

# 2014 Proxy Season: Improved Disclosure Practices for Executive Compensation

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## HIGHLIGHTS

- **The look and feel of proxy statements have changed**
- **Best practices for CD&A include a concise executive summary**
- **Pay mix charts, other charts, a list of “best practices” that the issuing company follows and a proxy summary are now commonly included**
- **Financial performance frames the discussion of executive compensation**
- **A trend in recent years is the disclosure of realized/realizable pay**

## Compensation Discussion & Analysis (CD&A)

The Say on Pay vote has succeeded in improving and increasing communication with shareholders regarding executive compensation programs. Many companies have adopted what are commonly referred to as “best practices” for proxy disclosure.

- **Executive Summary:** Most important part of the CD&A. Continued enhancement over past few years. Typically includes thorough discussion of financial performance and key company achievements, a summary of CEO compensation, and key changes to executive compensation programs, if any
- **Pay Mix Charts:** Very common. Typically reflect variable vs. fixed pay or performance-based vs. non-performance-based pay
- **Use of Other Charts and/or Graphics:** Very common. Most often used to directly, and concisely, describe company performance. May include absolute and/or relative performance
- **Realized Pay and Realizable Pay:** Emerging practice. Intended to illustrate the impact of performance outcomes on pay over time. In contrast, while the Summary Compensation Table reflects actual cash payments, equity awards reflect target values

## ELEMENTS INCLUDED IN 2014 PROXY DISCLOSURE AMONG FORTUNE 500 COMPANIES

	# of Cos	% of Cos
Executive Summary	89	89%
Pay Mix Chart(s)	79	79%
Use of Other Charts and/or Graphics	73	73%
List of “Best Practices”	67	67%
Realized and/or Realizable Pay	15	15%

## SURVEY SAMPLE

Compensation Advisory Partners (“CAP”) reviewed 2014 proxy disclosures at a sample of 100 companies among the Fortune 500, representing nine industry groups. Industry groups included: Automotive, Consumer Goods, Financial Services, Health Care, Insurance, Manufacturing, Pharmaceutical, Retail, and Technology. For the companies studied, the median revenue size and market capitalization was \$32B and \$52B, respectively. The median 2013 total shareholder return (TSR // change in stock price plus dividends) was 43%.

- List of “Best Practices”: Very common. Often takes the form of “What We Do/Don’t Do” list. Eliminates need for shareholders to take the time to seek these things out

Another trend related to enhanced proxy disclosure of executive compensation programs and decision-making, is increased disclosure of incentive plan goals. Shareholders and proxy advisory firms have expressed the desire for more information on short- and long-term incentive compensation performance targets/goals. Two examples of companies that increased proxy-based incentive plan goal disclosure in reaction to shareholder input are Coca-Cola and Dow Chemical.

COMPANY	SHAREHOLDER FEEDBACK	ACTION BY COMPANY
<b>Coca-Cola</b>	<ul style="list-style-type: none"> <li>• Found annual incentive plan difficult to understand, including how/why incentive payments are determined</li> <li>• Requested clearer explanation of how performance targets were set and rationale for year-to-year differences</li> </ul>	<ul style="list-style-type: none"> <li>• Increased transparency in final amount of annual incentive</li> <li>• More challenging and varied financial measures aligned with company targets</li> <li>• Expanded explanation of performance targets and rationale for year-to-year variance</li> </ul>
<b>Dow-Chemical</b>	<ul style="list-style-type: none"> <li>• Requested greater clarity on incentive plan metrics</li> <li>• Also requested more clarity on how two peer groups are used, Survey Peer Group and TSR Peer Group</li> </ul>	<ul style="list-style-type: none"> <li>• Expanded disclosure of performance metrics and mechanics incentive programs</li> <li>• Added more detail on two peer groups and explanation for how each is used</li> </ul>

## CONCLUSIONS

We have observed companies more frequently modifying and enhancing their executive compensation and governance practices, given increasing influence and input of shareholders (and proxy advisory firms). Shareholder communication has also been enhanced, including the proxy statement.

During the 2015 proxy season, we expect more companies to disclose realizable and/or realized pay, particularly if TSR or Say on Pay support are low, and enhance transparency and highlight best practices in executive compensation disclosure. The goal is for executive compensation programs to best support business strategy, while aligning with shareholder interests. Disclosure is an opportunity to highlight all the good work and thought that goes into the design of these programs and the related decision-making.



Please contact us at (212) 921-9350 if you have any questions about the issues discussed above or would like to discuss your own executive compensation issues. You can access our website at [www.capartners.com](http://www.capartners.com) for more information on executive compensation.