

# ISS Updates Burn Rate Tables for 2017 Proxy Season

In December, Institutional Shareholder Services (“ISS”) updated its “burn rate” tables, which impact its voting recommendations on equity compensation plan proposals. In recent years, burn rate levels have fluctuated significantly, making this an increasingly important area for technology and life sciences companies to monitor. At the same time, ISS also published its annual updates to its Frequently-Asked Questions for its U.S. executive compensation policies, U.S. equity compensation plan policies, and peer group selection process.

## Updated Burn Rate Tables

Each year, ISS updates its burn rate tables and allowable limits for Standard & Poor’s 500, Russell 3000 (excluding the S&P 500), and non-Russell 3000 companies for the upcoming proxy season. Generally, ISS measures “burn rate” using the total number of equity awards (full value stock awards and stock options) granted in a given year and expresses the computation as a percentage of the number of common shares outstanding. These tables set ISS’ acceptable burn rate levels (based on one standard deviation above the industry mean) using Standard & Poor’s global industry classification standard (“GICS”) codes as assigned to each company.

ISS’ updated 2017 burn rate tables, which apply to annual meetings of shareholders held on or after February 1, 2017, are set forth in Appendix A to this article.

## Burn Rate Policy

Under ISS current U.S. proxy voting guidelines, its burn rate “benchmarks” are calculated as the greater of:

- the mean plus one standard deviation of the company’s GICS group segmented on the basis of whether it is part of the Standard & Poor’s 500, Russell 3000 index (less the S&P500), or non-Russell 3000 index; and
- two percent of the company’s weighted common shares outstanding.

The burn rate benchmark is primarily used by ISS as part of its Equity Plan Scorecard evaluations. The specific bench-

mark for each industry sector is a point in the middle of the sliding scale. Full credit is given to companies with burn rates at 50% of the burn rate benchmark or less. Companies with burn rates above the burn rate benchmark will earn partial credit on a sliding scale (up to a limit of 150% of the burn rate benchmark). Thus, in many instances companies may still receive some credit for burn rates above the applicable benchmark.

If a company grants both full value stock awards and stock options, ISS applies a premium or “multiplier” to the full value awards for the past three fiscal years to equate them economically with stock options. For 2017, this premium or “multiplier,” is unchanged from prior years as follows:

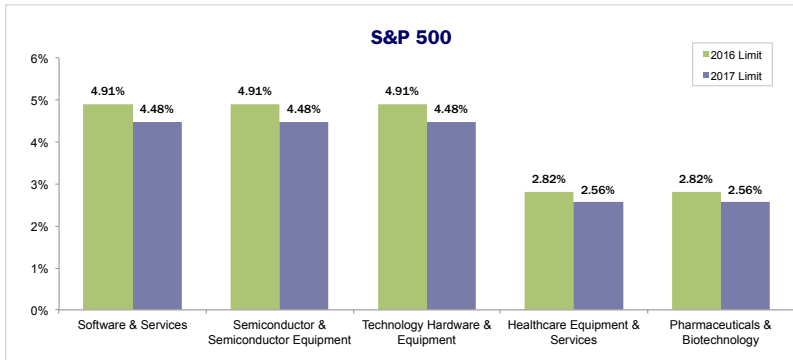
| Stock Price Volatility              | Multiplier   |
|-------------------------------------|--|
| 54.6% or higher                     | 1 full-value award will count as 1.5 option shares |
| 36.1% or higher and less than 54.6% | 1 full-value award will count as 2.0 option shares |
| 24.9% or higher and less than 36.1% | 1 full-value award will count as 2.5 option shares |
| 16.5% or higher and less than 24.9% | 1 full-value award will count as 3.0 option shares |
| 7.9% or higher and less than 16.5%  | 1 full-value award will count as 3.5 option shares |
| Less than 7.9%                      | 1 full-value award will count as 4.0 option shares |

## Observations

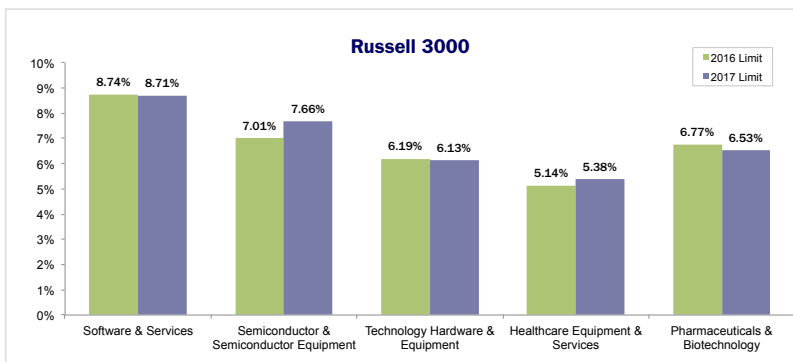
While ISS’ burn rate methodology remains the same as in 2016, on balance the 2017 burn rate limits for many industry sectors are down slightly, with a couple of notable exceptions – the limits in the non-Russell 3000 Technology Hardware & Equipment and Software & Services sectors went up significantly. Further, the limits for the Russell 3000 Semiconductor & Semiconductor Equipment sector also went up significantly and continue to be higher than for non-Russell 3000 Semiconductor & Semiconductor Equipment companies.

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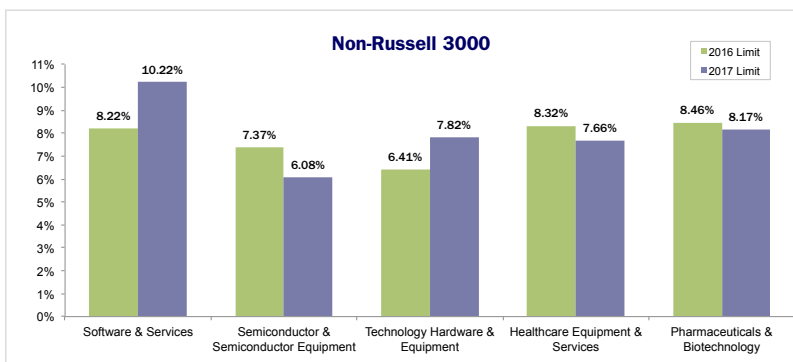
**For Standard & Poor’s 500 technology and life sciences companies, the limits changed as follows:**



**For Russell 3000 technology and life sciences companies, the limits changed as follows:**



**For non-Russell 3000 technology and life sciences companies, the limits changed as follows:**



As part of its long-standing practice (which is intended to limit extreme fluctuations from year to year), ISS provides that annual limits cannot increase or decrease by more than 2% each year.

Companies should consider these updated limits as one factor in their annual equity strategy review. Companies that developed equity budgets for 2017 with consideration of the then-current 2016 limits may have more or less flexibility with their equity programs than originally anticipated (depending on program goals, equity plan funding, competitive needs, etc.).

**Frequently-Asked Questions Updates**

In December, ISS also published updates to its Frequently-Asked Questions documents relating to its policies for reviewing and evaluating executive compensation programs and equity compensation plans. A third “FAQ” document provides insights into how ISS selects the companies for its self-constructed peer groups that it uses to compare a company’s compensation practices to the competitive market. This latter document also provides detailed information on how companies may update their own compensation peer group information each year in advance of the ISS selection process.

Finally, ISS has published a separate “white paper” explaining its “pay-for-performance” methodology that is used to evaluate the relationship between a compa-

**ISS Updates Burn Rate Tables for 2017 Proxy Season (continued)**

ny’s executive compensation decisions and its financial performance. This paper includes a detailed look at the correlation of companies’ financial performance to the outcomes of its shareholder advisory vote on named executive officer compensation (the “Say-on-Pay” vote).

- [ISS 2017 Burn Rate Policy](#)
- [ISS 2016 U.S. Equity Compensation Plan FAQs](#)
- [ISS U.S. Executive Compensation Policies FAQs](#)
- [ISS Peer Group Selection Process FAQs](#)
- [ISS Pay-for-Performance White Paper](#)

**Further Information**

To obtain a copy of each of the materials discussed in this article, please click on the applicable link:

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Compensia, Inc. is a management consulting firm that provides executive compensation advisory services to Compensation Committees and senior management.

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## ISS Updates Burn Rate Tables for 2017 Proxy Season (continued)

## Appendix A

## ISS 2017 Burn Rate Limits

| GICS | Description                           | S&P 500 | Absolute<br>Δ from<br>2015 | R3000<br>(Ex. S&P<br>500) | Absolute<br>Δ from<br>2015 | Non-R3000 | Absolute<br>Δ from<br>2015 |
|------|---------------------------------------|---------|----------------------------|---------------------------|----------------------------|-----------|----------------------------|
| 1010 | Energy                                | 2.00%   | 0.00%                      | 3.07%                     | -0.05%                     | 6.89%     | 1.03%                      |
| 1510 | Materials                             | 2.00%   | 0.00%                      | 2.86%                     | 0.33%                      | 5.72%     | -0.41%                     |
| 2010 | Capital Goods                         | 2.00%   | -0.04%                     | 2.99%                     | -0.11%                     | 5.79%     | -0.63%                     |
| 2020 | Commercial &<br>Professional Services | 2.00%   | -0.04%                     | 4.14%                     | -0.13%                     | 7.40%     | 0.78%                      |
| 2030 | Transportation                        | 2.00%   | -0.04%                     | 3.01%                     | -0.38%                     | 4.51%     | 1.64%                      |
| 2510 | Automobiles &<br>Components           | 2.24%   | -0.10%                     | 3.72%                     | 0.25%                      | 4.23%     | -1.98%                     |
| 2520 | Consumer Durables &<br>Apparel        | 2.24%   | -0.10%                     | 3.75%                     | -0.05%                     | 5.10%     | -0.24%                     |
| 2530 | Consumer Services                     | 2.24%   | -0.10%                     | 4.02%                     | 0.17%                      | 3.98%     | -0.06%                     |
| 2540 | Media                                 | 2.24%   | -0.10%                     | 4.21%                     | -0.11%                     | 7.15%     | 1.04%                      |
| 2550 | Retailing                             | 2.24%   | -0.10%                     | 4.27%                     | 0.08%                      | 6.02%     | 0.49%                      |
| 3010 | Food & Staples Retailing              | 2.00%   | -                          | 3.33%                     | -                          | 5.72%     | --                         |
| 3020 | Food Beverage & Tobacco               | 2.00%   | -                          | 2.24%                     | -                          | 5.72%     | --                         |
| 3030 | Household & Personal<br>Products      | 2.00%   | -                          | 4.68%                     | -                          | 5.72%     | --                         |
| 3510 | Health Care Equipment<br>& Services   | 2.56%   | -0.26%                     | 5.38%                     | 0.24%                      | 7.66%     | -0.66%                     |
| 3520 | Pharmaceuticals &<br>Biotechnology    | 2.56%   | -0.26%                     | 6.53%                     | -0.24%                     | 8.17%     | -0.29%                     |
| 4010 | Banks                                 | 3.43%   | 0.48%                      | 2.94%                     | -0.23%                     | 4.62%     | 1.38%                      |
| 4020 | Diversified Financials                | 3.43%   | 0.48%                      | 8.35%                     | 1.36%                      | 4.62%     | -1.51%                     |
| 4030 | Insurance                             | 3.43%   | 0.48%                      | 3.67%                     | -0.10%                     | 4.62%     | 0.79%                      |
| 6010 | Real Estate                           | 2.00%   | -0.95%                     | 2.55%                     | -0.12%                     | 3.07%     | -0.71%                     |
| 4510 | Software & Services                   | 4.48%   | -0.43%                     | 8.71%                     | -0.03%                     | 10.22%    | 2.00%                      |
| 4520 | Technology Hardware<br>& Equipment    | 4.48%   | -0.43%                     | 6.13%                     | -0.06%                     | 7.82%     | 1.41%                      |
| 4530 | Semiconductor &<br>Semi Equipment     | 4.48%   | -0.43%                     | 7.66%                     | 0.65%                      | 6.08%     | -1.29%                     |
| 5010 | Telecommunication<br>Services         | 2.00%   | 0.00%                      | 5.12%                     | -0.10%                     | 8.68%     | 1.98%                      |
| 5510 | Utilities                             | 2.00%   | 0.00%                      | 2.00%                     | 0.00%                      | 2.83%     | -2.00%                     |