

Investors' Views on Effective Proxy Statement Disclosures

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More than half of the 64 investors who responded to a [survey](#) conducted by the Stanford Rock Center for Corporate Governance, RR Donnelley and Equilar between September and December 2014, complained that proxy statements are too long.

80% of those who responded believe proxy voting increases shareholder value, but since 26% hold more than 3,000 publicly traded U.S. stocks and 71% have engaged with about a quarter of those companies in the last year, it is not surprising that investors' ideal length for proxy statements would be 25 pages, which is a far cry from the average of 80 pages among Russell 3000 companies. This also results in investors saying that they typically only read about 30% of an entire proxy statement.

Below are some interesting highlights from the survey about the sections investors focus on, examples of proxy statements that investors like, and continuing evidence that they're reading them online more often:

The 3 items investors are most likely to read first: the summary section of the proxy (if included), summary compensation table, CD&A disclosure and a description of the director nominees' skills and qualifications.

Top 5 things investors read to make voting decisions: pay for performance alignment, director independence, performance metrics, description of director nominees and corporate governance profile (including shareholder rights and anti-takeover measures).

Proxy statements cited by more than one investor as being particularly good: Pfizer (governance summary; compensation and metrics; meeting items); Apple (compensation; information about employee contribution to the company; Coca-Cola Company (director qualifications and value add to the board; compensation); and ExxonMobil (disclosure of compensation practices and framework).

Who makes the voting decisions: a typical portfolio manager is involved in 20% of voting decisions (only 10% at the largest investors), although 68% help establish proxy voting guidelines for their firms.

How they read it: Only a quarter read a hard copy of the proxy received by mail. 40% access proxy statements through a proxy adviser voting platform, 32% use the SEC website and 26% look at it on the company's website.

Most satisfied with these disclosures: director nominee descriptions and qualifications, director independence and shareholder proposals.

Area in need of improvement: Only 38% believe corporate disclosure about executive compensation is clear and easy to understand. 48% believe it's not at all clear that the size of the compensation is appropriate, or whether performance-based compensation plans are based on rigorous goals. 39% cannot determine whether the structure is appropriate, and cannot understand the relation between compensation and performance.

Wish list to make proxy statements easier for investors: plain English, list of significant changes from prior year, proxy summary at the beginning, section headings, and detailed table of contents.

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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