



Compensation
Advisory Partners

Alert // December 23, 2020

ISS Issues FAQs on Compensation Policies and Equity Plans

■ By Robert Martin and Margaret Engel

Institutional Shareholder Services (ISS) recently issued frequently asked questions (FAQs) related to compensation policies and equity compensation plans. In November, ISS published policy updates for 2021, which CAP summarized and [can be found here](#). The FAQs provided some additional detail on ISS models for pay-for-performance evaluation and equity plan scorecard evaluation as well as expected disclosure for new equity plans. The policy updates and FAQs will apply to companies with annual meetings on or after February 1, 2021.

NEW YORK
1133 Avenue of the Americas
New York, NY 10036
Phone: +1 (212) 921-9350
www.capartners.com

HOUSTON
840 Gessner
Suite 375
Houston, TX 77024
Phone: +1 (713) 559-2715

CHICAGO
200 S Wacker Drive
Suite 3100
Chicago, IL 60606
Phone: +1 (312) 462-4500

LOS ANGELES
400 Continental Blvd
6th Floor
El Segundo, CA 90245
Phone: +1 (310) 426-2340

Change to Multiple of Median (MOM) High Concern Threshold

The MOM test is a part of ISS quantitative pay-for-performance evaluation which compares a company's 1-year total CEO compensation to that of the ISS peer group median. For the 2021 proxy season, ISS lowered the threshold that triggers a high concern for the MOM test among S&P 500 companies from 3.33x to 3.00x median.

Multiple of Median Quantitative Concern Thresholds			
Index	Eligible for FPA Adjustment	Medium Concern	High Concern
S&P 500	1.67x	2.00x	3.00x
Non-S&P 500	1.74x	2.33x	3.33x

ISS Assessment of COVID-related Pay Decisions

ISS repeated that exceptional circumstances of the COVID-19 pandemic and its impact on company operations will be considered in ISS' qualitative evaluation. Readers are referred to the U.S. Compensation Policies and the COVID-19 Pandemic FAQ for more information.

Change to Threshold Passing Scores for the Equity Plan Scorecard (EPSC) Model

(as previously mentioned in October COVID FAQs)

ISS uses the EPSC to evaluate equity incentive plan proposals and considers a range of positive and negative factors. Factors are grouped under three "pillars": 1) Plan Cost 2) Plan Features 3) Grant Practices. Taken together a plan can score up to a maximum of 100 potential points. The threshold passing scores will increase for S&P 500 companies, from 55 points to 57 points, and for non-S&P 500 Russell 3000 companies, from 53 points to 55 points. The threshold passing scores are unchanged for all other companies.

EPSC Threshold Passing Scores		
Index	Prior Threshold	New Threshold
S&P 500	55	57
Non-S&P 500 Russell 3000	53	55
All Other Companies	53	53

Details on Proper Disclosure if Terminating an Equity Plan and Canceling any Remaining Shares Reserved Under the Terminated Plan

ISS includes shares remaining available for future awards under existing plans in the shareholder value transfer (SVT) analysis. If there is a period between proxy/10-K disclosure and when the current equity plan is terminated, typically at the annual meeting of shareholders, ISS will include shares of the existing plan in the SVT analysis. If the company does not expect to grant any additional shares under its soon to be terminated plan it should disclose the following three items for ISS to exclude the remaining shares in the SVT analysis:

1. Total number of remaining shares available that will no longer be available upon approval of the new plan.
2. Total number of awards outstanding, with full value and appreciation awards disclosed separately. Appreciation awards should include the weighted average exercise price and remaining term of outstanding awards.
3. Commitment that no additional shares will be granted under the soon to be terminated plan. The commitment should be as of the same date as the disclosure of the two items above.

2021 Burn Rate Benchmarks

When considering burn rate evaluation for the EPSC, ISS will compare a company's burn rate to a benchmark for the company's industry/index which is calculated as one standard deviation above the 3-year mean burn rate for the comparator group. The benchmark is calculated using a two-digit GICS code for S&P 500 companies and a four-digit GICS codes for other companies.

ISS noted that there were some relatively large changes in certain industries due to the stock price volatility in 2020 which may have a potential impact on equity share requests in 2021. ISS limits year-over-year changes to +/- 2% the prior year's benchmark and uses a minimum of 2% for the benchmark.

This article highlights changes to ISS FAQs. For full detail related to ISS FAQs released on December 21, 2020, please visit:

[US Compensation Policies FAQs](#)

[COVID-19 Pandemics FAQs](#)

[US Equity Compensation Plans FAQs](#)



Compensation
Advisory Partners

Please contact us at (212) 921-9350 if you have any questions about the issues discussed above or would like to discuss your own executive compensation issues. You can access our website at www.capartners.com for more information on executive compensation.