

Engagement and Disclosure in the Period Following a Low Say on Pay Vote Result



Proxy advisors ISS and Glass Lewis consider vote support of less than 70 and 75 percent, respectively, on a say on pay proposal to be unfavorable. JP Morgan Asset Management has a threshold level of 60 percent. After such a result, the company is expected to engage with shareholders, discuss best practices, make changes to the executive compensation program and disclose this undertaking in the following year's proxy statement. The board's compensation committee is usually held accountable for effective communication and responsiveness, and if efforts fall short or compensation concerns are deemed to be recurring, these compensation committee directors could be the recipients of withhold votes for the year under review or at the next annual meeting.

Specifically, ISS says it will consider factors listed below on a case-by-case basis when evaluating ballot items on the board's responsiveness to investor input and engagement on compensation issues:



“ Failure to adequately respond to the company's previous say on pay proposal that received the support of less than 70 percent of votes cast, taking into account the company's response including: disclosure of engagement efforts with major institutional investors regarding the issues that contributed to the low level of support; specific actions taken to address the issues that contributed to the low level of support; other recent compensation actions taken by the company; whether the issues raised are recurring or isolated; whether the support level was less than 50 percent, which would warrant the highest degree of responsiveness. ”

JP Morgan Asset Management discloses in its proxy voting guidelines, “Where the company's Say on Pay proposal received 60% or less support on its previous Say on Pay proposal, WITHHOLD votes for the compensation committee and or vote against the current Say on Pay proposal, unless the company has demonstrated active engagement with shareholders to address the issue as well as the specific actions taken to address the low level of support.”

WE HAVE REVIEWED THE PROXY VOTING GUIDELINES OF SOME OF THE LARGEST INSTITUTIONAL SHAREHOLDERS AS LISTED BELOW and identified which have a specific threshold for a say on pay vote result, below which they expect the company to engage with shareholders. While many are silent on this topic, they will value the proxy advisor's recommendations.

INSTITUTIONAL SHAREHOLDER	THRESHOLD POLICY
Alliance Bernstein	Silent
Blackrock Advisors	Silent
BNY Mellon	Silent
Capital Research Group	Silent
Columbia Management Investment Advisors	Silent
Deutsche Investment Management	Silent
Dimensional Fund Advisors	70%
Fidelity	Silent
Franklin Advisors	Silent
Goldman Sachs Asset Management	70%
J.P. Morgan Asset Management	60%
Morgan Stanley Investment Management	Silent
Northern Trust	Silent
State Street Global Advisors	Silent
TIAA-CREF	Silent
Vanguard	Silent
Wellington Management	Silent
Wells Capital Management	Silent

Additionally, in the next year's proxy, ISS expects the company to acknowledge the low vote result, tell how many institutional shareholders they engaged with, tell what percentage of the total ownership base that was, and who engaged with shareholders on behalf of the company (ideally the compensation committee chair).

IPREO'S CORPORATE GOVERNANCE PLATFORM was designed to help specifically with this type of institutional shareholder engagement. It provides ownership information, proxy contacts and a CRM system to record the conversations. This makes it easy to gather and disclose results on the above topic. Additionally, the platform allows you to easily identify companies who had low vote support in 2015, and as their proxies are published in 2016, can see what they disclosed in their responses to low shareholder support.