

Thoughtful Pay Alert

At an Inflection Point: Long-Term Incentive Design Post-ISS/Glass Lewis Ascendancy

For more than a decade, long-term incentive programs have largely converged around a single model: a mix of restricted stock units (RSUs) and performance-based awards (primarily PSUs), with 50% or higher weighting on the PSUs. The convergence on this model was driven more by proxy advisor expectations than business strategy.

Two recent developments signal a major shift toward flexibility and innovation:

- **ISS Policy Updates:** ISS's 2026 benchmark equity mix policy now recognizes that extended vesting time-based equity can be an effective long-term incentive structure.
- **White House Executive Order:** The *Protecting American Investors from Foreign-Owned and Politically Motivated Proxy Advisors* Executive Order directs federal agencies to review ISS and Glass Lewis - and the investors who rely on their advice - for compliance with fiduciary obligations and federal law.

What These Changes Mean for Compensation Committees

Both changes accelerate a trend that was already underway- the ongoing diversification of investor views regarding compensation structures that effectively align pay and performance. If investors further reduce their dependence on proxy advisor recommendations, compensation committees gain more latitude to design programs tailored to business needs without fear of proxy advisor opposition. At the same time, committees should be mindful that investor stewardship groups are increasingly bifurcating (e.g., BlackRock Investment Stewardship and BlackRock Active Investment Stewardship) requiring more nuanced, specific engagement strategies.

This creates an opportunity for renewed creativity in long-term incentive design. Below are three illustrative alternatives that previously carried high "Say-on-Pay" risk but may now be viable:

- **Simple, Long-Term Focus:** RSUs or stock options with five-year vesting schedules. No goal-setting required; time-horizon of the awards focus management on sustained performance and create a long-term retention.
- **Incentivize Outperformance While Maintaining Program Resiliency:** Grant PSUs that pay only for exceptional, transformational results. Majority-weight RSUs with post-

vesting holding periods to maintain appropriate pay levels and mitigate excessive risk taking.

- Flexibility in Uncertain Times: Use a mix of long-term RSUs with PSUs tied to a discretionary scorecard assessed at the end of the performance period. Ideal when pre-set goals are impractical but strategic execution is critical.

Challenges and Considerations

Adopting an innovative design is not for the faint of heart. At least not yet, as investor reliance on proxy advisors may decline unevenly, creating unpredictability in investor reception and “Say-on-Pay” outcomes.

As this landscape fractures further, it may be challenging to design a tailored program that serves a company’s objectives and makes investors of all orientations happy. But it also amplifies the question of whether it’s realistic - or even desirable - to satisfy every investor? If a well-conceived program earns significant majority investor support and energizes management to deliver results, is it worth diluting its impact for near universal approval which has, so far, been the benchmark in the “Say-on-Pay” era?

Implications for 2026

As 2026 long-term incentive plans are finalized and as we approach the 2026 proxy season, it seems possible that the looming presence of the Executive Order may:

- Cause risk-averse investors who rely heavily on benchmark voting recommendations, rather than custom or in-house policies, to opt out of voting entirely.
- Lead to further evolution of proxy advisor business models and asset manager stewardship practices, as all parties seek to minimize their perceived influence on corporate governance norms and decision-making.
- Prompt a re-evaluation of historic shareholder engagement practices, as stewardship teams reorganize and some investors curtail proactive outreach during this period
- Give companies more flexibility to design LTI programs more tailored to their business needs

Companies should prepare for a proxy season that could be unpredictable as the role of proxy advisors continues to be re-defined in real time. As these developments unfold, a marked realignment of roles among the various players in the corporate governance and executive compensation landscapes may occur.

Need further assistance?

Compensia has extensive experience in helping companies establish executive compensation programs and practices and developing disclosure of such practices in their proxy materials taking into consideration SEC disclosure requirements, proxy advisor policies and investor expectations. If you would like assistance with or if you have any questions on the subjects addressed in this Thoughtful Pay Alert, please contact your regular Compensia team members or the authors of this Alert:

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About Compensia

Compensia is the leading independent compensation advisor to technology and life sciences companies. For more than two decades, Compensation Committees and C-Suites have looked to us to develop customized solutions that balance the interests of a company, its shareholders and its executives.

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