Glass Lewis Announces New Pay-for-Performance Methodology

July 2025

Effective in 2026, Glass Lewis will implement a new pay-for-performance model for U.S. and Canadian markets, replacing its current framework. The enhanced model aims to provide a more comprehensive review of executive pay and performance alignment. Key changes to the model are highlighted below:

<table>
<tr><th>Framework</th><th>Current</th><th>NEW for 2026 Proxy Season</th></tr>
<tr><td rowspan="2">Scoring System</td><td>Letter grade (A, B, C, D, F)</td><td>Numeric score with corresponding concern level</td></tr>
<tr><td colspan="2">Moving away from a letter-grade system (A-F), the new model results will be presented in numeric scores accompanied by concern levels. Higher numeric scores indicate stronger pay-performance alignment, corresponding to lower concern levels.
A “Severe Concern” will not automatically result in an against vote recommendation on the say-on-pay proposal. Each company will be reviewed on a case-by-case basis, considering additional qualitative factors such as the overall incentive structure, the trajectory of the pay program and disclosed future changes, and the broader operational, economic and business context.</td></tr>
<tr><td rowspan="2">Pay-for-Performance Tests</td><td>Granted CEO and NEO Pay vs. Financial Performance (TSR, change in operating cash flow, EPS growth, ROE, and ROA)</td><td>I. Granted CEO Pay vs. TSR
II. Granted CEO Pay vs. Financial Performance
III. CEO STI Payouts vs. TSR
IV. Total Granted NEO Pay vs. Financial Performance
V. Realized CEO Pay vs. TSR [Canada] / CEO Compensation Actually Paid vs. TSR [US]
VI. Qualitative Test</td></tr>
<tr><td colspan="2">The new model will include six tests with undisclosed weightings, tailored slightly by market. For the U.S. market, all tests will be the same as the Canadian framework, with the exception that Realized CEO Pay vs. TSR is substituted for CEO Compensation Actually Paid (CAP) vs. TSR, aligning with SEC disclosure requirements.
One of the new tests looks at STIP payouts as a percentage of target, assessed relative to TSR among the Glass Lewis’ peers. Additionally, Glass Lewis will incorporate realized CEO pay to supplement its granted pay evaluations. Note that details of how realized CEO pay is calculated by Glass Lewis has not been released. Financial performance metrics will include revenue growth, return on equity (ROE), return on assets (ROA), EPS growth and operating cash flow growth for all sectors other than banks, financial institutions, and REITs.</td></tr>
<tr><td rowspan="2">Time Horizon</td><td>3 years, except for 1-year ROA and ROE</td><td>5-years where possible or minimum 3-year view, except for 1-year ROA and ROE</td></tr>
<tr><td colspan="2">Where applicable, Glass Lewis will generally use a five-year time horizon for evaluating financial and pay data. However, for ROA and ROE, a one-year measurement period will be applied (consistent with current state). In the absence of sufficient data, a minimum of three years will be reviewed.</td></tr>
<tr><td>Peer Group</td><td>Proprietary methodology</td><td>Mostly no change</td></tr>
</table>

Framework	Current	NEW for 2026 Proxy Season
	Peer groups used in new quantitative tests will continue to be generated via Glass' Lewis existing proprietary methodology, which considers the subject company's self-disclosed peers, peers of peers, as well as market and industry peers. Glass Lewis peer groups typically consist of 15 companies, with a minimum threshold of ten. Nevertheless, one of the Canadian quantitative tests, CEO STI Payouts vs. TSR, will be compared to general market-based benchmarks rather than Glass Lewis Peers. In addition, the US-specific test, CEO CAP vs. TSR, will be benchmarked against market capitalization peers.	

Unlike ISS, which relies on reported grant date fair values for equity awards, Glass Lewis conducts its own valuation for equity-based awards. As a result, the granted CEO pay used in the Glass Lewis model often diverges from reported CEO pay in issuers' proxy disclosure. In the new model, Glass Lewis is broadening its evaluation scope to incorporate CEO STI payout and realized pay. Another notable distinction is the construction of their proprietary peer groups. For Canadian-incorporated issuers, ISS limits its peer group to Canadian companies. In contrast, Glass Lewis peer groups typically include a broader set of North American peers, which enables the comparison of subject companies with US peers where relevant. This broader cross-border comparison may influence the underlying pay and performance alignment evaluation.

While Glass Lewis' new model has experienced several significant changes, we expect that the model result and vote recommendations will not materially change. Southlea will continue to monitor and share updates released by Glass Lewis and the implications for companies as we approach the 2026 proxy season.

ABOUT US

Southlea are trusted independent compensation consultants who help solve your complex business challenges. We provide global perspectives as a GECN Group company working with over 150 compensation consulting professionals in 15 countries. We are headquartered in Toronto with offices in Vancouver, Edmonton and Montreal. We have clients across Canada, representing all industries and organization structures. Our team of experienced compensation consultants are multi-disciplined with diverse backgrounds and experiences. We are proud to be a certified Women's Business Enterprise by WBE Canada and to be Rainbow Registered as an LGBT+ friendly organization.