



Compensation
Advisory Partners

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ISS and Glass Lewis 2026 Policy Updates

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Both ISS and Glass Lewis recently released updates to their 2026 pay-for-performance models and proxy voting guidelines, which will apply to annual meetings held on or after February 1, 2026. This article highlights key changes related to executive and non-employee director compensation that may influence the proxy advisory firms' voting recommendations for the 2026 proxy season.

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ISS 2026 Policy Updates

Pay-for-Performance Evaluation Updates

ISS conducts a CEO pay-for-performance analysis to identify alignment between pay and performance over a sustained period. The changes to the primary screens are outlined below:

- Relative Degree of Alignment (RDA): The evaluation period will be extended from three years to five years.
- Multiple of Medium (MOM): ISS will now review CEO pay over both the most recent fiscal year and the prior three-year period, rather than only the most recent year.
- Pay-TSR Alignment (PTA): No changes will be made to this test for 2026.

Once the three primary screens have been calculated, ISS conducts a secondary test. For 2026, ISS also made changes to this calculation outlined below:

- Financial Performance Assessment (FPA): The measurement period will be extended from three years to five years.

ISS explains that these changes are designed to strengthen the evaluation of pay and performance alignment by using a longer time horizon while still maintaining a short-term view of pay magnitude. Extending the assessment period from three to five years is intended to better reflect how investors evaluate long-term results when comparing executive pay to peer companies. This approach emphasizes sustained value creation and helps minimize the influence of short-term volatility, one-off events, or external factors.

CAP Perspective:

ISS's 2026 methodology changes signal a stronger shift toward evaluating pay and performance over a true long-term horizon, and companies should prepare accordingly. The extension of key tests, from three years to five, means legacy pay decisions and long-term stock price will play a larger role in Say-on-Pay voting recommendations. Public companies should start assessing their five-year pay and performance trajectory now and model ISS outcomes under the new framework.

Time-Based Equity Awards with Long-Time Horizon

ISS announced that going forward they will give companies more flexibility in how their equity mix is evaluated by placing greater emphasis on the long-term nature of time-based awards in the qualitative pay-for-performance review. The policy update also clarifies that realized pay outcomes may be considered alongside realizable and granted pay.

Per ISS, investor feedback from recent surveys and policy roundtables indicates shifting views on the balance between time and performance-based equity, with many institutional investors voicing concerns about performance award structures and supporting the inclusion of time-based equity as a majority of the mix when it carries extended vesting or retention requirements. Under the updated approach, longer term vesting for time-based awards will be viewed more favorably, while equity programs will continue to be assessed holistically and case-by-case based on company-specific context. ISS also notes that well-designed and clearly disclosed performance equity programs will remain a positive factor in the qualitative evaluation.

CAP Perspective:

ISS's updated guidance signals a shift in how time-based equity is viewed in qualitative pay-for-performance evaluations. Companies now have more flexibility, as extended vesting on time-based awards can be seen as supporting long-term alignment, particularly when performance metrics are complex or poorly correlated with shareholder value creation. Nevertheless, we expect most companies to retain at least 50% performance-based long-term incentives (LTI) because investors and proxy advisors continue to view performance-conditioned awards as a critical indicator of pay-for-performance alignment and a safeguard against windfall compensation. As a result, CAP expects the majority of companies to maintain at least 50% of their LTI in performance-based awards in the near term, and ISS will continue to evaluate program design, disclosure quality, vesting rigor, and overall pay-for-performance alignment. Companies relying more on time-based equity should ensure long vesting periods, clear retention objectives, and a thorough rationale in the CD&A.

Company Responsiveness to Low Say-on-Pay Support

ISS amended their policies for Company Responsiveness to Low Say-on-Pay support, which is defined as support of less than 70% of votes cast. For 2026, ISS announced that they will allow greater flexibility for companies to demonstrate responsiveness when the company's previous Say-on-Pay received support of less than 70% by evaluating the company's rationale for actions taken in cases where the company discloses meaningful engagement efforts but was unable to obtain specific feedback. Specific examples include:

- Whether these issues raised were repetitive or isolated.
- The company's ownership structure.
- Significant company activity such as a merger or proxy contest.

ISS explains that these policy changes are intended to give companies greater flexibility in demonstrating responsiveness after receiving low Say-on-Pay support, especially when they have made genuine efforts to engage but were unable to gather investor feedback due to circumstances such as recent SEC guidance that may limit engagement. Per ISS, feedback from surveys and investor roundtables showed strong support for not penalizing companies that disclose good-faith engagement attempts, and for recognizing that meaningful compensation changes can still reflect responsiveness even without direct shareholder input. The update also clarifies how ISS will evaluate low Say-on-Pay results in atypical situations, such as proxy contests, mergers, or bankruptcies, by considering the company's engagement efforts, the board's assessment of investor concerns, related compensation actions, and any significant board turnover.

CAP Perspective:

This is a meaningful shift, as ISS recognizes that some companies make good-faith engagement efforts but cannot always obtain specific feedback, particularly following recent SEC guidance that may limit engagement. Under the new policy, what matters most is clear disclosure. Companies should be prepared to articulate their engagement efforts, explain how the board evaluated likely investor concerns, and show that compensation actions taken reflect a thoughtful and responsive approach.

Excessive Non-Employee Director Pay

Previously, ISS generally recommended "Against" specific board members on the committee responsible for approving non-employee director pay only after two or more consecutive years of awarding excessive compensation without adequate disclosure of the rationale. Excessive compensation is defined as director compensation that falls within the top 2–3% of companies within the same industry GICs. For 2026, adverse recommendations can now occur after the first year if the compensation is deemed egregious, or in subsequent

years if a pattern emerges across non-consecutive years. “Egregious” compensation includes performance awards, retirement benefits, or problematic perquisites.

This change allows ISS to address issues in the first year of occurrence or in the event of a pattern identified across non-consecutive years. Non-employee director pay that only slightly exceeds thresholds, without other risk factors or a multi-year pattern, will continue to generate warnings rather than adverse vote recommendations.

CAP Perspective:

Public companies should review their non-employee director compensation programs to ensure they are competitive but not excessive. All pay elements should be carefully benchmarked and documented with a robust rationale.

Equity-Based and Other Incentive Plans

For 2026, ISS has introduced a new scoring factor under the Plan Features pillar of the Equity Plan Scorecard (EPSC) that evaluates whether plans covering non-employee directors clearly disclose any cash-denominated award limits. For 2026, the new factor focusing on cash-denominated award limits will apply to S&P 500 and Russell 3000 EPSC models.

ISS states that the update aims to strengthen the Plan Features pillar by converting the previously informational disclosure of non-employee director award limits into a scored factor, reflecting best practices for plans that include directors.

Additionally, ISS will implement a new negative overriding factor, where an equity plan proposal may receive an “Against” recommendation if it lacks sufficient positive features within the Plan Features pillar. This update applies to S&P 500, Russell 3000, and non-Russell 3000 models.

ISS noted that some plans historically passed the EPSC despite very weak Plan Features results. To address this, the new overriding negative factor ensures that equity plans failing to demonstrate sufficient positive features will receive an “Against” recommendation, even if their overall score otherwise passes.

CAP Perspective:

All public companies should consider implementing shareholder approved limits on both cash and equity for non-employee directors. According to CAP’s director compensation study of the largest 100 U.S. public companies, 77% of companies have such limits in place, covering either total pay – cash and equity (62%) or equity only (38%). Director pay limits have become a majority practice among large companies largely due to increased litigation over the past decade and the conflict of interest inherent in directors approving their own compensation. Lastly, the Plan Features pillar should be reviewed to avoid triggering ISS’s new negative overriding factor.

Glass Lewis 2026 Policy Updates

For 2026, Glass Lewis announced updates to their pay-for-performance model and methodology. The updates were summarized by CAP in July 2025. For more information, please visit [Glass Lewis Updates to 2026 Pay-for-Performance Model & Methodology](#).

For information related to Glass Lewis updated voting policies, please visit [Glass Lewis Benchmark Policy Guidelines 2026](#) and [Glass Lewis Pay for Performance Methodology - North America](#)

This article highlights changes to both ISS and Glass Lewis' policies and is not intended to be exhaustive.

For information related to ISS voting policies, please visit [ISS Proxy Voting Guidelines Updates for 2026](#) and [ISS Benchmark Policy Updates](#)

The full 2026 proxy voting guidelines have not been released to date. Per ISS, the following is an update on the release dates:

- By early December 2025: Publication of all updated 2026 ISS benchmark policies (proxy voting guidelines) on ISS website.
- By mid-December 2025: Publication of updated Frequently Asked Questions (FAQ) documents on ISS website.
- February 1, 2026: The updated 2026 ISS benchmark policies take effect for meetings occurring on or after this date.



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