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ISS 2025 Policy Survey: U.S. Compensation Policy Insight

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On September 22, 2025, Institutional Shareholder Services (ISS) released the results of its 2025 Global Benchmark Policy Survey, a key input into ISS's annual policy development process. The survey ran from July 24 to August 22, 2025, and drew 248 responses – 165 from investors (down from 199 in 2024) and 83 from non-investors (down from 126 in 2024). This year's findings provide a nuanced picture of evolving perspectives on U.S. executive and director compensation, with particular focus on the balance of time- vs. performance-based equity, responsiveness to say-on-pay, the treatment of ESG and DEI metrics in incentives, and non-employee director pay. While survey results are not determinative of ISS's policy changes, they highlight areas where stakeholder sentiment may drive future updates.

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Equity Mix: Time-Based vs. Performance-Based Awards

What ISS Asked

ISS sought views on whether long-vesting time-based equity awards should be considered an acceptable component of executive long-term incentives, and if so, under what conditions.

Why it Matters

Historically, ISS has preferred that at least 50% of equity awards be performance-based, viewing performance-based awards as more directly tied to shareholder value creation. However, both companies and some investors have criticized performance-based awards as overly complex, costly, and prone to non-rigorous goal setting. Meanwhile, time-based awards with long vesting periods are gaining traction in some markets.

ISS is balancing these criticisms against its own recent policy developments. While ISS delayed formal reconsideration of its equity mix policy until 2026, it has already signaled stricter qualitative scrutiny of performance-based awards. Effective in 2025, ISS began scrutinizing the disclosure, goal rigor, and program complexity associated with performance-based awards more heavily when quantitative pay-for-performance misalignment is found.

What Respondents Said

- Investors generally expressed their preference for performance-based awards, but signaled openness to long-vesting time-based awards: 38% supported a blend of time- and performance-based awards, 31% said acceptability depends on industry specifics, and nearly half (46%) endorsed vesting or holding periods of five or more years as a condition for reduced performance requirements. A minority (21%) held fast that equity awards should always include performance conditions.
- Non-investors were more permissive of time-based awards: 45% supported a blended approach and 57% felt three-year vesting without an additional holding period for time-based awards was sufficient.

Implications

Similar to 2024, when only 31% of investors, but a full 70% of non-investors, suggested ISS modify its equity mix policy to consider long-vesting time-based awards as a positive mitigating factor, opinion remains split. Investors continue to lean toward performance-based awards as the preferred vehicle, though many acknowledge that long-vesting time-based awards can provide pay-for-performance alignment. Non-investors, by contrast, show greater willingness to accept time-based awards with fewer conditions. For ISS, this may foreshadow eventual changes, though near-term policy emphasizes heightened scrutiny of performance-based award disclosure and rigor.

Say-on-Pay Responsiveness

What ISS Asked

ISS asked how companies should be assessed when, after low say-on-pay support, they attempt shareholder outreach but cannot secure meaningful feedback.

Why it Matters

Responsiveness to shareholder input is a cornerstone of ISS's policy. Yet recent SEC guidance on Schedule 13G filings has deterred institutional investors from engaging on executive pay, out of concern that dialogue could jeopardize their passive status (as an active investor designation comes with more onerous requirements). This has limited companies' ability to collect and disclose investor feedback. ISS sought to determine whether its responsiveness policy should adapt to these realities.

What Respondents Said

- 64% of investors and 88% of non-investors agreed companies should not be penalized if they disclose genuine outreach but fail to obtain feedback.
- 80% of investors and 91% of non-investors supported treating program changes as responsive, even without direct evidence of shareholder input.

Implications

Broad consensus supports flexibility. For companies, this means documenting outreach efforts and disclosing program improvements may be enough to satisfy ISS, even when investor responses are limited.

ESG and DEI Metrics in Incentives

What ISS Asked

ISS asked whether the removal or modification of ESG and DEI metrics from in-flight awards should be viewed as problematic absent a compelling rationale.

Why it Matters

ESG and DEI measures have been politically charged, with some companies scaling back their use under regulatory and legal pressure. Investors, however, often view such metrics as important tools for accountability on sustainability and human capital. ISS wanted to understand whether removal should be flagged as inherently concerning, or whether flexibility is acceptable in today's environment.

What Respondents Said

- 73% of investors favored maintaining ISS's current approach: removal should be considered problematic unless a strong rationale exists.
- 76% of non-investors said removal should not automatically raise concern.

Implications

ISS is likely to align with investor views by treating removals skeptically unless justified, while recognizing issuer pushback.

Non-Employee Director (NED) Pay

What ISS Asked

ISS asked whether certain problematic director pay practices should trigger immediate adverse vote recommendations, even if they occur in a single year, rather than requiring two consecutive years.

Why it Matters

Since 2018, ISS has flagged outlier NED pay but generally waited two years before recommending votes against directors. With investor scrutiny of board independence rising, ISS tested whether this grace period remains appropriate, or if single-year outliers warrant immediate concern.

What Respondents Said

- Investors split roughly one-third each across three triggers: inadequate disclosure of unusual payments, excessive perquisites or performance-based awards, and NED pay exceeding executive officer pay.
- Non-investors were more lenient: 31% flagged inadequate disclosure, but 25% said none of these practices should automatically trigger adverse recommendations.

Implications

Investors favor faster accountability; issuers prefer tolerance for anomalies. ISS may revisit its two-year threshold, signaling tighter standards by 2026.

Additional Insights from the Broader Survey

What ISS Asked

Beyond compensation, ISS posed questions on board diversity, AI oversight, shareholder rights, and director overboarding.

Why it Matters

These topics reflect broader governance pressures that increasingly shape shareholder expectations. For example:

- ISS suspended its U.S. board diversity voting guidelines in early 2025 but asked how companies and investors continue to assess board composition.
- With AI rapidly transforming business models, ISS asked if boards should adopt global frameworks like OECD AI Principles for oversight.
- ISS also revisited director overboarding limits and dual-class structures, both of which can influence investor confidence in governance.

What Respondents Said

Responses were mixed across these areas, reflecting diverse perspectives among investors and issuers. Some respondents supported stricter expectations on board diversity and AI oversight, while others favored more flexibility. Views on director overboarding and multi-class structures similarly showed variation, underscoring the absence of clear consensus.

Conclusion

The 2025 survey results suggest modest but important shifts in sentiment. Openness to time-based equity awards tempered by demands for long vesting, reflects a pragmatic balance between simplicity and accountability. Leniency on say-on-pay responsiveness adapts to real-world regulatory constraints. Persistent investor insistence on ESG and DEI metric rigor, contrasted with issuer resistance, highlights a widening divide. Scrutiny of NED pay suggests ISS may accelerate negative recommendations for problematic director pay practices.

Together, these results point to evolving standards: flexibility where justified, but heightened expectations for rigor, disclosure, and accountability. Boards and compensation committees should anticipate possible 2026 policy changes on equity mix and director pay, while preparing to defend their ESG/DEI and engagement practices today.

ISS will draw on the results of its 2025 Global Benchmark Policy Survey to develop draft updates for its 2026 benchmark policies, with key drafts slated for release in the coming weeks. This will be followed by an open public comment period to solicit feedback from investors, companies, and other stakeholders on the proposed changes. Final policy updates are anticipated around late November 2025 and will apply to shareholder meetings held on or after February 1, 2026.



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