CAPflash
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2013 Proxy Season Update – Say on Pay Voting Among Large Banking Organizations

■ By **Shaun Bisman** and **Kelly Malafis**

Compensation Advisory Partners ("CAP") reviewed 2011-13 Say on Pay voting results among 23 large banking organizations,[1] each with assets exceeding $50 B. These companies have been subject to regulatory input on compensation program design from the Federal Reserve since 2010 and have made significant changes to their programs based on this input as well as shareholder outreach. This CAPflash reviews the impact of these changes on Say on Pay voting over the past three years.

WHAT WE FOUND

Each of the 23 large banking organizations has adopted an annual Say on Pay vote, and among these companies average annual support from 2011-13 approximated 90%.

During this time period, only one company, Citigroup in 2012, did not receive majority shareholder support for its Say on Pay resolution. However, a number of additional large banking organizations (3 others in 2012; Northern Trust, Huntington Bancshares and BNY Mellon) received at or below 75% shareholder support. In each of these cases, we observed significant pay program changes in the subsequent year that were in line with changes seen among companies across industries, not just financial services firms that are affected by regulatory oversight. One company in 2013, Comerica, received below 75% shareholder support and as such we expect a similar response to efforts around shareholder outreach and potential program changes this year.

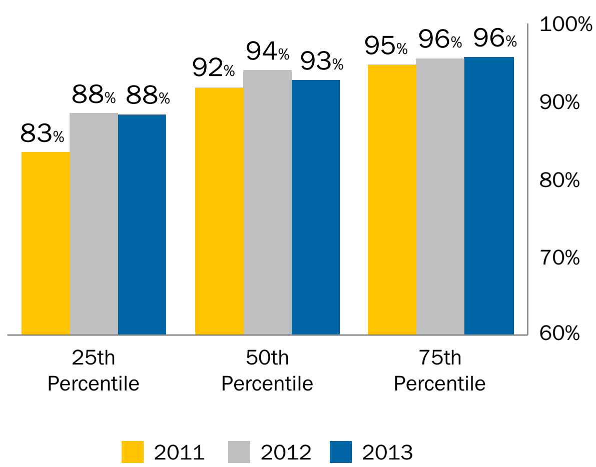
1 Companies reviewed include: American Express, Bank of America, BNY Mellon, Citigroup, Capital One Financial, Discover Financial Services, Goldman Sachs, JP Morgan Chase, Morgan Stanley, Northern Trust, PNC, State Street, SunTrust Bank, US Bancorp, Wells Fargo, BB&T, Comerica, Fifth Third, Huntington Bancshares, KeyCorp, M&T Bank, Regions and Zions Bancorp.

Proxy advisory firms (i.e., ISS and Glass Lewis) voting recommendations also have been impacting Say on Pay results. Our research shows that an ISS vote recommendation impacts Say on Pay vote results by approximately 30 percentage points.

SAY ON PAY VOTE RESULTS AND IMPLICATIONS

Comparisons of results over the last 3 years generally show a consistent pattern with the majority of banks studied receiving 90+% shareholder support. Further, when comparing 2013 shareholder support levels to the S&P 500 to-date, results among the broader industry yields slightly higher support at median (95% vs. 93%).

Shareholder Support



A company only "fails" a Say on Pay vote if a majority of shareholders do not vote in support of the Say on Pay resolution. However, an "acceptable" shareholder support threshold has emerged around 75%. ISS identified 70% as a minimum acceptable level of support, while Glass Lewis prefers 75%. Further, even with results above 70% or 75%, if results are significantly below prior year results, companies will reevaluate their compensation programs. It is important to note that companies and Boards may be subject to reputational risk with "low" pass rates (i.e., approximately 75% or below).

One company in 2013 – Comerica – reviewed received less than 75% shareholder support. Comerica's low support level (61%) was likely attributed to two factors: 1) weak 1- and 3-year TSR and 2) ISS recommending shareholders vote "Against" the Say on Pay resolution. ISS' "Against" recommendations are often driven by high pay relative to performance and/or poor pay practices.

Four companies in 2012 received 75% or lower shareholder support for their Say on Pay resolution – Citigroup (45%), Northern Trust (75%), Huntington Bancshares (61%), and BNY Mellon (58%). Several factors may have led to the low support levels among these large banks, including, low TSR, high pay levels for the CEO or problematic pay practices (i.e., high discretionary payouts associated with poor performance). TSR among these four companies was negative for the one, three and five year periods ending in 2011.

Following the low Say on Pay support level, all made significant changes to their pay programs and conducted enhanced shareholder outreach efforts. In the subsequent year, average support increased by 33 percentage points. In 2013, all four received an ISS "For" Say on Pay vote recommendation (only 1 of 4 did in 2012).

COMPANY RECEIVING AT OR BELOW 75% SUPPORT ON SAY ON PAY IN 2012	% SUPPORT RECEIVED IN 2012 /2013 SAY ON PAY VOTE	MODIFICATIONS MADE TO COMPENSATION PROGRAM (FROM 2013 PROXY STATEMENT DISCLOSURE)
Citigroup	2012 - 45% *(ISS – Against)* 2013 - 92% *(ISS – FOR)*	• Designed a new program for 2013, structured around a more objective performance evaluation; incentive awards based on a scorecard of specific financial metrics and nonfinancial objectives, including risk and control metrics • Presentation of how Citigroup delivers pay and makes pay decisions has been overhauled in the Compensation Discussion & Analysis; new compensation framework is designed to be easier to understand and more transparent • 30% of overall incentive award for 2012 was granted in performance share units, which will be earned at the end of 2015 based on relative TSR and ROA • New CEO's total annual pay for 2012 was $3.5 M less than the former CEO's annual 2011 pay and the former CEO forfeited $26.6 M in retention awards • No new awards were made in 2012 or will be made in future years under the Key Employee Profit Share plan (retention program) • Set new minimum standards for payouts; no payouts of performance share units if minimum threshold goals are not met • Deferred stock awards are subject to reduction or full forfeiture in the event of losses over the four-year vesting schedule • Implemented a one-year post-employment holding requirement
Northern Trust Corp	2012 - 75% *(ISS – FOR)* 2013 - 87% *(ISS – FOR)*	• Adoption of double-trigger equity vesting in connection with a change in control in July 2012 • For 2013 disclosed: ▪ Increased portion of LTI delivered in performance share units from 33% to 50% and decreased portion of LTI delivered in stock options from 33% to 25% ▪ 25% of LTI is now delivered in restricted stock ▪ Expanded risk-based forfeiture and clawback provisions on certain equity awards beginning in February 2013 ▪ Company non-qualified deferred compensation plan discontinued a feature that provided an annual supplemental company contribution of 1.5% of "eligible pay" based on attainment of earnings goals

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Huntington Bancshares	2012 - 61% *(ISS – Against)* 2013- 95% *(ISS – FOR)*	• Implemented performance share units as 50% of the long-term incentive program for the NEOs and other key senior executives • Updated change-in-control agreements, eliminating both excise tax gross-up provisions and modified single trigger severance for the CEO • Extended ownership guidelines and hold until retirement requirements deeper within the Company's management structure • Adopted a policy that restricts hedging and/or pledging of shares by executive officers • The entire executive management team agreed not to accept any annual merit increases of base salary for 2013
BNY Mellon	2012 - 58% *(ISS – Against)* 2013 - 97% *(ISS – FOR)*	• Increased portion of incentive pay that varies with prior-year performance • Increased portion of annual incentive delivered in equity • Added performance shares that cliff vest based on return on risk-weighted assets over a three-year performance period • Subjected long-term incentive grant value to upfront adjustment of between 0-125% based on 2012 performance • CEO and NEOs target incentive pay is deferred 70% and 60% respectively • Subjected all unvested restricted stock units and performance shares to 100% forfeiture during vesting period based on risk assessments • CEO waived rights to transition agreements entered into in 2007 as part of a 2007 merger (reducing rights around certain termination scenarios)

We have observed a link between Say on Pay vote results and company performance, as primarily measured by TSR. Not surprisingly, companies that enjoy high levels of shareholder support for their Say on Pay resolutions tend to have performed better in the prior year and over the latest three year period.

TSR VS. SAY ON PAY VOTE RESULTS

% IN FAVOR	AVG. 3-YR TSR @ 12/31/12	AVG. 1-YR TSR @ 12/31/12
	PRIOR TO 2013 ANNUAL MEETINGS	PRIOR TO 2013 ANNUAL MEETINGS
95 - 100%	16.3%	38.2%
90 - 94%	5.2%	42.8%
70 - 89%	2.5%	27.6%
50 - 69%	2.1%	19.7%
Below 50%	n.m.	n.m.

Another significant factor affecting Say on Pay vote results has been the vote recommendations of proxy advisory firms, with lower voting outcomes when companies do not receive support from the proxy advisory firms on their Say on Pay proposals. The factors generally used by these firms include level of CEO pay, program design and the use of non-performance based pay. These factors can drive an "Against" vote especially when in combination with poor TSR results. In 2013, only Comerica received an "Against" vote on Say on Pay from ISS, and they received 61% support compared to 93% support in 2012. In 2012, 3 companies received an "Against" vote recommendation from ISS, and the average support decreased by 34 percentage points. From 2011-13, ISS recommended shareholders vote Against the Say on Pay resolution at 8 of the companies reviewed. Each time the result was less than 80% support.

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Given the growing importance placed on shareholder outreach regarding Say on Pay and executive pay programs, some of the companies (i.e., Morgan Stanley and Goldman Sachs) use supplemental filings as an additional outreach tool. In some cases, the large banks file supplementary soliciting materials pushing back on the voting recommendations of ISS or Glass Lewis. While the voting recommendations do not change, companies continue to push back on the proxy advisory firms when they believe they have strong programs.

CONCLUSION

Financial services firms will need to continue to strike the right balance between pay-for-performance and alignment among varying stakeholder perspectives. This is increasingly challenging for these companies as interests will conflict between shareholders, employees and the Federal Reserve. We expect to continue to see changes as companies balance these multiple constituencies.

Despite significant changes from large banks over the last 3 years (e.g. decreased upside on long-term performance plans, decreased emphasis on stock options or increased opportunity to make ex-post adjustments on deferred incentive awards), Say on Pay results have been strong from 2011-2013. We will continue to monitor how these risk-mitigating features are implemented by these banks as part of the Federal Reserve's input and their effect on Say on Pay voting results.

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