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ISS Governance Announces US 2026 Benchmark Policy Updates

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ISS Governance has announced its Benchmark Policy Updates for its proxy voting guidelines applicable to stockholder meetings on or after February 1, 2026. As explained in this November Cooley client alert, "ISS-Proposed 2026 Benchmark Policy Changes: Open for Comment Through November 11, 2025," the announcement is the end result of a process that ISS follows each year to develop revised policies for the coming proxy season.

Although changes to the voting policies were made worldwide, this alert focuses on the US changes, which relate principally to five director and executive compensation matters and two corporate governance matters. The changes are largely consistent with the changes as originally proposed by ISS in late October. As we previously noted, the number of compensation matters addressed this year is noteworthy given ISS' relative lack of emphasis on compensation matters in recent years – including 2024, when ISS provided no compensation-related policy updates.

As discussed below, the 2026 policies include significant changes to ISS' approach to environmental and social (E&S) shareholder proposals, replacing a presumption of support for several frequent topics with a case-by-case approach. ISS' historical support for many E&S proposals has attracted political scrutiny, and this change may reflect both changing investor sentiment and the political pressure on proxy advisory firms. Unlike Glass Lewis, which announced a 2027 shift to customized voting policies and consideration of registration as an investment advisor, ISS has not otherwise signaled a willingness to fundamentally change its advisory model.

Compensation items

High nonemployee director (NED) pay

This change expands the existing policy that addresses high NED pay practices to allow for adverse recommendations (i.e., a vote against members of the board committee responsible for approving/setting NED compensation) – either in the first year of occurrence if considered highly problematic (e.g., performance awards, retirement benefits or problematic perquisites) or when a pattern emerges across nonconsecutive years.

Company responsiveness

This change allows more flexibility for companies to demonstrate responsiveness to low executive compensation say-on-pay support (less than 70% of votes cast) in cases where a company has disclosed meaningful efforts to engage with stockholders but also states that it ultimately was unable to receive specific feedback. In such cases, ISS will assess company actions as well as the company's explanation as to why responsive actions are beneficial to shareholders. Although some institutional investors pulled back from substantive engagement conversations following February 2025 Securities and Exchange Commission (SEC) guidance, many companies have recently reported increased investor willingness to provide specific compensation feedback. As a result, it is unclear whether many companies will be affected by the updated policy.

ISS will also consider significant corporate activity (such as a recent merger or proxy contest) as part of its evaluation, in recognition of the fact that such unusual activity can sometimes lead to low support.

Long-term alignment in pay-for-performance evaluation

This change updates ISS' pay-for-performance quantitative screens to assess pay-for-performance alignment over a longer-term time horizon – a five-year period rather than the current three years – while also maintaining an assessment of pay quantum over the short term (one- and three-year periods). According to ISS, this update is intended to better align with how investors assess a company's long-term performance when evaluating compensation relative to peers. The update also emphasizes the assessment of sustained value creation and smoothing out of short- to mid-term fluctuations due to unusual one-time events or external factors.

Time-based equity awards with long-term time horizons

Pursuant to this change, time-based equity awards with extended time horizons would be viewed positively as part of the qualitative analysis that complements ISS' initial pay-for-performance quantitative assessment. ISS noted that this change was broadly welcomed by commenters. This policy update reflects the importance of longer-term time horizons for time-based equity awards and provides for a more flexible approach in evaluating the equity pay mix in pay-for-performance qualitative reviews, whereby time-based equity can comprise a majority (or all) of the equity pay mix so long as it is sufficiently long-term in nature through extended vesting and/or retention requirements.

Enhancements to Equity Plan Scorecard (EPSC)

This change adds a new scoring factor under the "Plan Features" pillar to assess whether plans that include nonemployee directors disclose cash-denominated award limits. It also introduces a new negative overriding factor for equity plans found to be lacking sufficient positive features under the "Plan Features" pillar despite an overall passing score. ISS noted that comments in response to this proposal were mixed. For 2026, the NED individual limit factor will not apply to certain smaller companies (generally those not part of the Russell 3000), and neither change will apply for 2026 in certain special cases (e.g., initial public offerings and spinoffs).

Corporate governance items

Shareholder proposals

Referencing changing investor sentiment and low support at annual meetings, the 2026 policy update includes significant changes to ISS' approach to E&S shareholder proposals, replacing a previous presumption of support for many of the most common proposal topics with a case-by-case approach. This change applies to voting policies for climate risk reporting, greenhouse gas reporting, diversity practices and data disclosure, company or supply chain human rights reporting, and political contributions disclosure proposals. ISS also updated its global policy approach on E&S proposals to expand the list of factors considered in its case-by-case analysis to include the proposal's impact on shareholder interests and rights. These changes are likely responsive to complaints from industry groups and political actors that proxy advisors have favored environmental, social and governance (ESG) proposals without regard to company-specific considerations or a connection to shareholder returns.

ISS' 2026 policy updates do not address the SEC's recent announcement that it will not be providing substantive Rule 14a-8 no action responses for the 2026 proxy season and will only provide a generic "no objection" response to companies that represent they have a reasonable basis to exclude proposals under Rule 14a-8. Under its existing Procedures & Policies, ISS will recommend against individual directors or the full board if a company omits a shareholder proposal from its proxy statement unless the company has received SEC no-action relief, a voluntary withdrawal or U.S. District Court ruling. Given the change of circumstances, it is unlikely that ISS will uniformly recommend against directors if companies choose to exclude proposals, especially where there are clear procedural or substantive deficiencies, though ISS presumably does not have an appetite for taking on the SEC's former role and evaluating the bases for exclusion for individual proposals on a case-by-case basis.

Problematic capital structures – unequal voting rights

This change eliminates inconsistencies in the treatment of capital structures with unequal voting rights by considering them problematic regardless of whether superior voting shares are classified as "common" or "preferred." In extending its negative director voting policy to high-vote preferred stock, ISS added exceptions for convertible preferred shares that vote on an "as-converted basis" and situations where enhanced voting rights are limited in duration and applicability, such as high votes designed to overcome low voting turnout on "noncontroversial" agenda items. ISS also adopted changes to its voting policy on proposals seeking to create dual-class structures, whereby ISS will generally recommend voting against proposals to create a new class of preferred stock with superior voting rights, subject to the same exceptions referenced above.

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Cooley's compensation and benefits and corporate governance and securities regulation teams are available to help you understand how these revised policies may affect your particular circumstances, including any related to international jurisdictions.

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