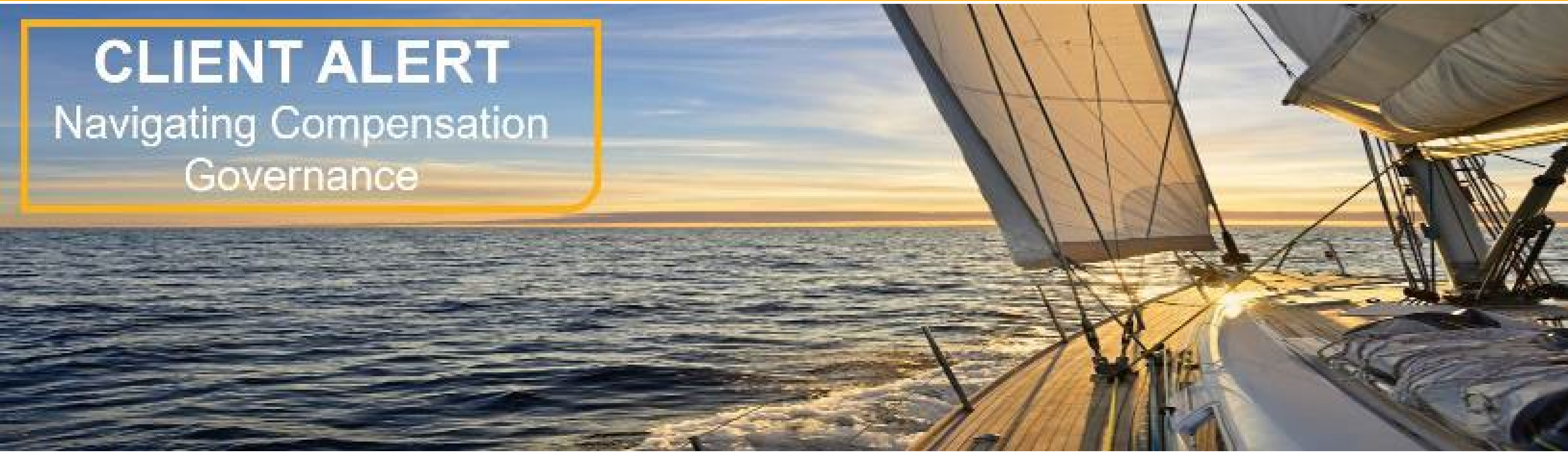
January 30, 2025 Volume 16, Issue 1

MERIDIAN
COMPENSATION PARTNERS



ISS and Glass Lewis Issue Policy Updates for 2025

The proxy advisors' 2025 policy updates make narrow changes to their compensation and governance policies.

These updates will go into effect for the 2025 proxy season.

ISS Policy Updates for 2025

ISS has revised its proxy voting policies for U.S.-listed companies in the following areas relating to executive compensation and corporate governance:

- ISS-compliant "robust" clawback policies
- Evaluation of performance-based equity awards as part of ISS's qualitative assessment of pay-for-performance alignment
- Evaluation of incentive program metrics
- Changes to in-flight incentives

The updates represent an incremental change to existing ISS policies. These policy updates are effective as of February 1, 2025.

ISS-Compliant "Robust" Clawback Policies

- **Current policy**. ISS evaluates clawback policies as part of its holistic assessment of pay programs and related governance policies used to inform its Say on Pay vote recommendations. In this context, ISS will assess whether a company's clawback policy is sufficiently robust to be a governance mitigator with respect to a pay-for-performance misalignment. To be robust, a clawback policy must allow for recovery of *incentive* compensation awards to named executive officers (NEOs) upon a financial restatement and/or executive misconduct.
- **New policy**. ISS has modified its standard for assessing whether a company's clawback policy is robust. To qualify as robust, the company's clawback policy must authorize recovery of *both time-based and performance-based equity awards* from NEOs in the event of a financial restatement. ISS's policy updates do not clarify (i) whether a clawback policy must be mandatory (versus at the discretion of compensation committee/board), or (ii) how recovery amounts should be determined.

Meridian comments. We do not anticipate a significant increase in prevalence of companies maintaining ISS-compliant clawback policies. Standing alone, absence of an ISS-compliant clawback policy should have no impact on ISS vote recommendation on company's Say on Pay proposal. Moreover, an ISS-compliant clawback policy may be problematic in application because it would include a punitive element through the potential recoupment of equity awards not linked to financial reporting measures.

Evaluation of Performance-Based Equity Awards

- **Current policy**. ISS evaluates performance-based equity awards as part of the qualitative assessment of CEO pay-for-performance alignment that informs its Say on Pay recommendations. In this context, ISS will evaluate both the equity award design and related proxy disclosures, including the proportion of equity awards that are performance-based, the rigor of the performance goals, the transparency of disclosures and the application of compensation committee discretion, among other things.

- **New policy.** ISS will increase its focus on disclosure and design aspects of performance-based equity awards when conducting its qualitative assessment of CEO pay-for-performance alignment. ISS will consider the following non-exhaustive items in its review of disclosure and design of such awards:

  — Non-disclosure of forward-looking goals

  — Poor disclosure of closing-cycle vesting results

  — Poor disclosure of the rationale for metric changes, metric adjustments or program design

  — Unusually large pay opportunities, including maximum vesting opportunities

  — Non-rigorous goals that do not appear to strongly incentivize for outperformance

  — Overly complex performance equity structure

  Multiple concerns are more likely to result in an ISS adverse Say on Pay vote recommendation.

  Meridian comments. In light of ISS's increased scrutiny of performance-based equity awards, companies should consider enhancement of their CD&A disclosures to provide a clear rationale for the award's design. It remains to be seen whether the ISS focus on performance-based equity awards will be given heavy weight in ISS's overall qualitative pay-for-performance assessment.

Evaluation of Incentive Program Metrics

- **Current policy.** ISS evaluates incentive program metrics as part of the qualitative assessment of CEO pay-for-performance alignment that informs its Say on Pay recommendations. In this context, ISS will evaluate the rigor of the performance goals, the rationale for the selection of metrics and whether the company adjusted results in determining payouts, among other things.

- **New policy.** In evaluating the metrics of an incentive program as part of its holistic review of a company's pay programs, ISS may consider factors such as:

  — Whether the program emphasizes objective metrics that are linked to quantifiable goals, as opposed to highly susceptible or discretionary metrics

  — The rationale for selecting metrics, including the linkage to company strategy and shareholder value

  — The rationale for atypical metrics or significant metric changes from prior year

— The clarity of disclosure around adjustments for non-GAAP metrics, including impact on payouts

ISS indicates that it does not endorse or prefer the use of TSR or any specific metric in incentive plans.

Changes to In-Flight Incentive Programs

During the COVID-19 pandemic, ISS adopted a policy on changes to in-flight long-term incentive awards. In its new policy guidance, ISS clarifies that its COVID-19 policy remains in effect, with minor revisions. Under this policy, ISS will generally view negatively any mid-cycle changes (to metrics, performance targets and/or measurement periods) for in-flight incentive awards. ISS believes that a company should disclose clear and compelling rationale for such actions and explain how it does not circumvent pay-for-performance outcomes.

Glass Lewis Policy Updates for 2025

Glass Lewis (GL) has revised its proxy voting policies for U.S.-listed companies with regard to (i) its holistic qualitative Say on Pay analysis and (ii) board responsiveness to shareholder proposals**.**

Holistic Qualitative Say on Pay Analysis

GL evaluates executive pay programs on a case-by-case basis "in context of industry, size, maturity, performance, financial condition, its historic pay for performance practices and any other relevant internal or external factors". This evaluation is a holistic one, rather than a pre-determined scorecard approach. No single factor would lead to an "against" vote recommendation except for particularly egregious pay decisions and practices. Glass Lewis clarified that one factor considered in its Say on Pay analysis is whether a company made "adjustments to performance results that [led] to problematic pay outcomes".

Board Responsiveness to Shareholder Proposals

If a shareholder proposal receives more than 30% shareholder support, GL believes a company's board should engage with shareholders on issue and provide disclosure addressing shareholder concerns and outreach initiatives.

These new GL policies are effective for companies holding shareholder meeting on or after January 1, 2025.

* * * * *

The ***Client Alert*** 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.