

Client Alert

January 2013

ISS Unveils New QuickScore Governance Rating Product

Institutional Shareholder Services (“ISS”) recently unveiled a new governance rating product called ISS Governance QuickScore (“QuickScore”) to help its clients “identify governance risk within portfolio companies.” Effective February 2013, QuickScore will replace ISS’s existing product, Governance Risk Indicators (or “GRId”). QuickScore covers the top 3,000 companies by market capitalization in the United States. As explained below, companies should act promptly to review the data that ISS has collected for its QuickScore analysis.

About QuickScore

According to ISS, QuickScore is a “quantitatively-driven data solution designed to identify governance risk within portfolio companies.” It will rate a company based on 40 to 80 governance features that fall into one of the following categories: board structure, compensation/remuneration, shareholder rights, and audit practices. Within those four categories, ISS has identified the following subcategories:

Board

- Board composition
- Composition of committees
- Board practices
- Board policies
- Related party transactions

Compensation

- Pay for performance
- Non-performance-based pay
- Use of equity
- Equity pay risk mitigation
- Nonexecutive pay
- Communication and disclosure
- Termination
- Controversies

Shareholder Rights

- One share – one vote
- Takeover defenses
- Voting issues
- Voting formalities
- Other issues

Audit

- External auditor
- Audit and accounting practices
- Other issues

Companies will be rated by ISS based on whether they “meet,” “exceed,” or “fall short” of market practices for each governance feature. The relative weight given to each feature will be determined by ISS based on the correlation ISS believes such feature has with financial performance and risk. Each company will then be given a numeric, decile-based score so that it can be compared to other companies. The QuickScore report, which will be in a standardized format across U.S. companies, will indicate with a red flag or green star the subcategories above that have a significantly positive or negative effect on scoring.

QuickScore is going to be criticized by the issuer community on several fronts:

- QuickScore was just unveiled shortly before the 2013 proxy season. This gives issuers little time to acquaint themselves with it. Moreover, many issuers had only recently become familiar with GRId, which was introduced just three years ago and updated last year.
- The relative weight given to each governance feature has not been disclosed. Likewise, it is not clear how ISS will determine whether a company “meets,” “exceeds,” or “falls short” of a particular governance feature. For example, will a company with two non-independent directors on its board “meet” or “exceed” ISS’s expectations for board independence and composition? Absent further guidance from ISS, issuers will not know the extent to which their existing governance practices affect their QuickScore ratings.
- QuickScore attempts to quantify risk in a “one-size-fits-all” approach. There is no clear connection, however, between financial performance and various governance practices, which need to be tailored to a particular company’s situation.
- Ranking companies by deciles will readily identify companies whose governance practices fail to satisfy ISS’s view of best practices. In addition, this scoring system may be misleading by creating an impression that a company has significant governance failures where slight variations in governance practices cause that company to have a low score.

What to do Next

ISS has published a technical [document](#) with greater details about QuickScore. Because QuickScore is expected to launch in late February/early March, ISS is currently offering companies the opportunity to review the data that has been collected and will be used in connection with QuickScore’s governance factors. Companies can do this between January 28 and February 15 through a data verification [site](#). A free log-in ID can be obtained by contacting ISS at support@isscorporateservices.com. The data verification site will be closed on February 15 and will not reopen for data verification until QuickScore is launched.

Companies should immediately review their collected data because ISS has committed to providing feedback to data requests that are submitted before February 8. Receiving this feedback may be helpful, especially in preparing for shareholder engagement in the 2013 proxy season, when investors may ask questions about a company’s QuickScore ratings. Requests submitted after February 8 will still be assessed by ISS, but feedback will not be provided prior to the launch of QuickScore.

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