareholder Return ("TSR") to assess pay-for-performance alignment, measuring relative TSR performance compared to peers over 3 years and measuring the absolute trend in TSR over 5 years. Survey participants were asked if other metrics should be incorporated in the initial screen. High levels of support were recorded for metrics other than TSR, with 79% of investors and 68% of corporate issuers voting in favor.

Investors identified Return on Investment metrics, such as Return on Invested Capital (ROIC), as the best metrics to be incorporated into pay-for-performance alignment screens. Detailed results are shown below:

METRICS	% OF INVESTORS FAVORING	% OF NON-INVESTORS FAVORING
Return on Investment metrics	47%	23%
Other Return metrics (i.e. ROA or ROE)	35%	18%
Earnings metrics	26%	38%
Cash Flow metrics	25%	20%
Economic Profit metrics	22%	9%
Revenue metrics	18%	24%
Other metrics	16%	10%

We suspect that ISS may modify its pay-for-performance model to incorporate additional measures in the future, based on this feedback. However, it may be challenging to implement for the coming year as it is difficult to find a single financial performance measure that is useful for performance comparisons in all industries. We will closely monitor ISS' proposed policy revisions to see what changes, if any, that they make to the pay-for-performance assessment.

Board Refreshment: Lack of board refreshment is viewed as problematic by more than 50% of investors. Refreshment measurements that caused concern include lack of newly appointed directors (i.e., within the last 5 years), average tenure greater than 10 or 15 years and/or a high proportion of directors with long tenure.

Overboarding: More than 60% of investors indicated a preference for applying the same standard for overboarding to active executive chairs as currently applies to active CEOs – no more than three total boards. A minority supported the more lenient standard applicable to non-executive directors – no more than five total boards.

Next Steps

We will monitor ISS' draft policy proposal (expected in October) and final policy issuance (expected in November) and will provide an updated CAPflash highlighting any material changes from ISS' current policies. Based on this year's survey results, there is potential for significant changes from the current policy, particularly for Pay-for-Performance alignment. Movement away from TSR as the sole metric would be welcomed by many companies as well as by most investors.

Full results of ISS' policy survey can be found at www.issgovernance.com. If you wish to discuss the results, you can reach us at 212-921-9350.



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