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BLOG

Initial Executive Compensation Takeaways from the ISS Annual Global Benchmark Policy Survey

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Institutional Shareholder Services (ISS), one of the leading proxy advisory firms, uses its Annual Global Benchmark Policy Survey to gauge investor and other stakeholder interests and market sentiment. Since ISS selects the questions, the policy survey also indicates ISS's areas of policy focus. Responses to the survey were due on September 5, 2024. Following the survey's completion, the results will be analyzed, summarized, shared with ISS clients, and then made available on ISS's website. The results will inform ISS's policy updates.

Below are a few highlights from the Executive Compensation portion of the survey.

PAY-FOR-PERFORMANCE AWARDS

Under ISS's current approach to its pay-for-performance analysis, when reviewing a quantitative pay-for-performance misalignment, ISS generally views a predominance of performance-conditioned equity awards as a positive mitigating factor, while a predominance of time-vesting equity awards is generally considered a negative exacerbating factor. ISS is contemplating revising the weight given to performance-vesting over time-vesting equity awards to view both performance-vesting *and* long-term time-vesting equity awards as positive mitigating factors. To that end, ISS is soliciting feedback with respect to the threshold vesting period for such time-vesting equity awards and whether a meaningful post-vesting holding period should be required for ISS to view such awards as a positive mitigating factor.

As we noted last week, Glass Lewis, another proxy advisory firm, raised a similar question on long-term time-vesting equity awards that required at least five years of service in its policy survey that closed last week. However, Glass Lewis did not consider whether an additional post-vesting holding period should also be required.

DISCRETIONARY INCENTIVE PROGRAMS

ISS generally views incentive programs with quantified, pre-set goals and disclosed targets favorably and views incentive programs that are heavily reliant on discretionary determinations negatively. However, some companies maintain incentive programs that are entirely based on discretionary performance assessments on the basis of company-, peer-, and/or industry-specific considerations. ISS is soliciting feedback with respect to whether discretionary incentive programs should be viewed negatively in all circumstances, even where such discretionary incentive programs are consistently used across a particular industry or group of peer companies. If ISS were to adopt a more nuanced approach to such discretionary programs, clear disclosure around how the program was designed and benchmarked against industry and/or peer discretionary programs may be needed to receive ISS support.

Similarly, companies in certain niche industries sometimes make awards or distributions that represent a share of profits from managed funds. These distributions are often uncapped, rely on complex formulas, and may result in exceedingly high reported compensation. ISS currently views such fund distributions negatively, irrespective of industry practice, and is soliciting feedback with respect to its policy regarding such fund distributions.

Please contact a member of the Winston & Strawn Employee Benefits & Executive Compensation Practice, our Capital Markets Practice, or your Winston relationship attorney for further information.

2 Min Read

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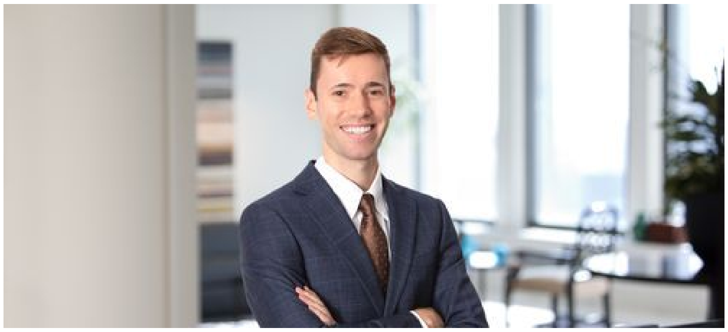

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