ISS and Glass Lewis Release 2026 Policy Updates

It's been a busy few weeks for Institutional Shareholder Services (ISS) and Glass Lewis (GL) as both released policy updates for 2026. ISS's 2026 Benchmark Policy Guidelines are effective for shareholder meetings on or after February 1, 2026. Glass Lewis's 2026 Benchmark Policy Guidelines are effective for shareholder meetings held on or after January 1, 2026. This Market Update provides summaries of ISS's and Glass Lewis's 2026 compensation-related policy updates for U.S. issuers.

Compensation-related updates from both proxy advisory firms are arguably more comprehensive than in recent years. Together, the 2026 updates signal a shift toward greater customization in proxy advisor analyses, acknowledge that many investors rely on their own in-house voting policies, and open the door to greater flexibility for companies to design compensation programs that reflect their specific business priorities.

Worth noting, Glass Lewis's updates are in addition to its planned transition to a more bespoke proxy voting policy framework in 2027. GL also added to this year's policy explicit clarification that the Benchmark Policy *"reflects broad investor opinion and widely accepted governance principles and is intended to provide clients with nuanced analysis"* and *"represents just one of Glass Lewis's policy offerings".*

Given all the above, Compensation Committees can expect a more nuanced and demanding engagement landscape as these policies continue to shift.

Summary of ISS's Compensation-Related Policy Updates for 2026

See here for the full U.S. 2026 Benchmark Policy updates.

Topic	2026 Policy Update
Pay-for Performance: Quantitative Screen	▪ Alignment between company and peer TSR vs. CEO pay (Relative Degree of Alignment test), and rankings of CEO pay and company financial performance vs. peers (Financial Performance Assessment) to be measured over 5 years rather than 3 ▪ Multiple of CEO pay to peer median (Multiple of Median test) will be measured over both 1 and 3 years, rather than just 1 year
Pay-for Performance: Qualitative Screen	▪ New qualitative factor on whether equity awards have vesting and/or retention requirements that demonstrate a long-term focus ("long-term" is not defined) ▪ Clarification that in addition to granted and realizable pay, realized pay may also be considered as part of the qualitative review
Responsiveness to Low Say-on-Pay Support	▪ If a company discloses meaningful engagement efforts, but states that it was unable to obtain specific feedback (e.g., due to regulatory or reporting constraints), ISS will assess whether the board's responsive actions serve shareholder interests in general
High Non-Employee Director (NED) Compensation	▪ May now vote "Against" members of committee(s) responsible for approving/setting NED pay considered to be "excessive or problematic" if repeated over non-consecutive years (not just two consecutive years) or after just one year if egregious
Equity Plan Scorecard	▪ New scored factor under Plan Features pillar to assess whether plans that cover NEDs disclose cash-denominated award limits[1] ▪ New negative "override" factor for plans lacking sufficient positive plan features despite receiving an otherwise passing score[2]

[1] For 2026, new scored factor only applies to S&P 500 and Russell 3000 companies

[2] For 2026, new overriding factor will apply to S&P 500, Russell 3000, and non-Russell 3000 companies

Summary of Glass Lewis's Compensation-Related Policy Updates for 2026

As previously announced, Glass Lewis updated its pay-for-performance methodology. A summary of the updated methodology is outlined below, with no material changes from the original announcement.

Key Changes to Pay-for-Performance Methodology

- Numerical Scoring System: A new 0-100 numerical score output accompanied by a corresponding concern level will replace the historical A-F letter grading system (where "C" indicated a pay-for-performance alignment)
- Performance Tests (for US / Canada): The new scoring system is based on the six weighted tests outlined below (five quantitative and 1 qualitative, weighting of each test not disclosed). For the quantitative tests, Glass Lewis expanded the measurement period from 3 to 5 years (with the most recent of the five years typically weighted more heavily) and added two new tests: evaluating short-term incentive ("STI") payouts, and Compensation Actually Paid ("CAP") vs. TSR.

Quantitative Test	Description
Granted CEO Pay vs. TSR *(Mandatory)*	▪ Compares granted CEO pay to TSR vs. GL's peer group ▪ 5-year measurement period (3 years minimum required to conduct test), with the most recent CEO pay weighted most heavily
Granted CEO Pay vs. Financial Performance *(Mandatory)*	▪ Compares percentile rank of granted CEO pay to the percentile rank of five-year weighted-average financial metrics vs. GL's peer group ▪ All sector metrics: revenue growth, return on equity, and return on assets – Note: Revenue growth was added as a metric, replacing TSR ▪ Sector-specific metrics: – Financial Sector: Annualized tangible book value per share, EPS growth – Most REITs: Funds from operations growth, operating cash flow growth – Other Sectors: EPS growth, operating cash flow growth ▪ Uses a weighted average of one- through five-year annualized growth rates for growth measures (3 years minimum required to conduct test)
CEO STI Payouts vs. TSR *(Not Mandatory)*	▪ Compares 5-year average CEO annual STI payouts (as percent of target) and TSR to general "broad market benchmarks" ▪ Definition of market-based benchmarks not disclosed
Total Granted NEO Pay vs. Financial Performance *(Mandatory)*	▪ Same as the "Granted CEO Pay vs. Financial Performance" test described above, but examines the aggregate of the top 5 NEOs (including the CEO) rather than CEO only
CEO CAP vs. TSR *(Not Mandatory)*	▪ Compares the ratio of five-year aggregate CEO CAP and TSR vs. market capitalization peers (market cap peers are the 150-300 companies in the same market-cap band as subject company, each band is determined by size) ▪ CEO CAP and TSR as reported in Pay vs. Performance disclosures

Qualitative Test: This test acts as a downward modifier, in that it may only reduce the Company's overall score, not increase it. Depending on the answer to the following questions, a company is penalized to varying degrees if answered yes:

- Any one-time awards granted?
- Any upward discretion exercised?
- Is fixed pay greater than variable pay?
- Are incentives unlimited / not disclosed?
- Is maximum LTIP payout potential excessive?
- Is there a short vesting period for LTIs?
- Are any performance goals not disclosed?

Each of the six tests add points to the overall alignment score. The weightings of each test are not disclosed. Overall scores and ratings range from "Negligible" to "Severe" as follows:

- Negligible Concern: 81 to 100 points
- Low Concern: 61 to 80 points
- Medium Concern: 41 to 60 points
- High Concern: 21 to 40 points
- Severe Concern: 0 to 20 points

While these scores can influence Glass Lewis's vote recommendations, they do not dictate "Say-on-Pay" outcomes. Notably, a "Negligible" concern may still result in an "Against" Say-on-Pay vote recommendation and a "Severe" may still receive a "For".

Contact Us

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