



## ISS Releases 2016 Annual Policy Survey

By: Linda Pappas and Maggie Choi

### Partners

Aubrey Bout  
Chris Carstens  
John R. Ellerman  
John D. England  
R. David Fitt  
Patrick Haggerty  
Jeffrey W. Joyce  
Ira T. Kay  
Donald S. Kokoskie  
Diane Lerner  
Eric Marquardt  
Jack Marsteller  
Richard Meisheid  
Steve Pakela  
Lane T. Ringlee  
John Sinkular  
Christine O. Skizas  
Bentham W. Stradley  
Jon Weinstein

### Background

On August 4, 2015, Institutional Shareholder Services (ISS) released its annual policy survey for the 2016 proxy voting season. The survey encompasses its global proxy voting policies across all potential topic areas. The responses elicited from the survey are used to assist ISS in developing changes to its proxy voting policy guidelines, and will be open for one month (until September 4, 2015). Upon closing of the survey, there will be an open comment period prior to the finalization of the updated ISS proxy voting policies which are targeted for release in November 2015.

The key survey areas specifically related to compensation for 2016 include use of adjusted or non-GAAP metrics in incentive compensation programs and equity compensation vehicles for non-executive directors. This Viewpoint focuses on these two topic areas, and touches on other noteworthy U.S. and global policy areas.

### Compensation-Related Survey Topic Areas

#### *Adjusted Metrics in Incentive Programs (U.S. Policy)*

ISS states that companies are increasing the use of adjusted or non-GAAP metrics in their incentive compensation programs. In light of this increasing prevalence, ISS is seeking the following feedback:

- Within the context of incentive compensation plans, should adjusted (non-GAAP) financial metrics:
  - i. Be considered acceptable,
  - ii. Require descriptions/explanation within disclosure, or
  - iii. Be restricted to most commonly used metrics (e.g., EBITDA, FFO)?

### **Key Takeaways**

- On August 4, 2015, ISS released its annual policy survey to assist in shaping updates to 2016 global proxy voting policies
- The survey closes September 4, 2015 and will be followed by an open comment period to elicit feedback on proposed policies
- Updated 2016 proxy voting policies are expected to be released in November 2015
- The survey includes two compensation-related topics: (1) use and disclosure of adjusted or non-GAAP metrics in incentive compensation programs, and (2) equity compensation vehicles for non-executive directors
- Companies may wish to begin studying the implications of additional disclosure for incentive plan metrics and director equity

## ISS Releases 2016 Annual Policy Survey

---

- What specific types of adjustments should be considered appropriate or not appropriate (e.g., acquisition expenses, charges deemed non-recurring/extraordinary, foreign exchange volatility)?

### *Equity Compensation for Non-Executive Directors (Global Policy)*

There are differing best practices in the use of equity-based compensation for non-executive directors across different European markets. For example, in the UK and Switzerland, the granting of options and performance plans to non-executive directors is generally recommended against; in Italy and Spain, the granting of stock is viewed unfavorably. Given these various perspectives, ISS is seeking input on what equity-based vehicles or mix of vehicles should be considered most appropriate.

### **Additional Noteworthy Survey Topic Areas**

The following reflect other noteworthy topic areas for which ISS is seeking feedback, that cover both U.S. and Global proxy voting policies:

- **Overboarding – guidelines on acceptable number of public board directorships (Global Policy):**
  - Current ISS guidelines define “overboarding” for directors as serving on greater than six public company boards; for company CEOs, the definition is serving on two other public boards (in addition to their own)
  - Where local best practices are more restrictive, ISS already uses the lower limit
  - Where no such local limits exist, do current guidelines suffice? How should they be adjusted/further restricted (e.g., limits of four or five for directors and one other for CEOs)?
- **Cooling-Off Period before a Former Executive is Deemed an “Independent” Director (U.S. Policy):**
  - Under current ISS guidelines, a former executive (other than a CEO) is considered an independent director if it has been five years since he or she last held the executive position
  - Should a cooling-off period also apply to a former employee of a firm providing significant professional services to the company?
- **Capital Allocation and Share Buybacks (U.S./Global Policy):**
  - In order to help assess appropriateness of capital allocation decisions and share buybacks, ISS is seeking input on 5-year historical financial metrics or ratios to include in its research reports
  - Potential financial metrics include: share buybacks, dividends, capital expenditures, cash balances
  - Potential ratios include: current year buyback as either % of market cap or % of current cash balance; 5-year cumulative buyback as either % of current market cap or % of current cash balance

### **Final Thoughts**

The ISS policy survey is often the first glimpse into expected or potential updates to the ISS voting guidelines for the upcoming proxy season. As such, it appears ISS may be introducing a voting policy on the use and/or disclosure of adjusted or non-GAAP financial metrics in incentive compensation plans, as well as a voting policy on the types of equity-based vehicles for non-executive directors. In anticipation of these new guidelines, companies may wish to begin studying the implications of additional disclosure for incentive plan metrics and director equity.

Questions about this Viewpoint can be directed to Linda Pappas or Maggie Choi by email at [linda.pappas@paygovernance.com](mailto:linda.pappas@paygovernance.com) or [maggie.choi@paygovernance.com](mailto:maggie.choi@paygovernance.com).