

# ISS Updates Burn Rate Tables for 2016 Proxy Season

Earlier this month, Institutional Shareholder Services, the prominent corporate governance advisory services firm, updated its “burn rate” tables, which influence its voting recommendations on equity plan proposals. In recent years, burn rate levels in certain industry sectors have fluctuated significantly, making this an increasingly important area for technology and life sciences companies to monitor.

## Updated Burn Rate Tables

Each year, ISS updates its burn rate tables and allowable limits for S&P 500, Russell 3000 (excluding the S&P 500), and non-Russell 3000 companies for the upcoming proxy season. ISS measures “burn rate” using the total number of equity awards (stock and 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 global industry classification standard (“GICS”) codes assigned to each company by Standard & Poors.

ISS’ updated 2016 burn rate tables, which apply to annual meetings of shareholders that are held on or after February 1, 2016, is 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 S&P 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 used by ISS as part of its Equity Plan Scorecard evaluations. The specific benchmark 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 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 2016, 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 2015, on balance the 2016 burn rate limits for many industry sectors are flat or just down slightly, with a couple of notable exceptions – the limits in the non-Russell 3000 Technology Hardware & Equipment and Semiconductor & Semiconductor Equipment sectors went down significantly. Further, the limits for the Russell 3000 Software & Services sector went up significantly and, for the first time in our experience, are actually higher than for non-Russell 3000 software companies.

For S&P 500 technology and life sciences companies, the limits changed as follows:

- for Software & Services, Semiconductor & Semiconductor Equipment, and Technology Hardware &

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Equipment, from 4.73% to 4.91% (note that ISS only uses one limit for the different technology industries in the S&P 500); and

- for Health Care Equipment & Services and Pharmaceuticals & Biotechnology, there was no change from 2.82%.

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

- for Software & Services, from 7.88% to 8.74%
- for Semiconductor & Semiconductor Equipment, from 6.90% to 7.01%
- for Technology Hardware & Equipment, from 5.85% to 6.19%
- for Health Care Equipment & Services, from 5.13% to 5.14%
- for Pharmaceuticals & Biotechnology, from 5.99% to 6.77%

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

- for Software & Services, from 8.32% to 8.22%
- for Semiconductor & Semiconductor Equipment, from 8.70% to 7.37%
- for Technology Hardware & Equipment, from 7.98% to 6.41%
- for Health Care Equipment & Services, from 8.47% to 8.32%
- for Pharmaceuticals & Biotechnology, from 8.72% to 8.46%

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 2016 with consideration of the then-current 2015 limits may have more or less flexibility with their equity programs than originally anticipated (depending on program goals, equity plan funding, competitive needs, etc.).

### Further Information

To obtain a copy of ISS 2016 Burn Rate Policy, please follow this [link](#).

### About Compensia

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

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## Appendix A

## ISS 2016 Burn Rate Limits

GICS	Description	S&P 500	Absolute Δ from 2015	R3000 (Ex. S&P 500)	Absolute Δ from 2015	Non-R3000	Absolute Δ from 2015
1010	Energy	2.00%	0.00%	3.12%	-1.91%	5.86%	-0.37%
1510	Materials	2.00%	0.00%	2.53%	-0.38%	6.13%	-0.85%
2010	Capital Goods	2.04%	-0.09%	3.10%	-0.05%	6.42%	-1.08%
2020	Commercial & Professional Services	2.04%	-0.09%	4.27%	-0.29%	6.62%	-0.90%
2030	Transportation	2.04%	-0.09%	3.39%	-0.52%	2.87%	-1.00%
2510	Automobiles & Components	2.34%	-0.16%	3.47%	0.10%	6.21%	2.00%
2520	Consumer Durables & Apparel	2.34%	-0.16%	3.80%	-0.09%	5.34%	-0.54%
2530	Consumer Services	2.34%	-0.16%	3.85%	-0.36%	4.04%	-1.67%
2540	Media	2.34%	-0.16%	4.32%	-0.85%	6.11%	0.92%
2550	Retailing	2.34%	-0.16%	4.19%	-0.27%	5.53%	-0.98%
3010-3030	Consumer Staples	2.03%	-0.08%	3.26%	0.11%	6.28%	0.96%
3510	Health Care Equipment & Services	2.82%	0.00%	5.14%	0.01%	8.32%	-0.15%
3520	Pharmaceuticals & Biotechnology	2.82%	0.00%	6.77%	0.78%	8.46%	-0.26%
4010	Banks	2.95%	-0.30%	3.17%	-0.17%	3.24%	0.24%
4020	Diversified Financials	2.95%	-0.30%	6.99%	-2.00%	6.13%	-0.26%
4030	Insurance	2.95%	-0.30%	3.77%	-0.07%	3.83%	1.09%
4040	Real Estate	2.95%	-0.30%	2.67%	-0.04%	3.78%	1.41%
4510	Software & Services	4.91%	0.18%	8.74%	0.86%	8.22%	-0.10%
4520	Technology Hardware & Equipment	4.91%	0.18%	6.19%	0.34%	6.41%	-1.57%
4530	Semiconductor & Semi Equipment	4.91%	0.18%	7.01%	0.11%	7.37%	-1.33%
5010	Telecommunication Services	2.00%	0.00%	5.22%	0.68%	6.70%	-0.63%
5510	Utilities	2.00%	0.00%	2.00%	0.00%	4.83%	0.81%