

What You are Likely to Hear in the Boardroom

Part 1: External Forces Reshaping Executive Compensation



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Key Takeaways

The external environment surrounding executive compensation is changing rapidly. Economic uncertainty, evolving SEC priorities, shareholder activism, and shifts in proxy voting practices are creating new considerations for compensation committees as they prepare for the 2026–2027 proxy season. In Part 1 of this two-part Viewpoint series, we examine:

External Environment and Regulatory Landscape

1. *Economic Uncertainty, Supply Constraints, and ... Stock Market Highs?*
2. *Upcoming Shifts in Disclosure Requirements*
3. *Fallout from Excluding Shareholder Proposals*

Investor Landscape and Proxy Voting Dynamics

4. *Changing Say-on-Pay Voting Climate*
5. *Emergence of AI-Based Proxy Voting*

Part 2 will review key trends in compensation strategy.

Introduction

Compensation committees are entering the 2026–2027 meeting cycle amid an unusually dynamic external environment. Economic uncertainty, evolving regulatory priorities, changing investor expectations, and rapid developments in proxy voting are reshaping the governance landscape and influencing how boards evaluate executive pay decisions.

Drawing on discussions from hundreds of compensation committee meetings during the first half of 2026, we highlight the issues that are receiving the greatest attention in today's boardrooms. In this first installment, we focus on the external forces influencing compensation committees, from market volatility, proposed SEC disclosure changes, evolving shareholder engagement practices, and the changing proxy voting landscape. To best address these developments, committees should define principles that guide the determination of any adjustments (e.g., adjustments to reflect factors outside of management's control), assess the pros and cons that would be associated with implementing the SEC's proposed curtailed executive pay disclosure rules (for public companies with float below \$2 billion), if finalized, and seek input from their investors on how they are evaluating executive compensation structures in the current environment.

Key Developments

External Environment and Regulatory Landscape

1. Economic Uncertainty, Supply Constraints, and ... Stock Market Highs?

Depending on the industry sector, equity grants made in Q1 2026 may be underwater, roughly at grant value, or significantly in the money as of mid-year. While the energy, industrial, and broader technology sector indexes are up by double digits year to date, healthcare, consumer cyclicals, and financial services are lagging. Looking ahead, significant uncertainty remains regarding performance for the balance of the year.

With three-year performance plans, there remains substantial time for results to change before committees need to assess potential implications. However, mid-year bonus plan accruals will soon be on committee calendars, and ongoing external volatility requires committees to remain attuned to potential adjustments or actions while maintaining strong alignment with shareholders.

Any action will require a careful balance between alignment with shareholder interests and ensuring management accountability for results within their control. Committees and management teams will need to develop a clear and supportable rationale for any exclusions or adjustments that can be appropriately reflected in next year's proxy disclosures.

2. Upcoming Shifts in Disclosure Requirements

SEC Chairman Atkins has asked the Division of Corporation Finance to conduct a comprehensive review of the reporting requirements for public companies (Regulation S-K), including executive compensation disclosures. On May 19, the SEC proposed for comment rules that would raise the revenue threshold to qualify as a Large Accelerated Filer and reduce the reporting requirements for Non-Accelerated Filers (NAFs, or companies with public float below \$2 billion). For the NAF category, as proposed, companies would no longer be required to conduct Say-on-Pay ("SOP") or Say-on-Golden Parachute votes and would benefit from eased requirements on proxy pay disclosure. This is consistent with SEC public comments focusing on reducing the burden on public issuers in terms of financial and proxy disclosure requirements. The Division staff continues to review findings from the SEC's public roundtable conducted in 2025.

Separately, on May 5, the SEC proposed rules to allow a reduction in the frequency of interim financial reporting to semi-annual reporting (Form 10-S), rather than quarterly reporting, as an option for companies. The clear mandate is to simplify disclosure and eliminate immaterial items to reduce the compliance burden on companies. With the uncertain future status of disclosure items (e.g., Summary Compensation Table, Plan-Based Awards Table, Pay Versus Performance, and CEO Pay Ratio), companies should consider whether major changes in disclosure are appropriate until greater clarity emerges.

Additionally, for those companies using quarter-over-quarter measurement in incentives, a shift to semi-annual financial reporting as proposed may necessitate a change in performance measurement definitions for absolute and relative metrics. Proposed rules are expected by early fall, followed by a 60- to 90-day comment period, with final rules published in early 2027 for 2028 disclosures.

For more information, see our Viewpoint ([SEC Client Alert: Executive Compensation Disclosure Changes \(Proposed Rules\) – May 2026](#)).

3. Fallout from Excluding Shareholder Proposals

In November 2025, the SEC adopted changes to Rule 14a-8 that significantly expanded a company's ability to exclude certain shareholder proposals from proxy statements without seeking no-action relief, provided that specific notice and disclosure requirements are met. While intended to streamline the proposal process, these changes have introduced new areas of risk and uncertainty.

Shareholder litigation has begun to emerge in response, with investors challenging exclusion decisions, particularly for proposals related to ESG and other high-profile governance topics. Several companies (e.g., AT&T, PepsiCo, Chubb) have already faced lawsuits, and although certain disputes have been resolved quickly, with excluded proposals ultimately reinstated on the ballot, these developments highlight the continued legal and governance risks for issuers. In addition, investor advocacy groups have filed legal challenges against the SEC seeking to overturn or limit the revised rules.

These developments reflect a shifting dynamic in shareholder engagement, with legal challenges increasingly serving as a tool to contest exclusion decisions. As a result, companies may face heightened scrutiny and potential reputational risk when excluding proposals, even when permitted under the revised framework. Boards and management teams are therefore likely to continue to approach exclusions cautiously, weighing the legal, governance, and investor relations considerations.

Investor Landscape and Proxy Voting Dynamics

4. Changing SOP Voting Climate

The U.S. Department of Labor (DOL) recently released a Technical Bulletin determining that proxy advisory firms' business practices meet the five-part test for defining entities as investment advice fiduciaries. This has clear implications for the services offered by these proxy advisory firms and the reliance of institutional investors upon their advice for voting on proxy proposals. In addition, the Trump Administration released an Executive Order directing the SEC to assess whether proxy advisory firms should be classified as registered investment advisors. Further complicating the picture are ongoing probes by several states into the proxy advisory firms' practices and a Federal Trade Commission probe into potential antitrust violations.

As a result, proxy advisory firms are shifting their models to provide more custom research for their clients rather than their "benchmark report" approach. Glass Lewis announced that it would cease issuing single benchmark reports on proxy matters, including SOP, and is shifting to a model that is "client-driven," offering multiple perspectives representing differing voting priorities. This is consistent with the direction taken by ISS, which stated that it will shift from offering recommendations to providing customized data and analyses, rather than an approach that integrates analysis and vote recommendations.

The regulatory and proxy advisor policy shifts signal a changing landscape where the themes underlying SOP voting will become more diverse reflecting individual investor governance policies. Given this direction, investor engagement by companies will likely become more critical going forward to understand changing views of pay and performance and the relative influence of each proxy advisory firm in an increasingly uncertain voting environment. A likely outcome is that institutional investors will rely more heavily on their own analyses.

5. Emergence of AI-Based Proxy Voting

JPMorgan Asset Management has shifted in 2026 from using proxy advisory firms for vote recommendations to its internally developed “Proxy IQ,” an artificial intelligence (AI)-based model. Proxy IQ will aggregate data from proxy filings for more than 3,000 companies to inform vote recommendations. Investors are beginning to understand the benefits of using AI to collect, analyze, and summarize compensation and performance data. The use of these models to generate recommendations appears to be a near-term possibility and could lead to greater democratization of proxy voting analytics. If this trend continues, companies could face an even more varied landscape of investor policy preferences.

Closing Remarks

The issues discussed in Part 1 underscore how quickly the external governance landscape is evolving. While many of these developments remain subject to regulatory, legal, and market uncertainty, compensation committees should begin considering how they may influence future decision-making, investor engagement, and executive compensation disclosures.

In **Part 2**, our review will move from external developments to the internal decisions facing boards, exploring emerging trends in compensation design, talent strategy, leadership succession, and executive security that are shaping committee agendas for 2026 and beyond.