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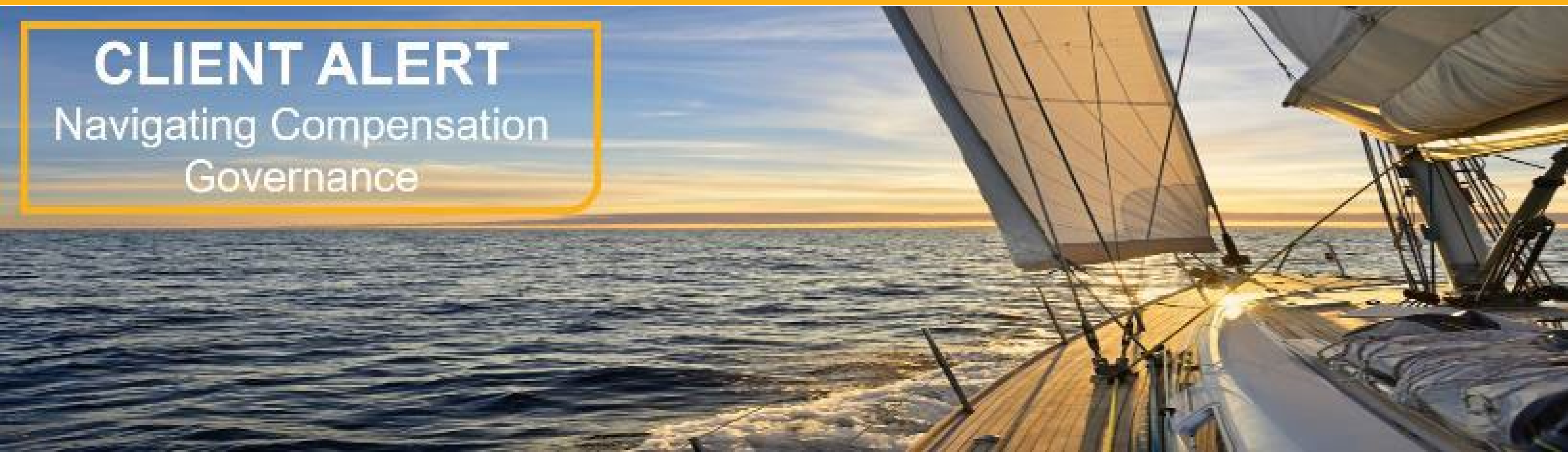

ISS 2026 Policy Survey Questionnaire Suggests Potential Incremental Changes to ISS Policies on Compensation Matters

Institutional Shareholder Services recently issued its 2026 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 results of the Policy Survey are expected to be published in late September.

Summary of ISS Policy Survey

The Survey asks respondents to answer questions related to the following executive compensation, governance and shareholder proposal matters[1]:

Executive Compensation Matters

- Proportion of Time-Based and Performance-Based Equity Awards: Are time-based equity awards acceptable as the predominant or sole component of long-term incentive awards to executive officers and under what circumstances?
- Board Responsiveness to Prior Say on Pay Vote: How should ISS assess board responsiveness to a prior Say on Pay vote if a company discloses that it did not receive any shareholder feedback upon engaging with investors?
- Modification of In-Flight Awards to Eliminate ESG/DEI Metrics: How should ISS assess the modification of in-flight incentive awards to eliminate Environmental and Social ("E&S") or Diversity, Equity and Inclusion-related ("DEI") metrics?

Governance Matters

- Non-Executive Director (NED) Pay: Are there specific problematic practices in NED pay that typically warrant immediate concerns for investors and potentially adverse ISS vote recommendations in the first year of the practice?

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[1] The Survey also includes questions on (i) multi-class vote structures, (ii) AI governance and risk management and (iii) shareholder proposals seeking the right to act by written consent.

- Director Overboarding: What are the appropriate directorship limits for CEOs, executive directors and non-executive directors?
- Board Diversity and DEI: Does your organization still view board diversity, including diversity targets, to be an important priority?

Shareholder Proposals

- Burden of Proof: Under what circumstances does your organization believe that proponents should make detailed company-specific cases in support of a shareholder proposal?
- Shareholder Proposals Seeking to Separate the Board Chair and CEO Roles: What is your organization's view of shareholder proposals seeking to separate the Board Chair and CEO roles?

A detailed description of each of the ISS policy survey questions related to executive compensation and governance matters is provided in the Appendix.

Meridian comments. For the second consecutive year, ISS asks questions related to its current policy to prefer at least 50% of all equity awards granted to executive officers to be in the form of performance-based equity awards. The survey questions suggest that ISS may be amenable to predominately or solely time-based equity awards, provided that the award design includes lengthy vesting periods or other features.

In February 2025, the SEC staff issued guidance on when certain shareholder engagement activities could trigger additional SEC reporting obligations by an institutional investor. In response to the SEC guidance, many investors held passive listening-only meetings with issuers during the 2025 proxy season. In this context, ISS asks how it should assess board responsiveness to a prior Say on Pay vote given many 2025 engagement meetings offered little to no insight into investor concerns underlying their vote decisions. We expect that ISS's analysis in 2026 will focus on whether a company made positive executive pay program changes, rather than whether the company specifically addressed investor concerns raised during engagement meetings.

Similarly, considering the evolving landscape around E&S and DEI-related metrics and targets, ISS asked for input on whether ISS should leniently assess the removal of such metrics from in-flight awards.

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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 847-235-3605 or dkalfen@meridiancp.com.

Appendix: Detailed Summary of ISS Policy Survey

Below is a detailed summary of the ISS policy survey, which includes a description of the current ISS policy, the ISS questions, and potential responses.

Executive Compensation (EC)

The survey covers the following three executive compensation matters: (i) the proportion of time-based and performance-based equity awards, (ii) board responsiveness to prior Say on Pay vote, and (iii) modification or removal of ESG/DEI Metrics for in-flight awards. Each of these topics is detailed below.

1) Long-Term Equity Awards – Proportion of Time-Based and Performance-Based Awards

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.

EC Question 1A: The Survey asks respondents whether they consider time-based equity award structure acceptable for *some or all* executive long-term incentive awards by selecting among the following responses:

- Yes, performance conditions are not necessary for awards in a long-term executive incentive program with an extended time horizon, stock value is a simpler and better measure as long as there is a sufficient long-term time horizon.
- Yes, but only for part of the awards; plans should provide a mix of time- and performance-based awards.
- It depends. The adoption of time-based equity compensation with an extended time horizon may be acceptable for certain industries or due to specific factors disclosed by the company.
- No – well-designed performance-based equity awards provide meaningful insights for shareholders and incentivize executive performance that will tend to be better aligned with shareholder interests and long-term company value.
- Other factors/safeguards/mitigators (e.g., reduction in grant sizes, financial underpins, clawback provisions, company specific strategic considerations) are more relevant than the type of awards or the ratio of time-based and performance-based awards.

EC Question 1B: The Survey asks respondents to identify the length of a vesting period and/or a post-vesting retention 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:

- At least 3 years vesting, without a further post-vesting retention period.
- At least 4 years vesting, without a further post-vesting retention period.
- At least 5 years vesting and/or post-vesting retention requirement in aggregate (e.g., 3 years vesting plus 2 years post-vesting retention).
- At least 7 years vesting and/or post-vesting retention requirement in aggregate.
- Exclusively time-based equity structures are not appropriate. Equity awards should always include performance conditions, regardless of the length of the vesting and/or holding periods.
- Other (explain).

EC Question 1C: The Survey asks respondents to identify the mix of time-based and performance-based awards a long-term executive incentive program that the respondent considers to be reasonable by choosing among the following responses:

- All long-term executive equity awards should be based on performance conditions, regardless of the length of the vesting and/or holding periods.
- Time-based awards should not exceed 25% of the awards granted under the program.
- Time-based awards should not exceed one-third of the awards granted under the program. Time-based awards should not exceed 50% of the awards granted under the program.
- Time-based awards with a sufficient long-term time horizon are not problematic and they can comprise either all or a majority of long-term executive incentives.
- Other (explain).

EC Question 1D: The Survey asks respondents to identify which (i) vesting requirements and/or (ii) post-vesting or post-exercise retention requirements would be sufficient to dispense with performance requirements for part or all of executive long-term incentive awards by selecting among the following responses:

- Three-year vesting plus at least a two-year post-vesting retention requirement.
- Four-year vesting with at least a one-year post-vesting retention requirement.
- Five-year vesting without a retention requirement.
- All three options above are sufficiently long-term.
- Equity awards should always include performance conditions, regardless of the length of the vesting.
- Other (explain).

EC Question 1E: The Survey asks respondents whether any of the following stock retention requirements are meaningful by choosing among the following responses:

- 100% retention of net (after-tax) shares for a specified timeframe.
- At least 75% retention of net shares for a specified timeframe.
- At least 50% retention of net shares for a specified timeframe.
- Other (explain).

2) Board Responsiveness to Prior Say on Pay Vote

Under its current policy, if a company's prior Say on Pay proposal received support from less than 70% of the votes cast, ISS will determine on a case-by-case basis whether the board has adequately responded to the vote, considering certain qualitative factors. If the board fails to adequately respond to the company's prior Say on Pay proposal that received the support of less than 70% of votes cast, then ISS will issue negative vote recommendations on the election of compensation committee members (or, in exceptional cases, the full board).

ISS's assessment of a company's response will include consideration of the Company's disclosure of:

- Engagement efforts with major institutional investors regarding the issues that contributed to the low level of support (including the timing and frequency of engagements and whether independent directors participated),
- Specific concerns voiced by shareholders that led to the Say on Pay opposition, and
- Specific and meaningful actions taken to address shareholders' concerns.

As noted above, in February 2025 SEC staff issued guidance that certain engagement activities could trigger additional SEC reporting obligations by an institutional investor. As a result, many investors held passive listening meetings in engaging with issuers during the 2025 proxy season.

EC Question 2A:The Survey asks respondents to identify how ISS should assess board responsiveness to a prior Say on Pay vote if a company discloses that it did not receive any shareholder feedback upon engaging with investors by choosing among the following responses:

- The absence of disclosed shareholder feedback should be viewed negatively, even considering the new SEC guidance.
- The absence of disclosed shareholder feedback should not be viewed negatively if the company discloses that it attempted but was unable to obtain sufficient investor feedback.

EC Question 2B: The Survey asks respondents whether a board can be responsive to a prior Say on Pay vote based on pay program changes when an issuer does not disclose investor outreach feedback by choosing among the following responses:

- Yes, pay program changes, when showing improvement in remuneration practices, can be considered responsive, even in the absence of disclosed shareholder feedback.
- No, pay program changes should be linked to disclosed shareholder feedback in order to be considered responsive.

3) Modification of In-flight Incentive Awards to Eliminate E&S or DEI Metrics

Currently, ISS will generally view negatively any modification to in-flight incentive awards, including changes to metrics, performance targets and/or measurement periods. ISS will consider such modifications in its qualitative assessment of a company's executive compensation program and practices. ISS believes that a company should disclose a clear and compelling rationale for such modifications and explain how they do not circumvent pay-for-performance outcomes.

EC Question 3A: The Survey asks respondents to identify how ISS should assess the modification of in-flight incentive awards to eliminate E&S or DEI-related metrics by choosing among the following responses:

- Continue with the current approach, whereby changes to in-flight awards are generally viewed negatively absent a compelling rationale.
- The removal of E&S or DEI metrics from in-flight awards generally should not in and of itself be considered problematic absent other concerns.

Governance (Gov) Matters

The survey covers the following three governance matters:(i) non-executive director pay, (ii) director overboarding and (iii) board diversity and DEI. Each of these topics is detailed below.

1) Non-Executive Director (NED) Pay

Currently, ISS will generally recommend AGAINST members of the board committee that are responsible for approving or setting NED compensation if ISS finds that there has been excessive NED compensation for *two or more consecutive years* without compelling rationale or mitigating factors. ISS has identified certain practices that generally will mitigate concern around high NED pay when a company cites them as a rationale. ISS has also identified certain practices that generally will *not* mitigate concern around high NED pay.

Gov Question 1A: The Survey asks respondents whether any NED pay practices are sufficiently problematic to warrant *immediate* concerns for investors and potentially adverse ISS vote recommendations in the first year of the practice, and, if so, identify any such practices among the following options:

- No.
- Inadequate disclosure or lack of clearly disclosed rationale in the proxy for unusual NED payments.

- Excessive perquisites (such as travel), performance awards, stock option grants or retirement benefits.
- Particularly large NED pay magnitude or NED pay that exceeds that of executive officers.
- Other practices (explain).

2) Director Overboarding

Currently, ISS will recommend shareholders vote against a director who serves on an excessive number of boards as described in the table below:

Number of Directorships	Current Policy
Individual director (regardless of employment status at the subject company)	No more than 5 directorships
Director who is an active CEO	No more than 2 outside directorships

The Survey asks respondents a series of questions to identify their views on whether ISS should change its policy on director overboarding.

Gov Question 2A: The Survey asks respondents to identify the appropriate directorship limit for a non-executive director, where no relevant local market limit exists, by choosing among the following responses:

- Six total board seats is an appropriate maximum limit.
- Five total board seats is an appropriate maximum limit.
- Four total board seats is an appropriate maximum limit.
- Three (or fewer) board seats is an appropriate maximum limit.
- A general limit should not be applied; each board should consider what it views as appropriate and act accordingly.
- It depends on the circumstances.

Gov Question 2B: The Survey asks respondents to identify the appropriate directorship limit for a CEO, where no relevant local market limit exists, by choosing among the following responses:

- Two external board seats is an appropriate maximum limit for a CEO.
- One external board seat is an appropriate maximum limit for a CEO.
- A general CEO limit should not be applied; each board should consider what it views as appropriate and act accordingly.
- It depends on the circumstances.

Gov Question 2C: The Survey asks respondents to identify whether a CEO serving as a board chair at another listed company poses an overboarding concern by selecting among the following responses:

- Yes, because a board chair has additional responsibilities and commitments beyond those of other non-executive board members.
- No, it should be considered the same as any other board mandate.
- It depends on the circumstances.

Gov Question 2D: The Survey asks respondents about a situation in which an executive director, particularly a group CEO, sits as a non-executive on multiple public company boards within the same group of connected companies. Specifically, the Survey asks respondents whether, in such a situation, ISS should consider each public board seat to be a separate directorship by selecting between the following responses:

- Yes, because each public company board seat has its own specific responsibilities and commitments.
- No, because within a group of connected companies, even where there are separate public company boards, there will be synergies that will result in fewer concerns about a director being overboarded.
- It depends on the circumstances.

3) Board Diversity and DEI

Currently, ISS does not consider gender and racial and/or ethnic diversity of a company's board when making vote recommendations with respect to director elections at U.S. companies. ISS adopted this policy in February 2025 (see Meridian Client Alert dated February 14, 2025).

ISS asks a couple questions asking for respondent views on board diversity and DEI.

Gov Question 3A: The Survey asks respondents to identify the response(s) that best reflects their views on DEI matters by choosing among the following responses:

- We remain focused on the importance of board, executive and workforce diversity, including diversity targets where applicable, and expect that most U.S. companies will disclose their approach to the diversity demographics of their boards as well as other DEI matters.
- We remain focused on the importance of board diversity, including diversity targets where applicable, and expect that most U.S. companies will disclose the diversity demographics of their boards.
- We no longer (or never did) consider numerical board or executive diversity targets but expect that U.S. company boards will continue to have a mix of professional and personal characteristics that is comparable to market norms and to each company's business needs.
- Shareholder proposals on DEI topics have become more complex and should be considered on a case-by-case basis, both by investors and by companies.
- Irrespective of complexity, shareholder proposals on DEI topics are an unnecessary distraction for companies.
- Corporate DEI-related practices have evolved in the U.S., and disclosure on how companies assess risks or opportunities associated with DEI, whether they are scaling back or maintaining corporate DEI programs, is generally helpful for shareholders.
- Other (explain).

Gov Question 3B: The Survey asks respondents to identify any factors that are relevant to consider in assessing board diversity by choosing among the following responses:

- Gender mix.
- Racial and/or ethnicity mix.
- Skills and experience mix and whether such mix is appropriate considering the company's business.
- Tenure on board mix.
- Other factors.
- We do not consider any measures of board diversity to be relevant for consideration.

Shareholder Proposals (SHP)

The survey covers the following shareholder proposal matters: (i) burden of proof (ii) independent board chair proposals and (iii) action by written consent proposals. The first and second of these topics are detailed below.

1) Burden of Proof

Under current ISS policy, ISS will determine a vote recommendation on a shareholder proposal on a case-by-case basis upon considering a variety of factors, including whether implementation of the proposal is likely to enhance or protect shareholder value. ISS does *not* impose a burden of proof on the proponent to demonstrate how shareholders will benefit if the proposal is approved and enacted.

SHP Question 1A: The Survey asks respondents to identify whether (and under what circumstances) a shareholder proponent should be required to provide a company-specific, detailed case for the proposal by choosing among the following responses:

- A detailed and company-specific case should be made by proponents for all proposals, as the burden of proof is always on the proponent to explain how shareholders will benefit if the proposal is approved and enacted.
- It is less important if the proposal merely seeks enhanced disclosure, but more important if the proposal requests action that goes beyond disclosure.
- It is less important for proposals on topics that are familiar to investors, but more important for novel proposal topics.
- It is important for a binding proposal but not necessarily for a precatory proposal.

2) Shareholder Proposals Seeking to Separate the Board Chair and CEO Roles

Under current ISS policy, ISS generally recommends that shareholders vote FOR a shareholder proposal that requests that the position of Board Chair be filled by an independent director ("Independent Board Chair Proposals"), after taking into consideration the scope of the proposal, the company's current board leadership structure, the company's governance structure and practices, company performance and any other relevant factors.

SHP Question 2A: The Survey asks respondents to identify the response(s) that best reflects their views on Independent Board Chair Proposals by selecting among the following responses:

- An independent board chair is the best way to ensure robust oversight of the board and management team on behalf of shareholders, and shareholder proposals that support this principle at companies that do not have a commitment to have and retain an independent board chair structure are understandable.
- It is generally good to have an independent board chair, but exceptions to this may be appropriate in certain cases. Where they believe this is so, the company/board should explain the exceptional circumstances to its shareholders.
- An independent board chair structure is not necessarily best, and such proposals should be considered on a fully case-by-case basis, considering such factors as the robustness of the lead director role, the company's overall governance structure, and the performance of the company (for example, relative to peers).
- A board should generally have the flexibility to determine its leadership structure and whom to appoint as board chair. Only in unusual cases such as when there is evidence that the existing leadership structure has failed to ensure adequate oversight, may a shareholder-endorsed mandate to have an independent chair structure be appropriate.