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Analysis of Final 2025 Policy Changes From ISS and Glass Lewis

Deb Lifshey

MANAGING DIRECTOR

Before the end of 2024, both major proxy advisory firms, Institutional Shareholder Services (ISS) and Glass Lewis (GL), released changes in their executive compensation evaluation guidelines.

Below we outline each advisor's explicit, material changes in how they plan to evaluate executive pay programs.

Institutional Shareholder Services

ISS updated its policies over a series of guidelines, FAQs, and white pages issued throughout the end of 2024.

The primary update from ISS is that while we thought perhaps the policy with respect to preferred levels of performance-based equity requirements would liberalize compensation-setting in favor of time-based vesting, ISS has delayed that decision until 2026.

In an unexpected twist, what has changed for 2025 is ISS's view with respect to performance-based equity on the qualitative side, which has become more onerous (at least if there is a pay-for-performance [PFP] disconnect) in that disclosure policy and goal-setting around the performance measures now appear to be more rigorous.

Specifically, effective for meetings on or after Feb. 1, 2025, ISS will introduce adaptations to the *qualitative* review of performance-vesting equity awards. Existing qualitative considerations around performance equity programs will be subject to greater scrutiny in the context of a PFP misalignment. Any design or disclosure concerns regarding performance equity will carry greater weight in the *qualitative* analysis, and significant concerns in these areas will be more likely to drive an adverse say-on-pay (SOP) recommendation where a company exhibits a *quantitative* PFP misalignment.

As noted, ISS will continue to consider changes to its benchmark policy in 2026 with respect to time-based equity with longer vesting periods. We found numerous additional and important bits of information in the FAQ and ancillary documents, which are outlined below.

- **Updates on nuances of calculating realizable pay**: The realizable pay chart will no longer be required for companies that have experienced two or more CEO changes within the measurement period.
- **Adaptation to qualitative review of performance-vesting equity**: If a company has a PFP misalignment, ISS will now do a deeper dive on the qualitative analysis. Typical considerations will include, among other things:
  - Non-disclosure of forward-looking goals (note: retrospective disclosure of goals at the end of the performance period will carry less mitigating weight than it has in

prior years);
- 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; and/or
- Overly complex performance equity structures.

Multiple concerns identified for performance equity programs will be more likely to result in an adverse vote recommendation where there is a qualitative PFP misalignment.

- **Evaluating incentive metrics and use of Total Shareholder Return (TSR)** : ISS states that it does not endorse or prefer the use of TSR or any other specific metric in executive incentive plans, but notes that shareholders prefer emphasis on objective metrics that increase transparency into pay decisions. In evaluating the metrics of an incentive program, ISS may consider several factors, such as:
  - Whether the program emphasizes objective metrics that are linked to quantifiable goals, as opposed to highly subjective 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 the prior year; and/or
  - The clarity of disclosure around adjustments for non-GAAP metrics, including the impact on payouts.
- **Changes to in-progress incentive programs**: Mid-cycle changes (such as to metrics, performance targets, and/or measurement periods) for in-progress incentive programs are generally viewed negatively. As with other kinds of unusual pay program interventions, companies should disclose clear and compelling rationale for such actions and explain how those actions do not circumvent pay-for-performance outcomes.
- **“Robust” clawback defined**: In order to receive credit for a "robust" clawback policy in the "Executive Compensation Analysis" section of the research report, the policy must extend beyond minimum Dodd-Frank requirements and explicitly cover all time-vesting equity awards. This update is consistent with ISS’s existing position under its Equity Plan Scorecard, which is used to evaluate equity incentive plan proposals.

Glass Lewis

Overall, the policy changes from GL are relatively minor, although how aggressively they play out in practice is unpredictable.

- **Change-in-control provisions**: GL currently considers double-trigger change-in-control arrangements, which require both a change in control and termination or constructive termination, to be best practice. In addition, GL believes that excessively broad definitions of change in control are potentially problematic as they may lead to situations where executives receive additional compensation where no meaningful change in status or duties has occurred. For 2025, GL revised its guidelines relating to change-in-control provisions to address companies that allow for committee discretion over the treatment of unvested awards. Companies that provide this discretion “should commit to providing clear rationale for the committee’s ultimate decision as to how such awards should be treated in the event a change in control occurs."

- **Holistic approach to executive pay**: GL approaches this section by emphasizing that their approach is holistic, which could imply they have wide discretion to assess and avoid specific challenges to their approach. They specifically note that their analysis reviews pay programs on a case-by-case basis and that they do not utilize a pre-determined scorecard approach when considering individual features such as the allocation of the long-term incentive between performance-based awards and time-based awards. They note that unfavorable factors in a pay program are reviewed in the context of rationale, overall structure, overall disclosure quality, the program's ability to align executive pay with performance and the shareholder experience, and the trajectory of the pay program resulting from changes introduced by the compensation committee. Finally, it is noted that except for particularly egregious pay decisions and practices, there's not one factor that would lead to an "Against" vote on SOP.
- **Responses to low say-on-pay support in proxy statement**: The 2025 guidelines indicate that the compensation committee's response to low say-on-pay support (defined by GL as less than 80%) should be discussed in the company's proxy statement, rather than provided in another filing or communication.
- **Pay for performance and peer groups**: The revised guidelines indicate that peer groups used in the GL pay-for-performance model will include the peers of a company's self-disclosed peers.
- **Long-term incentives**: GL clarified that in cases where performance-based awards are significantly rolled back or eliminated from a company's long-term incentive plan, it will assess the revision's impact on the pay program's ability to align executive pay with performance and shareholder experience, and the program may receive an unfavorable recommendation if it fails GL's assessment or if the change is not offset by meaningful revisions such as to pay quantum and vesting periods. GL has added additional post-vesting holding periods to their list of features to be found in a well-structured LTI plan.
- **Additional problematic pay feature**: Adjustments to performance results that may lead to problematic pay outcomes are specific new additions to the 2025 list that may cause GL to recommend against say-on-pay.
- **Limits of regulatory disclosure**: GL notes in 2025 that while regulatory requirements may condone the omission of key executive compensation information for entities such as, for example, smaller reporting companies, GL expects companies to provide sufficient information in the proxy statement to allow shareholders to make informed voting decisions.
- **New or excessive single-trigger entitlements in golden parachutes**: These are now included for 2025 as specific examples of problematic features in assessing golden parachutes.
- **Use of CEO pay ratio**: The 2024 policy statement seemed to downplay any significance of this ratio, but this year's version states that such information may be helpful to shareholders as they evaluate rationale for certain executive pay decisions such as increases in fixed-pay levels.

About the Author

Deborah Lifshey is a managing director at Pearl Meyer, where she specializes in advising clients on compensation matters from a legal perspective including securities disclosure, taxation and corporate governance issues, negotiation contracts, and reasonableness opinion letters.

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