

Cooley

February 24, 2012

This *Alert* was originally issued on February 17, 2012 and then updated February 24, 2012 to reflect that ISS extended the data verification deadline during the preview period to February 27, 2012 and that ISS now expects to release the new GRId 2.0 scores on March 5, 2012.

Introduction

Institutional Shareholder Services ("ISS") recently announced a new version of its corporate governance rating product called Governance Risk Indicators, or "GRId." GRId is designed to measure corporate governance-related investment risk in public companies and GRId scores are posted on companies' Yahoo!Finance profile pages, published in ISS Proxy Research Reports, and given to institutional shareholder clients of ISS. Please refer to our previous *Alert* and the ISS website for more information about GRId.

Summary of changes

The new version of GRId ("GRId 2.0") maintains the previous GRId structure of evaluating risk in four categories of corporate governance—audit, board, shareholder rights, and compensation. Scores will continue to be expressed as low, medium or high "level of concern" in each category, but under GRId 2.0 ISS will also publish a numerical score for each category. The methodology for determining the scores has been completely revised to allow certain issues to have a greater influence on the ultimate levels of concern. ISS has not yet published the information about the new weightings for each of the issues underlying the scores that would be necessary to determine how certain changes in a company's practices would affect its overall scores.

GRId 2.0 includes more than 30 new or revised variables and reorganizes the subcategories within each category of corporate governance. Some of the most significant changes were made in the compensation category, where ISS's new pay-for-performance quantitative methodology has resulted in a number of new questions. GRId 2.0, like its predecessor, is generally only available for the Russell 3000 index constituents.¹

What to do now

New scores for all U.S. public companies under GRId 2.0 will be published on March 5, 2012. The new scores will be based on the data disclosed in each company's most recently filed definitive proxy statement for its annual meeting of shareholders and other, more recent, publicly-filed documents. Each company may sooner access its new GRId profile during a special preview period beginning on Monday, February 20, 2012 at 9:00 AM EST and ending on Monday, February 27, 2012 at 8:00 PM EST, through ISS's free data verification website.² Because of the significant changes in GRId 2.0, new GRId scores may differ significantly from previously-reported GRId scores. We recommend using ISS's free online data verification site during the preview period to obtain your new GRId profiles, verify the data underlying each question and correct any erroneous data through ISS's free data correction process. After the new GRId 2.0 scores are published on March 5, the free data verification website will remain available to allow the review of data and submission of correction requests, except between the time a company files its definitive proxy statement and the publication of the related ISS proxy research report.³

As a reminder, the variables underlying the GRId scores parallel ISS's proxy voting guidelines, but GRId scores are not used to determine or change vote recommendations that are based on ISS's proxy voting guidelines. We recommend using GRId variables as only a reference point in evaluating corporate governance practices; we generally do not recommend making changes to corporate governance practices solely to increase GRId scores.

If you have questions about this *Alert*, the ISS GRId scoring methodology or any ISS guidelines, please contact one of the Cooley attorneys listed above.

NOTES

1 Russell 3000 Membership list

2 Companies can use the same log-in and password for the GRId 2.0 data verification site that they use for their current GRId data verification. If you do not have a log-in and password to ISS's data verification site, you can obtain one by e-mailing support@jssccorporateservices.com or by calling 301 556 0570.

3 The proxy research report is generally published approximately 13–25 days before a company's annual stockholder meeting. If you filed your definitive proxy statement prior to February 20, the preview period will be your only opportunity to submit correction requests for your new GRId score prior to the publication of the ISS proxy research report.

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