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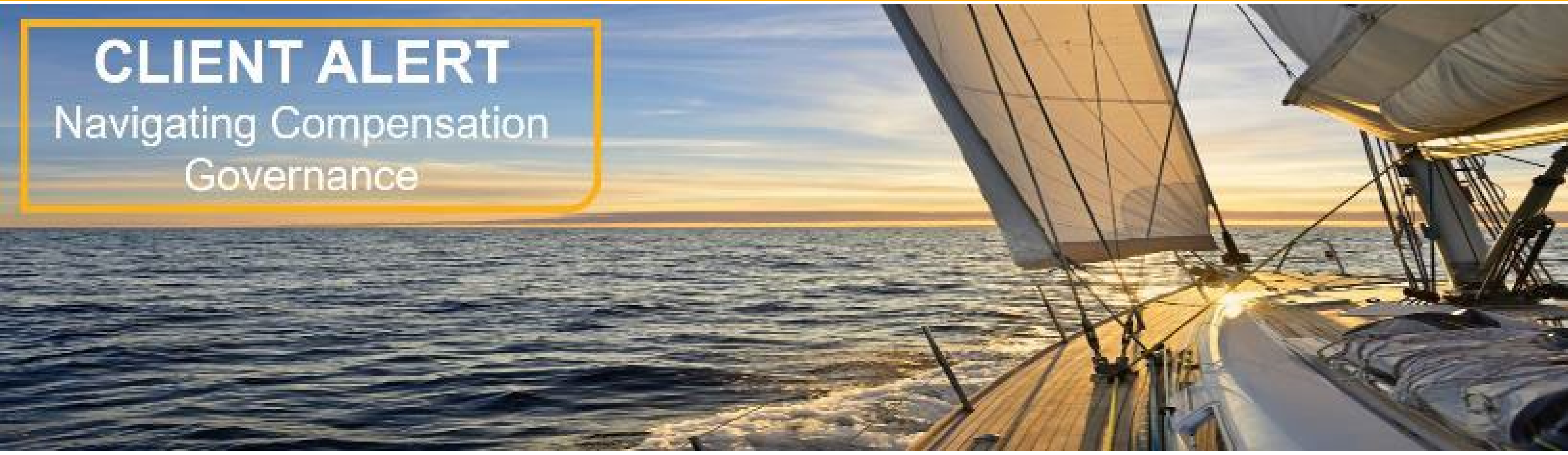

ISS 2025 Policy Survey Questionnaire Suggests Potential Incremental Changes to ISS Policies on Compensation Matters

Institutional Shareholder Services recently issued its 2025 Policy Survey Questionnaire, which generally previews potential changes in ISS's proxy voting policies.

Through its annual policy survey, ISS seeks feedback from institutional investors, public companies, corporate directors and the consulting and legal communities on emerging trends in corporate governance, executive compensation and other matters as part of its policy formulation process. The policy survey often provides an early read on ISS's emerging views on particular issues.

The Policy Survey will be open for participation until Thursday, September 5. The Survey can be completed online by going to the following webpage:

https://forms.office.com/pages/responsepage.aspx?id=dLriuFCDaUyidLWI-DnL75uTITRS59BEscE25cKw3fxUM0hRWUdSN1pOMllWSkNMT1UyVkdGWE01VyQlQCN0PWcu&utm

The results of the Policy Survey are expected to be published in late September.

The Survey includes questions related to the following executive compensation matters[1]:

- Time-based equity awards with lengthy vesting periods
- Discretionary annual incentive programs
- Shareholder proposals on workforce diversity

The questions on each of these matters are described below.

Time-Based Equity Awards with Lengthy Vesting Period

Currently, ISS considers the proportion of performance-based equity awards as a factor in its qualitative assessment when a company exhibits a quantitative pay-for-performance misalignment. In this context, ISS views a predominance of performance-conditioned equity awards as a positive mitigating factor and a predominance of time-vested equity awards is generally considered a negative exacerbating factor.

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[1] The Survey also includes questions on other governance topics such as (i) adoption of short-term poison pills, (ii) disclosure of Scope 3 greenhouse gas emissions reduction targets and (iii) climate-related shareholder proposals.

The Survey asks respondents to identify whether ISS should consider the use of time-based equity awards with extended vesting terms as a factor in its quantitative pay-for-performance assessment by choosing among the following responses:

- Continue with the current approach, which considers a predominance of time-based equity awards to be a negative factor, irrespective of if such awards have extended vesting periods (i.e., longer than four years)
- Revise the current approach, whereby time-based equity awards with extended vesting periods are considered a positive mitigating factor, similar to performance-based awards
- Other

For those respondents that answered that ISS should revise its current approach, the Survey asks respondents the length of extended vesting period for time-based equity awards that would be sufficient for ISS to view such awards as a positive mitigating factor in the context of a pay-for-performance misalignment by choosing among the following responses:

- The awards should vest over at least five years
- The awards should vest over at least seven years
- Other

The Survey also asks whether ISS should consider equity awards with a meaningful post-vesting holding period as a positive mitigating factor in the context of a pay-for-performance misalignment by choosing among the following responses:

- Yes, a post-vesting holding period requirement should be applicable
- No, a post-vesting holding period requirement is not necessary
- Other

Discretionary Annual Incentive Programs

Currently, ISS views positively annual incentive programs that are primarily based on the achievement of quantified, pre-set goals with disclosed targets and weightings. Conversely, ISS views negatively annual incentive programs that are heavily reliant on discretionary determinations, or which lack key disclosures such as target goals and weightings.

ISS notes some companies, including many large financial firms, maintain an annual incentive program that is based entirely on year-end discretionary performance assessments. Such companies typically explain that discretionary annual incentive programs are necessary to align with peer practices and reflect macroeconomic factors and/or organizational risk management.

The Survey asks respondents to identify whether largely discretionary annual incentive programs, such as those adopted by some large financial sector companies, are problematic, even if the program structure is consistent with industry and/or peer practice by choosing among the following responses:

- Yes, largely discretionary annual incentive programs are problematic, and companies should primarily use preset goals and limit the impact of discretion
- No, discretionary programs are not problematic when the structure is consistent with industry and/or peer practice, and the company discloses the main factors considered in determining payouts
- Sometimes, discretionary programs are only problematic if pay is not aligned with company performance
- Other

Shareholder Proposals on Workforce Diversity

Currently, ISS will evaluate, on a case-by-case basis, shareholder proposals requesting that a company report on: (i) pay data by gender, race or ethnicity, or (ii) policies and goals to reduce any gender, race or ethnical pay gap taking into account certain factors.

The Survey asks respondents to identify whether any of the following human capital management metrics or disclosures should be considered by investors in evaluating a shareholder proposal on workforce diversity.

- Racial or ethnic diversity and gender representation data for different categories of positions across an organization (such as EEO-1 data in the U.S.)
- Promotion velocity data by race/ethnicity and gender (examining whether sex and race/ethnicity differences exist in promotions)
- Retention rates by race/ethnicity and gender
- Hiring rates by race/ethnicity and gender
- Board oversight of the human capital management issue raised in the proposal
- Management oversight of the human capital management issued raised in the proposal
- Adjusted gender pay gap disclosure (i.e., adjusting to account for factors such as job role, education, and experience)
- Unadjusted gender pay gap disclosure
- Other

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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.