

THE 5-YEAR LOOKBACK: HARD ENFORCEMENT

An Executive Briefing for Board Directors and Compensation Committees

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The Single Sentence

The 2026 ISS and Glass Lewis policies extended the Relative Degree of Alignment window from three years to five, which means every legacy 2021 and 2022 pay decision is now a mathematical input to your current Say-on-Pay vote, and the only proxy disclosure that survives the new framework is a written Long-Term Alignment narrative that explains the 5-year delta directly.

Why This Briefing Is in Your Hand This Week

Two policy releases dropped between December 2025 and January 2026. ISS finalized its 2026 Benchmark Policy Updates on December 8, 2025, with the updated Pay-for-Performance Mechanics document published in the same release cycle. Glass Lewis released its 2026 Benchmark Policy Guidelines on December 5, 2025, with the companion Pay-for-Performance Update FAQs following shortly after. Both apply to the 2026 proxy season: Glass Lewis to meetings held after January 1, 2026, and ISS to meetings held on or after February 1, 2026.

The headline change is the same in both policies. The quantitative measurement window for the relative pay-and-performance screen has moved from three years to five years. Watson Towers Willis called the ISS update "the most consequential US compensation update since the advent of Say-on-Pay." Compensation Advisory Partners flagged it as the central change of the 2026 cycle. The Harvard Law School Forum on Corporate Governance ran joint coverage of the two updates as a single coordinated event in its January 20, 2026 post.

If your compensation program had a volatility event in 2021 or 2022, retention awards, COVID-era target modifications, in-flight long-term-incentive resets, special equity grants, your 2026 Say-on-Pay vote is now mathematically anchored to those decisions. The proxy committee cannot escape them by pointing to recent performance recovery. The numbers weight the older years directly into the current

relative-pay-rank vs. relative-TSR-rank calculation. ISS treats the new RDA as a single annualized 5-year TSR computed as the geometric mean of five 12-month total shareholder returns. Glass Lewis weights the most recent year more heavily within the 5-year window but still pulls every year into the scorecard.

The Three Things That Changed

1. The window doubled in width

ISS RDA: 3 years to 5 years. Glass Lewis quantitative tests: 3 years to 5 years (3 years used as a fallback only if 5-year data is unavailable). ISS Multiple of Median screen: now an average of the prior 1-year and 3-year CEO pay assessments, where it was 1-year only. ISS Pay-TSR Alignment screen: unchanged, since it already used 5 years.

Every other change in the 2026 cycle flows from this single decision. Your peer group selection is unchanged. Your TSR computation is unchanged. Your CEO pay disclosure is unchanged. What changed is the time integration. Three more years of history are now in the screen.

2. Glass Lewis abandoned the letter grade

The familiar A-F pay-for-performance grade is gone. In its place is a 0-to-100 scorecard composed of up to six quantitative tests: CEO granted pay vs. TSR, CEO granted pay vs. financial performance, short-term incentive payouts vs. TSR, named executive officer granted pay vs. financial performance, CEO compensation-actually-paid vs. TSR, and a qualitative test covering one-time award grants and upward discretion. The qualitative test can only reduce the score, not raise it. Glass Lewis does not publicly disclose the weightings.

This matters for two reasons. First, the binary signal of an "F" or a "D-" is gone and is replaced by a continuous score, which means the boundary between approved and rejected programs is now a proxy advisor judgment call rather than a published threshold. Second, the qualitative test creates a one-way risk: it can hurt you, never help you, so the design discipline moves to avoiding the qualitative red flags rather than offsetting them with strong quantitative scores.

3. ISS opened the door for time-based equity

For the first time in the Say-on-Pay era, ISS will view time-based equity awards with long vesting periods or holding periods favorably without requiring performance vesting conditions. The qualitative review will treat long-tenured time-based grants as evidence of alignment. This is a meaningful change for issuers who have spent a decade engineering performance-vesting overlays onto every grant to satisfy proxy advisors.

ISS also expanded the flexibility for documenting Company Responsiveness when the prior Say-on-Pay vote came in below 70%. If shareholders decline to provide direct feedback (more common since recent SEC guidance on Schedule 13G versus 13D filing status), the issuer can now disclose its good-faith engagement attempts and explain its rationale for compensation actions, and ISS will weigh that disclosure rather than penalizing the absence of explicit shareholder input.

What Did Not Change, and Why That Matters

ISS peer group methodology: unchanged. ISS still selects 12 to 24 companies based on industry, size (revenue, assets, market cap), and the issuer's self-selected peer information. The peer-group decision still shapes everything downstream.

Glass Lewis peer group methodology: unchanged for most tests, with two of the new tests now using market cap bands and broad market benchmarks instead.

Disclosure rules: unchanged. SEC Item 402 governs your CD&A; and pay-vs-performance tables. The pay-versus-performance disclosure introduced in 2023 still requires the 5-year rolling table and the relationship narrative.

The reason these unchanged elements matter is that the 2026 changes do not give you a new disclosure mechanism. They tighten the screen and they elongate the window. The disclosure infrastructure that you must use to defend your program is the same infrastructure you used in 2024 and 2025. The narrative content has to change. The disclosure architecture does not.

The Mathematical Anchor Problem

Here is the calculation that makes 2021-2022 inescapable in 2026.

The RDA compares two ranks: your CEO's pay rank within the ISS-selected peer group of 12 to 24 companies, and your company's TSR rank within that same peer group. Both ranks are now computed across five 12-month periods. The relative pay rank is heavily influenced by the magnitude of CEO compensation actually granted in each year. The relative TSR rank is heavily influenced by share-price performance in each year.

If your company granted a one-time retention award in 2021 or 2022 (which roughly half of S&P; 500 companies did during the pandemic and post-pandemic volatility window, per Pay Governance and Compensation Advisory Partners data), your CEO's pay rank for those years is elevated. If your share price was depressed in 2021-2022 from sector dynamics, supply chain disruption, interest rate changes, or any of

the other forces that hit during that period, your TSR rank for those years is suppressed. The combination produces a bad year on the RDA, and the new 5-year window now weights three more bad years into the screen than the prior 3-year window did.

The legacy decisions that boards made under a 3-year window assumption (that pandemic-era pay actions would roll off the screen by 2024-2025) are now drag on 2026 and will continue dragging through 2027 and possibly 2028. You can recover if 2025 and 2026 produce strong relative results. You cannot make the 2021-2022 decisions disappear from the calculation.

This is what the signal source called the "mathematical anchor." It is not a metaphor. It is the arithmetic of an annualized 5-year TSR computed as the geometric mean of five annual TSR observations: each year contributes equally to the geometric mean, so a single bad year contributes 20 percent of the total.

The Long-Term Alignment Narrative: What It Is and Where It Goes

The Long-Term Alignment narrative is a written disclosure section in your 2026 CD&A; that explains the 5-year delta directly rather than relying on recent performance recovery to defend the program. Five components must be present, in this order:

First, an anchor statement of multi-year alignment philosophy. One paragraph, stated up front in the CD&A;, that establishes the comp committee's view that pay-for-performance must be assessed over the full proxy advisor window, not over the most flattering subset.

Second, a legacy decision review. Each of the 2021-2022 decisions that now sit in the 5-year RDA window is named and its rationale documented. Retention awards: who got them, why, what was the alternative, what has the company received in return. Target modifications: which targets, why, whose decision, what the comp committee considered. In-flight LTI resets: same treatment.

Third, a bridge year recalibration narrative. What did the comp committee change in 2023 and 2024, and why, that signals it understood the legacy decisions would carry weight under the 2026 framework. This section is where the comp committee proves it was paying attention before ISS and Glass Lewis announced the change.

Fourth, current decision continuity. How do the 2025 and 2026 compensation decisions extend the multi-year story? This is the section that legacy CD&As; over-emphasize. Done correctly, it carries about 20 percent of the narrative weight. Done incorrectly (the legacy default of telling only the recent story), it carries 80 percent and leaves the window unaddressed.

Fifth, forward commitment. What has the comp committee memorialized for 2027 and 2028 that demonstrates the multi-year alignment framework is now the comp committee's permanent operating model, not a one-cycle reaction to ISS and Glass Lewis.

The order is the substance. Anchor, legacy, bridge, current, forward. Reverse the order and you are writing the legacy CD&A; again.

The Comp Committee Documentation Stack

Three artifacts must exist on the comp committee's written record before the 2026 proxy ships, dated before the proxy file date, signed by the comp committee chair, distributed to the full board for ratification.

The Multi-Year Alignment Philosophy Memo. Two to three pages. The comp committee's stated view of how multi-year alignment will be assessed, what evidence will be brought to bear, what role the proxy advisors play in the framework, and where the comp committee's judgment overrides any quantitative screen. This memo is the source document that the CD&A; then echoes.

The Legacy-Award Disposition Log. A schedule of every 2021 and 2022 compensation action that now sits inside the 5-year RDA window, with the decision rationale captured at the time, the alternatives considered, the outcome to date, and the comp committee's current assessment of whether the decision served shareholders. This log is the evidence base if a derivative suit or SEC review challenges the 2026 disclosure.

The Engagement-and-Disclosure Protocol. The named institutional holders the comp committee chair (or governance committee chair, depending on charter) engaged with during the 2026 proxy preparation cycle, the dates, the topics covered, the holder feedback received (or noted absence of feedback per ISS 2026 flexibility), and the disclosure decisions that resulted. This protocol is the record that proves Company Responsiveness in the event of a sub-70 percent vote.

These three artifacts are not exotic. The legacy operating model in many comp committees produced equivalents informally. The 2026 environment requires them formally, dated, signed, on the board record. Plaintiff-bar derivative suit theories are now organized around the absence of these artifacts; SEC enforcement of CD&A; disclosure under the pay-versus-performance rule is now organized around the inconsistency between board-record evidence and CD&A; narrative.

The 70 Percent Trap

ISS sets the Company Responsiveness threshold at 70 percent. Below 70 percent of votes cast in favor of Say-on-Pay, ISS opens a formal responsiveness review for the next proxy cycle.

Combine this threshold with the 5-year RDA window and a two-stage trap forms. Stage one: a marginal 2026 SOP outcome lands between 50 percent and 70 percent. ISS opens a 2027 responsiveness review. Stage two: that 2027 review now sees a 5-year window that runs from 2022 through 2026, which is the same 2021-2022 legacy band plus one additional bridge year. The legacy drag is now locked in for two more proxy cycles.

The intervention point is not the 2027 responsiveness review. It is the 2026 proxy disclosure stage. Issuers who try to retrofit the Long-Term Alignment narrative after a sub-70-percent 2026 result will face a 5-year window that mathematically prevents recovery through 2027 and most of 2028. The window does not begin to roll the legacy years off until the 2028 or 2029 proxy.

The Three Failure Modes Boards Are About to See

First, optimization for one advisor that triggers the other. ISS now rewards time-based equity with long holding periods. Glass Lewis added a qualitative test that can punish one-time grants and upward discretion. A program redesigned to lean on time-based equity to please ISS will pass that screen, then trip the Glass Lewis qualitative trigger if the design is read as substituting time-based grants for performance-vesting rigor. Both advisors must be read together.

Second, narrative inversion. The CD&A; leads with the 12-month story (the recent recovery, the recent strategic wins, the recent metric achievements) and addresses the 2021-2022 legacy decisions only in a defensive footnote near the end. The narrative inversion is read by ISS and Glass Lewis as evidence that the comp committee is hoping the 5-year window will not be examined closely. The inversion fails the Long-Term Alignment frame even when the underlying 12-month story is genuinely strong.

Third, board record absence. The CD&A; asserts a multi-year alignment philosophy but the comp committee minutes show no evidence the philosophy was adopted, debated, or documented before the proxy was drafted. SEC reviews and derivative suits will read the absence of board-record evidence as a signal that the CD&A; narrative was constructed for the proxy rather than reflecting actual governance.

All three failure modes share a single root cause: treating the 2026 changes as a disclosure problem to be solved by the proxy team, rather than a governance problem that requires the comp committee to act before the proxy team begins drafting.

What to Do This Week

If your 2026 annual meeting is in the next 90 days and your proxy is in final preparation: stop the proxy team. Convene a special comp committee session. Draft the Multi-Year Alignment Philosophy Memo this week. Reorder the CD&A; narrative around the five-component Long-Term Alignment architecture. Build the Legacy-Award Disposition Log. File the Engagement-and-Disclosure Protocol on the board record before the proxy ships. Time required: 10 to 15 working days if the comp committee chair is engaged and the GC and external comp consultant are aligned.

If your 2026 annual meeting has already occurred and your Say-on-Pay landed above 70 percent: begin the same work now for the 2027 proxy. The 5-year window in the 2027 proxy will run from 2023 through 2027 and the legacy 2021-2022 awards begin rolling off, but only the earliest of them. Your 2024 bridge year decisions become the new center of gravity. The Documentation Stack must be in place by Q3 2026.

If your 2026 annual meeting has already occurred and your Say-on-Pay landed below 70 percent: ISS responsiveness review is open. The 2027 proxy must include the formal responsiveness disclosure plus the full Long-Term Alignment narrative architecture, plus an explicit board-record reference. Engage external comp counsel immediately. Engage your top 10 institutional holders by name in the next 60 days, document the engagements, and begin drafting the 2027 CD&A; in Q3 2026 with the Long-Term Alignment frame as the governing structure.

If you are unsure where your firm sits on the 5-year RDA window risk distribution: the diagnostic in Section 12 of the companion Executive Playbook produces a ranked risk score against each ISS and Glass Lewis test, identifies the specific 2021-2022 decisions that contribute the most weight to the screen, and outputs a recommended Long-Term Alignment narrative architecture customized to your specific legacy decisions.

What This Briefing Is Not

This briefing does not replace your external compensation counsel, your comp consultant, your proxy solicitor, or your investor-relations team. It does not produce a CD&A; for you. It does not engage with your specific peer group selection or your specific legacy decisions.

What this briefing does is establish the governance frame. Your CD&A; team, your proxy team, your comp consultant, and your IR team will execute the technical work. The comp committee owns the frame. This briefing is the frame.

What Comes Next

The companion Executive Playbook (110 pages, available May 2026) builds out the full diagnostic, the full Documentation Stack templates, the ISS-Glass-Lewis Dual-Read Matrix, and a worked example of a Long-Term Alignment CD&A; reconstruction.

The companion Executive Lab (two half-day sessions, scheduled for June and July 2026) walks comp committee chairs and lead independent directors through the diagnostic on their own peer group, drafts the Multi-Year Alignment Philosophy Memo in real time, and produces a board-ready set of artifacts before the lab adjourns.

The companion White Paper (free download, 24 pages, available immediately) covers the policy text changes in detail with full citations and is suitable for forwarding to your GC, your comp consultant, and your proxy solicitor.

Sources

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