



ISS

Outcome of consultation on restricted shares

2nd November 2017

Following some investors' call for simplification of executive pay, ISS had amended its guidelines last year to outline how it would consider alternative remuneration structures. ISS noted that it would pay particular attention to:

- the linkage between the proposals and the company's strategic objectives;
- whether or not the proposals have an appropriate long-term focus;
- the extent to which the proposals help simplify executive pay; and
- the impact on the overall level of potential pay (noting that any proposal which provides for a greater level of certainty regarding the ultimate rewards should be accompanied by a material reduction in the overall size of awards).

So far ISS had opposed the majority of restricted shares proposals.

Ahead of the publication of its 2018 voting guidelines, ISS has now published the outcome of a consultation which included responses from 74 institutional investors.

ISS notably asked whether the introduction of restricted shares for executives at UK based companies may be an acceptable practice in certain circumstances. It is interesting to note that 49% of institutional investors responded yes, a further 14% that it would depend with 37% of investors stating that restricted shares would not be acceptable.

ISS also asked for views on an appropriate discount ratio to performance share awards. It is probably reassuring to see that the majority of investors (59%) believes the ratio should be determined on a case by case basis, 26% believe it should be at least 50%, 6% at least 25% , 6% at least 75% and 3% quoted another ratio.

Deloitte view

Companies will be keen to see how the above findings are reflected in the ISS updated guidelines.

The above responses remind companies considering or engaging on potential remuneration structure changes of the polarised views of investors on restricted shares, although they also indicate that restricted shares may be becoming more acceptable, provided they are introduced in the appropriate circumstances. Some historically quiet investors like Norges have publicly stated their preference for restricted shares.

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