



## 2026 POLICY UPDATES FROM ISS AND GLASS LEWIS

December 2025

Each year, ISS and Glass Lewis (GL) update their executive compensation voting guidelines based on feedback from annual policy surveys and investor engagement. Below we summarize the changes for the 2026 proxy season, highlight key executive compensation topics from pre-season policy surveys, and outline forward-looking changes to Glass Lewis' proxy practices.

### KEY TAKEAWAYS

- Although the upcoming proxy advisor benchmark policy changes have minimal impact on the Canadian market, companies should be aware of Glass Lewis' new pay-for-performance model. Issuers are encouraged to simulate scores using this updated model to assess the risk of receiving an unfavourable say-on-pay vote recommendation from Glass Lewis. For the U.S. market, ISS has introduced several adjustments to its quantitative model, such as extending performance periods or adding a medium-term performance period for certain tests. These updates may indicate potential changes ahead for the Canadian market.
- The debate whether longer-term time-based equity awards can substitute performance-based awards appear in both proxy advisors' annual policy surveys. There is a tendency for greater flexibility in assessing the time-based vs performance-based equity mix. Moving forward, it will be important for companies to determine the most effective balance of equity award types for executive retention and motivation, and shareholder alignment.
- Glass Lewis is shifting from strictly following benchmark policies to providing multiple viewpoints tailored to their clients' stewardship priorities – similar to ISS or possibly taking it even further. This development suggests issuers should become more proactive in understanding their top investors' specific voting guidelines and expectations on pay best practices rather than exclusively following proxy advisor guidance.

### UPDATES TO 2026 VOTING GUIDELINES

Glass Lewis introduced significant revisions to its pay-for-performance model in both Canada and the U.S., whereas ISS modified its quantitative model mainly for the U.S. market. Aside from these changes, updates to executive compensation voting guidelines affecting the 2026 proxy season are generally minor for Canada. Key changes in ISS and Glass Lewis's proxy guidelines are outlined below.

ISS	Glass Lewis
<b>Canadian Benchmark Policy:</b>	



<p><b>Equity Compensation Plan Amendments</b></p> <p>Clarifies that the amendment provision must explicitly require shareholder approval for any reduction in the exercise price <u>and</u> the cancellation and reissue of options or other entitlements.</p> <p><b>Non-Employee Director (NED) DSU Plans</b></p> <p>Clarifies that NED DSU plans (that are treasury-settled and shareholder approved) must explicitly state that DSUs may <u>only</u> be granted in lieu of cash fees for non-employee directors on a value-for-value basis. In the absence of such an explicit statement in the plan, ISS will consider discretionary or other grants of DSUs are allowed, and will likely use the evaluation framework for NED DSU plans that permit discretionary grants.</p>	<p><b>Pay-for-Performance (P4P) Methodology</b></p> <p>Replacing letter grades with numeric scores, the new model will consist of five quantitative tests and one qualitative test. Each test will receive a rating, which will be aggregated on a weighted basis to determine an overall score ranging from 0 to 100, along with a respective concern level. See more details in our <a href="#">earlier blog</a>.</p> <p>“High” or “severe” concern levels do not automatically lead to a negative Say on Pay vote recommendation. GL will consider additional factors including but are not limited to: (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 selected performance metrics; and (v) reasonable long-term payout levels.</p> <p><b>Long-term Incentives</b></p> <p>Adds “two or more performance metrics” and “vesting and/or performance periods of at least three years” to the list of well-structured plan elements.</p> <p><b>Director Compensation</b></p> <p>Adds that if an equity plan broadly allows for performance-based awards to (non-employee) directors or explicitly provides for such grants, GL may recommend <u>against</u> the overall plan on this basis, particularly if the company has granted performance-based awards to directors in the past.</p>
<p><b>U.S. Benchmark Policy (refer to this Farient Advisors <a href="#">article</a> for further details):</b></p>	
<p><b>Long-term Alignment in Pay-for-Performance</b></p> <p>Extends the time horizon for P4P evaluations:</p> <ul style="list-style-type: none"> <li>- Move from three years to five years for RDA<sup>1</sup>.</li> <li>- Add a three-year period, in addition to the one-year period, for MOM<sup>2</sup>.</li> <li>- Move from three years to five years for FPA<sup>3</sup>.</li> </ul> <p><b>Time-based Equity Awards with a Longer-term Time Horizon</b></p>	<p><b>Pay-for-Performance Methodology</b></p> <p>Similar changes apply to both Canadian and U.S. markets; however, the U.S. P4P model uses a CEO Compensation-Actually-Paid vs. TSR test, whereas the Canadian model includes a Realized CEO Pay vs. TSR test.</p>

<sup>1</sup> Relative Degree of Alignment (RDA) test compares the percentile ranks of a company’s CEO pay and TSR performance, relative to an ISS-developed comparison group, over the prior two-year or three-year period.

<sup>2</sup> Multiple of Median (MOM) test expresses the prior year’s CEO pay as a multiple of the median CEO pay of its comparison group for the most recently available annual period.

<sup>3</sup> Financial Performance Assessment (FPA) compares the percentile ranks of a company’s CEO total pay and company financial performance within a peer group, each measured over a three-year period.



<p>Provides more flexibility in evaluating the equity pay mix, considering the importance of longer-term time horizons for time-based equity awards.</p> <p><b>Compensation Committee and Company Responsiveness</b></p> <p>ISS increases its flexibility to evaluate responsiveness to low say-on-pay support, particularly if the company discloses meaningful engagement efforts but also states that it was unable to obtain specific feedback.</p> <p><b>High Non-Employee Director Pay</b></p> <p>ISS may issue adverse vote recommendations for egregious first-year NED pay practices or when problematic practices recur.</p> <p><b>Enhancements to Equity Plan Scorecard</b></p> <p>A new EPSC scored factor is added for NED cash award limits. In addition, the EPSC has adopted a new “override” for a lack of sufficient positive plan features.</p>	
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## SUMMARY OF ANNUAL POLICY SURVEYS

In the fall of 2025, ISS and Glass Lewis conducted their 2025 global policy surveys, which informed their 2026 policy changes and beyond. The summarized feedback mainly reflects executive compensation-related topics that pertain to policy changes for the upcoming proxy season.

## INSTITUTIONAL SHAREHOLDER SERVICES

ISS asked respondents across all markets for their views on what vesting or post-vesting retention periods for equity-based long-term incentives (LTI) would be considered sufficient to remove performance requirements for some or all executive LTI awards. 46% of investors favour at least five years of vesting and/or post-vesting retention requirements in aggregate.

Investor views on problematic U.S. NED pay practices are almost evenly split among “inadequate disclosure or lack of clearly disclosed rationale in the proxy for unusual NED payments,” “excessive perquisites (such as travel), performance awards, stock option grants, or retirement benefits,” and “particularly large NED pay magnitude or NED pay that exceeds that of executive officers.”

Regarding Say-on-Pay responsiveness in the U.S., 80% of investors believe that positive changes to executive compensation can be considered “responsive,” even if there is no disclosed shareholder feedback. Furthermore, 64% of investors agree that the lack of disclosure regarding shareholder feedback should not be interpreted negatively, provided the company communicates its efforts to solicit investor feedback and its inability to obtain sufficient responses. For ESG/DEI metrics in in-flight awards in the U.S. and Canadian markets, 73% of investors prefer to continue with the current approach and mitigate changes, and view changes to in-flight awards negatively absent a strong rationale.

## GLASS LEWIS



Similar to ISS, Glass Lewis asked respondents when they consider the use of only time-based awards in LTI to be reasonable. Approximately 30% of investors support the use of time-based LTI in situations where macroeconomic conditions negatively affect target setting, when vesting periods are lengthened, or when such awards are prevalent among peers. In addition, the majority of investors evaluate the size of LTI grants on a case-by-case basis.

The two proxy advisors also both sought market views on NED pay. Investor perspectives reveal that 64% of investors are concerned about significant non-employee director fee increases unless in line with market peers.

Regarding compensation disclosure in the U.S., approximately 90% of investors prioritize the disclosure of incentive plan design and rationale for concerning pay practices. By comparison, investors are more skeptical towards GAAP vs. non-GAAP reconciliation and CEO pay ratio disclosure. For ad hoc severance adjustments in both the U.S. and Canada, 44% of investors agree these are necessary to offset the expansion of restrictive covenants. When asked about views on the impact of tariffs on executive pay, 48% of investors prefer taking no action, leaving executive pay outcomes aligned with performance and shareholder interests.

## CHANGES IN GLASS LEWIS PROXY VOTING PRACTICES

In October 2025, Glass Lewis announced two critical changes to its proxy voting practices:

1. Glass Lewis will help clients move from benchmark policies to tailored voting policies that reflect their investment philosophies. Most Glass Lewis clients already use customized or thematic policy guidelines, but Glass Lewis' objective is to enable all clients to vote according to their own policies.
2. Glass Lewis will shift from offering single-policy research and recommendations to providing multiple perspectives that align with different client viewpoints. Starting in 2027, clients will be able to access these varied perspectives to better inform proxy voting decisions.

## ABOUT US

Southlea Group is a national independent compensation advisory firm that provides global perspectives as a GECN Group company working with over 150 compensation professionals in 15 countries. We are headquartered in Toronto with offices in Montreal and Vancouver, and clients across Canada, representing all industries and organization structures. Our team of advisors is 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.