2026 Proxy Advisor Updates

ISS and Glass Lewis

Institutional Shareholder Services (ISS) and Glass Lewis have released their updated proxy voting guidelines for the 2026 proxy season based on policy surveys and investor feedback. The ISS policy changes are effective for meetings on or after February 1, 2026, and Glass Lewis' updated policy applies to meetings held after January 1, 2026. The following focuses on the changes to pertinent Canadian executive and director compensation policies with a brief overview of US changes.

Summary of Changes:

- ISS' Canadian updates are limited to a couple of clarifying amendments. Specifically, ISS made it clear that any reduction in the exercise price and the cancellation and reissuance of stock options or other entitlements must explicitly require shareholder approval and clarified that non-employee director DSU awards may only be granted in lieu of cash on a value-for-value basis.
- Glass Lewis has moved to a numerical system with corresponding concern levels on six (6) distinct tests in their pay-for-performance model. In addition, they now stipulate that executive LTI plans should include two or more performance metrics, vesting/performance periods should span at least three years and that they may recommend against equity plans that allow for performance-based awards to non-employee directors.
- ISS made more notable changes to its pay-for-performance models and other factors in the US which may be indicative of future changes to come in Canada.

ISS Updates

Clarification of Plan Amendment Provisions for Equity-Based Compensation Plans – ISS has updated the wording in its policy to limit the Board's ability to amend equity plans without shareholder approval. Equity plan amendment provisions must explicitly require approval from shareholders for any reduction in exercise price and any cancellation and reissuance of stock options or other entitlements.

Clarification of Non-Employee Director (NED) Deferred Share Units (DSU) Plans – While ISS has historically held the viewpoint that DSUs may only be granted in lieu of cash fees on a dollar-for-dollar basis, the updated policy clarifies that such a provision should be explicitly stated within the DSU plan. If no explicit statement is made, ISS will now deem that discretionary and other DSU grants are allowed under the plan.

Glass Lewis Updates

Point-based Pay-for-Performance Model – Glass Lewis' proprietary pay-for-performance model was updated from a letter-based to a numerical scorecard. Rather than a single "A" through "F" grade, the new scorecard-based approach will consist of up to six (6) tests with scores ranging from 0 to 100. Numerical scores are then converted into a concern rating ranging from "Negligible Concern" to "Severe Concern" and aggregated based on a weighted average. The tests measure: (i) CEO granted pay versus TSR; (ii) CEO granted pay versus general and sector-specific financial performance; (iii) CEO STI payouts versus TSR; (iv) total NEO granted pay versus financial performance, (v) realized CEO pay versus TSR; and (vi) a qualitative assessment which is comprised of a series of questions pertaining to compensation design, one-off awards and use of upward discretion and other factors. It is worth noting that Glass Lewis indicates that the qualitative factor may only act as a downward modifier.

Glass Lewis' proprietary methodology for selecting peers remains unchanged since 2020. All tests are conducted against Glass Lewis' peer group with the exception of CEO STI payouts versus TSR which is measured against "general market-based benchmarks".

Overall "severe" or "high" concern ratings do not automatically receive negative Say on Pay voting recommendations and instead are reviewed case-by-case based on additional factors including: (i) the overall incentive structure; (ii) the trajectory of the program and any disclosed future changes, (iii) the operational, economic and business context for the year in review; (iv) the relevance of the selected performance metrics; and (v) reasonable long-term payout levels.

Updated Elements of a Well-Structured LTI Plan – Glass Lewis added two additional elements which they deem to be common to most well-structured LTI plans. These elements include the existence of two (2) or more performance metrics and vesting and/or performance periods spanning at least three (3) years. It is worth noting that Glass Lewis maintains its view that 50% of LTI be granted in performance-based awards and that performance metrics align with the company's industry and key value drivers of the business.

Director Compensation – Glass Lewis maintains their stance that directors should not receive performance-based awards in any capacity. However, the updated policy further specifies that where an equity plan exclusively or primarily covers non-employee directors as participants, the plan should not allow for any performance-based awards.

Where non-employee director grants are covered by the same plan as the broader employee base, Glass Lewis may recommend voting against the overall plan if it allows for performance-based awards to directors or explicitly provides for such grants, particularly if performance-based awards have been granted to directors in the past.

US Policy Changes at a Glance

While the focus of this update is on Canadian policies, it is important to consider updates in the US market as they may be indicative of forthcoming changes to Canadian policies in future years.

ISS made more notable changes to its US policies:

- Extending the time horizon for the quantitative pay-for-performance tests (i.e., increasing the horizon from 3 years to 5 years on the Relative Degree of Alignment evaluation, adding a 3-year period in addition to the 1-year period on the Multiple of Median test and increasing from a 3-year to 5-year period on their Financial Performance Analysis).
- Updating the qualitative assessment to include a high ratio of performance-based compensation over fixed and variable pay and vesting and/or retention requirements for equity awards that demonstrate long-term focus as favourable factors.
- Specifying that an adverse recommendation may be warranted in the first year if director pay issues are considered egregious, whereas the policy previously called for adverse recommendations in the event of two or more years of excessive pay.
- Stipulating that non-employee director cash-denominated award limits will be a scored as a factor under the Equity Plan Scorecard (EPSC), whereas it had merely been noted in EPSC scoring previously.
- Introducing a new overriding factor where an equity plan proposal will receive an "Against" recommendation if it is lacking sufficient positive plan features under the EPSC.

Glass Lewis policy changes are similar in the US market as in Canada. The most notable difference is the use of CEO compensation actually paid (CAP) versus TSR in the US instead of realized CEO pay versus TSR in Canada. For context, CAP is not a disclosure requirement in Canada.

This article summarizes the updates to the ISS and Glass Lewis policies, and does not cover the unchanged guidelines that continue to be in place, which could have a material influence on voting results at shareholder meetings.

In addition, issuers should be mindful of the guidelines and expectations expressed by institutional investors, including those released by the Canadian Coalition for Good Governance (CCGG Executive and Director Compensation Guidebook).

For more information, and our related article on 2026 Compensation & Governance Trends, contact us at info@laulimaconsulting.com.