

SMITH ANDERSON

Client Alert

Expect Excellence

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ISS Governance QuickScore™ to Replace GRId System

Institutional Shareholder Services (ISS), a leading provider of corporate governance research and proxy voting services, has announced that it is replacing the Governance Risk Indicators (GRId) database, which was designed to assess companies' governance practices, assigning low, medium and high risk concern levels across practices related to board, executive compensation/remuneration, audit and shareholder rights, with ISS Governance QuickScore™, which is a quantitative system designed to help institutional investors identify governance risk within portfolio companies.

Although similar to GRId in concept, ISS Governance QuickScore differs in the following general ways:

- **Methodology** – ISS Governance QuickScore uses a quantitatively-driven methodology that looks for correlations between governance factors and key financial metrics, with a secondary policy-based overlay that aligns the qualitative aspect of governance with current ISS policy. The methodology is based on best practices across various governance factors, with the number of factors applied varying by region. ISS has promised further details regarding regional factors will be forthcoming.
- **Scoring** – Moving away from GRId's color-coded concern levels, ISS Governance QuickScore uses a numeric, decile-based score that indicates a company's rank relative to other companies in an index or region. Companies will still be assessed on four independent dimensions: board, compensation/remuneration, shareholder rights, and audit, and will also receive an overall Governance QuickScore and assessment. In the latter half of the year, scores relative to industry sector will be introduced.
- **Coverage** – Initially, ISS Governance QuickScore coverage will encompass 4,100 companies in 25 markets, including the largest 3,000 U.S. companies (determined by market capitalization), the largest 250 Canadian companies (determined by market capitalization) and UK, Europe, Japan and Asia Pacific companies in the MSCI-EAFE index. Additional coverage, including deeper coverage in some developed markets and expansion into emerging markets, is planned for the second half of 2013.

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ISS has created a QuickScore website (www.issgovernance.com/quickscore), which includes a link to the ISS Data Verification Site (www.issgovernance.com/quickscore/dataverification). Companies can go to the ISS Data Verification Site to review and verify the data ISS has collected on them in relation to the QuickScore factors, and request any corrections, until February 15, 2013. According to ISS, companies that submit data requests prior to February 8 will receive feedback from ISS no later than February 15. Any submissions made after February 8 will still be assessed by ISS and taken into consideration for the company's QuickScore available at launch, however, no feedback will be available from ISS until after ISS Governance QuickScore is launched in late February/early March. The data verification site will close on February 15 and will remain closed until product launch. After product launch, companies will again be able to log-in and verify their data.

Like many of our clients, we do not agree with each of the factors that ISS uses to assess governance risk. Nor do we agree with each of the corporate governance policies that ISS imposes on public corporations (by way of vote recommendations or otherwise). Nonetheless, we believe it is still worthwhile for companies to review the data that will be used in the ISS Governance QuickScore to be sure such data is presented in the light most favorable to the company.

If you believe your company is among the largest 3,000 U.S. companies (determined by market capitalization), please consider logging onto the ISS Data Verification Site to review and verify the data ISS has collected on your company. If you need to request any corrections, please consider doing so prior to February 8 in order to ensure feedback will be available from ISS before the ISS Governance QuickScore is launched.

If you have any questions, please don't hesitate to contact your Smith Anderson lawyer at www.smithlaw.com/securitiesandgrowthcompanies.