Pearl Meyer

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Fall 2025 Governance Roundup

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Introduction

The 2025 proxy and disclosure landscape is entering one of its most transformative periods in over a decade. Developments at the federal, state, and proxy-advisory levels are converging to reshape how companies and investors engage on executive compensation and governance. At the federal level, the SEC's updated interpretations of Schedules 13D and 13G have narrowed the space between traditional engagement and activism; this shift is already influencing how large institutional investors approach compensation and governance discussions. This is in addition to their potential overhaul of executive compensation disclosure rules, discussed in a prior alert. Meanwhile, Texas's enactment of Senate Bill 2337 and the ensuing lawsuits and investigations targeting Institutional Shareholder Services (ISS) and Glass Lewis & Co. mark a new stage in the politicization of proxy advice. Together, these actions reflect the expanding role of state-level policy in shaping the national governance framework and redefining the boundaries of ESG-related oversight.

Within the advisory market, the landscape is equally fluid. Glass Lewis's plan to retire its long-standing "Benchmark" policy by 2027 signals a decisive move toward customized, investor-specific voting frameworks that will make vote forecasting and engagement planning more complex. For ISS, early signs point to continued emphasis on pay-for-performance alignment and disclosure rigor, but final policy updates are not yet released and the direction beyond 2026 remains uncertain. Collectively, these developments underscore a rapidly evolving governance ecosystem—one shaped by the current administration's regulatory priorities and by intensifying scrutiny of ESG and executive pay practices.

Key takeaway: Companies should anticipate a more fragmented, politicized, and regionally variable governance environment going forward, requiring closer coordination between legal, investor relations, and compensation teams to maintain a consistent disclosure narrative and engagement strategy across an increasingly unclear policy landscape.

The SEC's 2025 Guidance on Schedules 13D and 13G and Impact on Executive Compensation Engagement

In February 2025, the SEC issued revised Compliance & Disclosure Interpretations (C&DIs) under Exchange Act Sections 13(d) and 13(g), guidance that significantly narrows the interpretation of what constitutes "passive" ownership.

Schedule 13D is required when an investor or group acquires beneficial ownership of more than 5 percent of a class of voting equity securities and has an intent to influence or change control of the company. By contrast, Schedule 13G serves as a simplified filing for investors qualifying as "passive" or "institutional."

The revised guidance narrows the boundary between routine engagement and activism. Investors engaging in conduct reasonably viewed as influencing management or control—such as conditioning support for directors or proposals on compensation changes, advocating specific governance outcomes, or coordinating with other shareholders—may no longer rely on Schedule 13G.

The change has meaningful implications for how index funds and other passive investors interact with companies on executive compensation. To avoid triggering Schedule 13D obligations, many investors are expected to limit participation in substantive compensation discussions and frame feedback in more neutral, informational terms. Companies should therefore take greater care to define the scope and tone of engagement, focusing presentations on philosophy and data rather than negotiation or co-development of strategy.

In practice, these developments heighten the need for disciplined engagement strategies and clear proxy-statement disclosure. Companies should pre-set meeting agendas, document the informational nature of discussions, and ensure governance teams understand the compliance sensitivities around "influencing control."

State-Level Pushback on Proxy Advisors

Texas's Senate Bill 2337 (enacted on June 20, 2025) is the first state law of its kind that attempts to regulate proxy-advisory activity—marking an escalation in the campaign to curtail ESG-driven voting advice. The law requires proxy advisors to disclose whenever their advice is not "solely in the financial interest of shareholders." A recommendation is presumed non-financial if it references ESG, DEI, or sustainability considerations, or if it diverges from management's recommendation without an accompanying economic analysis.

Although a federal district court issued a preliminary injunction on August 29, 2025, blocking enforcement pending trial in February 2026, the law remains influential—other states are now exploring similar legislation. Furthermore, on September 16, 2025, Texas Attorney General Ken Paxton announced an investigation into Glass Lewis and ISS, alleging that they misled institutional investors and public companies by advancing “radical political agendas.”

If SB 2337 is ultimately upheld, proxy advisors may become more cautious in issuing recommendations tied to ESG or human-capital matters - or in critiquing executive pay on non-financial grounds. Texas-based companies could see less aggressive commentary but more fragmented advice as firms tailor analyses to comply with varying state standards. Even during the injunction period, the Texas law underscores the rise of politicized oversight of governance intermediaries, with potential spillover effects on engagement, say-on-pay outcomes, and disclosure planning.

Glass Lewis Refined 2026 Policy and Transition to 2027 Bespoke Frameworks

For the 2026 proxy season, Glass Lewis announced a comprehensive update to its pay-for-performance (P4P) and governance methodologies, designed to improve transparency, consistency, and long-term alignment. The firm will replace its A-to-F letter-grade system with a numerical score (0–100), extend its evaluation horizon from three to five years, and broaden peer-group construction to reflect industry and regional context. Greater emphasis will be placed on relative compensation, total shareholder return (TSR), and other performance metrics to provide a more nuanced view of pay alignment.

In addition, Glass Lewis will introduce enhanced qualitative analysis explaining how factors such as business cycles, volatility, or exceptional events influence pay outcomes, and it will expand disclosure of data inputs and assumptions. These adjustments will likely affect how compensation committees calibrate LTI mix, peer selection, and performance metrics.

Glass Lewis also announced that the 2027 proxy season will mark a fundamental transformation in how it delivers proxy-voting advice. The firm will retire its long-standing 'Benchmark' policy, which for nearly two decades served as the default voting guideline applied across its global client base. In its place, Glass Lewis will introduce a suite of customizable policy frameworks, or 'lenses,' designed to reflect differing investor mandates and fiduciary philosophies.

According to Glass Lewis’s October 15, 2025 announcement, the firm plans to offer a menu of discrete policy tracks that investors can elect when subscribing to its research, including examples such as Governance-First, Sustainability-Forward, Management-Aligned, Activism-Aware, and Engagement-Neutral. Each policy variant will rely on the same underlying analytical framework used in the firm’s research, but the weighting of factors—such as executive pay alignment, board responsiveness, audit quality, capital structure, and ESG integration—will vary based on the chosen lens. For example, a 'Governance-First' policy might place heavier emphasis on director independence and shareholder rights, while a 'Sustainability-Forward' policy could increase the weight assigned to climate and human-capital disclosures.

Once these bespoke policies take effect, companies can no longer rely on a single, predictable Glass Lewis recommendation as a proxy for market sentiment. Engagement strategies, disclosure rationales, and board communications will need to be segmented by investor type and policy orientation. Corporate governance and compensation teams will need to begin mapping which frameworks their major shareholders are likely to adopt and model potential variations in vote outcomes.

The transition to multiple policies is expected to occur gradually during the 2026–2027 cycle. Glass Lewis has committed to releasing detailed documentation of its new policy architecture during 2026 to allow companies and investors to prepare.

Speculation on Final ISS 2026 Policy

As of late October 2025, ISS has not released a draft of its 2026 policies but has published results of its annual Policy Survey, an early indicator of potential updates expected in November 2025. Survey feedback suggests ISS will make incremental adjustments rather than sweeping changes.

Key compensation topics include:

- Time- vs. performance-based equity: Most investors support mixed structures but favor five-year vesting or retention to qualify as long-term.
- Modifications to in-flight awards: 73 percent of investors support continuing ISS's practice of viewing changes skeptically unless compellingly justified.
- Say-on-pay responsiveness: A majority favor crediting companies that show good-faith efforts even when direct shareholder feedback is limited.
- Non-executive director pay: Investors seek earlier identification of problematic pay levels and clearer disclosure rationales.

Overall, ISS appears poised to reaffirm its emphasis on performance-based equity, transparency, and responsiveness while refining its treatment of ESG metric changes. With final 2026 policies pending, no significant directional shift has been announced for 2027, and ISS has not indicated plans for a major structural overhaul comparable to Glass Lewis's multi-framework model.

Looking Ahead

The months ahead will likely define the next phase of corporate governance and executive-pay oversight. The SEC's narrowing of "passive" investor status, Texas's expanding regulatory reach, and the proxy advisors' evolving policies all point to a more fragmented and complex environment entering the 2026 and 2027 proxy seasons.

Boards and compensation committees should monitor the upcoming ISS policy releases, track how Glass Lewis's 2026 P4P model affects investor analysis, and begin preparing for the multi-policy landscape that will emerge in 2027. Across all fronts, the message is clear: engagement discipline, disclosure precision, and proactive scenario planning will be critical to maintaining investor confidence and governance stability in an increasingly divided policy environment.

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.