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PROPOSED CHANGES TO ISS PROXY VOTING POLICIES

Oct 30, 2012

On October 16, 2012, Institutional Shareholder Services (ISS) issued for comment several proposed proxy voting policy changes. The following would affect U.S. public companies:

BOARD MATTERS

Current Policy: Recommend vote against or withhold votes from the entire board (except new nominees, who are considered case-by-case) if the board failed to act on a shareholder proposal that received the support of either (i) a majority of shares outstanding in the previous year; or (ii) a majority of shares cast in the last year and one of the two previous years.

Proposed Policy: Recommend votes against or withhold votes from the entire board (with new nominees considered case-by-case) if it fails to act on any proposal that received the support of a majority of shares cast in the previous year.

The proposed change is intended to increase board accountability. ISS is specifically seeking feedback as to whether there are specific circumstances where a board should not implement a majority-supported proposal that receives support from a majority of votes cast for one year.

SAY-ON-PAY PEER GROUP

Current Policy: ISS's pay-for-performance analysis includes an initial quantitative screening of a company's pay and performance relative to a group of companies reasonably similar in industry profile, size and market capitalization selected by ISS based on the company's Standard & Poor's Global Industry Classification (GICS).

Proposed Policy: For purposes of the quantitative portion of the pay-for-performance analysis the peer group will continue to be selected from the company's GICS industry group but will also incorporate information from the company's self-selected benchmarking peers. When identifying peers, ISS will afford a higher priority to peers that maintain the company near the median of the peer group, are in the company's own selected peer group and that have selected the company as a peer.

The change is likely a direct response to criticism from companies that the ISS-selected peer groups are not comparable and in many cases do not take into account multiple business lines. ISS is specifically requesting comments on whether there are additional or alternative ways that ISS should use the company's self-selected peer group, what size range (revenue/assets) should be used for peer group determination and what other factors should be considered in constructing the peer group for pay-for-performance evaluation.

SAY-ON-PAY REALIZABLE PAY ANALYSIS

Current Policy: If the quantitative pay-for-performance screening demonstrates unsatisfactory long-term pay for performance alignment or misaligned pay, ISS will consider grant-date pay levels or compensation amounts required to be disclosed in the SEC summary compensation table to determine how various pay elements may work to encourage or to undermine long-term value creation and alignment with shareholder interests.

Proposed Policy: Rather than focusing solely on grant-date pay levels, the qualitative analysis for large-cap companies may include a comparison of realizable pay to grant-date pay. Realizable pay will consist of relevant cash and equity-based grants and awards made during the specific performance period being measured, based on equity award values for actual earned awards or target values for ongoing awards based on the stock price at the end of the performance measurement period.

In its recent annual survey, 50% of investors indicated that they consider both granted and realized/realizable pay as an appropriate way to measure pay-for-performance alignment. ISS has requested comments as to how to define realizable pay, whether stock options should be considered based on intrinsic value or Black-Scholes value and under what rationale and what should be an appropriate measurement period for realizable pay.

PLEDGING SHARES A PROBLEMATIC PAY PRACTICE

Current Policy: Problematic pay practices include repricing underwater options without shareholder approval, providing excessive perquisites or tax gross-ups and providing for excessive or single-trigger change in control payments.

Proposed Policy: Pledging of company stock by directors and executive officers joins the list of most problematic pay practices related to non-performance-based compensation, which can potentially lead to an "against" say-on-pay vote recommendation.

ISS has requested comments on what level of pledging of company stock should be considered a significant level to cause investor concern; whether pledging raises significant enough concern to warrant voting action relating to say-on-pay proposals or on board or committee members; what remedial actions on pledging might address concerns and any other factors that should be considered by investors.

SAY-ON-GOLDEN PARACHUTES

Dodd-Frank requires companies to hold separate shareholder votes on potential golden parachute payments when they seek shareholder approval for mergers, sales and certain transactions.

Proposed Policy: Recommend that investors vote on golden parachute proposals (including existing change-in-control arrangements maintained with named executive officers rather than focusing primarily on new or extended arrangements) on a case-by-case basis and place further scrutiny on the presence of multiple legacy problematic features. Features that could result in an "against" vote recommendation include one or more of the following, depending on the number, magnitude and/or timing of issue(s):

- Single- or modified single-trigger cash severance
- Single-trigger acceleration of unvested equity awards
- Excessive cash severance greater than of 3x salary and bonus
- Excise tax gross-ups triggered and payable (as opposed to a provision to provide excise tax gross-ups)
- Excessive golden parachute payments (on an absolute basis or as a percentage of transaction equity value)
- Recent amendments to incorporate any problematic features or recent actions (such as extraordinary equity grants) that make packages so attractive as to influence merger agreements that may not be in shareholders' best interest
- Company's assertion that proposed transaction is conditioned on shareholder approval of the say-on-golden parachute advisory notice

The proposed change is anticipated to increase the number of ISS' negative vote recommendations. ISS has requested specific feedback as to whether investors would differentiate between new and existing arrangements when evaluating a say-on-golden parachute proposal, whether the number of problematic features would be a consideration in the analysis and whether any other factors that should be considered in evaluating say-on-golden parachute proposals.

ENVIRONMENTAL AND SOCIAL NON-FINANCIAL METRICS

Current Policy: Recommend a "generally vote against" on proposals to link executive compensation to sustainability (environmental and social) criteria.

Proposed Policy: Recommend a vote on a case-by-case basis taking into account the following factors:

- Whether the company has significant and/or persistent controversies or violations regarding social and/or environmental issues;
- Whether the company has management systems and oversight mechanisms in place regarding its social and environmental performance;
- The degree to which industry peers have incorporated similar non-financial performance criteria in their executive compensation practices; and
- The company’s current level of disclosure regarding its environmental and social performance.

ISS is specifically seeking comments as to whether an organization would consider any additional factors when a proposal requesting the addition of environmental and social non-financial performance measures to an executive compensation plan is being evaluated and whether any distinction is made between proposals requesting the addition of environmental and social non-financial performance measures to executive compensation plans and those proposals that request a report on linking, or on the feasibility of linking, environmental and social non-financial performance measures to executive compensation plans.
