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ISS (formerly RiskMetrics) Directors Definitions

Below are definitions for some of the terms found in RiskMetric's Directors dataset. They were originally taken from the company's online glossary, and were updated in August, 2010.

Classification

Directors can have one of the following board affiliations: Insiders / Employees (E), Affiliated Outsiders / Linked (L), or Independent Outsiders (I). These can be defined as follows:

Affiliated Director

- **1. Inside Director (E)**
 - **1.1.** Employee of the company or one of its affiliates (i).
 - **1.2.** Among the five most highly paid individuals (excluding interim CEO).
 - **1.3.** Listed as an officer as defined under Section 16 of the Securities and Exchange Act of 1934 ("Section 16 officer") (ii).
 - **1.4.** Current interim CEO.
 - **1.5.** Beneficial owner of more than 50 percent of the company's voting power (this may be aggregated if voting power is distributed among more than one member of a defined group).
- **2. Affiliated Outside Director (L)**
 - **2.1. Board Attestation**
 - **2.1.1.** Board attestation that an outside director is not independent.
 - **2.2. Former CEO**
 - **2.2.1.** Former CEO of the company (iii,iv).
 - **2.2.2.** Former CEO of an acquired company within the past five years (iv).
 - **2.2.3.** Former interim CEO if the service was longer than 18 months. If the service was between twelve and eighteen months an assessment of the interim CEO's employment agreement will be made (v).
 - **2.3. Non-CEO Executives**
 - **2.3.1.** Former Section 16 officer (ii) of the company, an affiliate (i) or an acquired firm within the past five years.
 - **2.3.2.** Section 16 officer (ii) of a former parent or predecessor firm at the time the company was sold or split off from the parent/predecessor within the past five years.

- **2.3.3.** Section 16 officer (ii), former Section 16 officer, or general or limited partner of a joint venture or partnership with the company.
- **2.4.** Family Members
 - **2.4.1.** Immediate family member (vi) of a current or former Section 16 officer (ii) of the company or its affiliates (i) within the last five years.
 - **2.4.2.** Immediate family member (vi) of a current employee of company or its affiliates (i) where additional factors raise concern (which may include, but are not limited to, the following: a director related to numerous employees; the company or its affiliates employ relatives of numerous board members; or a non-Section 16 officer in a key strategic role).
- **2.5.** Transactional, Professional, Financial, and Charitable Relationships
 - **2.5.1.** Currently provides (or an immediate family member (vi) provides) professional services (vii) to the company, to an affiliate (i) of the company or an individual officer of the company or one of its affiliates in excess of \$10,000 per year.
 - **2.5.2.** Is (or an immediate family member (vi) is) a partner in, or a controlling shareholder or an employee of, an organization which provides professional services (vii) to the company, to an affiliate of the company, or an individual officer of the company or one of its affiliates in excess of \$10,000 per year.
 - **2.5.3.** Has (or an immediate family member (vi) has) any material transactional relationship (viii) with the company or its affiliates (i) (excluding investments in the company through a private placement).
 - **2.5.4.** Is (or an immediate family member (vi) is) a partner in, or a controlling shareholder or an executive officer of, an organization which has any material transactional relationship (viii) with the company or its affiliates (i) (excluding investments in the company through a private placement).
 - **2.5.5.** Is (or an immediate family member (vi) is) a trustee, director, or employee of a charitable or non-profit organization that receives material grants or endowments (viii) from the company or its affiliates (i).
- **2.6.** Other Relationships
 - **2.6.1.** Party to a voting agreement (ix) to vote in line with management on proposals being brought to shareholder vote.
 - **2.6.2.** Has (or an immediate family member (vi) has) an interlocking relationship as defined by the SEC involving members of the board of directors or its Compensation Committee (x).
 - **2.6.3.** Founder (xi) of the company but not currently an employee.
 - **2.6.4.** Any material (xii) relationship with the company.

Independent Outside Director (I)

- **1.** No material (xii) connection to the company other than a board seat.

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Footnotes:

i "Affiliate" includes a subsidiary, sibling company, or parent company. ISS uses 50 percent control ownership by the parent company as the standard for applying its affiliate designation.

ii "Section 16 officer" (officers subject to Section 16 of the Securities and Exchange Act of 1934) includes the chief executive, operating, financial, legal, technology, and accounting officers of a company (including the president, treasurer, secretary, controller, or any vice president in charge of a principal business unit, division, or policy function). A non-employee director serving as an officer due to statutory requirements (e.g. corporate secretary) will be classified as an Affiliated Outsider. If the company provides explicit disclosure that the director is not receiving additional compensation in excess of \$10,000 per year for serving in that capacity, then the director will be classified as an Independent Outsider.

iii Includes any former CEO of the company prior to the company's initial public offering (IPO).

iv When there is a former CEO of a special purpose acquisition company (SPAC) serving on the board of an acquired company, ISS will generally classify such directors as independent unless determined otherwise taking into account the following factors: the applicable listing standards determination of such director's independence; any operating ties to the firm; and the existence of any other conflicting relationships or related party transactions.

v ISS will look at the terms of the interim CEO's employment contract to determine if it contains severance pay, long-term health and pension benefits, or other such standard provisions typically contained in contracts of permanent, non-temporary CEOs. ISS will also consider if a formal search process was underway for a full-time CEO at the time.

vi "Immediate family member" follows the SEC's definition of such and covers spouses, parents, children, step-parents, step-children, siblings, in-laws, and any person (other than a tenant or employee) sharing the household of any director, nominee for director, executive officer, or significant shareholder of the company.

vii Professional services can be characterized as advisory in nature, generally involve access to sensitive company information or to strategic decision-making, and typically have a commission- or fee-based payment structure. Professional services generally include, but are not limited to the following: investment banking/financial advisory services; commercial banking (beyond deposit services); investment services; insurance services; accounting/audit services; consulting services; marketing services; legal services; property management services; realtor services; lobbying services; executive search services; and IT consulting services. The following would generally be considered transactional relationships and not professional services: deposit services; IT tech support services; educational services; and construction services. The case of participation in a banking syndicate by a non-lead bank should be considered a transactional (and hence subject to the associated materiality test) rather than a professional relationship. "Of Counsel" relationships are only considered immaterial if the individual does not receive any form of compensation (in excess of \$10,000 per year) from, or is a retired partner of, the firm providing the professional service. The case of a company providing a professional service to one of its directors or to an entity with which one of its directors is affiliated, will be considered a transactional rather than a professional relationship. Insurance services and marketing services are assumed to be professional services unless the company explains why such services are not advisory.

viii A material transactional relationship, including grants to non-profit organizations, exists if the company makes annual payments to, or receives annual payments from, another entity exceeding the greater of \$200,000 or 5 percent of the recipient's gross revenues, in the case of a company which follows NASDAQ listing standards; or the greater of \$1,000,000 or 2 percent of the recipient's gross revenues, in the case of a company which follows NYSE/Amex listing standards. In the case of a company which follows neither of the preceding standards, ISS will apply the NASDAQ-based materiality test. (The recipient is the party receiving the financial proceeds from the transaction).

ix Dissident directors who are parties to a voting agreement pursuant to a settlement arrangement, will generally be classified as independent unless determined otherwise taking into account the following factors: the terms of the agreement; the duration of the standstill provision in the agreement; the limitations and requirements of actions that are agreed upon; if the dissident director nominee(s) is subject to the standstill; and if there any conflicting relationships or related party transactions.

x Interlocks include: executive officers serving as directors on each other's compensation or similar committees (or, in the absence of such a committee, on the board); or executive officers sitting on each other's boards and at least one serves on the other's compensation or similar committees (or, in the absence of such a committee, on the board).

xi The operating involvement of the founder with the company will be considered. Little to no operating involvement may cause ISS to deem the founder as an independent outsider.

xii For purposes of ISS's director independence classification, "material" will be defined as a standard of relationship (financial, personal or otherwise) that a reasonable person might conclude could potentially influence one's objectivity in the boardroom in a manner that would have a meaningful impact on an individual's ability to satisfy requisite fiduciary standards on behalf of shareholders.

Compensation Committee

A subset of the board of directors with a responsibility to determine the compensation strategies for the company's top executive officers, including salary, bonus, stock and performance-based remuneration.

Financial Expertise

Sarbanes Oxley, via exchange listing rules, mandates having at least one financial expert on the audit committee. The definition of financial expert is embedded in the listing rules. This field flags the directors the company identifies as financial experts.

Governance Committee

A subset of the board of directors responsible for overseeing corporate governance issues. A governance committee reviews the size, composition, performance and compensation of the board.

Interlocking Directorship

A situation where a director and executive of company ABC sits on a board of company XYZ and a director and executive of company XYZ sits on the board of company ABC. This arrangement is particularly controversial when the interlock involves board members serving on compensation committees.

Nominating Committee

A subset of the board of directors that has a responsibility to nominate candidates for board seats.

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