Compensation
Advisory Partners

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ISS Publishes 2024 Global Benchmark Policy Survey Results

■ By **Shaun Bisman** and **Rebecca Friday**

ISS released the results of their 2024 Global Benchmark Policy Survey, conducted in August 2024, to gather input for potential policy changes to their 2025 proxy voting guidelines. As part of ISS' annual policy development process, the survey received 325 responses—199 from investors and affiliated organizations and 126 from non-investors.

NEW YORK
1180 Avenue of the Americas, 22nd Floor
New York, NY 10036
+1 (212) 921-9350
www.capartners.com

HOUSTON
840 Gessner
Suite 375
Houston, TX 77024
+1 (713) 559-2715

CHICAGO
200 S Wacker Drive
Suite 3100
Chicago, IL 60606
+1 (312) 462-4500

LOS ANGELES
400 Continental Blvd
6th Floor
El Segundo, CA 90245
+1 (310) 426-2340

SEATTLE
500 108th Ave NE
Unit 1100
Bellevue, WA 98004
+1 (646) 532-5932

This article provides a summary of the survey results of the executive compensation related topics; ratio of performance-based equity awards to time-based equity, vesting periods for time-based equity, and use of discretionary determinations in annual incentive plans.

Ratio of Performance-Based Equity Awards to Time-Based Equity

ISS's qualitative assessment of pay-for-performance (PFP) misalignment generally considers performance-based equity awards as a favorable mitigating factor, while viewing time-vesting equity awards negatively as an aggravating factor. This approach was initially shaped by investor sentiment, with the belief that performance-based vesting enhances alignment between executives and shareholders. However, growing numbers of investors have expressed concerns over performance equity practices, pointing to their complexity and the tendency for weak performance targets to result in payouts that exceed target expectations. The survey explored views on equity award practices within the context of PFP misalignment.

Survey Findings:

- 43% of investors supported maintaining the current approach, treating a predominance of time-based equity awards as a negative factor, even if they feature extended vesting periods of more than four years
- 70% of non-investors favored treating time-based equity awards with extended vesting periods as a positive mitigating factor, similar to performance-based awards

Vesting Periods for Time-Based Equity

Respondents who believe the current approach should be revised to view time-based equity awards with extended vesting periods as a positive mitigating factor were asked what length of vesting period should cause an award to positively mitigate a PFP misalignment.

Survey Findings:

- 66% of investors and 58% of non-investors agreed that a vesting period of at least five years would be sufficient to consider these awards positively

ISS asked respondents whether a meaningful post-vesting holding period should be required for such awards to be considered a positive mitigating factor in cases of PFP misalignment.

Survey Findings:

- 68% of investors supported requiring a post-vesting holding period, and 73% of non-investors disagreed, finding it unnecessary

Use of Discretionary Determinations in Annual Incentive Plans

ISS policy generally favors annual incentive programs that use pre-established, measurable goals and provide clear disclosure of targets and their relative weightings, viewing such programs positively. Programs that depend heavily on discretionary judgments and lack transparency around their goals and weightings are viewed unfavorably. Per ISS, the limited use of discretionary factors is acceptable, provided they are clearly defined. While the majority of S&P 500 companies adhere to these guidelines, some, particularly in the financial sector, use fully discretionary incentive plans based on year-end evaluations. ISS sought feedback on whether largely discretionary annual incentive programs are problematic, even if aligned with industry or peer practices.

Survey Findings:

- 52% of investors found discretionary incentive programs problematic, even if aligned with peer practices
- Non-investors were divided, with 38% viewing discretionary programs as acceptable if their structure is in line with industry or peer practices, and the company provides transparency about the key factors taken into consideration; 31% found discretionary programs to be problematic only when pay is misaligned with the company's performance

Conclusion

While respondents to ISS's annual policy survey generally aligned on topics not covered in this article—such as the most useful human capital management metrics for evaluating shareholder proposals—they held differing views on executive compensation issues. Both investors and non-investors expressed conflicting opinions on time-based equity awards, post-vesting holding periods, and discretionary incentive pay.

ISS will use the results to draft its 2025 policy updates, which are anticipated to be finalized in late November or early December and will take effect after February 1, 2025. Before finalizing the updates, ISS will hold a comment period to gather feedback on the proposed changes.

For information related to the ISS Global Benchmark Policy Survey, please visit:

Results of Global Benchmark Survey