Blogs
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Public Chatter

ISS Posts Updated Comp FAQs: Four Things to Know

Last week, ISS posted a set of **11 updated FAQs** for pandemic-related pay adjustments. The FAQs are updated from those that **ISS originally posted in October 2020**. Here are four things to be aware of in the updated FAQs: **1. Getting Back to Normal for Short-Term Incentives** - Given that we are now headed into the second year of pay disclosures made under pandemic conditions, ISS reinstated most of its pre-pandemic guidelines on bonus/annual incentive compensation: any mid-year changes to metrics, performance targets and/or measurement periods - or programs that heavily emphasize discretionary or subjective criteria - will typically be evaluated negatively by ISS, particularly for companies that exhibit a quantitative pay-for-performance misalignment.

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2. Possible Exceptions for Companies Still Hit Hard - As noted in FAQ #3, in certain circumstances, lower pre-set performance targets (as compared to 2020) and/or modest year-over-year increases in the weighting of subjective or discretionary factors may be viewed as reasonable by ISS for companies that continued to incur severe economic impacts and uncertainties as a result of the pandemic in 2021. Companies should clearly explain target setting and any changes to the program to allow investors to evaluate the compensation committee's actions and rationale.

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3. Getting Back to Normal for Long-Term Incentives - As noted in FAQ #6, changes to in-progress long-term incentive cycles will typically be evaluated negatively, particularly for companies that exhibit a quantitative pay-for-performance misalignment. Modest alterations to go-forward cycles - awards granted for the cycle beginning in 2021 - may be viewed by ISS as reasonable, particularly for companies that continue to incur severe negative impacts over the long-term. For example, some movement from quantitative to qualitative metrics or modest increases in the proportion of time-vesting awards. More significant changes, such as shifts to predominantly time-vesting incentives or short-term measurement periods, would continue to be viewed negatively. As noted in FAQs #8 and #9, ISS will continue to give increased scrutiny to repeated use of special awards and the granting of one-time awards in the context of forfeited incentives. Companies should clearly explain any changes to their long-term incentive program or the grants of special awards, to allow investors to evaluate the compensation committee's actions and rationale.

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4. Changes to Burn Rate Calculation for the Equity Plan Scorecard - As noted in its **voting policy updates** for next year, beginning in 2023, ISS will transition its three-year burn rate calculation for its Equity Plan Scorecard from a volatility-based approach to a value-adjusted approach. ISS views this change as more accurately measuring the value of equity awards, using a methodology that is more readily understood and accepted by the market: the actual stock price for full-value awards and the Black-Scholes value for stock options.

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