



UNITED STATES

Executive Compensation Policies

Frequently Asked Questions

Updated December 9, 2025

New and materially updated questions are highlighted in yellow.

This FAQ is intended to provide general guidance regarding the way in which ISS' Governance Research Department will analyze certain issues in the context of preparing proxy analyses and determining vote recommendations for U.S. companies. However, these responses should not be construed as a guarantee as to how ISS' Governance Research Department will apply its benchmark policy in any particular situation.

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U.S. Executive Pay Overview

1. Which named executive officers' total compensation data are shown in the Executive Pay Overview section?

The Executive Pay Overview section will generally reflect the same number of named executive officers as disclosed in a company's proxy statement. However, if more than five named executive officers have been disclosed, only five individuals will be displayed: the CEO and the four highest paid current executives. However, ISS may include a former executive in this section if his or her pay is within the top five. Any named executive officers disclosed in the proxy statement, whether or not included in the Executive Pay Overview section, may be analyzed and inform the compensation analysis.

2. How is Total Compensation calculated?

Total Compensation = Base Salary + Bonus + Non-Equity Incentive Plan Compensation + Stock Awards + Option Awards + Change in Pension Value and Nonqualified Deferred Compensation Earnings + All Other Compensation.

Most elements of total compensation in the ISS report will match what is disclosed in the Summary Compensation Table, including Bonus, Non-Equity Incentive Plan Compensation, Change in Pension Value and Nonqualified Deferred Compensation Earnings, and All Other Compensation. Three key elements (base salary, RS/RSUs, and options/SARs) may differ in ISS' calculation of total compensation. Base salaries will match what is disclosed in the Summary Compensation Table if the CEO received salary for the full year. For CEOs paid salary for less than a full year (for example, a mid-year external hire), the salary in the ISS report may be the annual salary disclosed in the employment contract, or else an annualized salary based on the salary in place at the end of the fiscal year. All full-value stock awards (both time- and performance-vesting) are calculated by multiplying the number of underlying shares (the target number for performance awards) by the closing stock price on the grant date. Option/SAR awards are calculated using ISS' Black-Scholes option pricing model.

3. What inputs are used in ISS' Black-Scholes methodology?

Variable	Item	Source	Comments
C	Option Value	Calculated	
S	Stock Price	Proxy	
E	Exercise Price	Proxy	
σ	Volatility	XpressFeed	Historical three-year stock price volatility measured on a daily basis from the date of grant. If a company has not been publicly traded for at least three years, ISS measures volatility from the IPO date through grant date.
Q	Dividend Yield	XpressFeed	Average dividend yield over five years. If a company has not been publicly traded for at least five years, ISS averages dividend yield from the IPO date and the grant date of option. Dividend yield is based on each dividend divided by the closing stock price on the last business day before the dividend date. The calculation excludes the payouts of special dividends.

Variable	Item	Source	Comments
R	Risk Free Rate	Dept of Treasury website	U.S. Government Bond Yield on the date of grant corresponding to the term of the option. For example, if the option has a 10-year term, the risk-free rate is the 10-year U.S. Government Bond Yield on the date of grant.
T	Term/Expected Life	Proxy	Full term of the option.
e	Base of Natural Logarithm	N/A	N/A
Ln	Natural Logarithm	N/A	N/A
N(x)	Cumulative Normal Distribution Function	N/A	N/A

4. Why does ISS use the full option term for valuation purposes?

While recognizing that companies use varying terms when valuing stock options and that the SEC dictates certain valuation constraints for company disclosure, ISS uses the full option term for valuation purposes for two reasons. First, top executives' stock options typically expire after seven to 10 years, and they are susceptible to broader market forces over the very long term. Second, top executives most often wait to exercise their options near the end of the full term, shortly before the option expiration. Therefore, for top executive option awards, ISS believes that the full term best reflects the value of the option.

5. How are the accumulated pensions, value of CEO stock owned, and potential termination payment figures calculated in the CEO Tally Sheet table?

The pension figure represents the aggregate amounts disclosed as the present value of the benefits for all pension plans (including qualified and non-qualified), as disclosed in the Pension Benefits table in the proxy statement. The value of CEO stock owned is the CEO's beneficial ownership as disclosed in the proxy statement as of the record date of the annual meeting, excluding stock options exercisable within 60 days thereafter, multiplied by the stock's closing price on the record date. The termination payment values for an involuntary termination without cause and a change in control related termination are as disclosed in the proxy statement.

6. How are peer medians calculated for the Components of Pay table?

The median is separately calculated for each component of pay and for the total annual compensation. For this reason, the median *total compensation* (TC) of the peer CEOs will not equal the sum of all the peer median pay components, because the values are calculated separately for each pay component; the median TC reflects the median of TC of the peer group constituents.

7. Where does ISS obtain TSR and financial/operational data?

TSR and financial data displayed in the Financial Highlights section of the report is sourced from Standard & Poor's Compustat. Please refer to the [Company Financials FAQ](#) for additional information.

Management Say-on-Pay (MSOP) and Executive Pay Evaluation

8. What is ISS' Executive Pay Evaluation policy?

The Executive Pay Evaluation policy consists of three primary areas: Pay for Performance, Problematic Pay Practices, and Compensation Committee Communication and Responsiveness. Recommendations issued under the Executive Pay Evaluation policy may apply to any or all of the following ballot items, depending on the pay issue (as detailed in the policy): Election of Directors (primarily compensation committee members), Advisory Votes on Executive Compensation (management say-on-pay -- MSOP), and/or Equity Plan proposals in certain circumstances.

9. When may ISS' compensation-related recommendations affect director election vote recommendations?

In general, if a company has an MSOP resolution on the ballot, the compensation-related recommendations will be applied to that proposal; however, if egregious practices are identified, or if there are recurring problematic issues or responsiveness concerns, ISS may also recommend withhold/against votes with respect to compensation committee members or, if appropriate, the full board. In addition, if there is no MSOP on the ballot, any adverse recommendations related to executive compensation will typically be applied to compensation committee members.

When adverse recommendations are warranted for committee members due to compensation-related concerns, ISS generally will issue adverse recommendations for incumbent directors that will be serving on the compensation committee following the annual meeting (i.e., the go-forward compensation committee members). Except in limited circumstances, adverse recommendations for directors are not based on which director was serving on the compensation committee at the time the compensation action was approved.

10. If one or more directors received a negative recommendation in the prior year due to ISS' concerns over compensation practices, will it have a bearing on the following year's recommendation?

The prior year recommendation is not a specific consideration in the following year's analysis, although the underlying concern may be. If one or more directors received less than 50% of shareholders' support (regardless whether it is a compensation issue), ISS may recommend that shareholders vote against all incumbent board nominees if the company fails to take adequate action to respond to or remediate the issues that led to the low support level.

11. If a company receives low support for its say-on-pay proposal, how does ISS assess the board's actions taken in response?

When a say-on-pay proposal receives less than 70% support of votes cast (for and against), ISS will conduct a qualitative review of the compensation committee's responsiveness to shareholder opposition at the next annual meeting. This review takes into consideration the following factors:

- The disclosure of details on the breadth of engagement, including information on the frequency and timing of engagements, the number of institutional investors, and the company participants (including the degree to which independent directors participated);
- The disclosure of specific feedback received from investors on concerns that led them to vote against the proposal;
- Specific and meaningful actions taken to address the issues that contributed to the low level of support;

- Whether the issues raised are recurring or isolated;
- The company's ownership structure;
- Significant corporate activity, such as a recent merger or proxy contest; and
- Any other recent compensation action or factor considered relevant to assessing board responsiveness.

If the say-on-pay support level was less than 50 percent of votes cast, this would warrant the highest degree of responsiveness, as assessed under the factors noted above.

If the company discloses meaningful engagement efforts, but in addition discloses that it was unable to obtain any specific feedback (or discloses that it heard only neutral or positive feedback), ISS will still assess company actions taken in response to the say-on-pay vote, as well as the company's explanation as to why such actions are beneficial for shareholders. The absence of any meaningful positive actions in such cases will generally be viewed as insufficiently responsive, as a low vote result itself evidences investor concerns.

In the case of low support in connection with an unusual situation (such as a proxy contest, merger or bankruptcy), ISS will still review disclosure of engagement efforts, and how the board considered a response to investor dissent. Board turnover will also be a consideration in such circumstances.

If the company has demonstrated poor responsiveness, ISS will generally recommend a vote against the say-on-pay proposal and incumbent (the go-forward) compensation committee members. ISS may limit the adverse recommendation to the say-on-pay proposal if the board has demonstrated a limited degree of responsiveness, but which falls short of a robust response. In cases of multiple years of poor responsiveness indicating a systemic problem around board stewardship and oversight, ISS may recommend against the full board.

12. What impact might an identified pay-for-performance misalignment have on equity plan proposals?

If ISS identifies an unmitigated pay-for-performance misalignment that results in an adverse recommendation on the say-on-pay proposal or compensation committee members, ISS may also recommend a vote against an equity plan proposal on the same ballot. This determination is case-by-case and considerations include, but are not limited to:

- Severity of the pay-for-performance misalignment;
- Whether problematic equity grant practices are a significant factor in the misalignment; and/or
- Whether equity plan awards have been heavily concentrated to the CEO and/or the other NEOs (as opposed to the plan being considered broad-based).

Note that problems identified in any of the three above factors may have an adverse recommendation implication for the equity plan proposal, depending on the severity of the issues. For further information, see ISS' U.S. Equity Compensation Plans FAQ.

Pay-for-Performance Evaluation

Please also see ISS' Pay-for-Performance Mechanics white paper for a detailed explanation of the quantitative and qualitative pay-for-performance evaluations.

13. How does ISS' quantitative pay-for-performance screen work?

The first step in ISS' evaluation of pay for performance is a quantitative assessment of how well a company's CEO pay has been aligned with shareholder returns and fundamental financial performance. The current screen (which applies to all S&P 500 and Russell 3000E Index companies, as well as selected additional companies that are widely held) identifies companies that demonstrate a significant level of misalignment between the CEO's pay and

company performance, either on an absolute basis or relative to a group of peers similar in size and industry (for information on ISS' peer group methodology, see ISS' U.S. Peer Group Selection FAQ). Four independent measures assess alignment over multiple time horizons. If the result of the screen indicates a pay-for-performance misalignment, ISS performs an in-depth qualitative review of the company's pay programs and practices to ascertain likely causal factors, or mitigating factors, and a relevant vote recommendation. Note that ISS reviews all companies' Compensation Discussion and Analysis and highlights noteworthy issues to investors regardless of the quantitative concern level.

14. What are the four measures in the quantitative pay-for-performance screen?

ISS' quantitative pay-for-performance screen uses four measures of alignment between executive pay and company performance: three *relative* measures where a company's CEO pay magnitude and the degree of pay-for-performance alignment are evaluated in reference to a group of comparable companies, and one *absolute* measure, where alignment is evaluated independently of other companies' performance. The four measures are:

- **Relative Degree of Alignment (RDA).** This *relative* measure compares the percentile ranks of a company's CEO pay and TSR performance, relative to an ISS-derived comparison group, over the prior five-year period.
- **Multiple of Median (MOM).** This *relative* measure assesses CEO pay magnitude as a multiple of the median of an ISS-derived comparison group, over the prior one-year and three-year periods.
- **Pay-TSR Alignment (PTA).** This *absolute* measure compares the trends of the CEO's annual pay and the change in the value of an investment in the company over the prior five-year period.
- **Financial Performance Assessment (FPA).** This *relative* measure compares the percentile ranks of a company's CEO pay and financial performance across four EVA financial metrics, relative to an ISS-derived comparison group, over the prior five-year period. The FPA is a secondary measure that is applied after the calculation of the three primary measures (RDA, MOM, PTA).

For detailed information on how these measures operate, please see ISS' Pay-for-Performance Mechanics white paper.

15. Will the quantitative pay-for-performance screen change for 2026?

Yes, there are changes to the RDA, MOM and FPA measures for 2026. There are no changes to the PTA measure for 2026.

Effective for meetings beginning Feb. 1, 2026, the RDA and FPA measures are updated to lengthen the time horizons assessed from three years to five years, and the MOM measure is updated to lengthen the time horizon assessed from one year to the average of a one-year and three-year assessment. The concern thresholds for all measures are updated for 2026, though the overall number of companies that exhibit an elevated concern level (Medium or High) is not expected to change significantly. For detailed information on the quantitative screen, see ISS' Pay-for-Performance Mechanics white paper.

16. How does the Financial Performance Assessment (FPA) measure operate and how can it affect the quantitative screen result?

The FPA operates as a secondary measure after the three primary measures (RDA, MOM, PTA) have been calculated. The FPA compares the company's financial and operational performance over the long term versus the ISS-derived peer group. The FPA generally utilizes four equally weighted EVA-based metrics: EVA Margin, EVA Spread, EVA Momentum vs. Sales, and EVA Momentum vs. Capital.

The FPA may modify an Overall Quantitative Concern level from a Low to Medium (or vice-versa), or from a Medium to High (or vice versa), depending on the results of the three primary measures and the company's FPA result. ISS back-testing indicates that less than 10% of companies subject to the quantitative screen will have their

Overall Quantitative Concern level modified by the FPA. For detailed information on the FPA measure and EVA-based metrics, see ISS' Pay-for-Performance Mechanics white paper.

17. If a company has co-CEOs, or if there was a CEO transition, which CEO's pay is shown in the report and used for the quantitative screen?

For each year covered by the quantitative screen, the screen will generally use the compensation of the CEO in office on the last day of the applicable fiscal year. This means that the screen may use a former CEO's pay for certain years. For co-CEOs both in place at the end of a fiscal year, the executive with the larger total compensation in each fiscal year will be used. Both CEOs' compensation may be evaluated in the qualitative review. On rare occasions, ISS may elect to use a former CEO for a particular year (rather than the CEO in office at year-end) if doing so would provide a more appropriate picture of pay (for example, if the CEO in office at year-end is a short-tenured interim CEO).

18. How does the initial quantitative screen affect the ultimate compensation-related vote recommendation?

The quantitative pay-for-performance analysis serves as an initial screen to identify cases that suggest there has been a significant misalignment of CEO pay and performance. A Medium or High concern from the quantitative screen always results in a more in-depth initial qualitative review of the company's pay programs and practices to identify the probable causes of the misalignment and/or mitigating factors. We note that any company can receive an in-depth qualitative review at ISS' discretion, and ISS reviews all companies' Compensation Discussion and Analysis and highlights noteworthy issues. Any company with a Low quantitative concern level may receive an in-depth qualitative review at ISS' discretion. While the quantitative screen indicates potential pay-for-performance outliers, it is the result of ISS' in-depth qualitative evaluation that determines the vote recommendation.

19. Do the "Three-Year Multiple of Median" and "GAAP Financial Performance" displays affect the quantitative screen?

A three-year MOM display was previously shown for informational purposes only but was not part of the quantitative screen. Beginning with Feb. 1, 2026 meetings, the three-year MOM is incorporated into the quantitative screen's MOM measure. Please see ISS' Pay-for-Performance Mechanics white paper for further information.

ISS research reports include a three-year "GAAP Financial Performance" display that compares the subject company's financial and operational performance over the long term relative to the ISS-derived comparison group. This display is not part of the quantitative screen and is shown for informational purposes only. The results may inform ISS' qualitative evaluation.

20. What are the typical factors that ISS considers in the qualitative evaluation?

Below are some of the factors that ISS typically considers in conducting the pay-for-performance qualitative evaluation:

- The proportions of pay elements, including performance-based, time-vesting, discretionary, and fixed pay;
- The time horizons of pay structures, including vesting and measurement periods, and retention requirements;
- The rationale for pay structure, pay decisions, or for unusual or special circumstances;
- The transparency and clarity of disclosure that reinforces pay-for-performance linkage;
- The complexity of the pay program;
- Any risks associated with the pay program design;
- The emphasis of objective and transparent metrics, as opposed to subjective or discretionary assessments;

- The rigor of performance goals;
- The degree and bounds of compensation committee discretion;
- The magnitude of pay opportunities;
- The company's peer group benchmarking practices;
- Financial/operational results, both absolute and relative to peers, including the clarity of disclosure of adjustments to incentive plan metrics/results;
- Relevant industry or other external factors impacting company performance or pay decisions, to the extent explained by company disclosure;
- The impact of special circumstances such as CEO and executive turnovers or unusual grant practices (e.g., bi-annual awards, special one-time grants);
- Recent pay program changes and/or any forward-looking commitments, particularly whether such changes represent a meaningful improvement or regression;
- Realizable and realized pay outcomes; and
- Any other factors deemed relevant.

In conducting the qualitative review of the pay-for-performance analysis, ISS primarily reviews the company's proxy statement. Investors should not be expected to comb through other separate filings to find key information around executive compensation decisions. Accordingly, information that is not fully disclosed in the proxy statement generally will not receive mitigating weight in the qualitative evaluation.

21. How does ISS consider a company's financial performance in the qualitative evaluation? Where does ISS obtain this information?

A company's financial or operational performance can provide important context to pay decisions and outcomes. ISS may consider a company's financial and operational results, including GAAP performance results displayed in the Financial Highlights report section sourced from Compustat, as well as adjusted results and financial highlights disclosed by the company in the proxy. A company's economic performance indicated by EVA results in the Financial Performance Assessment measure may also inform the qualitative evaluation. For example, strong financial or operational results may explain above-target incentive payouts despite poor TSR performance. Please refer to the [Company Financials FAQ](#) for further information regarding financial data.

22. If the quantitative screen yields a Low concern level, will ISS still evaluate the company's pay programs?

Yes, ISS reviews all companies' Compensation Discussion and Analysis and highlights noteworthy issues to investors regardless of the quantitative concern level. This review, as well as any in-depth qualitative evaluation subsequent to the quantitative screen, is the most important part of the analysis. For example, problematic contractual provisions, inappropriate perquisites and tax gross-ups, responsiveness concerns, issues regarding non-CEO executive pay, or other problematic issues that are identified in the qualitative evaluation may result in an adverse vote recommendation despite a Low quantitative concern level. Although a Low concern does not automatically receive an in-depth qualitative evaluation, ISS may conduct such an evaluation at its discretion.

23. How does ISS use realizable pay in its analysis?

A three-year realizable pay chart, which compares the CEO's three-year realizable pay to three-year granted pay, is displayed in research reports for S&P 1500 companies. Realizable pay may be considered in the qualitative review; if realizable pay is higher or lower than granted pay, ISS may explore the underlying reasons. For example, is realizable pay lower than granted pay due to the lack of goal achievement in performance-based awards, or due to a decline in stock price? Is realizable pay higher than granted pay due to above target payouts in performance-based equity awards (and, if so, are the underlying goals sufficiently rigorous), or is the difference due to increasing stock price?

For all companies, realized or realizable pay may inform ISS' qualitative evaluation. The fact that realizable pay is lower or higher than granted pay will not necessarily obviate other identified concerns. However, realized or realizable pay that demonstrates a pay-for-performance outcome will be a positive consideration.

24. How is realizable pay computed?

ISS' estimated calculation of "realizable pay" for the CEOs of S&P 1500 companies includes the cash and benefit values actually paid, and the value of any amounts "realized" (i.e., exercised or earned due to satisfaction of performance goals) from incentive grants made to any CEO during the last three fiscal years, based on their value as of the end of the measurement period. Equity grants made during the measurement period that remain on-going as of the end of the period (i.e., not yet earned or forfeited) will be revalued using the company's stock price at the end of the most recent fiscal year.

If there were multiple CEOs over the three-year measurement period, then granted and realizable pay calculations will include compensation received by all CEOs over the period. A departed CEO's pay (excluding any grants forfeited) will be valued as of his/her termination date. Realizable pay requires at least three years of disclosed CEO pay. If less than three years of CEO pay is available, the realizable pay chart will not be displayed. Also, the realizable pay chart will not be displayed for companies that have experienced multiple (two or more) CEO changes within the measurement period.

In short, realizable pay includes all non-incentive compensation paid, the value of equity or cash incentive awards earned or, if the award remains on-going, revalued at target level as of the end of the measurement period. The total realizable value for these grants and payments will thus be the sum of the following:

- Base salary reported for all years in the measurement period;
- Bonus reported for all years;
- Short-term (typically annual) awards reported as Non-Equity Incentive Plan Compensation for all years;
- For all prospective long-term cash awards made during the measurement period, the earned value of the award (if earned during the same measurement period) or its target value in the case of on-going award cycles;
- For all share-based awards made during the measurement period, the value (based on stock price as of the end of the measurement period) of awards made during the period (less any shares/units forfeited due to failure to meet performance criteria); or, if awards remain on-going, the target level of such awards;
- For stock options granted during the measurement period, the net value realized with respect to such granted options which were also exercised during the period; for options granted but not exercised during the measurement period, ISS will re-calculate the option value, using the Black-Scholes option pricing model, as of the end of the measurement period;
- Change in Pension Value and Nonqualified Deferred Compensation Earnings reported for all years; and
- All Other Compensation reported for all years.

ISS' estimated calculation of realizable pay is based on a consistent approach, using information from company proxy disclosures. SEC pay disclosure rules are largely designed to enumerate "grant-date" pay rather than realizable pay, and compensation disclosure approaches may vary from company to company. As such, ISS' realizable pay calculations represent best effort estimations that may require certain assumptions. For example, if a company's disclosure does not clearly indicate whether an applicable award has been earned or forfeited during a measurement period, ISS will use the target award level granted.

25. How does ISS calculate the "granted pay" that is compared to "realizable pay"?

As with the "realizable pay" calculation, "granted pay" for the purposes of the realizable pay chart includes the compensation of any executive serving as CEO during the measurement period, on an additive basis. In this context, CEO "granted pay" is calculated as the sum of the following for the three-year measurement period:

- Base salary reported for all years in the measurement period;
- Bonus reported for all years;
- Target short-term (typically annual) awards reported as Non-Equity Incentive Plan Awards in the Grants of Plan-Based Awards table, for all years; if a target award is not determinable, none will be included;
- Target long-term cash awards made during the measurement period (as reported in the Grants of Plan-Based Awards table, or elsewhere in the CD&A);
- The grant-date value of all share-based awards made during the measurement period;
- For stock options granted during the measurement period, grant-date value is calculated by ISS using the Black-Scholes option pricing model, per ISS' standard stock option valuation methodology;
- Change in Pension Value and Nonqualified Deferred Compensation Earnings reported for all years; and
- All Other Compensation reported for all years.

26. Why doesn't ISS use the intrinsic value (exercise price minus current market price) of stock options when calculating realizable pay?

Top executives' stock options typically expire after seven to 10 years, meaning that even if an option is underwater in the first few years after its grant, there is a substantial likelihood it will ultimately deliver some value to the holder prior to expiration. In considering "realizable" pay as a pay-for-performance factor, it is important to include the economic value of underwater options (which will also reflect the impact of a lower stock price, if applicable).

27. A company would like to disclose ongoing and/or completed performance-based equity awards for awards made in the past three years. What type of disclosure format would ISS suggest?

Disclosure of ongoing or completed performance-based equity awards in a consistent manner would facilitate investors' understanding as well as ISS' realizable pay calculation, which is based on a best-efforts extraction of necessary information from proxy statements. If a company has awarded performance-based equity awards in the past three years, disclosure of the awards in the following table would be helpful:

Grant Date	Threshold Payout (#)	Target Payout (#)	Maximum Payout (#)	Performance Period	Target/Actual Earned Date	Actual Payout (#)
3/1/20XX	100,000	150,000	200,000	2 years	6/1/20XX	180,000
3/1/20XX	150,000	200,000	250,000	3 years	6/1/20XX	Not yet determined

A company's estimation of the expected payout level for an in-progress award will not be incorporated into ISS' realizable pay calculation; however, this information may inform ISS' qualitative evaluation.

28. How is TSR calculated for the quantitative screen and what time period will ISS use for TSR of the subject company and peers?

Effective for meetings beginning Feb. 1, 2026, the time horizon of the Relative Degree Alignment (RDA) measure is lengthened from three to five years. The updated RDA measure uses annualized five-year TSR – i.e., the annualized rate of the five 12-month periods in the five-year measurement period (calculated as the geometric mean of the five TSRs). TSR reflects stock price appreciation plus the impact of reinvestment of dividends (and the compounding effect of dividends paid on reinvested dividends) for the period.

In the Pay-TSR Alignment (PTA) measure, indexed TSR represents the value of a hypothetical \$100 investment in the company, assuming reinvestment of dividends. The investment starts on the day five years prior to the month-end closest to the company's most recent fiscal year end and is measured on the subsequent five anniversaries of that date.

TSRs for the subject company and all its peers are measured for the same period; that is, the five-year period ending closest to the fiscal-year end of the subject company. ISS smooths the TSR calculation by averaging the closing prices across all trading days contained in the beginning and end months of the TSR measurement period. The TSR calculation factors in the impact of dividends and stock splits occurring during the averaging period.

For additional information on the quantitative screen, see ISS' Pay-for-Performance Mechanics white paper.

29. What compensation data for peers does ISS use?

ISS uses the latest compensation data available (disclosed and collected) for the peer companies as of the time that the research report is created for the subject company. As some peers may file their proxy statements at later dates than the subject company, some peer compensation data may be from the previous year.

30. What are the minimum time periods of data needed for the quantitative screen measures? Does lack of sufficient data affect whether a company would be used as a peer?

Assuming sufficient data is available, the absolute PTA measure is based on five years of TSR and pay data, the relative RDA and FPA measures are based on five years of TSR/financial and pay data, and the relative MOM measure is based on three years of pay data (specifically, an averaging of one- and three-year MOM calculations). However, if insufficient data is available, the PTA measure can be run on four years of data, and the RDA and FPA measures can be run on four, three or two years of data. The MOM measure can be run on two years or one year of pay data. For additional information on abbreviated time horizons in the quantitative screen, see ISS' Pay-for-Performance Mechanics white paper.

Generally, ISS' peer group will consist of companies with five full years of data. In limited circumstances, a company with less than five years of data may be selected as a peer when the quantitative screen focuses on less than five years, as outlined above.

31. How does ISS take the year-over-year change in pension benefits value into account in assessing CEO pay?

ISS includes changes in pension value in its pay assessments because companies that do not offer supplemental defined benefit pensions (SERPs) to their top executives often provide for post-retirement compensation through larger grants of equity-based awards and thus could be disadvantaged in company-to-company pay comparisons if SERP-related compensation is omitted from the annual figures. Because ISS' quantitative analysis has a long-term orientation, pay anomalies caused by issues such as a single large increase in year-over-year pension accumulations (e.g., due to interest rate changes) should not have a significant impact on the results. However, such anomalies and the company's explanatory disclosures are considered in the qualitative evaluation.

32. When will ISS consider company actions taken in response to ISS' identification of pay-related concerns?

If a company has taken recent actions following the publication of ISS' research report to address pay-related concerns, any such actions must be disclosed in a public filing in order to be considered by ISS. Based on the additional public disclosure, ISS may issue a "proxy alert" to update the analysis and, if warranted, change a vote recommendation. ISS is generally unable to change vote recommendations if the additional public filing is made in close proximity to the meeting date (specifically, less than five business days before the meeting date), though an informational proxy alert without a vote recommendation change may still be issued within that timeframe.

ISS may change its vote recommendation in the proxy alert if the company's actions sufficiently remedy the concerns driving the adverse vote recommendation. The mitigating weight placed on such actions depends on the specificity of disclosure. For example, a broad commitment to increase the proportion of performance-based pay

generally would carry little mitigating weight, whereas disclosure with specific information on pay design changes would carry greater mitigating weight.

33. When will ISS consider equity awards to be performance-conditioned?

For purposes of calculating the CEO's equity pay mix, ISS determines the proportion of equity awards (by value) that are time-based vs. performance-conditioned, based on ISS' classification methodology. Performance-conditioned equity awards are performance-contingent in that the individual will not receive the shares if the threshold performance goal is unmet within the specified period. ISS will generally not consider equity awards as performance-conditioned when performance assessments are determined merely by committee discretion or by references only to broad assessments of company or executive performance. Awards with disclosed metrics (e.g., return on equity), applicable goals (e.g., 15%), and measurement periods (e.g., three years) associated with the performance awards at the time they are granted are classified by ISS as performance-conditioned. Standard time-based stock options/SARs, market stock units that pay out at target without requiring an increase in stock price, and performance-accelerated grants are not classified as performance-conditioned.

Time-based awards whose magnitude is determined based on prior performance are not considered performance-conditioned unless the proxy discloses the pre-set performance requirements necessary for the award to be made along with the defined measurement period. Premium-priced stock options must have a meaningful premium (typically at least 110% of the stock price on the date of grant, although a higher premium may be required for stock trading at a low price) in order to be classified as performance-conditioned. For equity awards that are contingent on stock price goals, the price condition should be both meaningful and required to be maintained for at least 20 consecutive trading days (or 30 calendar days) before vesting in order for the grant to be classified as performance-conditioned. Note that ISS' classification of an equity award as performance-conditioned is made at ISS' discretion, and such classification does not necessarily indicate that the award design is considered rigorous.

34. How does ISS evaluate performance equity award programs in the qualitative evaluation?

ISS' evaluation of performance equity programs focuses on disclosure and design aspects, and multiple concerns in these areas are likely to result in an adverse recommendation for companies that exhibit a quantitative pay-for-performance misalignment. The following non-exhaustive list highlights issues that typically raise concerns in the qualitative evaluation:

- Non-disclosure of forward-looking goals;
- Poor disclosure of closing-cycle performance and vesting results;
- Poor disclosure of the rationale for program design, metric changes, or performance results adjustments;
- A short-term performance measurement period design;
- Unusually large pay opportunities, including maximum vesting opportunities;
- Non-rigorous goals that do not appear to strongly incentivize for outperformance; or
- Overly complex performance equity structures.

35. How does ISS evaluate time-based equity awards and equity pay mix in regular long-term incentive programs?

Beginning with Feb. 1, 2026 meetings, ISS' general approach to evaluating equity pay mix for regular long-term incentive programs is updated whereby an equity pay mix that consists primarily or entirely of time-based awards (such as RSUs or options) will not in itself raise significant concerns in the qualitative evaluation, so long as the time-based award design utilizes a sufficiently long-term time horizon. Specifically, a time-based equity award design that utilizes a time horizon of at least five years, achieved through vesting and/or post-vesting (or post-exercise) retention requirements as outlined below, will be viewed as a positive factor in the qualitative evaluation. A sufficiently long-time horizon of five years can be demonstrated by:

- Five-year (or longer) vesting period (ratable or cliff).
- Four-year vesting period (ratable or cliff), plus at least a one-year post-vesting (or post-exercise) share retention requirement covering at least 75% of net shares.
- Three-year vesting period (ratable or cliff), plus at least a two-year post-vesting (or post-exercise) share retention requirement covering at least 75% of net shares.

A time-based award design with a vesting period of less than three years (for example, a two-year vesting period followed by a three-year share retention requirement) will not be considered sufficiently long-term in this context. As before, if the regular long-term incentive program consists of more than 50 percent time-vesting equity that does not utilize an extended time horizon, this will generally be a negative consideration in the qualitative evaluation.

ISS will continue to consider well-designed and clearly disclosed performance-conditioned equity structures as a positive factor (see FAQ #34 above). For the avoidance of doubt, if neither performance-conditioned equity awards nor time-based equity awards with an extended time horizon independently make up a majority of the regular equity pay mix, but taken together comprise a majority of the mix, this would be viewed positively in the qualitative evaluation.

36. Does the equity pay mix evaluation update apply to special/one-time awards?

No. Investor feedback indicates that one-time awards should continue to be strongly based on performance-vesting criteria. The factors considered for one-time awards remain unchanged – see FAQ #60 below for additional information.

37. What level of disclosure is necessary to enable shareholders to assess the rigor of incentive programs?

In order for shareholders to assess the rigor of performance-based bonus and equity incentive programs, the company needs to disclose in the proxy statement the applicable performance metrics and goals and corresponding payout opportunities. To ensure complete and transparent disclosure, the company should disclose the following:

- The metrics used (and rationale for the selections or changes);
- The goals that were set for each metric and the target (and, if applicable, threshold and maximum) payout levels set for each NEO;
- The reason that each goal was determined to be appropriate for incentive pay purposes (including the expected difficulty of attaining each goal);
- The actual quantified results achieved with respect to each goal; and
- The resulting award (or award portion) paid (or payable) to the NEO with respect to each goal.

If a target performance goal was set at or below the prior year's analogous goal or achieved result against that goal, the company should explain the reasoning for this and how it was considered when determining the related payout opportunities. Any factors that reduce the meaningfulness of year-over-year goal/result comparisons should be explained in the proxy.

38. Will ISS consider the timing of equity grants (such as for grants made subsequent to the applicable performance year) when conducting its pay-for-performance evaluation?

Grant timing issues can be challenging for investors evaluating the relationship between performance and pay. The value of equity grants generally represents a significant proportion of top executives' pay; if the grants are made subsequent to the "performance year," disclosures in the Grants of Plan-Based Awards Table may distort the pay-for-performance link.

Some investors believe that equity awards can incentivize and retain executives for past and future performance and therefore adjustments for such timing issues may not be critical. ISS' pay-for-performance analysis has a long-term orientation, where these types of timing issues are less relevant than in an evaluation of one year's pay. Nevertheless, ISS may consider the timing of equity awards made early in a fiscal year in its qualitative assessment if complete disclosure and discussion is made in the proxy statement.

In order to ensure that pay-for-performance alignment is perceived, the company should discuss the specific pre-set performance measures and goals that resulted in equity awards made early in the next fiscal year. A general reference to last year's performance is not considered sufficient. If the company makes equity grants early in each year based on the prior year's specific performance achievement, shareholders should not be required to search for the information outside of the latest proxy statement in order to make year-over-year comparisons. Many companies that grant equity awards in the year following the performance year disclose alternate compensation tables in their proxies that adjust for the timing issues, which is helpful for investors. In such cases, ISS may consider adjusted total compensation as part of the qualitative analysis only when the company provides transparent and complete disclosure in the proxy statement; ISS will not search for the company's Form 4 or other filings.

39. How does ISS evaluate "front-loaded" awards intended to cover future years?

Very large awards that are intended to cover future years of incentive pay limit the board's ability to meaningfully adjust future pay opportunities in the event of unforeseen events, such as changes in either company or executive performance or strategic focus. Given that such awards typically provide for exceptionally large pay opportunities, the usual pay-for-performance considerations are heightened, including completeness of disclosure, emphasis on transparent and rigorous performance criteria, and stringent vesting provisions (including termination treatment) that limit windfall risk. Commitments not to grant additional awards over the covered period should be firm. ISS generally does not support grants that cover more than four years (i.e., the grant year plus three future years).

40. How does ISS evaluate carried interest/profit-sharing programs?

Some financial companies include carried interest/profit-sharing programs as part of the executive pay program. These programs typically provide distributions to participants that are based on the profits or returns on managed investment funds or accounts. While such payments are performance-based in that they are directly linked to an underlying fund's performance, the payments are often uncapped and can drive very high reported compensation. Like other types of reported payouts, ISS considers awards made under profit-sharing programs as incentive compensation, and therefore any payments will be included in ISS' quantitative screen and considered in the qualitative evaluation. In evaluating carried interest/profit-sharing programs, ISS considers many of the same factors as for other incentive compensation, including, for example, the disclosed rationale, specific performance requirements for payouts, a clear payout determination process, and safeguard features such as reasonable pay opportunities and meaningful payout caps.

41. How does ISS evaluate an NEO annual incentive/bonus program that is based on the compensation committee's discretionary assessment of company and individual performance?

Some companies, particularly large financial firms, utilize a pay program structure in which NEOs' total pay is based on a holistic evaluation of company and individual performance, but which is ultimately determined at the compensation committee's discretion. Such a structure typically results in annual cash awards that are explained by reference to company and individual performance, but not based on performance against pre-established and quantified goals. Bonus programs that are heavily based on discretionary determinations are viewed negatively, particularly for companies that exhibit a pay-for-performance misalignment. These programs often lack features that are generally viewed as important by investors and which provide investors visibility into the program to substantiate the program's pay-for-performance linkage. Disclosure hallmarks such as discrete category and metric weightings, minimum performance requirements for payouts, and pre-set target/maximum pay opportunities, are

all considered positive features and they may provide mitigating weight to such bonus programs that are informed by performance but ultimately discretionary. Conversely, the absence of such disclosures will generally reinforce a perceived quantitative pay-for-performance misalignment.

42. How does ISS evaluate one-time pay decisions relating to an externally-hired executive?

When there is an executive transition, investors are generally comfortable with temporarily increased pay for the incoming executive when that executive has been externally hired from another organization. This temporary change to the compensation structure typically includes inducement awards that encourage the executive to accept the role at the new company, and make-whole awards that replace forfeited compensation opportunities from the executive's prior employment. The presence of these awards may mitigate concerns regarding pay magnitude if a review of the award structure and disclosure reveals positive features. If pay levels are elevated for a new hire, those compensation levels will be expected to normalize in years following the transition year.

As with other one-time awards, inducement awards should be predominantly performance-based and structured with appropriate shareholder-friendly guardrails (for example, limitations on award vesting upon a termination). The company should disclose how it determined the size and structure of those awards to be in shareholders' best interests. For make-whole awards that are intended to replace forfeited compensation opportunities from a prior employment, the company should disclose whether the new grant is economically equivalent to what was forfeited, the termination terms and any other relevant information. Unlike other one-time awards, ISS generally does not expect performance criteria to be attached to make-whole awards, but companies must clearly disclose the portion of awards that are attributable to inducement awards vs. those that are strictly make-whole awards.

43. How does ISS evaluate incentive program metrics, and does ISS prefer companies use TSR as a metric?

ISS does not endorse or prefer the use of TSR or any specific metric in incentive pay plans. ISS believes that the board and compensation committee are generally best qualified to determine the incentive plan metrics that will encourage executive decision-making that promotes long-term shareholder value creation. However, ISS recognizes that shareholders prefer emphasis on objective metrics that increase transparency into pay decisions. In evaluating the metrics of an incentive program, ISS may consider several factors, such as:

- Whether the program emphasizes objective metrics that are linked to quantifiable goals, as opposed to subjective or discretionary metrics;
- The rationale for selecting metrics, including the linkage to company strategy and shareholder value;
- The rationale for atypical metrics or significant metric changes from the prior year; and/or
- The clarity of disclosure around adjustments for non-GAAP metrics, including the impact on payouts.

44. How does ISS evaluate modifier metrics in incentive pay programs?

As with primary metrics for incentive pay programs, companies should provide clear disclosure in the proxy statement around a modifier metric's mechanics, including its applicable goals, the achieved performance level, and impact on payouts. Companies should clearly disclose the limitations that a modifier metric has on payouts (i.e., "may increase or decrease the total bonus payout by up to 15%"). Modifier metrics that allow for a significant increase in a payout or do not disclose the percentage by which a payout can be increased may be viewed negatively, as will modifier metrics that contribute to an overemphasis of committee discretion within the pay program.

45. How does ISS evaluate disclosure of adjustments to metric results, including non-GAAP metrics in incentive pay programs?

Non-GAAP metrics are commonly utilized in incentive pay programs, and the performance results (and consequently the payouts) can be significantly changed by adjustments approved by the board. If such adjustments materially increase incentive payouts, companies should provide clear disclosure in the proxy explaining the nature of the adjustment, its impact (dollar or percentage) on payouts, and the board's rationale. Disclosure in the proxy of line-item reconciliation to GAAP results, when possible, is considered a best practice. The absence of these disclosures would be viewed negatively, as would adjustments that appear to insulate executives from performance failures – particularly for companies that exhibit a quantitative pay-for-performance misalignment.

46. How does ISS view changes to in-progress incentive programs?

Mid-cycle changes (such as to metrics, performance targets and/or measurement periods) for *in-progress* incentive programs are generally viewed negatively. As with other kinds of unusual pay program interventions, companies should disclose clear and compelling rationale for such actions and explain how they do not circumvent pay-for-performance outcomes. Also considered are subsequent actions taken to prevent windfalls for award recipients.

47. How does ISS evaluate pay program complexity?

Pay program structures and/or disclosures that are overly complex may impede investors' ability to evaluate the linkage between pay and performance and may reduce transparency into what the program aims to incentivize. ISS may raise concerns when a pay program contains overly complex features, particularly when a quantitative pay-for-performance misalignment is identified. For example, a disproportionately large number of metrics, modifiers, and/or award vehicles, complicated vesting or award determination formulas, or convoluted pay program disclosure without clear and compelling rationale may be raised as a concern.

48. How does ISS capture transition period compensation?

Given that disclosure of transition period compensation varies across companies, ISS is unable to apply a standardized methodology in all cases. When transition periods represent an extension of a recently completed fiscal year (until the start of a new fiscal year period), ISS will generally include transition period pay as part of the most recently completed fiscal year pay. Cash pay components such as base salary and bonus will be annualized and equity pay components will be added, subject to a case-by-case review.

49. How does ISS evaluate pay-for-performance alignment at companies that are not subject to the quantitative screen?

For companies outside the Russell 3000E Index that are not subject to the quantitative screen, ISS reviews the CD&A, including the Summary Compensation Table and other compensation tables, to assess the level of NEOs' pay and to identify excessive pay levels. ISS also reviews disclosures for the presence of problematic pay practices. If that evaluation does not identify any significant concerns, the ISS research report indicates as much (and notes any issues that shareholders may nevertheless wish to consider). If significant concerns are identified, ISS evaluates whether the situation warrants an adverse recommendation.

50. What is needed in order for ISS to consider a clawback policy "robust," as displayed in the "Executive Compensation Analysis" section of the research report?

In order to receive credit for a "robust" clawback policy in the "Executive Compensation Analysis" section of the research report, a company's clawback policy must extend beyond minimum Dodd-Frank requirements and

explicitly cover all time-vesting equity awards. A clawback policy that adheres only to minimum Dodd-Frank requirements will not be considered robust, because those requirements generally do not cover *all* time-vesting equity awards.

51. How does ISS view stock ownership guidelines that allow for unearned performance awards or unexercised options to be counted towards satisfying the guidelines?

ISS research reports display the CEO's stock ownership guidelines, which are typically reflected as a multiple of base salary. If a company's stock ownership guidelines allow for the inclusion of unearned performance awards or unexercised options (or any portion thereof) towards satisfying the guidelines, this will be indicated in the research report, and the guidelines will not be considered robust. This does not apply to unvested full value awards, such as time-based restricted stock and RSUs. Companies should clearly disclose the types of equity awards (vested, unvested, unexercised, etc.) that may count towards satisfying the guidelines.

Problematic Pay Practices

52. What is ISS' Problematic Pay Practices evaluation?

Problematic pay elements are generally evaluated case-by-case considering the context of a company's overall pay program and demonstrated pay-for-performance philosophy. Based on input from client surveys and roundtables, ISS has identified certain practices that are contrary to a performance-based pay philosophy, which are highlighted in the list below. ISS evaluates these practices on a case-by-case basis, considering the facts and circumstances disclosed.

- Egregious employment contracts:
 - Contracts containing multi-year guarantees for salary increases, non-performance-based bonuses, or equity compensation;
- New CEO with overly generous new-hire package:
 - Sign-on awards that are excessively large or insufficiently performance-based;
 - Problematic termination-related equity vesting provisions;
- Abnormally large bonus or incentive plan payouts without justifiable performance linkage or proper disclosure:
 - Performance metrics that are changed, canceled, or replaced during the performance period without adequate explanation of the action and the link to performance;
 - Payouts made despite failure to achieve pre-established threshold performance criteria;
- Egregious pension/SERP (supplemental executive retirement plan) payouts:
 - Inclusion of additional years of service not worked that result in significant benefits provided in new arrangements;
 - Inclusion of performance-based equity or other long-term awards in the pension calculation;
- Excessive or extraordinary perquisites:
 - Perquisites for former and/or retired executives, such as lifetime benefits, car allowances, personal use of corporate aircraft, or other inappropriate arrangements;
 - Extraordinary relocation benefits (including any home loss buyouts);
 - Excessive amounts of perquisites compensation;
- Problematic severance and/or change in control (CIC) provisions:

- Termination or CIC severance payments exceeding three times [base salary plus target/average/most recent bonus] (or that include equity gains or other pay elements into the calculation basis);
 - New or materially amended arrangements that provide for CIC severance payments without loss of job or substantial diminution of job duties (such as provided by a problematic Good Reason definition, or by single-triggered or modified single-triggered provisions, where an executive may voluntarily leave for any reason and receive CIC severance);
 - New or materially amended executive agreements that provide for an excise tax gross-up. Modified gross-ups would be treated in the same manner as full gross-ups;
 - Excessive payments upon an executive's termination in connection with performance failure or payments made in connection with an apparent voluntary resignation or retirement;
 - Liberal change in control definition in individual contracts or equity plans which could result in payments to executives without an actual change in control occurring;
 - A problematic Good Reason termination definition that presents windfall risks, such as definitions triggered by potential performance failures;
- Tax reimbursements: Excessive reimbursement of income taxes on executive perquisites or other payments (e.g., related to personal use of corporate aircraft, executive life insurance, bonus, restricted stock vesting, secular trusts, etc.; see also excise tax gross-ups above);
 - Dividends or dividend equivalents paid on unvested performance shares or units;
 - Internal pay disparity: Excessive differential between CEO total pay and that of next highest-paid named executive officer (NEO);
 - Repricing or replacing of underwater stock options/stock appreciation rights without prior shareholder approval (including but not limited to cash buyouts, option exchanges, and certain voluntary surrender of underwater options where shares surrendered may subsequently be re-granted);
 - Significant shifts away from performance-based compensation to discretionary or fixed pay elements; and
 - Other pay practices that may be deemed problematic in a given circumstance but are not covered in the above categories.

53. Which problematic practices are most likely to result in an adverse recommendation?

The list below highlights the problematic practices that carry significant weight and may result in adverse vote recommendations:

- Repricing or replacing of underwater stock options/SARS held by NEOs or directors without prior shareholder approval (including cash buyouts and voluntary surrender of underwater options);
- Excessive or extraordinary perquisites or tax gross-ups;
- New or materially amended agreements that provide for:
 - Excessive termination or CIC severance payments (generally exceeding three times [base salary plus average/target/most recent bonus]);
 - CIC severance payments without involuntary job loss or substantial diminution of duties ("single" or "modified single" triggers) or in connection with a problematic Good Reason definition;
 - Problematic Good Reason termination definitions that present windfall risks, such as definitions triggered by potential performance failures;
 - CIC excise tax gross-up entitlements (including "modified" gross-ups);
 - Multi-year guaranteed awards or increases that are not at risk due to rigorous performance conditions;
 - Liberal CIC definition combined with any single-trigger CIC benefits;
- Insufficient executive compensation disclosure by externally-managed issuers (EMIs) such that a reasonable assessment of pay programs and practices applicable to the EMI's executives is not possible;
- Severance payments made when the termination is not clearly disclosed as involuntary (for example, a termination without cause or resignation for good reason); or
- Any other provision or practice deemed to be egregious and present a significant risk to investors.

54. Does ISS consider security-related perquisites differently from other perquisites?

In light of recent events, many companies have growing concerns around executive security, and it is expected that security-related perquisites will increase in both prevalence and values. Some investors have expressed the view that security costs should be considered differently from other types of perquisites. For these reasons, ISS is unlikely to raise significant concerns for relatively high security-related perquisite values, so long as the company discloses a reasonable rationale for such costs. For example, disclosure of an internal or third-party assessment, and a broad description of the security program and its connection to shareholder interests, would generally mitigate concerns regarding relatively large security costs. However, extreme outliers in security costs may still drive significant concerns, particularly if not adequately addressed in the proxy disclosure.

55. How does ISS evaluate Good Reason termination definitions?

Severance payments made in connection with a Good Reason termination should be limited to circumstances that are reasonably viewed as an adverse constructive termination; for example, employer actions that result in a material negative change to the executive's title/role, function or compensation. Such provisions should be tailored to preclude potential windfall risk. To that end, the occurrence of a CIC alone as a Good Reason trigger is considered problematic as are definitions that are triggered by circumstances reflecting potential performance failures, such as a company bankruptcy or delisting.

56. How does ISS evaluate disclosure around terminations and severance payments?

Severance is intended for involuntary or constructive job loss; it is not appropriate for executives who voluntarily resign or retire. Investors expect clear and forthright disclosure around the nature of an executive's termination and how the board determined to pay severance (for example, "the board determined the termination to be 'without cause' as defined in the executive's employment agreement and paid the severance amount provided under the agreement.") This enables shareholders to assess the appropriateness of such payments and determine whether there have been any discretionary payments. Disclosure indicating that an executive "stepped down" or that the executive and board "mutually agreed" on a departure does not clearly indicate an involuntary termination. In order to enable investors to fully evaluate severance payments, a company should disclose both the type of termination (e.g., termination without cause or resignation for good reason) as defined under the agreement, as well as the provision by which severance payments were made under the agreement.

57. How does ISS distinguish between problematic CIC severance and incentive awards that are payable upon a CIC transaction?

As noted above, a new or materially amended executive agreement that provides for CIC severance without requiring a qualifying termination (i.e., single or modified single trigger severance) is considered a problematic pay practice. However, this is distinguishable from a bona fide incentive award that becomes payable upon a CIC transaction. For example, if a company pursuing an asset sale provided for a bonus payable upon the sale, this would be considered an incentive award and not problematic single trigger severance. Such incentive awards are still evaluated qualitatively from a pay-for-performance perspective (or in a golden parachute evaluation when the awards become payable). Companies are encouraged to clearly differentiate in executive agreements a CIC severance entitlement vs. a transaction bonus opportunity.

58. How does ISS evaluate compensation disclosure by externally-managed issuers (EMI)?

Although EMIs are not categorically exempt from say-on-pay vote requirements, many EMIs do not provide sufficiently detailed disclosure of the compensation arrangements between their executive officers and the external manager. Many EMIs provide only the aggregate management and incentive fees paid to the manager. Without more information, shareholders are unable to make a reasonable assessment of pay programs and practices applicable to the EMI's executives, and therefore are unable to cast an informed say-on-pay vote. In assessing whether an EMI has provided sufficient compensation disclosure to allow for an informed say-on-pay vote, ISS will look for all of the following disclosures:

- The portion of the EMI's management fee that is allocated to NEO compensation paid by the external manager (aggregated values for all NEOs is acceptable);
- Of this compensation, the breakdown of fixed vs. variable/incentive pay; and
- The metrics utilized to measure performance to determine NEOs' variable/incentive pay.

If the EMI is unable to determine the portion of the management fee that is allocated to NEO compensation with reasonable certainty, the company should provide a reasonable estimate of this amount with an explanation of the methodology.

While the above does not represent a complete picture of executive compensation, it represents the minimum disclosure necessary to enable shareholders to reasonably evaluate pay arrangements between the EMI's executives and the external manager. Absent this disclosure, ISS will generally recommend against the EMI's say-on-pay proposal.

59. How does ISS consider the reduced compensation disclosure requirements for a Smaller Reporting Company (SRC) as defined by the SEC?

While SRCs have scaled-back compensation disclosure requirements, they are still required to hold say-on-pay votes. Completeness of disclosure is an important pay-for-performance consideration for shareholders. Companies with scaled compensation disclosure requirements should continue to provide sufficient disclosure to enable shareholders to make an informed say-on-pay vote. ISS is unlikely to support a say-on-pay proposal if compensation disclosure is such that shareholders cannot meaningfully assess the SRC's compensation philosophy and practices.

60. How does ISS evaluate one-time awards (such as retention awards)? Does that view change if one-time awards are granted after performance goals are not achieved?

Investors recognize that retention of key talent may be critical to performance improvements and future shareholder value. When one-time awards are granted, companies should explain the specific issues driving the decision to grant the awards and how the awards further investors' interests. Awards should be reasonable in magnitude and be an isolated/non-routine occurrence. The awards should also be strongly performance-based and have limitations on termination-related vesting. Actions that reward executives when performance goals are not achieved, whether by lowering or waiving goals (a problematic pay practice) or granting other awards to compensate for the absent incentive payouts, will be considered problematic.

61. How does ISS evaluate problematic pay practices relating to agreements or decisions in the current fiscal year as opposed to those from the most recently completed fiscal year?

For problematic provisions (excise tax gross-ups, single-trigger severance, etc.) contained in a new/materially amended executive agreement, ISS will generally issue an adverse recommendation when such provisions are disclosed by the company, even if the problematic agreement was entered into or amended after the most recent fiscal year end. For example, if a company with a calendar fiscal year discloses a new problematic agreement entered into in February following the FY end, ISS will generally recommend against the current say-on-pay proposal.

However, in certain cases ISS may wait to further evaluate the problematic issue in the following year, when our analysis could be informed by additional information that would be disclosed in the following year's proxy statement. For example, ISS may wait until the following year in the case of a potentially problematic equity grant to a new CEO hired in February after the FY end, in order to evaluate the grant in the context of the new CEO's total pay as disclosed in the following year's proxy statement.

62. While guaranteed multi-year awards are problematic, is providing a guaranteed target pay opportunity for what ISS considers a performance-based vehicle acceptable?

While guaranteeing any executive pay elements (outside of salary and standard benefits) is not considered best practice, if the payout of such an award ultimately depends on the attainment of disclosed rigorous performance goals (i.e., no payout would occur if performance is below a specified standard), this would generally mitigate concerns about the guaranteed award opportunity.

63. How does ISS view existing/legacy problematic provisions in executive agreements?

While maintaining problematic provisions in legacy arrangements (i.e., agreements not entered into or amended in the most recently completed fiscal year) is a concern, such legacy arrangements generally will not on their own result in an adverse vote recommendation. However, legacy problematic provisions will be considered as part of the holistic analysis, and they should be removed whenever the agreement is materially amended or extended (see related questions below).

64. How does ISS view material amendments to existing contracts that contain a problematic provision?

Shareholders are concerned with the perpetuation of problematic practices; thus, new or recently amended agreements will receive the highest scrutiny and weight in ISS' analysis. New or recently amended agreements are considered an opportunity for the board to fix problematic issues. Note that if an individual becomes party to a pre-existing arrangement (for example, an umbrella severance plan) as a result of becoming a named executive officer at the company, that arrangement will be considered "new" for that individual and therefore will trigger the policy.

65. How does ISS view a legacy agreement containing a problematic pay practice when the agreement is automatically extended but is not otherwise amended? What does ISS consider to be a "material" amendment?

Automatically renewing/extending agreements (including agreements that do not specify any term) are not considered a best practice, and the existence of a problematic practice in such a contract is a concern. However, if an auto-renewing agreement is not materially amended, the automatic extension will not on its own result in an adverse vote recommendation. An amendment is considered "material" if it involves *any* change that is not merely administrative, as determined at ISS' discretion.

66. How does ISS view a problematic pay practice contained in a plan or agreement that runs indefinitely, but an executive has a separate new or recently modified agreement?

The policy relevant for new or modified executive agreements applies to any and all agreements or plans under which the executive whose contract is being entered into or modified is covered. In other words, ISS may view entering into a new executive agreement (or modifying an existing agreement) as also being a modification or extension of the executive's separate arrangement that contains a problematic provision. To avoid triggering the problematic pay practice policy, the new or modified agreement should include a removal of the executive's entitlement to the problematic pay practice under the separate agreement.

67. If a problematic pay practice provision is included in a new or modified agreement, what remedial action can a company take?

The company can remove that provision from the agreement and disclose this action in a public filing.

Frequency of Advisory Vote on Executive Compensation

68. What is ISS' policy on say-on-pay frequency?

ISS and the large majority of shareholders support annual say-on-pay votes, which provide the highest level of accountability and clearest channel for shareholder communication. Holding a say-on-pay vote every year enables the vote to correspond to the majority of the information presented in the proxy statement and allows investors to comment upon issues around executive pay programs in a timely fashion.

69. What are the implications if a board adopts a frequency that is less frequent than the frequency supported by a majority or plurality of shareholders?

If the board adopts a longer frequency for say-on-pay votes than approved by a majority or plurality of shareholder votes, ISS will generally issue adverse recommendations for compensation committee members.

70. What are the implications if a board does not present shareholders with a say-on-pay (or frequency) vote where one would otherwise be expected?

If there is no say-on-pay or say-on-pay frequency vote on the ballot where one would otherwise be expected, and the company does not provide an explanation for the omission, ISS will generally recommend against the compensation committee chair (or full committee/board, as appropriate) until the company presents shareholders with the advisory vote. A company that is exempt from the say-on-pay vote requirements (such as an "emerging growth company" under the JOBS Act) should provide an explanation of this in the proxy statement. While the SEC rule requires inclusion of say-on-pay proposals at least once every three calendar years, if the company's annual meeting date changes, for example due to a change in fiscal year, the company should provide an explanation about the timing of the next say-on-pay resolution.

Advisory Vote on Golden Parachutes (SOGP)

71. How does ISS evaluate the treatment of equity awards upon a change in control?

ISS considers windfall potentials when evaluating equity award treatment upon a change in control (CIC). Factors considered include, but are not limited to:

- **Vesting acceleration.** The automatic full vesting of equity awards upon a CIC (i.e., single trigger vesting acceleration) is viewed negatively. Pro rata vesting (i.e., based on actual performance and/or partial completion of the vesting period) is preferable to full vesting acceleration; however, double trigger vesting acceleration that requires both a CIC and a qualifying involuntary termination is considered the best practice.
- **Performance award level.** Deeming performance awards earned above the "target level" without disclosure of compelling rationale is problematic.
- **Maintaining vesting criteria.** Maintaining vesting criteria on converted awards (into acquirer securities or cash-based awards) retains their retention and incentive qualities, while waiving vesting criteria diminishes or eliminates those qualities.
- **Elapsed vesting period.** The full acceleration (or other problematic treatment) of awards granted shortly before a CIC, at which point only a small fraction of the original vesting period has elapsed, is viewed as a greater windfall.
- **Magnitude of accelerated awards.** Vesting acceleration concerns are exacerbated when the awards make up most of NEOs' golden parachutes. Also, if accelerated awards granted in the cycle before the CIC are larger in magnitude as compared to prior award cycles, the company should explain the reason for this.

72. How does ISS determine whether golden parachute payments are excessive?

ISS considers several factors in evaluating golden parachute quantum, including the absolute values of individual and aggregate NEO golden parachutes, as well as the payments relative to an executive's annual compensation or to the underlying transaction's equity value. ISS evaluates golden parachute quantum in conjunction with other factors in the qualitative review; therefore, there are no bright-line thresholds for purposes of this evaluation.

73. How will ISS consider legacy change in control severance features in its SOGP evaluation?

ISS considers both new and existing problematic features and practices. Recent amendments that incorporate problematic features or augment golden parachute payments will carry more weight in the overall analysis. However, the presence of multiple legacy problematic features will also be closely scrutinized.

74. Which practices are most likely to result in an adverse SOGP recommendation?

- Golden parachute excise tax gross-ups are estimated to be paid (based on amounts reported in the golden parachute tables of the merger proxy);
- Cash severance payments are triggered solely by the occurrence of a change in control (i.e., "single trigger"), without disclosure indicating the executive will incur a termination in connection with the transaction;
- Single-trigger acceleration of performance-based awards at an above-target level without compelling rationale disclosed; and
- Any other feature that is considered egregious or detrimental to shareholders' interests.

Other Compensation Topics

75. How does ISS evaluate management advisory proposals seeking shareholder approval of non-employee director pay?

In evaluating non-employee director pay programs, ISS looks for reasonable practices that adequately align the interests of directors with those of shareholders while preserving directors' independent oversight responsibilities. ISS considers director pay composition, magnitude, and other qualitative features. Also relevant to this analysis is whether the equity plan under which director grants are made warrants support (if it is on the ballot).

A director pay program should incorporate meaningful director stock ownership and/or holding requirements (i.e., at least 4X the annual cash retainer). When equity is a much larger component of the director pay mix, the ownership and holding requirements should be more robust. It is considered a problematic practice for non-employee directors to receive performance-conditioned incentive awards, retirement benefits, or other unusual perquisites. The magnitude of director pay is also considered, and the presence of a meaningful limit on annual director pay is considered a positive feature. Finally, shareholders expect complete and transparent disclosure of the director pay program.

76. How does ISS evaluate high non-employee director pay?

Questions pertaining to the high non-employee director pay policy can be found in the U.S. Procedures & Policies FAQ document.

77. How does ISS evaluate U.S.-listed companies with multiple executive compensation proposals on the ballot as a result of the company's incorporation in a foreign country?

A growing number of companies worldwide are incorporated in one country and listed in another. This can create an additional layer of complexity when evaluating compensation proposals, as these cross-market companies may be required to present multiple pay proposals on the ballot as a result of being subject to the requirements of both markets. For detailed information on how ISS evaluates compensation proposals at cross-market companies, see the U.S. Cross-Market Policies & Application FAQ.

78. How does ISS consider the mandated CEO pay ratio disclosures?

ISS research reports display the company's disclosed (i) median employee pay figure, and (ii) the CEO pay ratio from the current and prior year (as available). The CEO pay ratio is displayed for informational purposes only and does not affect say-on-pay or director vote recommendations.

79. How does ISS consider the mandated "pay versus performance" disclosures?

ISS research reports display certain elements from the company's disclosed pay versus performance table, including the Summary Compensation Table total pay figure for the CEO, the Compensation Actually Paid value, the company's TSR, the peer group's TSR, the company's most important financial metric, and the other disclosed important metrics for determining CEO pay. This information is displayed for all companies subject to ISS' quantitative pay-for-performance screen, although the information does not affect the screen. The pay versus performance disclosures may be considered during the qualitative evaluation, particularly for companies that exhibit a quantitative pay-for-performance misalignment.

80. How does ISS evaluate management proposals seeking separate shareholder approval of individual equity awards?

ISS generally evaluates proposals seeking approval of individual equity awards on a case-by-case basis, taking into account a variety of pay-for-performance considerations and other factors, which may include (without limitation):

- The transparency and clarity of disclosure;
- The magnitude of pay opportunities;
- The prevalence and rigor of performance vesting criteria;
- The existence of shareholder-friendly guardrails and termination/CIC provisions;
- The estimated cost of the award and/or its dilutive impact; and
- Any other factors deemed relevant.

Exceptionally large awards and "front-loaded" awards in this context are subject to heightened pay-for-performance considerations, as is the case with ISS' approach to analyzing such awards in the context of the qualitative pay-for-performance evaluation.

81. How does ISS evaluate management proposals seeking shareholder approval to reprice or exchange stock options?

Management proposals seeking shareholder approval to reprice or exchange stock options are evaluated on a case-by-case basis. A repricing/exchange is considered an extraordinary action that should be carefully designed to avoid windfalls that are misaligned to shareholders' interests. In evaluating these proposals, ISS considers factors such as the quality of the disclosure and rationale, whether the proposal is value neutral, the program's participants, historic trading patterns, timing, stock volatility, etc. ISS will also take into consideration the company's total cost of equity plans and burn rate if surrendered options can be reissued.

ISS will generally recommend opposition to repricing/exchange programs if the rationale is not clearly explained, the program includes NEO and/or director participants, the repricing/exchange is not value neutral or is poorly timed, the replacement awards/repriced options are not subject to a minimum one-year vesting period, or for any other factor considered problematic.

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