

CLIENT ALERT | NOV 2025

ISS Proposed 2026 Policy Updates



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Institutional Shareholder Services (ISS) has released its proposed 2026 policy updates, with finalized policies expected to be released by the end of November and become effective on February 1, 2026. Several of this year's proposals merit close attention as companies prepare for the 2026 proxy season. While these updates were open to comment, in our experience ISS rarely makes substantive revisions from its proposals so companies should be prepared for these proposed updates to be adopted largely as issued.

The 2026 proposals reflect both increased flexibility and heightened scrutiny in ISS's approach to executive and director compensation. ISS has proposed a more accommodating framework for time-based equity awards and recognizes the challenges companies face in obtaining shareholder feedback. At the same time, the updates tighten standards in key areas, including broader triggers for "against" vote recommendations on non-employee director pay, and a more rigorous Equity Plan Scorecard (EPSC) framework requiring companies to disclose cash-based director caps and overrides on plans lacking sufficient positive features despite an overall passing score.

The most consequential change may be the extension of ISS's pay-for-performance (PFP) analysis from three to five years (similar to changes recently announced by Glass Lewis), a move that may complicate year-over-year comparisons as companies recalibrate compensation alignment over a longer horizon. This adjustment may require issuers to revisit prior performance periods that were previously outside the PFP evaluation window.

Non-Employee Director Pay

ISS proposes to expand the current policy addressing problematic non-employee director (NED) pay. Under the revised approach, an adverse vote recommendation could be issued when a pattern of excessive or otherwise problematic pay is identified across consecutive or non-consecutive years, or in egregious cases, even in the first year of occurrence. Examples of problematic practices include excessive magnitude, problematic perquisites, and disproportionate performance awards, stock options, or retirement benefits.

ISS notes that an adverse recommendation will not be automatic. Cases involving only marginally excessive pay, without other risk factors or multi-year patterns, would continue to receive a warning rather than an against recommendation. The policy continues to focus “against” recommendations on members of the board committee responsible for approving or setting NED compensation.

Company Responsiveness to Low Say-on-Pay Support

ISS proposes to allow greater flexibility for companies demonstrating responsiveness to low say-on-pay support (defined as less than 70% approval). This policy recognizes the practical limitations many issuers face when attempting to engage shareholders following recent SEC guidance clarifying Schedule 13G (passive) and 13D (active) filing obligations. The proposed update acknowledges situations where companies make meaningful efforts to obtain investor feedback but are unable to do so.

ISS will consider the company’s explanation of its actions and their benefits to shareholders, and may also take into account significant corporate activity (such as mergers or proxy contests) that may have affected voting outcomes.

Pay-for-Performance Quantitative Evaluation

ISS proposes to extend the time horizon for its pay-for-performance quantitative screens from three to five years, enhancing its focus on sustained alignment between CEO pay and company performance. The proposal retains short-term quantum assessments over one- and three-year periods but shifts the principal evaluation period to five years.

According to ISS, this change reflects investor feedback from its 2025 Global Benchmark Policy Survey and is intended to align more closely with how investors assess long-term value creation. The update also smooths out short-term fluctuations and one-time events that can distort pay-performance alignment. However, companies may face complexity in recalculating metrics under the new framework, particularly those that had previously assessed alignment over a three-year window and must now incorporate additional historical data.

Time-Based Equity Awards

ISS proposes a more flexible qualitative review of time-based equity awards, emphasizing the positive governance signal of longer-term time horizons. Feedback from recent ISS

policy surveys and the SEC's ongoing review of executive compensation disclosure rules indicates investor support for a more nuanced evaluation of the balance between time-based and performance-based equity. Under the updated approach, extended vesting or retention periods will be viewed favorably, and ISS may consider both realized and realizable pay outcomes when evaluating alignment.

ISS further acknowledges that time-based equity could comprise a majority or even all of the equity pay mix, provided the awards are sufficiently long term in nature through extended vesting or retention requirements.

Equity Plan Scorecard Revisions

The proposed amendments introduce two changes to the EPSC framework:

1. New Scored Factor – Plans including non-employee directors must now disclose cash-denominated award limits.
2. New Overriding Factor – ISS may issue an against recommendation if a plan lacks sufficient positive features under the Plan Features pillar, even if it otherwise achieves a passing score.

For 2026, these factors will not apply to certain smaller companies (generally those outside the Russell 3000) or to plans proposed in connection with initial public offerings or spinoffs.

Next Steps

Companies should review these proposed policy changes in advance of finalization to assess potential implications for 2026 proxy statements, particularly the longer-term pay-for-performance evaluation, director pay disclosures, and equity plan design. While limited changes are expected before final policies are issued (typically by late November or early December), advance planning will help ensure alignment with ISS expectations. We will continue to monitor ISS's final policy release and advise on any notable changes ahead of the 2026 proxy season.

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.