ISS and Glass Lewis Release Compensation-Related Updates For 2026 Proxy Season

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As part of their annual policy review cycles, Institutional Shareholder Services ("ISS") and Glass Lewis & Co. ("Glass Lewis") have released their compensation-related voting policy updates that will apply starting with the 2026 proxy season. The updates to ISS's Benchmark Policy can be found here, and the updates to Glass Lewis' Benchmark Policy Guidelines can be found here. Below is a summary of the significant changes announced by ISS and Glass Lewis.

ISS BENCHMARK POLICY UPDATE

Extending Timeframe for Pay-for-Performance Evaluation. ISS's pay-for-performance quantitative analysis to assess pay for performance alignment will be extended to a five-year look back period from a three-year period for certain components of the analysis. Specifically, pay-for-performance analyses will consider: (i) the degree of alignment between a company's annualized total shareholder return rank and its CEO's annualized total pay rank within a peer group, *measured over a five-year period*, and (ii) the rankings of its CEO total pay and the company's financial performance within a peer group, each measured *over a five-year period*. In addition, the timeframe for evaluating the multiple of a CEO's total pay relative to a company's peer group median has been extended to not only cover the most recent fiscal year but to also cover a three-year look back period.

U.S. Time-Based Equity Awards with Long-Term Time Horizons. ISS announced that it would be taking a more favorable view of time-based equity awards with extended time horizons with respect to its pay-for-performance analysis. ISS indicated that an equity pay mix that consists primarily or entirely of time-based awards will not in itself raise significant concerns in its qualitative pay-for-performance evaluation, provided that the time-based award design utilizes a sufficiently long-term time horizon and time-based equity award designs that generally utilize vesting and/or share retention requirements of at least five years from the grant date will be viewed as a positive factor in qualitative pay-for performance evaluations. Notably, many public companies have CEO compensation programs that have a significant percentage of performance-based equity awards, oftentimes up to 50% of the equity award grant date fair value. Accordingly, ISS's revised approach may result in this percentage decreasing over time.

Responsiveness to Shareholders/Low Support on Say-On-Pay Vote. Recognizing that a company's shareholder outreach does not necessarily elicit feedback from its shareholders, ISS has increased its flexibility when evaluating company responses to say-on-pay proposals with less than 70% approval if the company disclosed meaningful engagement efforts, even where they do not result in specific feedback from shareholders. In such circumstances, ISS will assess the company's actions taken in response to the say-on-pay vote as well as the company's explanation as to why such actions are beneficial for shareholders.

High Non-Employee Director Pay. ISS may make adverse recommendations against board committee members who are responsible for approving non-employee director compensation after only one year if such non-employee director compensation practices are egregious. Egregious non-employee director compensation practices may include performance awards, retirement benefits or problematic perquisites. Also, ISS clarified that it may make adverse recommendations against the same board committee members if there is a pattern of excessive non-employee director compensation, which may include an analysis of consecutive years or non-consecutive years.

GLASS LEWIS POLICY GUIDELINES UPDATE

Pay-for-Performance Methodology. Glass Lewis updated its pay-for-performance methodology, transitioning from a single letter grade of "A" through "F", to a scorecard-based approach that consists of up to six tests. The six tests are:

- CEO granted pay vs. total shareholder return performance
- CEO granted pay vs. financial performance
- Short-term incentive payouts vs. total shareholder return performance
- Named executive officer granted pay vs. financial performance
- CEO compensation-actually-paid vs. total shareholder return and
- Qualitative factors (*e.g.*, one-time award grants, upward discretion utilized).

Companies will receive a rating for each test, which will be aggregated on a weighted basis to determine an overall score ranging from 0 to 100. Glass Lewis indicated that the scoring will not be negatively impacted even if all the tests may not be able to be completed.

LOOKING FORWARD

The ISS updates are effective for shareholder meetings held on or after February 1, 2026, and Glass Lewis began applying its new guidelines on January 1, 2026. In addition to updating its Benchmark Policy, ISS released a number of updates to its Executive Compensation FAQs and its Equity Compensation Plan FAQs. Proskauer's Employee Benefits and Executive Compensation team regularly advises companies on best practices with respect to implementing executive compensation programs, including the potential impact of proxy advisor policies on a company. Please contact a member of the team to assess whether these changes impact your company, and, if they do, what, if anything, should be done to address the impact.

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