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# ISS RELEASES FAQS ADDRESSING COVID-RELATED COMPENSATION ACTIONS

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ISS recently published FAQ guidance addressing how it will approach COVID-related pay decisions under its pay-for-performance qualitative evaluation.  The guidance reflects feedback from discussions with investors and its annual policy survey.

- *Temporary salary reductions* have limited impact on ISS scoring unless incentive payout opportunities are also reduced, as base salaries typically represent a small portion of total pay.
- *Changes to bonus/annual incentive metrics, targets or measurement periods* will be evaluated for reasonableness on a case-by-case basis in light of the justifications and rationale disclosed.  The guidance sets forth a non-exclusive list of factors to consider for disclosure.
  - Specified disclosure of board consideration of payout opportunities would also be needed where the reduced target falls below the prior year's performance levels without commensurate reductions of payout opportunities.
- *Changes to in-progress long-term incentive awards* will generally be viewed negatively, as they are intended to cover multiple years – particularly in the case of companies with poor quantitative pay-for-performance alignment.
- *Changes to 2020 long-term incentive awards* may be viewed as reasonable, where clearly disclosed and modest. For example, switching to relative or qualitative metrics due to uncertainty in forecasts could be viewed as reasonable – but not shifts to predominantly time-vesting equity or short-term measurement periods.
- *Retention or one-time awards* may be viewed as reasonable if (i) the rationale is clearly disclosed and furthers investor interests, (ii) reasonable in magnitude and represent an isolated practice, (iii) vesting conditions are strongly performance-based and properly linked to the underlying rationale, (iv) the vesting schedule is long-term, and (v) windfalls are prevented through restrictions, such as limits on termination-related vesting.

- *One-time awards granted close in time to a forfeited award* (e.g., granted in the same or following year after forfeiture) are subject to heightened scrutiny. Companies must clearly explain the justification and how it furthers investor interests and does not "merely insulate executives from lower pay."

- *Potential accommodation for incomplete response to poor (less than 70%) say-on-pay shareholder vote* may be given where a company;

  - is unable to implement changes to pay programs to address investor concerns;

  - discloses specifically how the pandemic impeded its efforts; and

  - discloses a longer-time plan to address such concerns.

  There are no changes to the other two factors in evaluating responsiveness to a poor SOP vote: disclosure of the board's shareholder engagement efforts and disclosure of specific feedback from dissenting investors.

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## MEET THE TEAM


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