Compensia
THOUGHTFUL PAY

Aug 13, 2024

Institutional Shareholder Services (ISS) and Glass Lewis Publish Annual Policy Surveys

As is custom, Institutional Shareholder Services (ISS) and Glass Lewis each published their annual surveys in early August. Of most interest to compensation committees – and in line with recent concerns voiced from some investors regarding perceived limitations of performance-based equity – both surveys include **significant questions regarding each proxy advisor's approach to considering performance-based pay** levels in formulating their recommendations on say-on-pay proposals. Taken together, these surveys signal the possibility for a significant shift in both advisors' approaches to performance-based equity in 2025, depending on the feedback received from respondents. Glass Lewis also covers a wide range of additional compensation topics, perhaps most notably whether equity plan proposals that pass but receive significant opposition should be subject to any escalation in the following year through votes on other agenda items, such as say-on-pay. A summary of both surveys and key questions addressed in the surveys is provided below. We encourage you to reach out to your normal Compensia contacts if you would like support in responding to either survey.

The ISS survey will close on Thursday, September 5 at 5:00 PM ET

The Glass Lewis survey will close on Friday, August 30 at 8 PM ET.

ISS POLICY SURVEY

ISS's policy survey is a key input in its consideration of potential changes to its benchmark voting policies. In addition to performance-based equity questions, the survey also asks respondents which human capital metrics they would most likely support in the context of voting for a shareholder proposal seeking enhanced reporting. We have summarized these questions below, along with other survey topics relevant to US companies.

Revising approach to performance-based pay

In its policy survey, ISS questions whether to continue its long-standing approach in cases of quantitative pay-for-performance misalignment of considering a predominance of performance-based equity as a positive mitigating factor, whereas a predominance of time-vesting equity is generally a negative, compounding concern. Accordingly, the survey asks respondents if they believe time-based equity awards with extended vesting periods should now be considered a positive mitigating factor, similar to performance-based awards, along with related questions soliciting views as to what minimum vesting period and/or holding period is appropriate.

Workforce diversity disclosures

ISS is asking respondents to weigh in on which human capital management-related metrics organizations would support, when requested in a related shareholder proposal. Metrics listed include:

- Racial/Ethnic Diversity and Gender Representation Data for different categories of positions across an organization (such as EEO-1 data in the U.S.)
- Promotion Velocity Data by Race/Ethnicity and Gender (examining whether sex and race/ethnicity differences exist in promotions)
- Retention Rates by Race/Ethnicity and Gender
- Hiring Rates by Race/Ethnicity and Gender
- Board oversight of the human capital management issue raised in the proposal
- Management oversight of the human capital management issued raised in the proposal
- Adjusted (accounting for factors such as job role, education, and experience) Gender Pay Gap Disclosure
- Unadjusted Gender Pay Gap Disclosure

Additional topics covered

- The policy survey asks a number of questions relating to unilaterally adopted **poison pills**, including the appropriateness of adoption to defend against an activist, views trigger thresholds and whether different considerations apply for earlier stage companies.
- **ISS asks respondents** their views on the scope and disclosure of **Scope 3 greenhouse gas emissions reduction targets,** as well as what factors are most relevant in considering whether to support a **climate-related shareholder proposal** seeking target-setting or emissions reduction disclosure.

GLASS LEWIS POLICY SURVEY

Glass Lewis relies on survey responses to ensure its "Benchmark Voting Policy Guidelines broadly reflect prevailing market sentiment and best practices."

This year's Survey covers significantly more topics and questions than does ISS. We have summarized survey questions most relevant to compensation committees' oversight responsibilities, along with other notable topics that are most likely to be of interest to US technology and life sciences companies, below. Across Glass Lewis' compensation-related questions, investors' apparent concern with escalating pay levels within the US market is a prevailing theme.

"Make-whole" grants

The survey seeks views on the type of disclosures that should accompany 'make-whole' grants, including if the value, terms, time-restrictions, and/or if the executive forfeited the awards from their prior employer are appropriate disclosure expectations.

Non-performance-based awards subject to extended vesting

Like ISS, Glass Lewis is seeking feedback on how stakeholders view these types of awards, which have no performance conditions. The survey asks respondents to rate their level of agreement (from strongly agree to strongly disagree) on a variety of related statements including, among others

- "We prefer time-based equity awards over performance-based awards"
- "We will consider supporting non-performance based incentives that provide long-term alignment in specific circumstances, but generally prefer performance-based incentives"
- "A large portion of equity compensation should be performance-based"

Perquisites

Noting the increased value of perquisites among US companies in recent years, the survey asks respondents to provide general feedback on how they should be considered in voting recommendations.

Increases in overall pay opportunity

Noting the rate of increasing pay quantum in the US in recent years, Glass Lewis asks respondents to weigh in on a number of considerations and whether each warrants increased pay opportunities, including:

- when the need to attract talent is a valid rationale for increases to overall pay opportunity
- respondents' views on what factors should influence pay levels and whether the risk of retention outweighs concerns regarding pay levels
- Whether companies should seek shareholder feedback prior to making changes to their peer group, making significant increases to pay levels, and setting pay above median

Executive pay gaps

Two separate questions address pay gaps between executives: One questioning whether pay gaps between US and European executives is problematic, and one seeking respondents' views on key drivers of pay gaps between executives at similarly-sized companies.

Peer group considerations

The survey seeks feedback on several peer group-related matters, including:

- The appropriateness of including companies in a peer group that are different in size, have egregious pay practices, significant shareholder opposition or a different ownership structure
- How benchmarking against global peers influences investors' voting decisions (the policy also seeks feedback on Glass Lewis' approach to policy application of multijurisdictional companies more broadly)

Workplace safety metrics

Glass Lewis asks if workplace fatalities occur, but overall safety performance at a company has improved, whether annual bonus payouts be impacted.

Proposals with significant dissent

In two different sections of its survey, Glass Lewis asks for feedback on how management should handle proposals that receive majority support but that a significant number of shareholders opposed.

- **Equity Plans:** For equity plan proposals that receive majority support, but also experience significant dissent from shareholders, Glass Lewis asks what would be an appropriate approach to escalate this issue to other agenda items, including whether voting against the next say-on-pay vote is appropriate.
- **"Significant" Level of Support:** Glass Lewis asks respondents to provide detail on what level of dissent would be significant enough to warrant a response (ranging from 5% - 50%).

Other notable topics covered

- Glass Lewis seeks feedback on situations where a shareholder holds **material concerns with performance of a director** at one company, should they oppose the election/reelection of that director at *other* companies in which they serve on the board. If yes, Glass Lewis provides circumstances this would be appropriate (including concerning pay practices and poor responsiveness to shareholders).
- Glass Lewis asks for feedback on what specific data points related to companies' **climate transition strategies** would be useful for its Proxy Papers in the future.
- Glass Lewis is seeking feedback on expectations **related to board oversight of artificial intelligence (AI) and cybersecurity** to mitigate associated risks, confirm safeguards are in place, ensure ethical use of AI and assess the impact on company operations. Respondents are given a range of AI-oversight related statements, such as 'At lead one director on the board should have AI experience' in which respondents can select what companies this should apply to (options are all companies, only companies in technology sector, or no companies). Respondents are further asked how important risk assessment disclosure on AI is to them across a variety of AI-risk-related topics, including 'Details of AI integration into internal operations.' The survey also seeks feedback as to what circumstances would warrant a vote against directors following a cybersecurity breach.

NEED ASSISTANCE?

If you have any questions regarding this Thoughtful Pay Alert, please feel free to contact:

Hannah Orowitz, Principal

332.867.0566

horowitz@compensia.com

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ABOUT COMPENSIA

Compensia, Inc. is a management consulting firm that provides executive compensation advisory services to CompensationCommittees and senior management.

OFFICE

San Francisco
One Embarcadero Center
Suite 2830
San Francisco, California 94111
415.462.2990

PRINCIPALS

Tom Brown, Chairman
tbrown@compensia.com
408.876.4023

Ralph Barry
rbarry@compensia.com
858.603.2288

Erik Beucler
ebeucler@compensia.com
408.907.4314

Mark A. Borges
mborges@compensia.com
415.462.2995

Jason Borrevik
jborrevik@compensia.com
408.876.4035

Rachel Cohen
rcohen@compensia.com
669.263.9808

Jodie Dane
jdane@compensia.com
415.462.1985

Amanda Feyerabend
afeyerabend@compensia.com
415.462.2988

Michael Haimson
mhaimson@compensia.com
669.207.1283

Lori Koenig
lkoenig@compensia.com
415.462.0231

Tom Langle
tlangle@compensia.com
408.907.4309

Tom LaWer
tlawer@compensia.com
408.907.4309

Greg Loehmann
gloehmann@compensia.com
408.907.4319

Hannah Orowitz
horowitz@compensia.com
332.867.0566