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ISS Makes Changes to Quantitative Pay-for- Performance Screens

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On November 13, 2019, Institutional Shareholder Services (ISS) made two key changes to its Quantitative Pay-for-Performance Screens for 2020.

1. ISS changed the Financial Performance Assessment (FPA) to be based on Economic Value Added (EVA) metrics (EVA Margin, EVA Spread, EVA Momentum vs. Sales, EVA Momentum vs. Capital) instead of the GAAP metrics that were used in 2019. The FPA will continue to be used as a secondary modifier screen affecting a relatively small number of companies.

ISS will continue to include the GAAP metrics in the report. Though they will not be used in the quantitative assessment, they may be included in the overall ISS evaluation of pay and performance alignment.

We expect that many companies will engage with ISS to determine their performance on the EVA metrics, given the complexity in replicating the EVA metrics from GAAP financial information.

2. ISS made changes to the thresholds that will trigger concern for the Relative Degree of Alignment (RDA) and the Pay-TSR Alignment (PTA) tests.

Measure	Policy Year	Eligible for FPA Adjustment	Medium Concern	High Concern
Relative Degree of Alignment	2019	-28	-40	-50
Relative Degree of Alignment	2020	-38	-50	-60
Pay-TSR Alignment	2019	-13%	-20%	-35%
Pay-TSR Alignment	2020	-22%	-30%	-45%

These changes will be welcomed by issuers as they lower the likelihood of ISS undertaking a qualitative review of a company's pay program that may trigger an against recommendation from ISS on the Say-on-Pay vote.



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