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Institutional Shareholder Services Updates Proxy Voting Guidelines and New Survey on Mid-Market Compensation

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Institutional Shareholder Services ("ISS") has issued updated proxy voting guidelines, including an update to guidelines related to director compensation and the equity plan scorecard.

The updated guidelines are effective for meetings on or after February 1, 2017. Additional information will be made available in a FAQ to be released by ISS later this month.

Director Compensation

ISS made two updates to its guidelines regarding director compensation: (a) codification of its evaluation framework for non-employee director compensation programs; and (b) updates to its policy on reviewing non-employee director equity plans.

- Non-Employee Director Compensation Programs. ISS will issue voting recommendations on non-employee director compensation programs, based on the following factors:

- If the equity plan under which non-employee director grants are made is on the ballot, whether or not it warrants support; and

- The following qualitative factors: (i) relative magnitude of director compensation as compared to companies of a similar profile; (ii) presence of problematic pay practices relating to director compensation; (iii) director stock ownership guidelines and holding requirements; (iv) equity award vesting schedules; (v) mix of cash and equity-based compensation; (vi) meaningful limits on director compensation; (vii) availability of retirement benefits or perquisites; and (viii) quality of disclosure surrounding director compensation.

- Non-Employee Director Equity Plans. ISS broadened the factors it considers in assessing non-employee director equity plans and clarified that when such plans are determined to be relatively costly relative to peers, the ISS's voting recommendation will be on a case-by-case basis looking at all the factors as a whole rather than requiring all factors be met.

Equity Plan Scorecard

ISS currently uses an equity plan scorecard to award points for certain plan costs, features, and practices. Equity plans with a sufficient number of points will get a "For" voting recommendation.

Under the updated guidance, points will now be earned if there is a prohibition on the payment of dividends on unvested equity awards. The prohibition must be enumerated in the plan document and a general policy of not paying dividends on unvested awards is insufficient.

ISS also updated the minimum vesting factor to provide that, in order to receive full points, an equity plan must specify a minimum vesting period of one year for all award types under the plan. Additionally, no points will be earned if the plan allows for individual award agreements that reduce or eliminate the one-year vesting requirement.

BDO Survey of CEO/CFO Compensation of Mid-Market Public Companies

BDO recently released its 2016 survey of CEO/CFO compensation practices for mid-market public companies. The BDO survey may be useful to readers as it breaks down the results by company size. The survey results generally show moderate growth in CEO/CFO pay among middle market companies and the general trend towards greater pay-for-performance.

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