

Updates to ISS Governance QualityScore and Special Data Verification Period Opening November 13, 2017

November 13, 2017

What is QualityScore?

Institutional Shareholder Services (ISS) rates corporate governance quality and risk for companies in 30 markets, including constituents of the U.S. Russell 3000, through a product called “QualityScore” that analyzes board structure, compensation, shareholder rights and audit/risk oversight using up to 115 factors. QualityScore is intended to help institutional investors identify and monitor governance risk within their portfolio companies.

ISS publishes each company's QualityScore on the company's Yahoo! Finance profile page and in the proxy research reports that ISS issues for the company's annual meetings. QualityScore does not impact the ISS vote recommendations for proxy proposals or director elections; however, there is overlap between QualityScore factors and ISS vote recommendation policies.

What is changing?

ISS recently announced that it is updating its QualityScore methodology, primarily to increase global comparability on core governance practices. In response to investor demand for comparability across markets, ISS is increasing the global factors that are uniform across all markets from six to 21, including seven factors on board composition, six factors on committee composition, one factor on board practices, four factors on audit, two factors on equity risk mitigation and one factor on shareholder rights. Four of the 21 global factors are new factors added to QualityScore to assess board and committee independence based on a global ISS classification.

For U.S. companies, ISS will be updating the pay-for-performance factors to reflect changes to ISS pay-for-performance policy and adding a new factor on the percent of directors that attended less than 75% of board and committee meetings in addition to preserving the existing factor on whether any directors attended less than 75% of the aggregate board and committee meetings without a valid excuse. ISS also indicated that additional methodology changes are forthcoming to reward companies for having a higher number and percent of women on the board.

Additional details on the new and updated factors are available in the revised QualityScore Technical Document available [here](#).

When is it changing?

ISS will launch these updates on Monday, December 4, 2017.

What should we do now?

We recommend using the free data verification tool to ensure that ISS has accurate data. As part of the methodology updates, ISS is opening a special data verification period beginning Monday, November 13, 2017. Until Tuesday, November 28, 2017, companies can review their QualityScore data profiles and submit updates or corrections for ISS review before the updated QualityScores are published. You may obtain a log-in for the free data verification site by contacting ISS at contactus@isscorporatesolutions.com and further instructions for data verification are available [here](#).

Between November 29, 2017 and the launch of new QualityScores on December 4, 2017, the ISS data verification system will be closed. After the new QualityScores launch, the system will reopen to allow a company to continue to review its QualityScore data free of charge and submit updates or corrections to ISS, except between the time of filing the company's definitive proxy statements and the publication of the related ISS proxy research reports.

Observations and commentary

We regularly work with clients to review and analyze their QualityScores. We are available to assist with the data verification process, including the process necessary to correct ISS mistakes.

We generally do not recommend making changes to corporate governance practices solely to increase QualityScores, but companies and board members are often interested in using QualityScore as a framework for evaluating corporate governance practices. We are available to assist with that process and facilitate a thoughtful company-specific discussion that includes considering the viewpoints of each company's actual institutional shareholders.

If you have questions about this alert, the ISS QualityScore methodology or any ISS guidelines, please contact one of the Cooley attorneys listed below.

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