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December 14, 2021

ISS Posts Updated Comp FAQs: Four Things to Know

Last week, ISS posted a set of [11 updated FAQs](#) for pandemic-related pay adjustments. The FAQs are updated from those that [ISS originally posted in October 2020](#). Here are four things to be aware of in the updated FAQs: **1. Getting Back to Normal for Short-Term Incentives** - Given that we are now headed into the second year of pay disclosures made under pandemic conditions, ISS reinstated most of its pre-pandemic guidelines on bonus/annual incentive compensation: any mid-year changes to metrics, performance targets and/or measurement periods - or programs that heavily emphasize discretionary or subjective criteria - will typically be evaluated negatively by ISS, particularly for companies that exhibit a quantitative pay-for-performance misalignment.

2. Possible Exceptions for Companies Still Hit Hard - As noted in FAQ #3, in certain circumstances, lower pre-set performance targets (as compared to 2020) and/or modest year-over-year increases in the weighting of subjective or discretionary factors may be viewed as reasonable by ISS for companies that continued to incur severe economic impacts and uncertainties as a result of the pandemic in 2021. Companies should clearly explain target setting and any changes to the program to allow investors to evaluate the compensation committee's actions and rationale.

3. Getting Back to Normal for Long-Term Incentives - As noted in FAQ #6, changes to in-progress long-term incentive cycles will typically be evaluated negatively, particularly for companies that exhibit a quantitative pay-for-performance misalignment. Modest alterations to go-forward cycles - awards granted for the cycle beginning in 2021 - may be viewed by ISS as reasonable, particularly for companies that continue to incur severe negative impacts over the long-term. For example, some movement from quantitative to qualitative metrics or modest increases in the proportion of time-vesting awards. More significant changes, such as shifts to predominantly time-vesting incentives or short-term measurement periods, would continue to be viewed negatively. As noted in FAQs #8 and #9, ISS will continue to give increased scrutiny to repeated use of special awards and the granting of one-time awards in the context of forfeited incentives. Companies should clearly explain any changes to their long-term incentive program or the grants of special awards, to allow investors to evaluate the compensation committee's actions and rationale.

4. Changes to Burn Rate Calculation for the Equity Plan Scorecard - As noted in its [voting policy updates](#) for next year, beginning in 2023, ISS will transition its three-year burn rate calculation for its Equity Plan Scorecard from a volatility-based approach to a value-adjusted approach. ISS views this change as more accurately measuring the value of equity awards, using a methodology that is more readily understood and accepted by the market: the actual stock price for full-value awards and the Black-Scholes value for stock options.

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