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Alert

SEC Disclosure and Corporate Governance

ISS Launches New Governance QuickScore Product, Replacing GRId

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Company's Data
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Last week, Institutional Shareholder Services (ISS) announced the launch of its new ISS Governance QuickScore product, which will replace its Governance Risk Indicators (GRId) corporate governance ratings product, beginning late February or early March 2013. Information about QuickScore, including the technical document discussing the methodology and specific factors, is available at <http://www.issgovernance.com/quickscore>.

QuickScore Methodology and Scoring

According to ISS, the QuickScore methodology will apply a “quantitatively-driven” approach that assigns “governance factor weights” based on the degree of correlation that ISS finds between 79 corporate governance attributes (for US companies) and 16 performance and risk factors (grouped under market, profitability, risk, and valuation categories). The higher the correlation according to ISS’ algorithm, the higher the weights allocated for each of the governance factors. QuickScore will also apply a secondary policy-based overlay to align the qualitative aspect of governance with ISS policy.

The QuickScore governance factors mirror those that ISS applied as part of its GRId methodology, except as follows:

- QuickScore includes two new factors, relating to “pay-for-performance misalignment” and “problematic pay practices”
- QuickScore omits 13 GRId questions relating to:
 - Specific types of pay practices that ISS has determined are “problematic” (tax gross-ups, certain severance arrangements)
 - Practices that are covered by other governance factors (separation of chairman and CEO roles, shareholder approval of a poison pill)
 - Practices that are mandated by law, regulation, or applicable listing rules, or have otherwise become mainstream (authority to meet in executive session, board ability to hire advisors)
- A company’s QuickScore will be based on whether, in ISS’ view, the company has met, exceeded or fallen short of each applicable governance factor. ISS does not provide visibility into how this will be determined, compared with the specific and transparent weightings attached by GRId – we would expect such determinations to be in accordance with ISS’ proxy voting policy guidelines where applicable

The QuickScore algorithm will generate a “raw score” for each of four categories – Board, Compensation, Shareholder Rights, and Audit. It will then rank companies and provide a numeric, decile-based score of between one and ten across each of the same four categories (with a score of one indicating lower governance risk). ISS will highlight subcategories within the four categories that have had a significantly positive or negative impact on the category score. Companies will also be assigned an overall QuickScore and assessment.

QuickScore will initially only rank companies relative to other companies in the same “region.” At the time QuickScore launches, the regions and companies covered will be:

- United States – top 3,000 companies by market cap, with the largest 500 companies compared separately from the remaining US coverage universe
- Canada – top 250 companies by market cap
- Japan – all companies in the MSCI EAFE stock market index
- Companies in the MSCI EAFE stock market index in the following regions:
 - Anglo – United Kingdom, Australia, Ireland, and New Zealand
 - Asia Pacific – Hong Kong and Singapore
 - Western European – Belgium, Luxembourg, the Netherlands, and France
 - Nordic – Denmark, Finland, Norway, and Sweden
 - Southern European – Italy, Spain, Cyprus, and Greece
 - Germanic – Germany, Austria, and Switzerland

ISS will not adjust for size when ranking companies, except as indicated above with respect to the largest 500 US companies. ISS has announced that it will introduce scores relative to industry sector in the latter half of 2013.

What To Do Now?

- ISS is requesting that companies review the data that ISS has collected about them for assessing QuickScore factors and provide feedback before the data verification site closes on **February 15, 2013**. Information about verifying data and a link to the data verification site is available at <http://www.issgovernance.com/quickscore/dataverification>.
 - Note that companies that submit data requests prior to February 8, 2013 will receive feedback from ISS no later than February 15, 2013. Data requests provided to ISS after February 8, 2013 will be taken into consideration in determining the company’s QuickScore, however, ISS will not provide feedback until after QuickScore has launched. Data can also be verified after QuickScore has launched.
- Consider providing information about QuickScore at the next meeting of the Nominating and Governance Committee.
- Bear in mind that companies that have adopted many of the best practices advocated by ISS may find themselves with QuickScores that are in the middle of the pack or below average, as each QuickScore will reflect a company’s relative rank. Directors and management should continue to make governance decisions in the best interests of the company, depending on the company’s particular circumstances, rather than be driven by a desire to increase QuickScores in line with rigid one-size-fits-all prescriptions.

If you have any questions on these matters, please do not hesitate to speak to your regular contact at Weil, Gotshal & Manges LLP or to any member of the firm's Public Company Advisory Group:

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