

## 2012 Proxy Season: Executive Stock Ownership Guidelines and Stock Retention Requirements

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### INTRODUCTION

Compensation Advisory Partners (“CAP”) reviewed 2012 proxy disclosure at a sample of 114 companies representing ten industry groups. The industry groups reviewed include Aerospace and Defense, Automotive, Consumer Products, Financial Services, Health Care, Insurance, Manufacturing, Pharmaceuticals, Retail, and Technology. Our research of these Fortune 500 companies examines changes in executive compensation practices in 2011, or indicated for 2012, observations on current trends. This CAPflash focuses on executive stock ownership guidelines and stock retention requirements.

For the 114 company sample, median revenue was \$30B, median market capitalization was \$29B and median Total Shareholder Return (TSR) was 3% for 2011.

### WHAT WE FOUND

Companies have modified their stock ownership guidelines and stock retention (or holding) requirements to enhance their governance practices. Median value of CEO stock ownership guideline has increased to 6x base salary, also more in line with Institutional Shareholder Services’ (ISS) definition of “robust” stock ownership. Overall, the use of stock retention requirements increased to approximately 1/3 of companies, while the use of stock retention requirements alone is flat year over year.

### PREVALENCE OF STOCK OWNERSHIP GUIDELINES AND STOCK RETENTION REQUIREMENTS

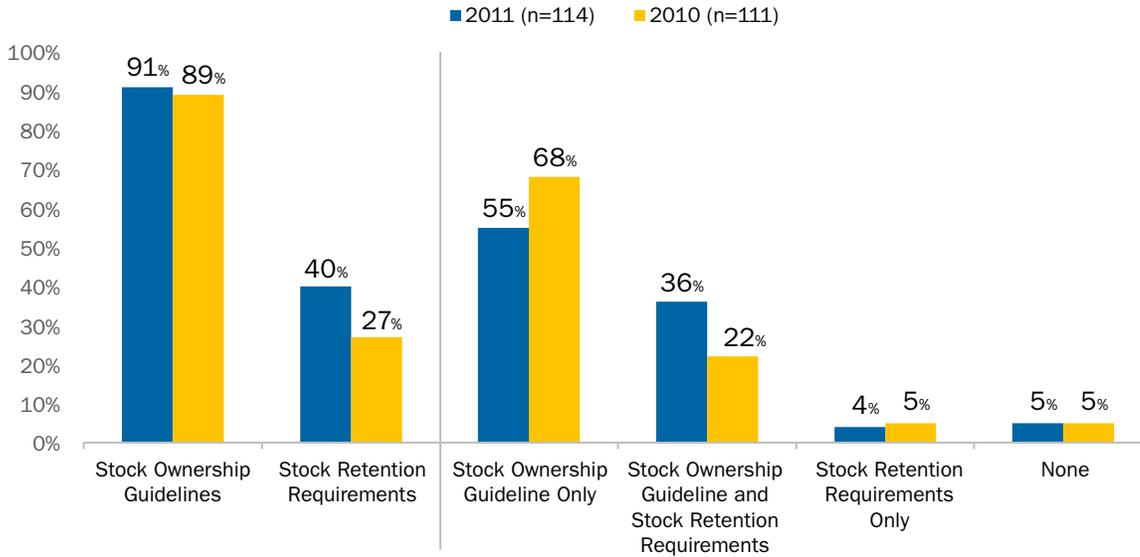
The prevalence of stock ownership guidelines (approximately 90%) among companies in our database remained relatively flat in 2011 compared to findings in 2010. Companies with both stock ownership guidelines and stock retention requirements increased to 36% (from 22%), demonstrating increased efforts towards good corporate governance. However the prevalence of companies with stock retention requirements only stayed relatively flat year over year at 4%.

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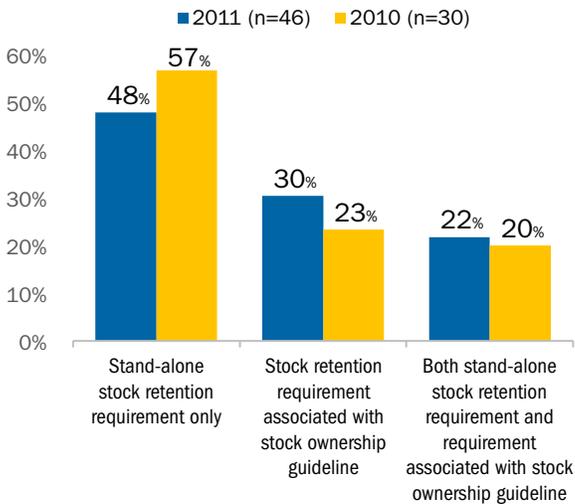
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## Prevalence of Stock Ownership Guideline and Stock Retention Requirements



Of the 46 companies with stock retention requirements, nearly half (52%) of the companies report retention requirements that are linked to stock ownership guidelines (e.g., companies must hold shares until the stock ownership guideline level is achieved). Companies with stand-alone stock retention requirements that are not linked to stock ownership guidelines decreased slightly to 48% in 2011 (vs. 57% in 2010).

### Prevalence of Stock Retention Requirements



CEO STOCK OWNERSHIP REQUIREMENT PREVALENCE	2011 (N = 104)		2010 (N = 99)	
	# OF COS	% OF COS	# OF COS	% OF COS
Multiple of Salary	84	81%	80	81%
Fixed Shares	15	14%	15	15%
Lesser Of Approach	3	3%	2	2%
Other	2	2%	2	2%

Stock ownership guidelines for CEOs increased from 2010, with the median CEO requirement increasing from a 5x multiple of salary to 6x salary in 2011 (See chart below for details). The median fixed share guideline also increased to 175,000 shares from 150,000 shares in 2010. This median requirement suggests that companies may be increasing their guidelines to respond to shareholders and provide more favorable optics. For several industries, however, (i.e., Automotive, Financial Services, Healthcare and Retail) the median CEO stock ownership guidelines of 5x salary was the same year over year.

The median stock ownership requirement value for the CEO increased modestly to \$7.0M in 2011.

### STOCK OWNERSHIP REQUIREMENT

Similar to 2010, most companies (approximately 80%) express stock ownership guidelines as a multiple of salary and 15% express guidelines as a fixed number of shares. Fixed share guidelines are more prevalent in the Financial Services (57%), Technology (31%) and Retail (27%) industries.

CEO STOCK OWNERSHIP REQUIREMENT	2011 (N=104)			2010 (N=99)		
	25TH %ILE	50TH %ILE	75TH %ILE	25TH %ILE	50TH %ILE	75TH %ILE
Multiple of Salary	5x	6x	6x	5x	5x	6x
Fixed Shares	120,000	175,000	300,000	100,000	150,000	300,000
Total Value	\$5.7M	\$7.0M	\$9.7M	\$5.4M	\$6.7M	\$8.6M

Most companies require executives to achieve the guideline requirement within 5 years. 20% of companies in our database disclose a penalty for not achieving the required ownership. Common penalties for non-compliance include restrictions on selling shares, requiring annual bonus or performance cash awards to be paid in shares and reducing future total compensation.

74 of 104 companies disclose the type of shares that count toward the guideline. While approximately 40% of companies count unvested restricted stock toward the requirement, less than 10% of companies count unearned performance shares or unvested stock options. These findings are similar to our findings in 2010.

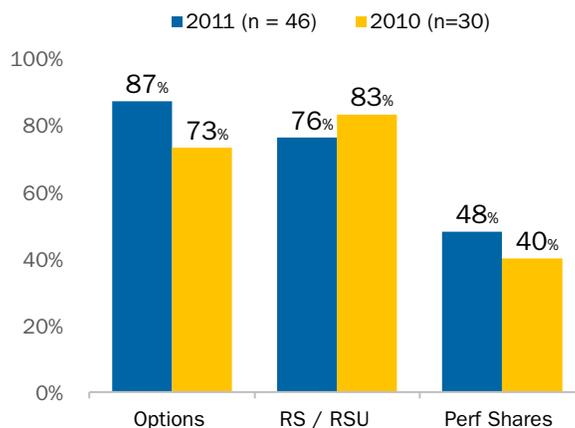
SHARES COUNTING TOWARD GUIDELINE REQUIREMENT	2011 (N = 104)		2010 (N = 99)	
	# OF COS	% OF COS	# OF COS	% OF COS
Shares directly owned	72	69%	55	56%
Shares in 401(k) plan	49	47%	33	33%
Unvested RS	43	41%	33	33%
Shares indirectly owned	36	35%	29	29%
Deferred Compensation	33	32%	25	25%
Vested but unexercised options	11	11%	6	6%
Unearned performance shares	7	7%	5	5%
Unvested options	5	5%	1	1%
Not disclosed	30	29%	29	29%

Note: Percentages add up to greater than 100% due to multiple types of equity counted by various companies.

### STOCK RETENTION REQUIREMENT

Companies with stock retention requirements most often require executives to hold net shares from option exercises or restricted stock share/unit vesting. Fewer companies, less than 50%, subject net shares from performance-based equity awards to stock retention requirements.

### Shares Required to be Held for Stock Retention Requirements



Note: Percentages add up to greater than 100% due to some companies requiring that multiple forms of equity be held.

Most companies require executives to hold net shares after exercise or vesting for a period of 1 year (41%) or through retirement (25%). Few companies require executives to hold shares post-retirement (13%), although the prevalence has increased from 2010.

While approximately 40% of companies count unvested restricted stock toward the requirement, less than 10% of companies count unearned performance shares or unvested stock options. These findings are similar to our findings in 2010.

PERIOD SUBJECT TO HOLD	2011 (N = 32)		2010 (N = 24)	
	# OF COS	% OF COS	# OF COS	% OF COS
1 year post exercise/vest	13	41%	11	46%
2 years post exercise/vest	1	3%	1	4%
Retirement	8	25%	8	33%
Post-retirement	4	13%	1	4%
Other	4	13%	4	17%
Not disclosed	3	9%	1	4%

*Note: Reflects companies with stock retention requirement only. Percentages add up to greater than 100% due to one company requiring different holding periods for CEO and other NEOs.*

#### DISCLOSED STOCK OWNERSHIP GUIDELINE CHANGES

Approximately 20% of companies disclose changes to their stock ownership guideline requirements for 2011 or for 2012. A majority of these companies (55%) increased the ownership requirement for at least one NEO. Other notable changes include the addition of retention requirements (32%) and requiring a more stringent definition of shares that count toward the stock ownership guideline (9%).

CHANGES TO STOCK OWNERSHIP GUIDELINES	2011 (N = 22)		2010 (N = 25)	
	# OF COS	% OF COS	# OF COS	% OF COS
Increased guideline requirement	12	55%	12	48%
Added holding requirement	7	32%	6	24%
Modified shares counting toward guideline	2	9%	n/a	n/a
Modified penalty for non-compliance	1	5%	5	20%
Newly adopted	1	5%	1	4%
Adopted mandatory holding of shares through retirement	1	5%	1	4%
Extended Participation	1	5%	n/a	n/a
Decreased guideline requirement	1	5%	n/a	n/a

*Note: Percentages add up to greater than 100% due to multiple changes by several companies.*

#### SUMMARY

In 2011, companies made modest changes to their stock ownership guideline requirements; most often in an effort to make them more robust. Additionally, companies continue to implement stock retention requirements, albeit at a relatively slow pace, to enhance their governance practices. We expect companies to continue to adopt and implement stock retention (holding) requirements and to increase their stock ownership guidelines. Both of these policies address issues that are important to shareholders and proxy advisory groups, and further align senior executives with shareholders.

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