

Institutional Shareholder Services, Inc. (“ISS”) has recently announced that it is launching an updated and enhanced version of its governance risk assessment tool for Russell 3000 companies – “ISS Governance QuickScore 2.0” (“QS 2.0”) – on February 18, 2014. ISS’ releases on QS 2.0 can be found [here](#) and [here](#).

Background

ISS has made several recent updates to its corporate governance risk assessment scoring system and analytical tool. In February 2013, ISS revamped its “Governance Risk Indicators” (“GRId”), and rebranded it “QuickScore.” QuickScore allots to covered companies a single overall governance score (taking into account over 181 factors), as well as separate governance scores in four distinct categories:

- board structure (e.g., composition, committees, policies and practices);
- executive compensation (e.g., pay-for-performance, disclosure matters);
- shareholder rights (e.g., voting issues); and
- audit-related practices (e.g., accounting controversies).

The scoring is based on a scale of 1 through 10, with 1 indicating a low governance risk and 10 indicating a high governance risk. While ISS does not currently use QuickScore results in connection with its voting recommendations on annual meeting proposals, the scores indicate potential areas of investor concern.

New Aspects

QS 2.0 will include new governance factors for US companies, although the four pillars against which companies are scored will remain unchanged.

In addition to the new governance factors, there will be modified weightings assigned to certain factors.

On January 27, 2014, ISS published on its website a “technical document” (the document can be found [here](#), that lays out the framework as to ISS’ changes in scoring methodology and the new governance factors.

QS 2.0 will also incorporate a new monitoring system that will be event-driven, whereby ISS will track certain regulatory filings (such as the adoption of clawback policies filed on Form 8-K) and other public information for relevant governance-related information and use that information to **automatically** revise and update QS 2.0 scores.

Data Validation Period

Prior to the recalculation of governance scores under QS 2.0, there is a “data validation period” whereby companies have the opportunity to preview their new governance scores, verify that the disclosure ISS has gathered is correct, and submit requests to ISS for data changes. This period opened on January 27, 2014 at 9:00 a.m. ET and will close on February 7, 2014 at 8 p.m. ET.

We strongly urge covered companies to preview their respective new QS 2.0 scores, so that any errors can be rectified prior to ISS’ publication of new scores.

After the launch of QS 2.0 on February 18, 2014, ISS’ data verification site will remain active, so companies can continuously verify their QS 2.0 data and submit requests to ISS for data changes. Because ISS will automatically update governance scores based on public disclosures in the market, companies should continuously monitor the data verification site to ensure that ISS is relying on accurate information in its scoring methodology.

Recommended Action

During the data validation period, users should log on to [ISS’ Governance Analytics platform](#).

If your company already has a username/password to the site the same information can be used. If your company does not have a username/password, you can request one through the ISS Corporate Services U.S. support desk at support@isscorporateservices.com or +1 301 556 0570.

Upon entering the platform, ISS will prompt you to cite a company filing as support for any errors in ISS’ data.

For additional information, please contact your principal Squire Sanders lawyer or any of the lawyers listed in this Alert.

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