ISS 2026 Annual Benchmark Policy Survey: Key Takeaways and Practical Implications

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KEY TAKEAWAYS

The 2026 ISS policy survey highlights several themes that are likely to remain central to shareholder engagement and governance discussions:

1. *Executive compensation accountability may increasingly shift from say-on-pay to director elections.*
2. *Disclosure quality—particularly around discretionary bonuses and long-term incentives—remains a key focus area.*
3. *Board independence, refreshment, and responsiveness will continue to receive heightened scrutiny.*
4. *ISS appears willing to reexamine certain long-standing policies where market practice or regulatory developments have evolved.*
5. *Companies should proactively engage with shareholders and clearly communicate governance and compensation decisions, particularly if regulatory reforms reduce traditional shareholder voting mechanisms.*

These developments provide an early indication of the governance and compensation issues that may influence ISS benchmark voting policies for the 2027 proxy season and beyond.

ISS has launched its **2026 Annual Benchmark Policy Survey** (open through **August 14, 2026**), seeking stakeholder input on potential updates to governance, executive compensation, audit and oversight, sustainability, and financial reporting policies that could shape next year's benchmark voting guidelines.

A portion of this year's survey focuses on how ISS should evaluate executive compensation practices, particularly given evolving regulatory developments and changing market norms.

U.S. Executive Compensation Topics

Discretionary Bonus Programs

ISS is seeking feedback on whether discretionary annual bonus programs at U.S. financial services companies should continue to be viewed as a pay-for-performance concern or whether industry-specific regulatory and risk management considerations justify a different approach.

> The survey suggests ISS may be open to recognizing that discretionary bonus structures are a longstanding and widely accepted practice within the financial services sector. Companies that:
> - Clearly disclose the factors considered when exercising discretion;
> - Establish a target bonus opportunity or defined range; and
> - Demonstrate a reasonable connection between performance outcomes and payouts may be less likely to receive adverse qualitative assessments under future ISS methodologies.
>
> Notably, ISS limited this question to the financial services industry, indicating that discretionary bonus practices at companies outside the sector may continue to attract scrutiny.

Say-on-Pay Accountability

In response to the SEC's May 2026 proposal that could significantly expand exemptions from say-on-pay requirements, ISS is asking investors how it should signal concerns regarding executive compensation when a say-on-pay proposal is not on the ballot.

Potential approaches include:

- Recommending against the entire compensation committee;
- Recommending against only the committee chair; or
- Taking no director election action.

> If the SEC proposal is ultimately adopted, shareholders may lose one of their primary mechanisms for expressing dissatisfaction with executive compensation practices. In that environment, director elections—particularly compensation committee elections—would likely become the principal accountability tool.
>
> As a result, companies may need to place greater emphasis on shareholder engagement and compensation-related outreach to ensure investors understand the rationale behind pay decisions and to proactively address concerns that might otherwise be expressed through director election votes.

Board Responsiveness to Compensation Concerns

ISS is also evaluating what voting threshold should trigger a review of compensation committee responsiveness when compensation concerns are expressed through director elections rather than say-on-pay votes for U.S. and Canadian companies.

Possible thresholds include:

- The traditional director-election standard (less than 50% support); or
- Existing say-on-pay responsiveness standards (less than 70% support in the U.S. and less than 80% support in Canada).

Because directors typically receive support levels exceeding 90%, it would be unusual for compensation committee members to approach either threshold absent significant shareholder dissatisfaction.

ISS may ultimately need to develop a more nuanced framework for evaluating responsiveness, potentially focusing on:

- Whether meaningful corrective actions were taken;
- The duration of pay-for-performance concerns; and
- The effectiveness of compensation program changes implemented by the committee.

Long-Term Incentive (LTI) Goal Disclosure

ISS is seeking investor views on whether concerns about competitive harm justify a company's decision not to disclose forward-looking long-term incentive performance goals.

The survey explores whether ISS should give weight to:

- Retrospective disclosure of goals and outcomes;
- Whether metrics are relative or absolute goals; and
- Company-specific explanations for nondisclosure.

Many companies view prospective disclosure of LTI goals as problematic because it may:

- Reveal competitively sensitive information;
- Be interpreted by analysts and investors as financial guidance; and
- Create unintended expectations regarding future performance.

A practical approach may involve:

- Explaining in the CD&A how performance goals were established and why management believes they are rigorous;
- Describing the governance process used to set targets; and
- Providing comprehensive retrospective disclosure of goals, performance ranges, and outcomes once performance periods conclude.

ISS acknowledges that relatively few companies provide forward-looking LTI goal disclosure. Market data provided by ESGAUGE indicates that forward disclosure rates remain below 20% for most performance metrics, with relative total shareholder return (TSR) plans representing a notable exception.

Additional Noteworthy Policy Topics

Director Equity Compensation in Europe

For Continental Europe, ISS is evaluating investor perspectives regarding the use of time-based equity awards for non-executive directors (NEDs).

> In many European jurisdictions, non-executive directors historically have been compensated primarily in cash to avoid perceived conflicts of interest. This contrasts sharply with U.S. market practice, where equity compensation and stock ownership are generally viewed as important mechanisms for aligning director and shareholder interests.
>
> While the use of equity awards for European NEDs remains controversial in certain markets, broader adoption appears likely over time as governance practices continue to evolve.

Semi-Annual Financial Reporting

ISS is asking for views on the SEC's proposed semi-annual reporting framework.
While many institutional investors have expressed reservations, support for the concept has grown among certain issuers, particularly:

- Emerging growth companies;
- Smaller public companies; and
- Some industry groups that argue reduced reporting frequency may encourage longer-term decision-making.

> The survey results will provide insight into whether investor sentiment remains firmly aligned with quarterly reporting or whether support for additional flexibility is beginning to emerge.

Director Tenure and Independence

ISS is seeking feedback on whether non-executive directors with tenures of ten years or more—particularly when that tenure substantially overlaps with the CEO's—should be viewed as less independent.

> The framing of the survey question suggests ISS is evaluating whether long tenure can weaken independence, either through diminished objectivity or reduced willingness to challenge management.
>
> While ISS acknowledges the potential need for a more nuanced assessment, companies with longer-tenured directors should expect ongoing scrutiny regarding board refreshment and independence considerations.

Relocation and Reincorporation Decisions

ISS is asking investors how they evaluate corporate relocations and reincorporations, particularly when such actions may provide operational, legal, or liability-related benefits while also potentially reducing shareholder rights.

Examples of shareholder rights concerns include:

- Higher ownership thresholds for derivative actions;
- More restrictive books-and-records access; and
- Other governance-related limitations.

> Investor views are likely to be highly fact-specific, with assessments depending on both the rationale for the relocation and the impact on shareholder protections.

Perpetual Withhold Recommendations for Governance Concerns

ISS currently maintains policies that can result in ongoing "withhold" recommendations for directors at companies that continue certain problematic governance practices following an IPO, including:

- Multi-class share structures with unequal voting rights;
- Restrictions on shareholder voting rights; and
- Other governance provisions viewed as limiting shareholder accountability.

ISS is now asking whether it should move away from an automatic approach and consider additional contextual factors before issuing adverse voting recommendations.

> This question may indicate a willingness by ISS to explore a more principles-based framework that weighs governance concerns alongside company-specific circumstances and any mitigating factors.

As ISS evaluates whether to apply greater context to certain policy areas, companies should be deliberate in preparing their own narrative. In our experience, companies that pair sound governance practices and compensation design with clear disclosure and effective shareholder engagement are well positioned to manage evolving proxy advisor and investor expectations.

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