

## CLIENT ALERT

### Navigating Compensation Governance

## ISS Makes Few Changes to Compensation Policy

**Institutional Shareholder Services (ISS) proxy voting guideline updates include no direct changes to its compensation policies.**

**ISS policy update includes a modest change in its evaluation of shareholder proposals concerning executive compensation arrangements.**

**ISS recently issued FAQs provide guidance on how it assesses the following compensation issues: (i) consideration of company's response to an ISS identified pay issue; (ii) evaluation of adjustments to performance metrics; and (iii) distinguishing between a problematic CIC severance arrangement and CIC-related severance awards.**

### ISS 2024 Policy Updates

On December 13, 2023,<sup>1</sup> ISS issued updated proxy voting guidelines. ISS made **no** changes in its proxy voting guidelines that relate to compensation matters, except with respect to shareholder proposals relating to executive severance arrangements. Often these proposals call for shareholders to approve executive severance arrangements or payments.

Under its policy update, ISS will evaluate such proposals on a case-by-case basis, considering the following factors:

- The company's severance or Change-in-Control agreements in place and the presence of problematic features (e.g., excessive severance entitlements, single triggers, excise tax gross-ups, etc.);
- Any existing limits on cash severance payouts or policies which require shareholder ratification of severance payments exceeding a certain level;
- Any recent severance-related controversies; and
- Whether the proposal is overly prescriptive, such as requiring shareholder approval of severance that does not exceed market norms.

---

<sup>1</sup> See <https://www.issgovernance.com/policy-gateway/upcoming-policies/>

This update is effective for shareholder meetings held on or after February 1, 2024.

## ISS Compensation-Related FAQs<sup>2</sup>

On December 11, 2023, ISS issued updates to its FAQs that provide the following guidance on certain compensation matters.

### When will ISS consider company actions taken in response to ISS's identification of pay-related concerns?

If a company takes action to address ISS pay-related concerns following the publication of ISS's research report, such action must be disclosed in a public filing for ISS to consider them. Whether ISS will change its vote recommendations based on the new disclosure depends on the mitigating weight of the action(s) taken. However, generally ISS will not change its vote recommendations if the additional public filing is made less than five business days before the annual shareholder meeting date.

### How does ISS evaluate disclosure of adjustments to performance metric results, including non-GAAP metrics in incentive pay programs?

If a company's adjustment to a performance metric materially increases incentive payouts, companies should provide clear disclosure in the proxy explaining the nature of the adjustment, its impact (dollar or percentage) on payouts and the board's rationale. ISS considers it a best practice to provide line-item reconciliation to GAAP results. ISS would view the absence of such disclosure negatively, as it would adjustments that appear to insulate executives from performance failures, especially if ISS has identified a quantitative Pay-for-Performance misalignment.

### How does ISS distinguish between problematic CIC severance arrangements and incentive awards that are payable upon a CIC transaction?

ISS considers a new or materially amended executive agreement that provides for Change-in-Control (CIC) severance without requiring a qualifying termination a problematic pay practice. But ISS distinguishes this practice from bona fide incentive awards that become payable upon a CIC transaction, such as a CIC transaction bonus linked to an acquisition premium. But ISS will still evaluate CIC incentive awards qualitatively and issues such as excessive magnitude or unclear rationale may raise ISS concerns. To help distinguish between problematic CIC severance and a single trigger CIC incentive award, ISS will review a company's disclosure of the incentive award structure and award rationale, as well as whether separate non-problematic severance entitlements are in place.

\* \* \* \* \*

The *Client Update* is prepared by Meridian Compensation Partners' Governance and Regulatory Team led by Donald Kalfen. Questions regarding this Client Update or executive compensation technical issues may be directed to Donald Kalfen at 847-347-2524 or [dkalfen@meridiancp.com](mailto:dkalfen@meridiancp.com).

*This report is a publication of Meridian Compensation Partners, LLC, provides general information for reference purposes only, and should not be construed as legal or accounting advice or a legal or accounting opinion on any specific facts or circumstances. The information provided herein should be reviewed with appropriate advisors concerning your own situation and issues. [www.meridiancp.com](http://www.meridiancp.com)*

<sup>2</sup> See <https://www.issgovernance.com/policy-gateway/voting-policies/>