# ISS AND GLASS LEWIS UPDATE GUIDELINES FOR 2026 (CANADA)

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Institutional Shareholders Services ("ISS") and Glass Lewis have updated their voting guidelines for 2026. The updated guidelines from ISS will apply to shareholder meetings for publicly traded companies on or after February 1, 2026, while those from Glass Lewis apply to meetings held on or after January 1, 2026.

Hugessen's briefing provides a summary of updates on the most relevant compensation and governance-related topics for Canadian issuers. While most changes are clarifications to existing policies rather than fulsome revisions, issuers should pay attention to any provisions that could affect executive compensation structures or governance practices in the upcoming proxy season.

The updated guidelines come at a time of heightened scrutiny in the US political climate on governance frameworks and increased regulatory focus following recent SEC directives on disclosure of investor voting policies. This development signals a major shift in Glass Lewis' baseline approach and may influence how issuers engage with proxy advisors going forward. The recently announced Executive Order targeting proxy advisors ("Protecting American Investors From Foreign-Owned and Politically Motivated Proxy Advisors[1]") may also pressure ISS and Glass Lewis to make further changes on how they operate.

Separately, Glass Lewis has already announced that starting in 2027, it will no longer publish a single Benchmark Policy. The Benchmark Policy is the standard set of voting guidelines proxy advisors typically apply for issuers in each region when evaluating Management proposals and making voting recommendations to shareholders. This change is coupled with Glass Lewis' new service offering of governance related consulting services.

## Details on Key Proxy Advisor Guideline Updates

### Director Elections

- **Financial Restatements** – Glass Lewis has updated its Benchmark Policy regarding financial restatements and has clarified situations involving restatement, as well as added threshold tests that would result in a recommendation against members of the Audit Committee. Glass Lewis will generally recommend against the election of all Audit Committee members who served during the period of restatement. The policy also applies when annual and/or multiple interim financial statements are restated if certain financial thresholds are met[2]:
    - *Hugessen commentary: The inclusion of factors such as revenue recognition issues, fraud, and insider manipulation signals heightened expectations for governance oversight and the need for Boards to maintain robust financial controls and proactive risk management.*

[1] *Executive Order targeting proxy advisors*

[2] *Threshold tests include: > 5% adjustment to cost of goods sold, operating expense, or operating cash flows; > 5% adjustment to net income; > 10% adjustment to assets or shareholders' equity, or cash flows from investing activities*

## Equity Plan Text

- **Director Compensation (Non-Employee Director (NED) Deferred Share Unit (DSU) Plans) –** ISS will only support treasury-settled plans that explicitly state DSUs may be granted solely in lieu of cash fees on a value-for-value basis. If a plan allows discretionary NED participation or other DSU grants beyond cash fees on a value-for-value basis, ISS will recommend voting against the plan. This change ensures that DSU plans do not permit discretionary grants.
    - *Hugessen commentary: This clarification reinforces the need for explicit plan language to limit Board discretion in granting themselves equity. Issuers should ensure that by the next time a NED DSU Plan comes to a shareholder vote, the disclosure is explicit.*

- **Director Compensation (Performance-Based Awards) –** Glass Lewis clarified that it will recommend voting against equity compensation plans that allow performance-based awards for NEDs. This clarification reinforces the expectation that director equity awards should be structured to preserve independence and avoid executive-like incentives.

- **Equity-Based Compensation Plans (Plan Amendment Provisions) –** ISS has clarified its policy on plan amendment provisions. Under the updated approach, ISS will vote against amendment procedures that do not explicitly require shareholder approval for any reduction in exercise price and any cancellation and reissue of options or other entitlements. This clarification reinforces limits on Board discretion to amend security-based compensation arrangements without shareholder approval.
    - *Hugessen commentary: This clarification from ISS limits Board discretion in equity plan governance and changes to inflight awards. The policy clarifies that issuers must require shareholder approval for any reduction in exercise price* ***and*** *any cancellation and reissue of options or other entitlements in equity-based compensation plans. As issuers have equity plans come to shareholder votes, the plan amendment provision will require updating the equity plan text language (to "and any") to align with ISS' change in policy.*

## Pay for Performance

- **Pay-for-Performance Methodology** – Glass Lewis has enhanced its pay-for-performance assessment model. Key changes include replacing the previous single letter grading system ("A" through "F") with a scorecard-based approach (overall score between 0 and 100) using up to six underlying tests.
    - The new approach uses multiple pay definitions (granted, realized), and extends the performance measurement period from three to five years to better capture long-term performance. The model now evaluates both short-term (STIP, one-year TSR) and long-term (five-year TSR, financial metrics) alignment, providing a more holistic assessment of pay outcomes
    - *Hugessen commentary: The inclusion of multiple tests and pay definitions enables a more comprehensive assessment of alignment between pay and performance. By incorporating both short-term measures (STIP vs 1-year TSR) and long-term measures (LTIP vs 5-year Performance), the model recognizes that executive pay should reflect not only immediate results but also sustained value creation.*

## Notable US Policy Changes

- **Time-Based Equity Awards with Long-Time Horizon –** ISS has updated its pay-for-performance quantitative screens for US companies to assess performance alignment over a longer-term time horizon. New in 2026, ISS will additionally look at the overall ratio of performance-based compensation to fixed or discretionary pay, vesting and/or retention requirements for equity awards that demonstrate a long term-focus, and realizable and/or realized pay compared to granted pay.
  - *Hugessen commentary: Hugessen has confirmed with ISS Canada that in the near term, these changes will not be coming to Canada. However, these changes to US pay-for-performance quantitative screens may be an indicator of policy updates in the future.*

## Closing Remarks

Proxy advisor recommendations can have a material impact on voting results at shareholder meetings. As a result, we believe issuers should be aware of the policy updates from ISS and Glass Lewis and the potential implications of these policies. Increasingly, institutional shareholders are taking a nuanced approach to assessing company compensation programs. Hugessen supports its clients with understanding the full range of policy guidelines set by the proxy advisors, and drafting the proxy disclosure to enhance shareholders' understanding of the company's compensation policies and pay decisions.


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