

CLIENT ALERT

Navigating Compensation Governance

Summary of Key Results from ISS 2026 Annual Policy Survey

ISS recently released results of its annual Policy Survey.

Survey results suggest ISS may make modest changes to proxy voting policies covering executive pay and corporate governance.

Each year, Institutional Shareholder Services (ISS) surveys institutional investors, public companies (“issuers”) and the consulting and legal communities on emerging corporate governance and executive compensation issues as part of its annual policy formulation process (the “Survey”). Issuers and their advisors are collectively referred to as “non-investors” in this Client Alert.

Two-thirds of the respondents to the 2025 Survey were investors, primarily large institutional shareholders, while one-third of respondents were non-investors. The high proportion of investor responses may reflect (i) their concerns about the SEC’s recently imposed restrictions on issuer engagement and (ii) increased focus by proxy advisory firms on tailoring voting policies to meet the preferences of individual institutional investors.

Key findings from the 2025 Survey are highlighted below.

Executive Compensation

- **Proportion of Time-Based and Performance-Based Equity Awards:** Few investors believe that time-based equity awards should be the sole or predominate component of long-term incentive awards to executive officers, even with extended vesting and/or holding requirements. However, a plurality of investors and majority of non-investors agree that time-based awards should comprise a significant portion of overall long-term incentive mix (generally not exceeding 50%).
 - **Impact on ISS Policy – Maintain Status Quo:** ISS will likely maintain its current policy that at least 50% of all equity awards should include performance-vesting conditions.
- **Board Responsiveness to Prior Say on Pay Vote:** A majority of investors and issuers believe that the absence of disclosed shareholder feedback (in the year following a poor Say on Pay vote outcome) should not be viewed negatively by ISS if the company discloses that it attempted but was unable to obtain sufficient investor feedback. Investors and non-investors further believe that disclosed improvements in pay programs should be considered by ISS as responsive to a poor Say on Pay vote outcome, even in the absence of disclosed shareholder feedback.
 - **Impact on ISS Policy – Potential Modification to Policy:** Given investor sentiment, we believe ISS is likely to view a company’s disclosure of ISS favored pay program changes as a sufficient to demonstrate

board responsive to the previous year's poor Say on Pay vote outcome, even if the company does not disclose shareholder feedback (the latter of which is required under ISS current policy).

- **Modification of In-Flight Awards to Eliminate ESG/DEI Metrics:** A majority of investors believe that ISS should continue to view modifications to in-flight awards negatively absent a compelling rationale. A majority of non-investors believe that ISS policy should accommodate modifications to in-flight awards that eliminate Environmental and Social ("E&S") or Diversity, Equity and Inclusion-related ("DEI") metrics.

— **Impact on ISS Policy – Maintain Status Quo:** ISS will likely continue to negatively view any modification of in-flight incentive awards, including changes to eliminate Environmental and Social ("E&S") or Diversity, Equity and Inclusion-related ("DEI") metrics, absent a compelling rationale.

Governance Matters

- **Non-Executive Director (NED) Pay:** Roughly one-third of investors found each of the following non-employee director (NED) pay practices as sufficiently problematic to warrant immediate concerns for investors and potentially adverse ISS vote recommendations in the first year of the practice: (i) inadequate disclosure or lack of clearly disclosed rationale in the proxy for unusual NED payments, (ii) excessive perquisites (such as travel), performance awards, stock option grants or retirement benefits, or (iii) particularly large NED pay magnitude or NED pay that exceeds that of executive officers.

— **Impact on ISS Policy – Maintain Status Quo:** Given the limited investor concern around NED pay practices identified above, ISS will likely maintain its current policy to 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.

- **Director Overboarding:** Investors differ on the number of corporate directorships a non-executive director may hold to avoid risks of overboarding, with strong levels of investor support divided among limits of 3, 4 or 5 total directorships. In contrast, 77% of investors agree that a director who is an active CEO should hold no more than one outside board seat.

— **Impact on ISS Policy – Potential Modification to Policy:** The table below shows the current and forecasted ISS policies on overboarding given investor sentiment:

Number of Directorships	Current Policy	Forecasted Policy
Individual director (regardless of employment status at the subject company)	No more than 5 directorships	No change
Director who is an active CEO	No more than 2 outside directorships	No more than 1 outside directorship and no outside Board Chair positions

- **Board Diversity and DEI:** Over 40% of investors believe board diversity remains an important corporate objective and expect that most U.S. companies will disclose the diversity demographics of their boards (a smaller percentage believe that executive and employee diversity are important corporate objectives). A quarter of investors acknowledge that "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."

— **Impact on ISS Policy – Maintain Status Quo:** Given evolving investor views on board diversity and DEI, ISS is likely to maintain its current policy to 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.

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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 or dkalfen@meridiancp.com.

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