

“The Top Compensation Consultants Speak”

Wednesday, May 14, 2026

Course Materials

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2 to 3 p.m. Eastern [archive and transcript to follow]

Our annual webcast focusing on what compensation committees should be learning about — and considering — today.

Join these experts:

- **Blair Jones**, Managing Director, Semler Brossy
- **Ira Kay**, Managing Partner, Pay Governance
- **Jan Koors**, Senior Managing Director and Western Regional President, Pearl Meyer

Among other topics, this program will cover:

1. The Compensation Committee Landscape in 2026
2. 2026 Say-on-Pay Outcomes and Challenges
3. Aligning and Disclosing Pay and Performance
4. Special Awards Under the Microscope: Retention, Sign-On, Make-Whole and “Moon Shot”
5. 2026 Equity Plan Approval Outcomes and Challenges
6. Time-Based vs. Performance-Based Equity: Rethinking Vehicle Mix and Award Design
7. Shifting Proxy Advisor Power: Be Careful What You Wish For?
8. Competitive Strengths of the U.S. Executive Pay Model
9. Compensation Committees and AI
10. Compensation Consultants' View of Potential Disclosure Rulemaking

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Course Outline

1. The Compensation Committee Landscape in 2026

- High-level compensation committee concerns in 2026 include:
 - The changing proxy advisory landscape
 - Executive security
 - Human capital management and AI
 - Macroeconomic conditions make goal-setting challenging

2. 2026 Say-on-Pay Outcomes and Challenges

- In an April 2026 Pay Governance alert, “What 2025 ISS Say-on-Pay Opposition May Signal for the 2026 Season,” Pay Governance observed that:
 - ISS quantitative P4P test results have historically been a reliable predictor of an ISS “against” SOP recommendation. However, in 2025, we observed strong quantitative P4P results for companies receiving opposition from ISS on SOP, suggesting quantitative factors played a smaller role in ISS opposition.
 - ISS lengthened the timeframes for the primary quantitative tests in 2026, which may lead to unexpected P4P concern levels. The RDA time period increased from 3 years to 5 years, and the Multiple of Median (MOM) time period increased from a single 1-year period to an average of a 1-year period and a 3-year average period. For companies that demonstrated recent strong P4P alignment, concern levels could be elevated by the longer lookback periods for pay and performance, and vice versa. The extended time period also means that one-time awards will be included in these calculations longer, potentially raising ISS’s concern levels for RDA and MOM.

- Say-on-Pay votes are required by Exchange Act Rule 14a-21 and Item 24 of Schedule 14A.

3. **Aligning and Disclosing Pay and Performance**

- A Pay Governance article, “Measuring CEO Pay-for-Performance: Demonstrating Alignment with Shareholder Outcomes” supports the continued use of outcome-based measures — like Compensation Actually Paid (required to be disclosed in proxy statements under Item 402(v) of Regulation S-K in Pay Versus Performance disclosures) or realizable pay (permitted to be voluntarily disclosed in proxy statements) — because they “better capture the economic value delivered to executives relative to shareholder returns.” However, it notes:

[T]he significant number of detailed calculations required to reconcile SCT compensation to CAP, the rushed rollout of the requirement, and the subsequent inflexible interpretive guidance have led many boards to view PVP primarily as a compliance exercise rather than a decision-useful analytical tool. Compounding this perception is the mislabeling of CAP, a label mandated by Dodd-Frank, as a significant portion of the reported compensation amount is neither actual nor paid. This is quite unfortunate as our previous detailed research clearly shows a strong correlation between relative CAP and relative total shareholder return (TSR). We also believe that the CAP data, while not perfect, is a very good approximation of outcome-based pay that can be used for relative comparisons to a company’s peers and industry sector. **This method is arguably the best evidence yet that there is alignment between executive pay and the shareholder experience (i.e. total shareholder return).**

It also appears that the SEC may be on the verge of rethinking or possibly suspending its PVP disclosure rules. In a speech given on February 16, 2026, SEC Chairman [Atkins] referred to comments made at the June 26, 2025 disclosure roundtable about the complexity of the PVP rules noting that the

complexity “should give us pause as it reflects the opposite of what an SEC disclosure requirement ideally should be — intelligible by a reasonable investor and practical for a company to comply, without the need for a cottage industry of ultra-specialized consultants. Unfortunately, all of the time and money spent on PVP disclosure has scarcely resulted in clear information to investors.”

The reality is the outcome-based compensation data (CAP) currently provided in the PVP disclosure is virtually impossible to replicate with the same degree of accuracy for a company’s peers, and if the SEC revamps this disclosure, at a minimum, it should require that outstanding performance awards disclosed in the Outstanding Equity Awards at Year-End Table include a footnote detailing the probable outcome of these awards.

4. **Special Awards Under the Microscope: Retention, Sign-On, Make-Whole and “Moon Shot”**

- A March 2026 Glass Lewis blog, “Make Whole Awards, Retention Grants, and the Rising Costs of Executive Recruitment,” discussed the increasing value of sign-on and make-whole awards:

With boards trying to either ensure a smooth transition, or avoid an unnecessary one, the average value of both sign-on and retention awards grew significantly from 2024 to 2025 among S&P 500 companies. [...]

One major reason for this trend is the increasing prevalence of make-whole sign-on awards for new NEOs. Of the awards reviewed during the 2025 proxy season, 23% of sign-on awards were make-whole awards for Russell 3000 companies, up from 19% in 2024. The increase was more significant for S&P 500 companies, with 53% of sign-on awards citing make-whole considerations, a substantial increase from 39% the previous year (45% in 2023). [...]

Such grants are likely intended, at least in part, to make it more expensive for other employers to poach executives — but run

the risk of creating a feedback loop. Increases in the prevalence and value of retention awards can lead to further increases in the use of make-whole awards, which in turn lead back to further increases in retention awards.

- The blog also explained that, while often viewed with less suspicion than other one-time awards, investors still want more disclosure regarding the circumstances of significant make-whole awards:

In our 2024 Policy Survey, we asked about disclosure expectations for these awards, and found a significant gap in investor and non-investor views (Figure 4). On average, 63.4% of investors expect disclosure of the terms of the award, along with explicit confirmation that awards are time-restricted and the same size as those forfeited, vs. 30.1% among non-investors. By contrast, nearly half of non-investors responded that companies should only need to provide minimum disclosure (48.4% vs. 15.5% of investors).

One U.S. investor stated: *“We would prefer a detailed breakdown, but often that is not made available. ...[W]e will try to reconcile the terms and value of the award with any previous public disclosures made at the executive’s prior employer. Failing that, we will generally take the company at their word, but would engage if we hold a material position.” [...]*

Since then, use of the make-whole designation for sign-on awards has risen, as discussed above. In light of this trend and evident disparity in expectations, we followed up on our 2025 policy survey to better understand market perspectives on how make-whole awards are assessed — and in particular, if they are subject to the same level of scrutiny as other sign-on awards.

Non-investors were far more likely to view make whole awards as fundamentally different from other sign-on awards. Investors were split. While the top answer was to treat make-whole grants on the same basis as other sign on awards, nearly as many were willing to view them differently so long as the grants are fully disclosed and clearly equivalent to what was forfeited.

5. 2026 Equity Plan Approval Outcomes and Challenges

- Adopting a new equity compensation plan or making a material amendment or modification to an existing plan usually requires shareholder approval under NYSE and Nasdaq rules. See Sections 303A.08 and 312.03(b) of the NYSE Listed Company Manual and Nasdaq Listing Rule 5635(c). The rules each provide a non-exhaustive list of the kinds of revisions that would require shareholder approval, as well as the limited exemptions from the requirement. The NYSE’s website posts FAQs regarding Section 303A.08 at <https://www.nyse.com/regulation/nyse>. Nasdaq’s Listing Center website provides FAQs (FAQs) and Staff Interpretation Letters (Staff Interp Letters) regarding Rule 5635(c).
- A March 2026 Pay Governance memo, “2025 Equity Plan Proposals: Continued Robust Shareholder Support,” shared suggestions for improving the likelihood that your equity plan receives shareholder approval.
 1. Analyze the share reserve pool under various stock price scenarios to estimate how many shares are needed over the next 1 to 3 years.
 2. Calculate current and potential dilution levels and share usage levels on an absolute basis and relative to the company’s peer group and overall industry sector.
 3. Understand the voting guidelines on new share requests of the company’s largest institutional shareholders, including any brightline policies such as excessive dilution or burn rate thresholds.
 4. Understand proxy advisor “dealbreakers” and estimate the likelihood of proxy advisors’ vote recommendations on the proposal. If opposition is anticipated, consideration should be given to engaging with the largest shareholders well before the annual shareholder meeting. *[Remember, [ISS introduced a new negative overriding factor for 2026](#), which makes plan features extra important.]*

5. Ensure the proxy disclosure of the equity plan proposal is clear and complete. Within the equity plan proposal disclosure, highlight shareholder friendly design features and practices (*e.g.*, reasonable dilution and share usage levels, requiring shareholder approval of option repricings or cash buyouts) and the role equity plays in attracting, motivating, and retaining employees as well as why it is important to the success of the company.

6. Time-Based vs. Performance-Based Equity: Rethinking Vehicle Mix and Award Design

- A March 2026 FW Cook article, “Beyond the PSU Mandate,” summarized the proxy advisors’ shifting positions on performance and time-based equity:
 - **ISS** will no longer automatically criticize companies granting less than 50% in PSUs, provided the time-based equity component is sufficiently “long-term,” defined as meeting one of the following thresholds:
 - 5-year ratable or cliff vesting;
 - 4-year vesting plus a 1-year post-vest holding requirement; or
 - 3-year vesting plus a 2-year post-vest holding requirement.
 - **Glass Lewis** will also no longer automatically criticize companies granting less than 50% of LTI in PSUs. However, they will evaluate the overall LTI program holistically. Any reduction in PSUs should be offset by a reduction in target pay opportunity (to account for the greater certainty of time-vested awards), longer vesting periods, and sufficient rationale in the proxy statement.
- In light of this, FW Cook reported that compensation committees are reassessing where their LTI program falls on the spectrum of

performance focus to ownership focus, and considering the following options:

- **Rebalancing the LTI mix:** Reducing PSUs to 30–40% of LTI while allocating the remainder to long-term time-vested equity (*e.g.*, RSUs with a 5-year ratable vest). This preserves a performance component while shifting the center of gravity toward long-term ownership and retention.
- **Repositioning stock options as “performance-based”:** Options inherently carry performance leverage; they only deliver value if the stock price appreciates. But, they are not perceived as “performance-based” by proxy advisors. Attaching a 5-year vest/hold strengthens retention while satisfying proxy advisor expectations. Read FW Cook’s piece [Could Stock Options Make a Comeback?](#)
- **The “1-3-5 PSU”:** Maintaining PSUs, but compressing the performance period from three years to one year to mitigate financial goal-setting challenges. Earned shares do not vest until the third anniversary of grant with a subsequent two-year post-vest holding period (*i.e.*, 1-year performance period, 3-year vest, 5-year hold). This design can be further enhanced by applying a relative TSR metric or modifier over the 3-year vesting period.

7. Shifting Proxy Advisor Power: Be Careful What You Wish For?

- In January, the [Wall Street Journal reported](#) that JPM’s asset management group will immediately stop using proxy advisory firms and instead use an internal AI-powered platform to analyze data from the more than 3,000 shareholder meetings it votes at each year — plus provide recommendations to portfolio managers and manage votes. JPM believes it is the first large investment firm to stop using proxy advisors entirely.
- A January 2026 [Pay Governance memo](#), “Is Proxy Advisor Say-on-Pay Influence Waning?” says:

[I]t is likely that mid-size and smaller institutional investors will continue to rely on the proxy advisor firms for voting recommendations in the near-term due to the extensive amount of time and resources necessary to review and responsibly vote on a multitude of proxy voting decisions across a wide range of holdings. Regardless, we also expect institutional investors of all sizes to harness the power of AI for data collection and the development of preliminary voting recommendations, which could further erode proxy advisor influence barring meaningful evolutions in proxy advisor offerings.

Finally, we note that proxy advisory firms have shown tremendous resilience over the years to adapt their business models to changing governance landscapes. For example, the current proxy advisor pivot toward voting recommendations that are more customized/customizable is likely to ensure a degree of relevance and help to respond to regulatory scrutiny in the face of multiple challenges. Although the decline in proxy advisor influence among the largest investors may not fully extend to smaller and mid-size investors, the Say-on-Pay and governance landscapes are increasing in complexity, thereby creating a more uncertain (but potentially less adverse) U.S. Say-on-Pay environment.

- Increasing fragmentation in investor voting will present challenges for compensation committees but also increased flexibility in pay design and may allow companies to move away from a one-size-fits-all approach.

8. Competitive Strengths of the US Executive Pay Model

- A Pay Governance article, “Recap of the 2025 Say on Pay Season,” points out that say-on-pay vote results have shown improvement and stability in the last few years. It attributes this to continued strong performance, as measured by total shareholder return (TSR), and companies’ receptiveness to shareholder feedback on executive pay.

- Ira Kay notes that the U.S. executive pay model focuses executives and the board on creating shareholder value and increasing earnings, which have positive impacts on the stock price.

9. Compensation Committees and AI

- With AI permeating everything, incentive plan goals are no exception. A December 2025 blog from Winston & Strawn, “2026 Proxy Season: A Look Ahead to Executive Compensation Issues and Considerations” shared:

Additionally, as artificial intelligence (AI) becomes a strategic priority for an increasing number of businesses, companies have begun to expand the responsibilities of their executives or even added new executive-level roles focused exclusively on AI. Expanding the responsibilities of existing executives may justify increased compensation, while new hires may command high sign-on bonuses in the current competitive talent market. Companies should be ready to justify these compensation decisions, especially while benchmarking data is limited. Since companies will vary greatly in how critical AI is to their business, an individualized assessment and explanation is key. If companies choose to use performance awards with metrics based on the successful adoption of AI, they should also consider how they will measure and disclose performance achievement of those metrics.

10. Compensation Consultants' View of Potential Disclosure Rulemaking

- In 2025, the SEC hosted a roundtable discussion with representatives from public companies and investors as well as other experts in the field that kicked off a retrospective review of its executive compensation disclosure requirements. The SEC seems poised to propose significant changes to the requirements of Item 402 of Regulation S-K.

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Permission to Experiment

FIVE OUTSIDE-THE-BOX COMPENSATION STRATEGIES FOR 2026

DECEMBER 2025



Margaret Hylas

Compensation committees entering 2026 face a new kind of uncertainty—one that feels less like normal economic cycles and more like whiplash. It's not just the now-familiar unpredictability of inflation or shifting consumer behavior; it's the jolt of waking up to a policy reversal announced on social media before markets open, or trade rules rewritten overnight. The speed and intensity of these shocks make it difficult for compensation committees to anchor to long-term targets or assume stability from week to week. For many boards, setting incentive goals now feels less like the result of disciplined planning and more like building a castle on shifting sands.

For companies in stable industries, with predictable fundamentals, conventional approaches may still work well. But for organizations navigating structural transformation, extended investment horizons, or environments where external shocks loom large, something might have to give.

At the same time, the governance landscape is evolving. Institutional investors are fragmenting their voting blocs, and proxy advisors are signaling more flexibility around new approaches to incentive plans, such as long-dated grants and alternative goal frameworks. While boards have long adapted compensation design to fit strategy, investors and proxy advisors now appear more open to engaging in thoughtful experimentation and new ideas than in years prior.

Five Creative Approaches for Incentive Plans in 2026

What follows are five compensation approaches designed to meet the current moment. Each offers a potential path forward when traditional metrics become challenging or when the economic landscape keeps getting redrawn. For some companies, investors' long-preferred three-year PSU cycles with predetermined



metrics will remain relevant and, in many cases, preferred. But boards with conviction can always adjust compensation designs to business reality, even if they fly in the face of governance orthodoxy.

Boards that are willing to take measured risks and can explain their reasoning clearly may find these designs

more compelling than sticking with frameworks built for stability in an unstable world. Consideration of these approaches isn't "defensive;" it's a chance to seize the moment and unlock agility and opportunity while competitors remain stuck in stasis.

APPROACH	DETAILS
<p>BRUTAL SIMPLIFICATION</p>	<p>Throw out the scorecards and the weighted metrics. Pick the one or two things that matter most right now that you can measure. Maybe it's maintaining gross margin in the face of rising input costs. Maybe it's the ramp-up speed of domestic manufacturing. Whatever it is, make it crystal clear and put serious money behind it.</p> <hr/> <p>WHY IT WORKS: In chaos, focus wins. Leaders know exactly what matters.</p> <hr/> <p>WHY IT DOESN'T: Focus is powerful—but risky, and you could lock onto the wrong target, oversteer, or incentivize behavior that solves one problem while quietly creating three more.</p> <hr/> <p>BEST FOR: Turnarounds or existential pivots requiring extreme focus.</p>
<p>THE FIVE TO SEVEN-YEAR BET</p>	<p>Cancel next year's standard equity grant cycle. Instead, make a single, multi-year grant that vests based on where the company stands in 2030 or 2032. No annual refreshes, no short-term metrics. Just one big bet on long-term value creation.</p> <hr/> <p>WHY IT WORKS: It aligns everyone with the timeframe needed to navigate structural economic change and frees executives from quarterly optimization games.</p> <hr/> <p>WHY IT DOESN'T: Not every executive wants to wait that long to get paid—or stay that long. You'll need clear exit ramps and fairness mechanisms for those who leave early without undermining the long-term nature of the plan, and clear rules for new entrants mid-cycle.</p> <hr/> <p>BEST FOR: Multi-year transformations (digital, operational, or structural shifts).</p>
<p>THE HORSE RACE</p>	<p>If you can't tell what "good" looks like in absolute terms, measure relative position. Rank your company against a carefully selected peer set or the broad economy—"the market"—and pay only for outperformance. This isn't just about stock price; it can include market share gains, margin protection, or other competitive metrics. You could even combine absolute and relative performance: "We did well, and we won." This is a viable option for many companies and won't challenge traditional compensation orthodoxy as directly as the first two.</p> <hr/> <p>WHY IT WORKS: In a storm, you can't control the waves, but you can reward the captain who navigates them better than others.</p> <hr/> <p>WHY IT DOESN'T: Relative metrics sound simple, but they rarely are. rTSR can be gamed by timing, and most "relative" measures aren't tracked consistently or</p> <p style="text-align: right;">CONTINUED</p>

[CONTINUED]	<p>cleanly enough to withstand scrutiny. Setting the right performance period is crucial to help measure whether the strategy was successful.</p> <hr/> <p>BEST FOR: Multi-year transformations (digital, operational, or structural shifts).</p>
THE CONSCIOUS PLACEHOLDER	<p>Admit you don't have the answers yet. Implement a one-year fully discretionary program with transparent guardrails. Tell executives, "We don't know exactly what success looks like, but we'll recognize it when we see it." Then, document your reasoning meticulously. Apply that discretion in the bonus and give everyone a modest RSU grant to totally get out of the goal-setting business.</p> <hr/> <p>WHY IT WORKS: Sometimes, the only way to honestly review performance is in hindsight. At the end of the day, honesty is often the only credible position.</p> <hr/> <p>WHY IT DOESN'T: Kicking the can only works if the road gets smoother. Next year might bring even more uncertainty—and you could be stuck having the same conversation all over again. There may be high pressure to rationalize away poor performance for the sake of ensuring payouts or forgive mediocrity due to "uncontrollable factors" that are, ultimately, business realities.</p> <hr/> <p>BEST FOR: High-trust environments and companies navigating major transition years.</p>
BUSINESS AS USUAL, WITH CONSEQUENCES	<p>Keep your existing program but accept the tradeoffs: you might end up with outcomes that don't align with your actual assessment of performance. Goals may need to be set so widely that they lose meaning, and you may spend the year-end in complex adjustment debates. If the payouts end up feeling right, accept that you may have just gotten lucky, but understand that over time, the payouts will likely level out to be fair—some good years, some bad. Over time, employees will hopefully learn to trust that "one bad year" isn't permanent.</p> <hr/> <p>WHY IT WORKS: It doesn't always work—at least not perfectly—but it's the path of least resistance for governance-constrained boards. It keeps leaders focused on running the business instead of redesigning compensation plans.</p> <hr/> <p>WHY IT DOESN'T: Fixed targets can limit agility. In uncertain times, they can box executives into playing it safe or spark distracting debates about adjustments in environments with low trust between the board and management.</p> <hr/> <p>BEST FOR: Moderate volatility or industries with predictable fundamentals.</p>

It is important to note that the designs above, by dint of their outside-the-box nature, may not be initially embraced by investors. But companies that ground any changes in strong, company-specific rationale, and communicate that rationale with conviction and

persistence, can successfully move outside of orthodoxy. Recent history is filled with examples of companies that pioneered new incentive designs that, despite a few years of low Say-On-Pay recommendations, eventually proved to be successful. Continued, intentional shareholder

outreach is key, from the moment plans are presented through demonstrating why the designs work to benefit all stakeholders long-term.

Beyond Compensation Theater

Stock price remains the ultimate scorecard—eventually. It can be rigged short-term, it can be risky, and it doesn't always tell the whole truth. But over sufficient time, it should capture an accurate reflection of business health and performance. However, in periods of structural economic change, the gap between company actions and market verdict can widen considerably.

The awkward truth about executive compensation is that many companies have been trapped in a ritualistic annual exercise—setting reasonable targets, making predictable adjustments, and managing the process while dutifully checking governance boxes along the way. But today, those same governance checkboxes might push companies toward approaches that won't drive performance in all situations. Perhaps, disruption also brings opportunity: permission to step outside orthodoxy, to embrace simpler, longer-term measures, and to preserve the flexibility boards need to stay agile as conditions change.

Uncertainty doesn't seem to be going away. The question is whether boards will adapt to this moment of instability—exploring compensation approaches that flex with the business through pivots. With the governance landscape shifting and institutional investors showing more openness to a wider range of approaches, boards have an opportunity to be bold, experiment, and explain why their programs match today's reality. As committees enter 2026 design discussions, consider questions like these—not just about mechanics, but about meaning:

- *Are we clear on what “performance” really means in our unique context??*
- *Do our programs reward adaptability and sound judgment, or only precision against pre-set plans?*
- *Where do we need measurement, and where do we need discretion and trust?*
- *When we say “pay for performance,” can we define what performance means—and would our stakeholders agree?*

Boards that can answer those questions honestly won't just manage through volatility; they may redefine what credibility looks like in executive pay and give themselves space to seize opportunities ahead. The question isn't just how to pay executives fairly during upheaval—it's whether this moment invites boards to build something new around compensation, something that acknowledges the reality of our uncertain times rather than pretending we can predict what's coming next.

For more information, visit us at SEMLERBROSSY.COM, or reach us at 310.481.0180.

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Moving Past PSUs?

SHIFTING SENTIMENTS AROUND LONG-VESTING RSUS
AS PERFORMANCE-BASED INCENTIVES

MARCH 2026



Blair Jones



Andrew Almonte

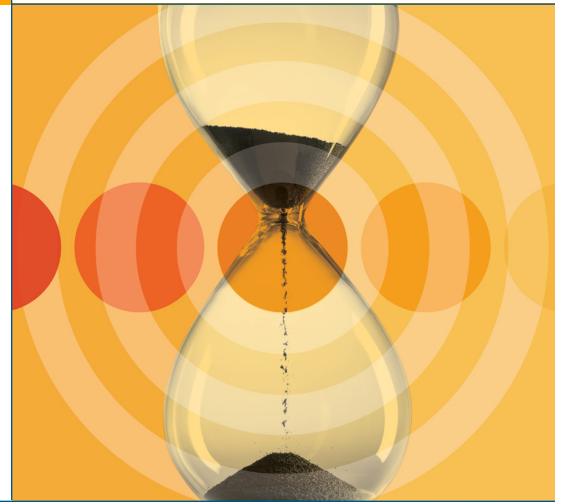


Conor Gorry

Over the last few years, a robust conversation has been brewing about the effectiveness of performance share units (PSUs) and whether shareholders would be better served by alternative equity approaches, including long-vesting equity awards. These debates have instigated fresh conversations in the boardroom about long-term incentive (LTI) strategy and which equity designs best serve the unique business and talent dynamics at individual companies, even if these designs don't always align with pay-for-performance orthodoxy. With macroeconomic and geopolitical uncertainty now the norm, we expect these conversations to continue to gain steam, particularly as governance institutions have expressed openness to alternative LTI paths.

[ISS's 2026](#) policy guidelines and FAQs now recognize time-based programs as "performance-based," provided they have at least a three-year vesting period and the overall vesting and holding period requirement exceeds five years. The change comes as recent investor surveys conducted by proxy services have begun to show a softening of support for LTI programs primarily composed of PSUs. While most investors and advisors still advocate for a weighting of 50% PSUs, the updated policy leaves room for exploration in the coming years.

For organizations that have recently struggled to get the most out of contemporary PSU practices, shifting to a majority, or even 100% weighting, of long-vesting RSUs may offer greater stability and certainty in volatile times. Long-vesting RSUs sidestep goal-setting struggles, simplify plans, aid retention, and may better align organizations with long-term shareholder value. While we do not expect or advise all companies to shift to long-vesting RSUs, there are specific organizational contexts where the change may prove fruitful.



PSUs Are Still Effective for Most Companies, but there’s an Opening for Diversification

When done correctly, PSUs remain one of the most effective tools for focusing leadership on strategic transformation and value creation. But small cracks in the orthodoxy have prompted recent changes to ISS policy guidelines, as investors recognize that issues with PSUs can arise when done poorly. These issues can include:

- Standard and peer-prevalent metrics that do not always create the urgency needed for company-specific actions*
- Goals that are too high or too low due to macroeconomic uncertainty, which makes multi-year goal projections impractical*
- Multiple years of above-target or max payouts leading to the perception that PSUs are not sufficiently rigorous*
- Volatile payouts creating a “feast or famine” participant experience*
- Payouts misaligned with the shareholder experience and returns*

Companies have tried multiple strategies to design their PSUs so they remain motivational, despite the headwinds listed above, only to see them fall out of the money in the first or second year anyway. These strategies include widening goals, diversifying and/or simplifying measures, and moving some measures to modifiers. But when these programs still fail to accurately and consistently reward performance, they can sap energy from both participants and investors, who feel like their work is not meaningfully tethered to payouts and stock returns.

Long-Vesting RSUs Promote Stability and Long-Term Value Generation, but Come with Tradeoffs

In the face of such persistent macroeconomic and geopolitical volatility, a new breed of RSUs, with vesting and holding periods of five years or longer, offers executives and investors a host of benefits and challenges worth exploring.

Benefits and Trade-Offs of 100% RSUs In LTIP	
BENEFIT	TRADE-OFF
Greater certainty and stability in equity value delivery while still providing stock price leverage	Longer vesting may be unattractive to some due to less immediate liquidity
Reduced pressure on setting accurate goals and targets during periods of volatility	Difficult to wind-down quickly due to long time horizon and vesting requirements, and re-adding performance requirements will be perceived as a new “hurdle” for executives
Creates shared urgency around key priorities and goals in the annual plan by linking them to long-term value creation	Lower upside potential, which may de incentivize even-measured risk seeking by executives
Offers investors and executives simplicity and transparency in pay design	Requires additional engagement with shareholders to sell-through loss of traditional performance metrics
Executives remain agile, grants flexibility to shift strategy where it best supports long-term value creation over short-term goals	Creates added pressure on annual plan to communicate performance priorities and drive upward performance trajectory

The trade-offs listed above may still raise legitimate concerns among investors. However, committees and management have several tools at their disposal to help mitigate some of the adverse tradeoffs:

- **A post vesting holding requirement and/or back-weighted vesting to further tie executives to longer-term performance**
- **Willingness to vary the equity pool year-to-year based on performance**
- **The inclusion of an rTSR modifier to capture relative performance against peers**

Ultimately, diligent plan designers will still be aiming to tie payouts to the shareholder experience while minimizing perverse incentives, as they have for decades, but their toolkit to achieve these goals has expanded.

Time-Based Equity Programs Will Only Thrive in the Right Contexts

The desire for strong pay-for-performance alignment in incentive plans is not going anywhere, even for the most ardent critics of PSUs. As such, organizations committed to higher long-vesting RSU percentages in LTI plans need to consider if such a program would fit their specific strategic context. Only companies with certain key characteristics will be well-suited to successfully move away from PSUs. The organizational profile that might have the most success could be those companies where:

- **Business cycles are longer**
- **Business is cyclical**
- **There is a combination of a high tenure level and low executive turnover rates**
- **Change and growth are truly driven year-to-year, and executives need to be able to act with agility to accomplish long-term goals**
- **There is a need to rebuild faith in the company's ability to perform both internally and externally**
- **A strong annual incentive plan is already in place that clearly communicates priorities to build long-term value**

Organizations that have exhausted their available options for improving their PSU programs need to understand the benefits, trade-offs, and design features of a program that heavily utilizes RSUs. Programs cannot be easily swapped every year, and a thoughtful approach is crucial, as companies will need to commit to any changes for a significant period of time. Though it is relatively simpler than a performance-based LTI program, a switch to long-vesting RSUs still needs to be designed with care.

Moving to Long-Vesting RSU Plans Requires Careful Redesign of the Annual Incentive Plans

Moving to majority RSUs will put additional pressure on ensuring that the annual incentive plan (AIP) contains rigorous, performance-based goals that are clear drivers of future value creation and are aligned with the broader company strategy. Honing of the AIP might endeavor to:

- **Include the measures most linked to long-term value creation in ways that reinforce the growth of RSUs in the LTIP, and thus have compelling linkage to the company's long-term growth strategy**
- **Translate long-term transformational goals into one-year milestone measurements so that executives prioritize the near-term performance results alongside long-term outlook**
- **Ensure metrics require growth year-over-year to show a trajectory of improvement**

Without PSUs in the LTI plan, investors will be looking for the annual plan to create both a compelling growth and a year-over-year improvement story. If the annual plan can't demonstrate that kind of trajectory, there could be more pressure on the LTI grants. However, by moving these performance goals to the annual plan, investors and boards increase their agility and flexibility to react to the current environment. This may help incentivize performance more accurately than three-year goals set in PSUs, especially when long-term goal-setting is challenging or impossible due to volatility or a business transition.

Communicating the Rationale Behind Changes to Investors is Paramount to Success

Moving to a 100% long-vesting RSU program is a departure from the use of performance-based design elements typically favored by proxy advisors and many investors. If considered, it will be crucial for committees to anticipate changes by testing investor receptiveness in advance. Committees will likely want to consider and discuss multiple alternatives to the current PSU program with investors, only one of which might be moving to a majority of long-vesting RSUs, instead of making a unilateral change.

Some questions committees can expect from investors include:

Why, specifically, is long-term goal-setting for PSUs difficult or counter-productive?

How can we be sure that the metrics we've focused on in the annual incentive plan will contribute to long-term value creation?

How will you ensure pay and performance don't fall out of alignment?

How will moving to time-based equity influence performance management and accountability?

Ultimately, the goals of any compensation program are still to drive long-term value creation, and any changes should be rooted in a strong, consistent compensation philosophy, making it easier to communicate to key stakeholders.

Conclusion

Even with the recent shift in ISS guidelines, we expect long-vesting RSU programs to be right for only a select cohort of companies, and we do not predict a widespread shift away from PSUs anytime soon. ISS's changing guidelines, however, create a welcome space for companies to explore their unique business and talent dynamics and to decide whether their current LTI design and equity strategies are well aligned.

For many, staying the course makes sense, but for those with some of the dynamics outlined above, the present moment offers perhaps the clearest opportunity for such companies to jettison the compensation status quo without sacrificing their commitment to long-term value creation. In such cases, long-vesting RSUs could be the answer. ■

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Is Proxy Advisor Say on Pay Influence Waning?



WRITTEN BY | Mike Kesner, Linda Pappas, Olivia Wakefield, and Jon Weinstein

Introduction

The Say on Pay (“SOP”) voting environment continues to shift with JPMorgan Chase’s announcement that it is cutting ties with the proxy advisors. Although JPMorgan Chase has not yet announced any changes to its voting policies, the firm is eliminating its reliance on proxy advisors and moving to an AI-powered tool to aggregate and analyze data from public company filings to inform its voting decisions.

JPMorgan Chase’s change in approach follows a similar shift by BlackRock and State Street in 2025 when BlackRock removed all references to the use of third-party research (i.e., proxy advisors) in evaluating Say on Pay and State Street explicitly stated that it did not follow ISS policies.

The level of influence of proxy advisors on Say on Pay may also be affected by the Trump Administration’s December 2025 executive order that targets proxy advisors and state-level legal actions against proxy advisors in both Texas and Florida. Further, proxy advisors themselves have implemented changes to their operating models, with Glass Lewis announcing a shift in 2027 to multiple voting policies rather than a singular benchmark policy.

Large Institutional Investors Appear to be Relying More on Internal SOP Voting Guidelines

Our review of the alignment between proxy advisor SOP voting recommendations and large institutional shareholder SOP voting patterns over the past five proxy seasons (2021-2025) reveals that institutional investors have been increasingly likely to diverge from proxy advisors. This divergence is likely most attributable to investors’ increasing reliance on their internal voting guidelines and governance staff and a willingness to approach voting decisions on a case-by-case basis.



For example, in 2021 State Street voted against SOP at 56% of the companies for which ISS recommended an against SOP vote. By contrast, in 2025 State Street voted against only 5% of the companies for which ISS recommended an against SOP vote.

Similarly, in 2021 State Street voted against SOP at 30% of the companies for which Glass Lewis recommended an against SOP vote. By 2025, State Street voted against only 2% of the companies for which Glass Lewis recommended an against SOP vote.

Conclusion

The above said, it is likely that mid-size and smaller institutional investors will continue to rely on the proxy advisor firms for voting recommendations in the near-term due to the extensive amount of time and resources necessary to review and responsibly vote on a multitude of proxy voting decisions across a wide range of holdings. Regardless, we also expect institutional investors of all sizes to harness the power of AI for data collection and the development of preliminary voting recommendations, which could further erode proxy advisor influence barring meaningful evolutions in proxy advisor offerings.

Finally, we note that proxy advisory firms have shown tremendous resilience over the years to adapt their business models to changing governance landscapes. For example, the current proxy advisor pivot toward voting recommendations that are more customized/customizable is likely to ensure a degree of relevance and help to respond to regulatory scrutiny in the face of multiple challenges. Although the decline in proxy advisor influence among the largest investors may not fully extend to smaller and mid-size investors, the Say on Pay and governance landscapes are increasing in complexity, thereby creating a more uncertain (but potentially less adverse) U.S. Say on Pay environment.



What 2025 ISS Say on Pay Opposition May Signal for the 2026 Season

WRITTEN BY: Emily Chase, Montserrat Longoria, Linda Pappas, and Olivia Wright

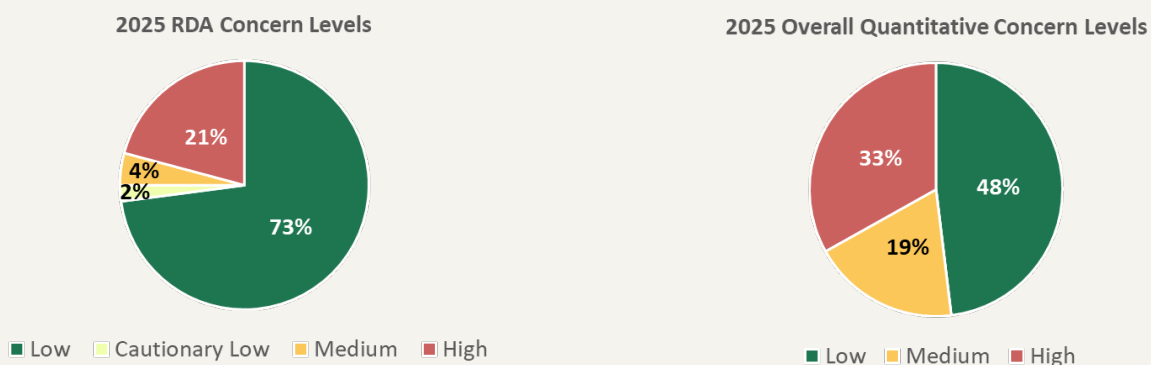
In 2025, Institutional Shareholder Services (ISS) opposed 10% of S&P 500 company Say on Pay (SOP) proposals. This was consistent with ISS’s historical average “against” rate from the previous five years (2020 through 2024). In this Viewpoint, we explore the ISS quantitative pay-for-performance (P4P) outcomes and the qualitative rationale provided by ISS for SOP opposition for S&P 500 companies in 2025. We also look ahead to what the findings may signal for the 2026 SOP season.

In general, in 2025, companies demonstrated strong alignment on ISS’s quantitative P4P tests (and particularly on the Relative Degree of Alignment (RDA) assessment that compares relative CEO pay to relative total shareholder return (TSR)). Therefore, ISS’s qualitative review, in which it scrutinizes compensation design and governance practices, drove much of ISS’s 2025 SOP opposition. Specifically, ISS flagged companies for using special awards and providing severance benefits for voluntary separation, as well as other practices it views as problematic.

1. Strong Quantitative P4P Results

ISS quantitative P4P test results have historically been a reliable predictor of an ISS “against” SOP recommendation. However, in 2025, we observed strong quantitative P4P results for companies receiving opposition from ISS on SOP, suggesting quantitative factors played a smaller role in ISS opposition.

Figure 1: Quantitative P4P Outcomes for S&P 500 Companies Receiving ISS SOP Opposition in 2025¹



As shown in Figure 1, in 2025, 73% of S&P 500 companies that received an “against” SOP recommendation from ISS scored “low” concern on the primary RDA test. In other words, the majority of S&P 500 companies opposed by ISS on SOP demonstrated alignment between CEO pay and TSR relative to ISS-defined peers. Further, nearly half of S&P 500 companies (48%) received an overall “low” concern when incorporating the other quantitative P4P tests.

2. ISS Qualitative Concerns Centered on Unconventional Pay Actions

Among S&P 500 companies receiving ISS SOP opposition in 2025, the top three areas of ISS criticism within its qualitative review were related to the use of non-standard pay elements, such as special awards, high-value security benefits, and severance payments for voluntary separation. Additionally, for companies who experienced low shareholder SOP support last year, ISS continues to suggest that companies take meaningful measures to engage with investors and provide thoughtful, clear disclosure around actions taken to address prior shareholder concerns.

Figure 2: Primary Qualitative Reasons for S&P 500 Companies Receiving ISS SOP Opposition in 2025¹

1. Sizeable One-Time/Special Awards
2. Problematic Pay Practices (e.g., Significant Perquisites, Mid-Cycle Incentive Plan Adjustments)
3. Severance Upon Voluntary Termination or Problematic Employment Agreement Amendments
4. Poor Compensation Committee Responsiveness

Predictions for the 2026 Say on Pay Season

Looking ahead, ISS’s evolving policy framework for 2026 introduces several changes that could impact SOP outcomes this season.

- ◆ Despite recent strong quantitative P4P outcomes, turmoil may lie ahead. ISS lengthened the timeframes for the primary quantitative tests in 2026, which may lead to unexpected P4P concern levels. The RDA time period increased from 3 years to 5 years, and the Multiple of Median (MOM) time period increased from a single 1-year period to an average of a 1-year period and a 3-year average period. For companies that demonstrated recent strong P4P alignment, concern levels could be elevated by the longer lookback periods for pay and performance, and vice versa. The extended time period also means that one-time awards will be included in these calculations longer, potentially raising ISS’s concern levels for RDA and MOM.
- ◆ For 2026, ISS also adopted a policy that signals greater openness to high-value security benefits if reasonable rationale is disclosed. We anticipate an increase in the prevalence of executive perquisites and security-related benefits, as well as an improvement in the quality of disclosure for these benefits this proxy season.

- ◆ Further, ISS updated its 2026 policy to consider extended time-vested awards as a structural program feature that, like long-term incentive programs that are majority-weighted toward performance-based equity, can help mitigate P4P concerns. It remains to be seen whether this policy change will influence design change, as many investors continue to expect long-term performance-based equity to be a significant component of executive compensation².

These 2026 ISS policy updates, combined with observations from 2025, demonstrate that while the proxy advisor and SOP landscape continues to evolve, the importance of thoughtful program design and robust disclosure remains constant.

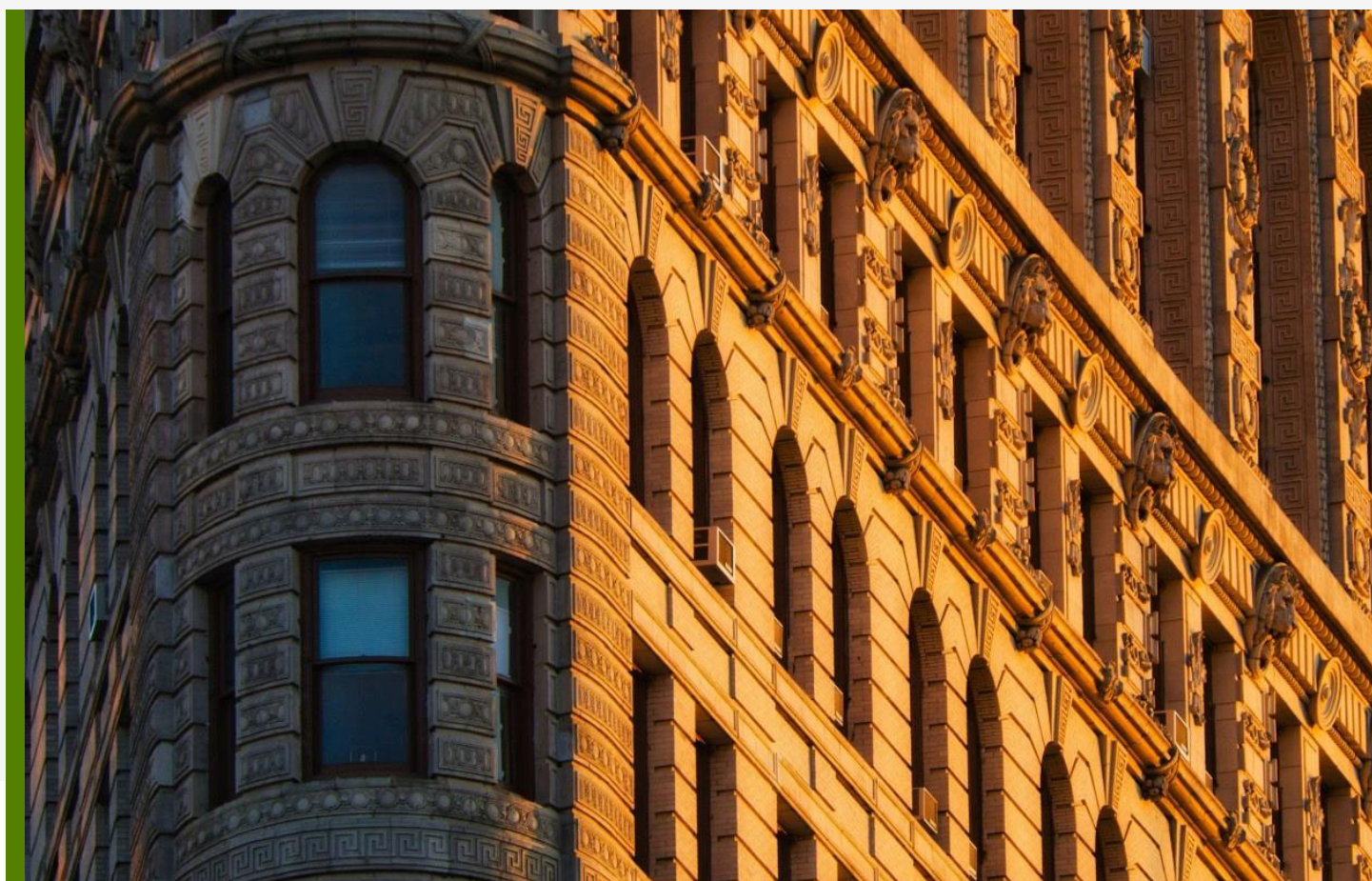
General questions about this Viewpoint can be directed to Linda Pappas (linda.pappas@paygovernance.com).

¹ Reflect ISS SOP vote recommendations available through December 31, 2025, collected from ISS Corporate's Voting Analytics database.

² Ira T. Kay, Linda Pappas and Lane T. Ringlee. *Are Institutional Investor Preferences for Performance-Based Equity Really Diminishing in Favor of Time-Based Shares?* Pay Governance. August 19, 2025. <https://www.paygovernance.com/resource/are-institutional-investor-preferences-for-performance-based-equity-really-diminishing-in-favor-of-time-based-shares>

Security, DEI, and Tariffs: Executive Compensation Insights from Late 2025 and Early 2026 Proxy Filers

A review of 37 S&P 500 proxy filings shows continued growth in CEO security perquisites, evolving language around ESG and DEI, and limited tariff impacts on executive pay.





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As a follow-up to last year's review of the [first 100 S&P 500 proxy filers in 2025](#), Pearl Meyer examined executive compensation disclosures from 37 S&P 500 companies whose fiscal year ended between August and November 2025 and who filed shareholder proxy statements by February 6, 2026. Our focus was on examining trends related to current topics of interest among compensation committees.

Pearl Meyer's early 2026 review identified three notable findings, the first two of which continue the trend identified in our 2025 review while the third is new for 2026.

1. Increasing CEO Security and Aircraft Perquisites

In addition to increased prevalence of security and travel-related perquisites, we found that median security and aircraft perquisite values for some incumbent CEOs also increased 16% and 31%, respectively.

2. DEI- and ESG-Related Adjustments

We found that 22% of companies eliminated the word "diversity" from their proxy statements. In addition, roughly a third of companies with goals related to environmental, social, and governance (ESG) or diversity, equity, and inclusion (DEI) removed or "re-labeled" those programs while maintaining the overall spirit of the initiatives.

3. Minimal Impact of Tariffs on Executive Pay

The US and many other countries imposed a number of tariffs after fiscal year 2025

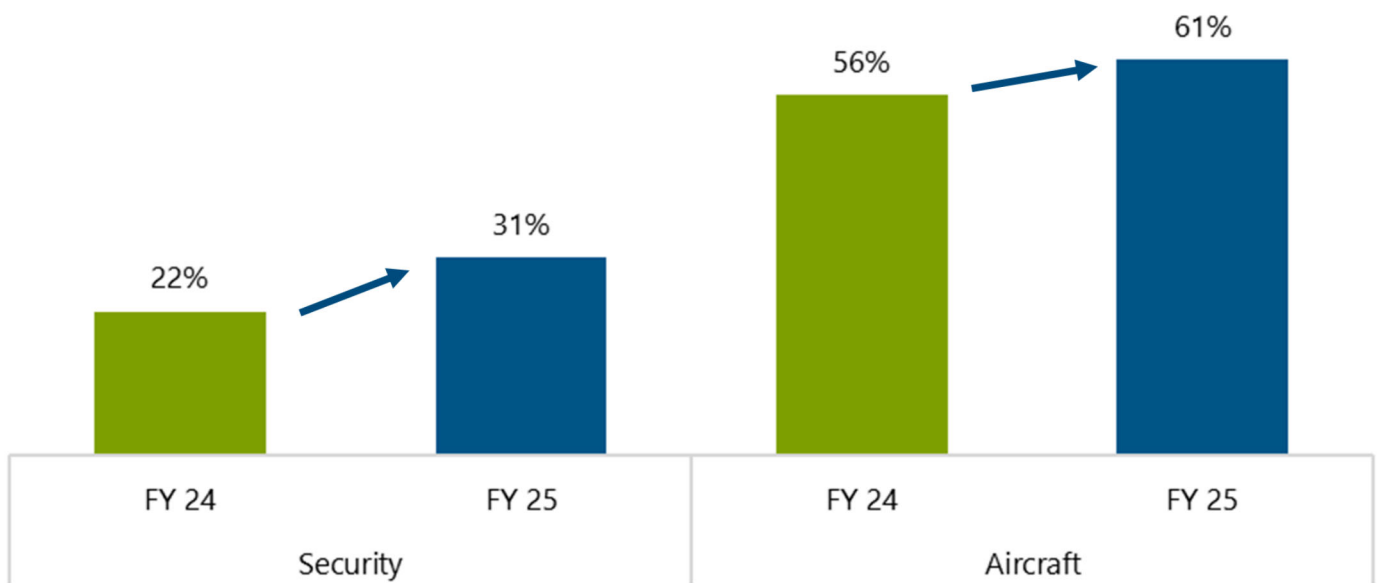
incentive goals were set, but we found that only 6% of companies adjusted goals or outcomes to offset the impact of tariffs on executive compensation.

Overall, companies appear to be responding to a changing external environment by placing greater emphasis on risk oversight, evolving disclosure practices, and careful use of discretion.

CEO Security and Aircraft Perquisites Continue to Increase

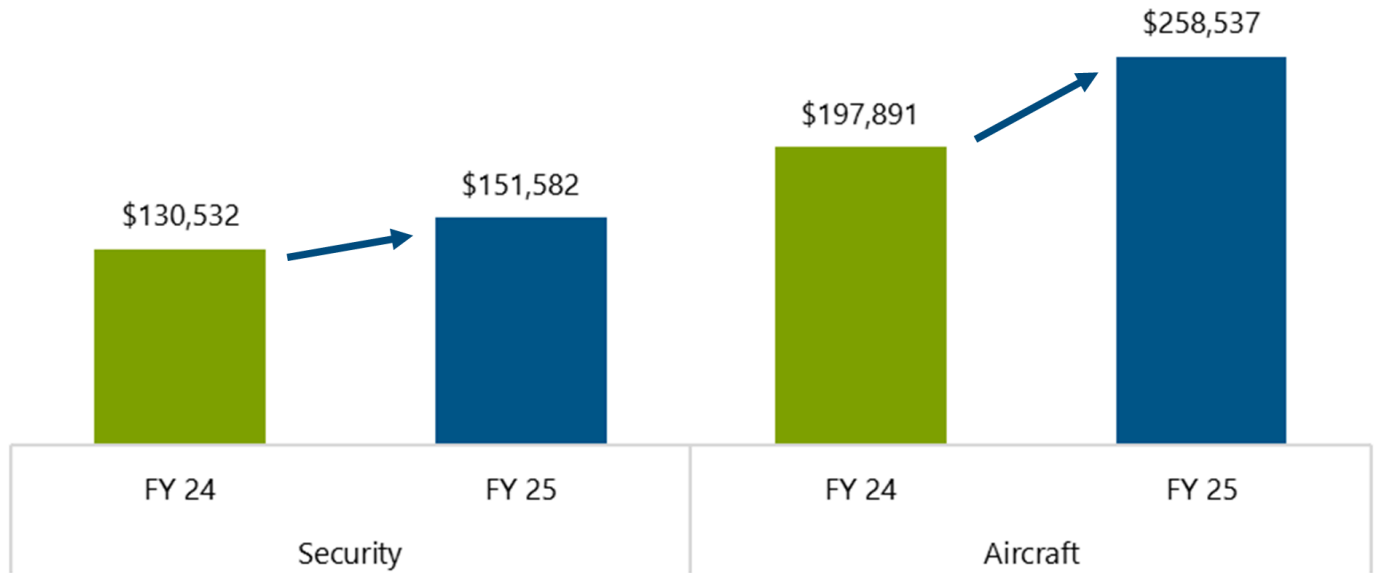
Following the murder of UnitedHealth's CEO in late 2024, public company boards took action to evaluate executive security risks and implement security measures where needed. In terms of security and aircraft perquisites, the charts below demonstrate that companies with late 2025 fiscal years showed an increase in both the prevalence and value of these perquisites.

S&P 500: Late FYE Companies Prevalance of CEO Perquisites



As shown above 31% of companies mentioned security prerequisites, up from 22% last year, and 61% of companies mentioned aircraft prerequisites, up from 56% last year. In addition, the median value of each increased by 16% and 30%, respectively (as shown below).

S&P 500: Late FYE Companies Median CEO Perquisite Values



In conjunction with increasing prevalence and value of security and aircraft prerequisites, we saw a shift in disclosures explaining these prerequisites are part of an integrated protection plan rather than a convenient benefit. Specifically, many companies ground the decision to provide security and aircraft benefits in third-party security assessments and identified risk factors. In some cases, companies go further, stating that certain protections are required.

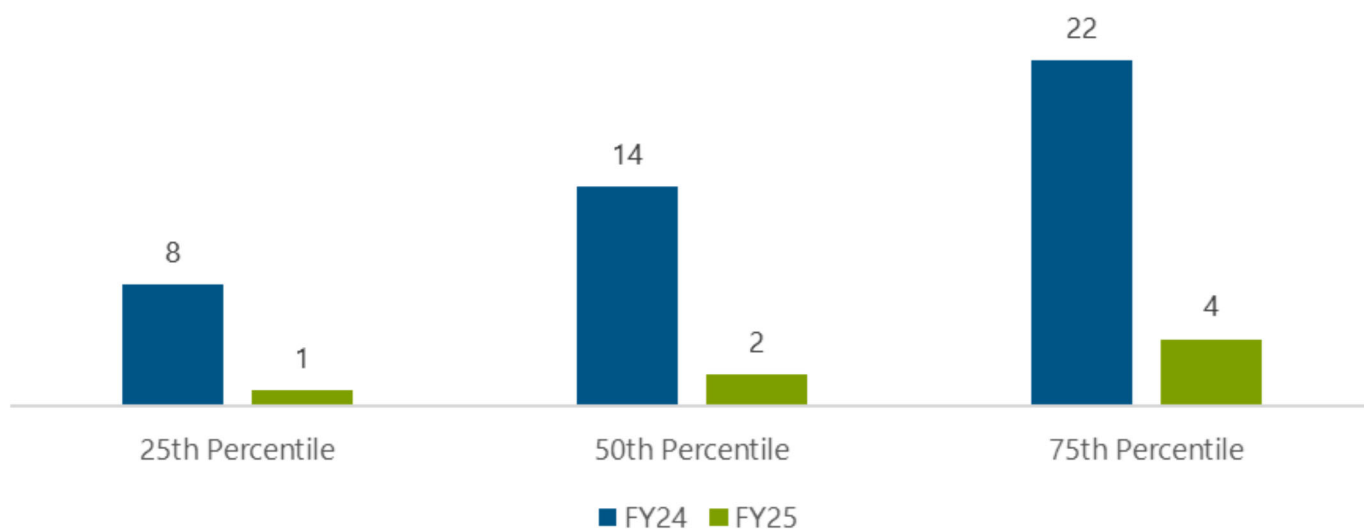
Together, these findings suggest that security is being increasingly framed as a board-level governance and risk issue, rather than a discretionary benefit, with corresponding rising investment levels. This may represent a quickly evolving narrative, given that Pearl Meyer’s [December 2025 Executive Security Quick Poll](#) of 250+ companies found that, in practice, many organizations are still behind the curve in formalizing their approaches.

For instance, that poll revealed 66% of respondents were spending less than \$10k per year on CEO security, a concentration that seemingly reinforced that many companies treat security as an occasional cost rather than a comprehensive year-round program. The poll also found that 53% of respondents include private air travel in their CEO’s security program (as compared with the 61% figure in our early 2026 review). It will be interesting to see if the prevalence increases as more companies file proxies in 2026. We expect there to be variance in prevalence across different company sizes and industries, with larger companies and consumer-facing companies likely disclosing higher prevalence and associated values of security-related benefits.

Rebrand of ESG and DEI Remains Prevalent

Companies are continuing to move away from using DEI-related measures in executive incentives. There has been a notable decrease in the prevalence of the word “diversity” in proxy statements, as illustrated in the chart below.

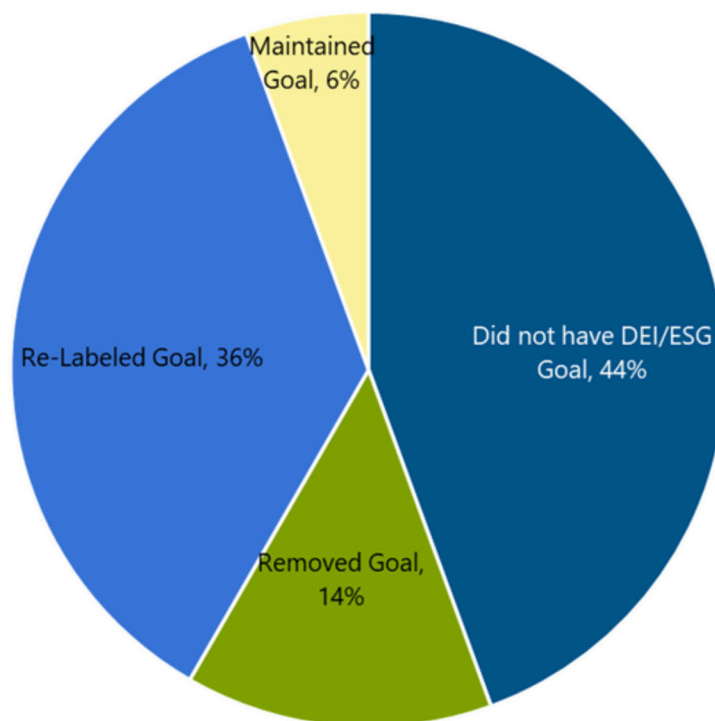
S&P 500: Late FYE Companies
Frequency of "Diversity" in Word Search



Additionally, there has been a shift in the use of qualitative ESG and DEI goals in incentive plans. 14% of companies removed a DEI or ESG goal and 36% of companies “re-labeled” a DEI

or ESG goal. Among our sample, only 6% of companies maintained a diversity-related goal in their incentive program. This compares with our study last year that found among the first 100 S&P 500 proxy filers, 35% had diversity as an element of their incentive program for 2024.

S&P 500: Late FYE Companies Approach to Qualitative ESG and DEI Incentive Goals



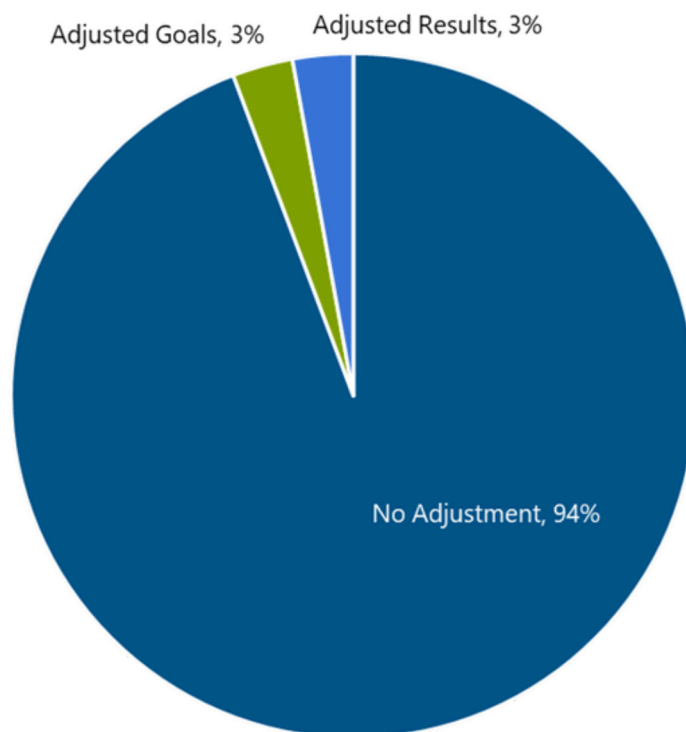
Examples of “re-labeling” goals include one S&P 500 company shifting the phrasing in its strategic incentive plan goal from “Diversity & Inclusion” to “Talent Strategy.” Additionally, another company pivoted from “diversity, equity, and inclusion” to “environmental and human capital” metrics in its CEO incentive compensation disclosure.

Generally, these shifts suggest that while the underlying priorities around human capital and sustainability may endure, companies are increasingly reframing how these objectives are articulated and incorporated into executive compensation.

Tariffs Had Minimal Impact on Executive Annual Incentive Plans

Among S&P 500 companies with late 2025 fiscal years, we found that 94% did not adjust for the impact of tariffs on fiscal 2025 executive annual incentives. In the limited cases where companies did adjust for the impact of tariffs, practice was mixed on adjusting goals versus adjusting actual results. It is possible that some companies made adjustments for broader employee populations and not for executive officers, which avoids disclosure. Proxy disclosure of the use of positive discretion to adjust executive incentives could lead to scrutiny from investors and proxy advisors whereas adjustments below the executive level are not disclosed and thus not subject to scrutiny.

S&P 500: Late FYE Companies Impact of Tariffs on Incentive Plans



The recent Supreme Court ruling that President Trump did not have the authority to impose tariffs, and the resulting obligation to refund tariffs paid, make this matter even more challenging to navigate. Outside of companies that were significantly impacted, we expect to see relatively little use of discretion. However, we do expect to see more companies incorporate tariffs as a potential adjustable factor when setting goals for 2026, which they did not have the opportunity to do for 2025.

These Statements Provide Only an Early Look

Among the 37 proxy statements reviewed, companies appear to be taking a cautious approach to discretion while assessing how personal safety concerns, policy changes, and geopolitical risks may influence future incentive goals. As additional companies file proxies throughout 2026, these early signals may help compensation committees anticipate how evolving risks could shape executive pay design and disclosure.

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Measuring CEO Pay-for-Performance Demonstrating Alignment with Shareholder Outcomes



WRITTEN BY | Ira T. Kay and Mike Kesner

Introduction: Why Pay-for-Performance Remains Contested

Demonstrating that executive compensation is meaningfully aligned with company performance and the shareholder experience remains one of the most important, and most debated, issues in U.S. executive pay decision-making and corporate governance in general. While boards, investors, executives, and proxy advisors broadly agree on the principle of “pay-for-performance,” there is far less agreement on how that alignment should be measured and evaluated in practice.

Two analytical challenges sit at the center of this debate. The first is determining a fair and competitive level of target compensation. The second, and more controversial challenge, is assessing whether the compensation ultimately earned by executives appropriately reflects company performance and shareholder outcomes over time. This Viewpoint focuses on the techniques used to evaluate pay-for-performance alignment—an area that remains highly contested. Traditional approaches to this analysis have relied heavily on grant-date values for stock awards included in the Summary Compensation Table (SCT) pay, which reflect future opportunity rather than realized or realizable pay outcomes.

Two Core Pay-for-Performance Questions

- **Question 1** - Is target pay set at an appropriate and competitive level?
- **Question 2** - Do realized pay outcomes actually reflect performance and shareholder experience?

The Case for Outcome-Based Pay Measures

Why Outcome-Based Measures Matter

Outcome-based measures incorporate:

- Actual shares earned
- Updated share valuations
- Multi-year performance perspectives

This allows pay outcomes to be evaluated in the same economic terms experienced by shareholders.

This Viewpoint argues that outcome-based measures—particularly Compensation Actually Paid (CAP) and realizable pay—provide more credible and decision-useful assessments of pay-for-performance alignment. While these measures are not without limitations, they better capture the economic value delivered to executives relative to shareholder returns and, when used thoughtfully, offer boards and investors a clearer lens through which to evaluate executive pay outcomes than grant-date or SCT-based analyses alone.



How Companies Currently Describe Pay-for-Performance

A significant majority of companies emphasize the importance of paying for performance in the Compensation Discussion and Analysis (CD&A) section of the annual proxy. This disclosure is typically holistic, combining qualitative narrative with quantitative discussion, and is separate from the SEC-mandated Pay Versus Performance (PVP) disclosure.

Common Disclosure Gaps

- Strong explanation of performance metrics
- Limited evidence of actual pay-outcome alignment
- Inconsistent use of realizable or outcome-based analyses

The PVP disclosure, by contrast, is entirely quantitative and appears in a different section of the proxy. While stakeholders broadly agree on the importance of pay-for-performance alignment, there remains little consensus on how that alignment should be measured.

The lack of a generally accepted approach for measuring pay-for-performance alignment is further complicated by the wide range of disclosure companies use to describe pay-for-performance alignment. Most companies describe the rationale for their performance measures, and in some cases the rigor of their performance targets, but provide limited disclosure demonstrating how pay outcomes align with performance. Some companies use realized or realizable pay¹ analyses and supporting charts to illustrate alignment with shareholder outcomes, while others focus on “take-home” pay as evidence of alignment. These varying disclosure methods make it difficult to readily assess pay-for-performance alignment across companies.

SEC PVP: Intent vs. Reality

A Misleading Label

“Compensation Actually Paid” includes values that are:

- Unrealized
- Unpaid
- Subject to future performance

Yet the label implies final, settled compensation.

The SEC’s PVP rules, as mandated under Dodd-Frank, were intended to fill this disclosure gap by explicitly linking pay outcomes to performance. However, the significant number of detailed calculations required to reconcile SCT compensation to CAP, the rushed rollout of the requirement, and the subsequent inflexible interpretive guidance have led many boards to view PVP primarily as a compliance exercise rather than a decision-useful analytical tool. Compounding this perception is the mislabeling of CAP, a label mandated by Dodd-Frank, as a significant portion of the reported compensation amount is neither actual nor paid. This is quite unfortunate as our previous detailed research

clearly shows a strong correlation between relative CAP and relative total shareholder return (TSR)². We also believe that the CAP data, while not perfect, is a very good approximation of outcome-based pay that can be used for relative comparisons to a company’s peers and industry sector.³ **This method is arguably the best evidence yet that there is alignment between executive pay and the shareholder experience (i.e. total shareholder return).**



Growing SEC Skepticism Toward PVP Disclosure

It also appears that the SEC may be on the verge of rethinking or possibly suspending its PVP disclosure rules. In a speech given on February 16, 2026, SEC Chairman Cox referred to comments made at the June 26, 2025 disclosure roundtable about the complexity of the PVP rules noting that the complexity “should give us pause as it reflects the opposite of what an SEC disclosure requirement ideally should be—intelligible by a reasonable investor and practical for a company to comply, without the need for a cottage industry of ultra-specialized consultants. Unfortunately, all of the time and money spent on PVP disclosure has scarcely resulted in clear information to investors.”

SEC Perspective

The concern is not pay transparency, but whether PVP delivers:

- Clear information to investors
- Practical compliance for companies
- Incremental decision-useful insight

The reality is the outcome-based compensation data (CAP) currently provided in the PVP disclosure is virtually impossible to replicate with the same degree of accuracy for a company’s peers, and if the SEC revamps this disclosure, at a minimum, it should require that outstanding performance awards disclosed in the Outstanding Equity Awards at Year-End Table include a footnote detailing the probable outcome of these awards.

Proxy Advisors and the Limits of SCT-Based Models

The SCT Disconnect

- **SCT pay** = forward-looking opportunity based heavily upon most recent stock grants without “mark-to market” adjustments
- **Performance** = historical results
- **Result:** weak correlation and misleading conclusions

The proxy advisors’ pay-for-performance models up until now have generally relied on SCT compensation, which reflects the grant date value of long-term incentives, rather than outcome-based compensation, which reflects the actual number of shares earned and the updated stock price. Using the SCT for this purpose is deeply flawed and misleading. One of the proxy advisory firms has added two outcome-based tests to its pay-for-performance model this year to supplement its SCT compensation tests. As we have demonstrated through extensive research, there is very little correlation of SCT compensation to performance, as SCT compensation largely represents future pay potential whereas performance is based on past results.^{2, 4}

Implications for Boards and Investors

The ongoing debate over how best to measure pay-for-performance reflects a broader challenge in executive compensation: balancing simplicity, transparency, and analytical rigor while meaningfully capturing economic outcomes. Grant date and SCT based measures, while useful for disclosure and accounting purposes, are poorly suited to evaluating the relationship between pay outcomes and performance because they reflect forward looking opportunity rather than realized value.

Outcome-based approaches, most notably CAP and realizable pay, offer a more informative perspective by incorporating actual equity earned, updated stock prices, and historical performance results over time.



Although the SEC’s PVP framework has been widely viewed as too complex and compliance driven, the underlying CAP data nevertheless represents one of the best available approximations of outcome based compensation and has demonstrated a strong relationship to shareholder returns in relative comparisons.

Indeed, Vanguard has incorporated outcome-based measures in evaluating pay-for-performance in its proxy voting guidelines, and it is likely that other institutional investors are also relying on similar approaches to inform their voting decisions.⁵

As proxy advisors begin to supplement traditional models with outcome-based tests and large institutional investors increasingly rely on proprietary pay-for-performance methodologies, boards would be well served to proactively adopt and disclose more robust, outcome-oriented analyses. Supplementing required PVP disclosure with clear, contextual explanations of CAP and realizable pay and visual demonstrations of alignment with shareholder outcomes can enhance credibility, improve investor understanding, and strengthen the overall pay-for-performance narrative.

Best Practice Direction

Boards can strengthen investor understanding of executive pay decisions by:

- Supplementing required PVP disclosure
- Explaining CAP and realizable pay clearly
- Using visuals to show alignment with total shareholder return and other financial measures

Conclusion Toward More Decision-Useful Pay-for-Performance Analysis

Ultimately, no single metric perfectly captures pay-for-performance alignment. However, a thoughtful emphasis on outcome-based measures represents a meaningful step toward more transparent, economically grounded, and decision-useful evaluations of executive compensation.

As proxy advisors and institutional investors continue to evolve their methodologies, boards that proactively adopt and clearly communicate outcome-oriented analyses will be better positioned to demonstrate credible alignment between executive pay and shareholder outcomes.

General questions about this Viewpoint can be directed to: Ira T. Kay (ira.kay@paygovernance.com) or Mike Kesner (mike.kesner@paygovernance.com).

¹ Realized/realizable pay generally includes base salary, annual bonus, and long-term incentives granted and paid during the applicable performance period being measured to evaluate pay for performance, plus the estimated value of compensation still in-flight and subject to future performance. This includes unvested long-term incentives such as RSUs, PSUs, and outstanding unexercised stock options granted during the applicable performance period. These values can be estimated based on the current company share price and to the extent disclosed, the estimated performance factor for in-flight PSUs.

² SEC 2024 PVP Using CAP “Does CAP Continue to Demonstrate Strong Alignment with TSR in the Second Year of Disclosure?” <https://www.paygovernance.com/resource/sec-2024-pvp-using-cap-does-cap-continue-to-demonstrate-strong-alignment-with-tsr-in-the-second-year-of-disclosure/> Ira T. Kay, Mike Kesner, and Ed Sim

³ Demonstrating Pay and Performance Alignment: A Comparison of Compensation Actual Paid and Realizable Pay. <https://www.paygovernance.com/resource/demonstrating-pay-and-performance-alignment-a-comparison-of-compensation-actually-paid-and-realizable-pay/> Ira T. Kay, Mike Kesner, Linda Pappas, and Ed Sim

⁴ Does the SEC’s New PVP Disclosure Facilitate Shareholders’ Assessment of Pay for Performance Alignment? <https://www.paygovernance.com/resource/does-the-secs-new-pvp-disclosure-facilitate-shareholders-assessment-of-pay-for-performance-alignment/> Ira T. Kay, Mike Kesner, Linda Pappas, and Ed Sim

⁵ Vanguard Portfolio Management: Proxy Voting Policy Portfolio Companies. <https://corpgov.law.harvard.edu/2026/02/26/vanguard-portfolio-management-proxy-voting-policy-for-u-s-portfolio-companies/> Carolyn Cross