

CLIENT ALERT | AUG 2024

ISS and Glass Lewis Release Policy Surveys Signaling Potential Executive Compensation Changes for 2025



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In early August two major proxy advisors kicked off 2025 proxy season with the release of their annual policy surveys. While the final policies are not usually released until the Thanksgiving timeframe each year, the surveys themselves provide key information and reflect issues that both advisors have contemplated updating. In many cases, these surveys hint at the ways in which the advisors intend to redirect issues. The [ISS Annual Global Benchmark Policy Survey](#) is accepting input until September 5 and the [Glass Lewis 2024 Policy Survey](#) is open until August 30.

Takeaways

While it is difficult to predict specific substance of the final policies, thematically it appears that proxy advisors are concerned about performance-based equity that results in outsized awards which have become a hot-button issue in the news. It also seems that use of time-based equity awards that are conservatively structured with longer vesting periods and holds will be cast in a different and not-so-negative light when the advisors review overall compensation.

ISS on its own seems to be focused on discretionary awards and profit distributions, which could result in more stringent applications to the financial sector.

GL's policy questions are scattered across different policy areas, but many focus on heightened disclosure with respect to rationale for make-whole grants, perquisites, pay levels, and benchmarking.

Below we summarize the executive compensation portions of each survey. We will be tracking responses as they are released, as well as the proposed revisions when they are announced in the fall.

Institutional Shareholder Services

Time-Based Equity as a Potential Positive Mitigating Factor

- *Reconsideration of time-based equity:* ISS notes that for many years, their qualitative review in the context of a pay-for-performance (PFP) misalignment favored performance-based equity rather than time-based equity, but investors have raised concerns that performance-based equity may be too complex and/or not rigorous enough and may result in above-target payouts. ISS asks if it should continue its current approach (where predominance of time-based equity is a negative factor) or revise the approach such that time-based equity with extended vesting periods (i.e., longer than four years) is a positive mitigating factor.
- *Vesting period of time-based equity:* ISS inquires as to what length of extended vesting period for time-based awards is enough to view awards as a positive mitigating factor. Options include at least seven years, at least five years, or “other.”
- *Post-vesting hold on time-based equity:* ISS inquires whether a post-vest hold should be required to view time-based awards as a positive mitigating factor in the context of a PFP misalignment.

Use of Discretionary Short-Term Incentive (STI) Plans

- *Assessing discretionary STI plans:* ISS notes that while many companies use objective measures, there are also many companies (noting for example large financial companies) that only use discretionary year-end assessments. ISS inquires as to whether such programs are (1) problematic, (2) not problematic if consistent with peer or industry practice and the company discloses main factors involved, (3) problematic only if not aligned with company performance, or (4) “other.”

Asset Manager Incentives Based on Profits

- *Assessing profit distributions for managed funds:* ISS notes that many niche industries use share of profits as a compensation mechanism, noting that these firms believe they need to compete with private companies. Currently, ISS typically views these distributions negatively under the qualitative PFP analysis because they are complex and lead to “excessive” compensation. ISS inquires as to whether it should review these distribution schemes under a different approach because of the unique nature of fund performance.

Glass Lewis

Executive Pay

- *Disclosure around make-whole grants:* GL asks what type of disclosure should be made when a make-whole grant is given to compensate for forfeited amounts from a previous employer. Options include (1) makeup is same value as forfeited amount, (2) the terms (vesting, performance conditions) are same as forfeited award, (3) award is time-restricted, or (4) simply a statement that it is a makeup award.

- *Reconsideration of extended time-based equity:* GL (like ISS) seems to be revisiting whether time-based awards with longer vesting periods (at least five years) should be viewed as favorably and effective as performance-based awards. It sets forth six questions about participants' views regarding time versus performance-based awards.
- *Impact of workplace safety/fatalities on executive bonuses:* GL inquires as to what impact a fatality in the workplace should have on annual bonus payouts. Alternative answers range from no penalty to significant penalties (beyond the typical adjustment range of 5-15%).
- *Impact of equity incentive plans/awards with passing but low support:* GL inquires as to whether it would be appropriate for shareholders to escalate their concern by voting against the next say-on-pay (SOP), voting against the payout in the year of payout, voting against SOP the year following payout if the award was concerning, or voting against the compensation committee members who implemented the plan.
- *Impact of excessive perquisites on voting:* GL notes that values of perks have been on the rise and asks how perks should be considered in voting. Possible answers range from not a significant role to holding directors accountable by opposing a proposal on the sole basis of perquisite pay.
- *Impact of median employee pay disclosure:* GL inquires as to whether participants view this number as important (regardless of regulatory requirements).
- *Impact of executive pay gap:* GL inquires as to whether participants believe that the executive pay gap is problematic, and if so, which factors participants think influence the gap, including: (1) voting structures, (2) investor influence, (3) regulators, (4) incentive award structures, (5) competition/retention concerns, and (6) cultural perceptions.

Global Pay Benchmarking

- *Increases or above-market pay based solely on attraction and retention needs:* GL questions whether such increases are appropriate, and in what situations (e.g., based on pay sector, direct competitors, succession risks, high turnover, etc.), or never.
- *Significance and impact of higher pay:* GL asks for participant's impression of the impact of higher pay (e.g., does it deliver returns, should it be benchmarked against peers only, does it benefit shareholders, does it help with retention, does location matter, etc.).
- *Shareholder involvement:* In light of "alarming" increases in executive pay, GL inquires if shareholders should expect companies to seek and disclose their feedback prior to peer group revisions, significant pay increases, and/or prior to setting pay above median levels.
- *Appropriateness of peer composition:* GL inquires as to whether peer companies that have different sizes or operational scopes, egregious pay practices, significant shareholder opposition, or different ownership structures should be considered inappropriate.
- *Benchmarking against global peers:* GL inquires as to whether a company's benchmarking against a global peer would have an impact on executive pay proposal voting decisions (asked of investors, not company participants).

About the Author

Deb advises on executive compensation from a legal and regulatory perspective, including securities disclosure, tax and governance matters, contract negotiation, and reasonableness opinion letters.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management helping organizations build, develop, and reward great leadership teams that drive long-term success. Our strategy-driven compensation and leadership consulting services act as powerful catalysts for value creation and competitive advantage by addressing the critical links between people and outcomes. Our clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private organizations to the Fortune 500.