ISS 2026 Updates

Relevant aspects of the ISS Benchmark Policy Updates for the 2026 proxy season

- **U.S. Policy** Updates spotlight shareholder emphasis on long-term value creation through pay-for-performance ("P4P") and flexibility for industry specific practices
- **Global Policy** Updates focus on standardization across jurisdictions and the importance of director independence
- **Canadian Policy** Updates are clarification based

UNITED STATES

Executive pay evaluation (long-term P4P alignment)

P4P quantitative screens updated to a longer-term time horizon. Relative degree of alignment with peers has changed from a three-year review period to a five-year review period. Multiple of median review period has gone up to three years from one. Ranking of total pay and company financial performance changed from a three-year review period to five years. The review period for CEO pay to TSR alignment remains unchanged at five years.

Time-based equity awards with long-time horizon

Flexibility has been provided in the evaluation of equity pay mix whereby time-based equity can comprise a majority (or all) of the equity pay mix so long as it is sufficiently long-term in nature, through extended vesting and/or retention requirements. Further flexibility has been added to the P4P qualitative review regarding the assessment of equity pay mix, whereby time-based equity awards with extended time horizons will be viewed positively.

Problematic compensation practices – High non-employee director pay

Expands current policy to allow for adverse vote recommendations against the board committee responsible for approving/setting non-employee director compensation for problematic or unreasonably high pay for non-employee director or pay comparable to company executives, in the first year of occurrence or in the event of a pattern identified across non-consecutive years. This can include performance awards, retirement benefits, excessive perquisites etc.

Equity-based and other incentive plans

Update adds a new scored factor in the Equity Plans Score Card analysis under the Plan Features pillar that assesses whether a plan in which non-employee directors participate discloses cash denominated award limits, which is considered best practice. For 2026, the new non-employee director individual award limit factor will only apply to the S&P 500 and Russell 3000 EPSC models. Update adds a new negative overriding factor where an equity plan proposal will receive an “Against” recommendation if it is found to be lacking sufficient positive features under the Plan Features pillar. For 2026, the new overriding factor will only apply to S&P 500, Russell 3000, and non-Russell 3000 EPSC models.

Social and environmental shareholder proposals

Adopts a fully case-by-case approach for climate change/GHG emissions, diversity, human rights, and political contributions proposals.

Board of directors – Responsiveness

Updated to address cases where a company has disclosed meaningful efforts to engage with shareholders but was ultimately unable to receive feedback. ISS will assess company actions taken in response to the say-on-pay vote as well as the company’s explanation as to why such actions are beneficial for shareholders. Recent SEC guidance regarding 13-G (passive) versus 13-D (active) filing status for institutional investors may make it more difficult for issuers to receive feedback after a low say-on-pay vote result.

Problematic capital structures

Clarifies that shares with superior voting rights are considered problematic, whether the shares are classified as “common” or “preferred.”

GLOBAL

E&S shareholder proposals

The update reinforces the use of a common set of evaluation factors and specifically notes consideration of whether a proposal may substantively affect shareholder rights or interests.

Highly paid non-employee directors

Previously, high-paid directors were generally reclassified as executive directors. Going forward, they may instead generally be classified as non-independent non-executive directors, unless there is clear evidence of actual management responsibilities.

CANADA

Advance notice provisions

Policy clarifies that additional disclosure requests which exceed those required by securities laws may be deemed problematic. Makes it explicit that director questionnaires may be considered problematic, where they: **(i)** require disclosure exceeding the requirements under the Act or Applicable Securities Laws; and **(ii)** are not made publicly available.

Equity compensation plan amendments

Clarifies the need for shareholder approval for any reduction in the exercise price and the cancellation/reissue of options or other entitlements.

Non-employee director deferred share unit plans

Clarifies that DSU plans must explicitly state that DSUs may only be granted in lieu of cash fees on a value-for-value basis. In the absence of such a statement, discretionary or other grants will be considered permitted under the plan, which will be subject to specific limits imposed by ISS.

THREE KEY TAKEAWAYS

1. Shift towards longer-term time horizons

Shareholder sentiment increasingly favours long term value creation, and this is reflected throughout ISS 2026 US Policy updates. Companies must be proactive in assessing the long-term implications of their compensation decisions, as misaligned structures today can create lingering governance challenges in future years. With ISS shifting more of its P4P evaluation to a five-year horizon, short-term outperformance is becoming less protective. Strong, evidence-based disclosure will be essential to justify pay increases or shifts in incentive design.

The new flexibility from ISS, to allow a greater proportion of long-duration time-based equity, acknowledges investor preferences for durability, clarity, and consistent performance. This shift highlights a broader recognition that performance share units may not be equally effective across all industries, and that rigorously designed time-based structures can also support alignment when paired with extended vesting or holding requirements.

2. Importance of director pay

The intensified focus on non-employee director pay, including the ability to issue an 'Against' recommendation in the first year of a problematic pay decision or where a non-consecutive pattern emerges, highlights a growing call for transparency and restraint in director compensation. This is paired with added scrutiny of director award limits within equity plans and the introduction of a new negative overriding factor in the EPSC model. Plan design now carries significantly more weight, simply requesting a reasonable number of shares is no longer sufficient. Companies must demonstrate strong governance features and structural discipline in their plans.

3. Industry and jurisdiction harmonization

The move to evaluate social and environmental proposals on a fully case-by-case basis reflects a more nuanced approach centered on industry specific materiality rather than broad normative expectations. However, this puts companies at the crossroads of increasingly divergent pressures from institutional investors, proxy advisors, and U.S. government policy. In this environment, strategic, consistent, and forward-looking disclosure has become more critical than ever, ensuring companies can clearly articulate their rationale, navigate competing expectations, and maintain investor confidence.

The use of a common evaluation framework for E&S proposals globally signals an effort toward harmonization across markets. This is positive for multinational issuers that face different expectations across jurisdictions. ISS' global policy shift away from reclassifying directors as executives to classifying them as non-independent, non-executive directors reflects realistic board practices. Companies must balance retention of directors, competitive salaries, with the larger implications of board independence.

To understand how these changes might affect your organization, email strategy@kingsdaleadvisors.com.