

Study Reflects Key Trends in Governance and Executive Compensation Practices at the Largest Companies

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91% of big companies disclose the existence of anti-hedging policies and 66% mention anti-pledging policies, according to the [Meridian 2014 Governance and Design Survey](#), which examined the 250 largest public companies by revenue and market capitalization. Anti-pledging policies generally prohibit all pledging of company shares, although 18% allow some pledging with approval by the board or management.

Other notable governance structure developments include:

- *Majority voting and classified boards.* 89% use majority voting standards for director elections, but only 79% of those companies accompany that with mandatory resignation policies. While there has been a movement toward annual elections, 21% continue to have a classified board.
- *Chairman and CEO roles.* Slightly less than half disclose a mandatory retirement age for directors, with age 72 being most prevalent (63%) followed by age 75 (20%). Roughly the same number of companies, 46%, have separate CEO and chairman roles. 32% of those boards are led by prior CEOs.

Executive compensation disclosure at these companies reflect much-discussed emerging practices:

- *Proxy summaries.* Not surprisingly, an overwhelming number of companies (94%) provide an executive summary of the CD&A. A new trend adopted by 42% is to also include a proxy summary, placed at the front of the proxy statement to highlight key information.
- *Clawback.* 86% disclose clawback policies, with wide variations as to trigger events. For example, 34% of these policies are triggered by ethical misconduct leading to a financial restatement, while 21% are triggered by any financial restatement. Interestingly, while a little more than half of the companies cover only current executives, 22% of the policies apply to all incentive plan participants.
- *Pay for performance.* While 83% discuss absolute performance, only 38% disclose their performance relative to either an industry index or the company's chosen peer group. Although discussed a great deal, alternative pay disclosures have not been widely accepted. Only 23% provide this additional information, and when they do, 37% of those companies use realizable pay as the preferred approach compared to 33% disclosing realized pay.
- *Stock ownership guidelines.* As expected, nearly all have these guidelines, and the use of a multiple of salary is the most common formulation, on average at 5.8x for the CEO. Most guidelines do not count unvested deferred shares, options, or unearned performance shares, but include unvested restricted stock. 15% of companies require executives to retain a specified percentage until retirement (so-called "hold till retirement").
- *Peer groups.* 12 to 20 companies may be included in the custom benchmarking peer group that 60% of companies disclose, with the average at 19 companies listed. 11% of companies use two peer groups.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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