# McLagan Presents
## Preparing for the Proxy Season

No bank wants to find itself with negative say-on-pay or compensation committee election results. Not only is it difficult to emerge from enhanced scrutiny, but if mitigating actions are not taken fast, the devastating impact on your firm can be lasting.

It is crucial to know your business's fact pattern and potential exposure to groups such as ISS and Glass Lewis. Understanding pay-for-performance modeling, the causes of problematic pay practices, and how to engage with shareholders are just some of the top "to-do" items for the 2019 proxy season.

And…before all else, familiarizing yourself with key policy changes for the upcoming year is imperative for proxy season success.

## 2019 policy changes—what's new for ISS and Glass Lewis?




### ISS

- EVA as informational secondary metric in pay-for-performance, but not impactful
- Delaying NED compensation policy for 2020 proxy season or beyond
- Lack of female directors noted, but not impactful before 2020
- Deal-breaker dilution thresholds for stock plan proposals (20% S&P 500 and 25% Russell 3000)
- CIC input scoring clarification
- Codification of director attendance considerations

### Glass Lewis

- Codification of front-loaded grants approach
- Review of new contracts for excise tax gross-ups (immediately impacts compensation committee members, too)
- Review of new contracts for excessive severance and egregious provisions
- Lack of female directors impactful in 2019

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# Your 2019 proxy season checklist

### Be transparent:

It's all about effective communication. Use timelines and charts to help disclose your incentive goal-setting process and final payout determinations. Transparency is critical—especially when your firm is underperforming relative to industry peers.

### Provide sufficient rationales:

Be a storyteller. If your annual or long-term incentive goals are lower relative to last year, or your payouts are above target, offer ISS appropriate context for the cause. Justifying incentive pay decisions is critical to pass a qualitative assessment. It's always better to include as many details as possible and don't ever exclude terms that are perceived as being within management's control, such as litigation and business losses.

### Measure engagement:

Stay constantly engaged with shareholders, even during off-season. This is especially true if say-on-pay results are declining or if companies are below the formal ISS and Glass Lewis voting results thresholds (70% and 80%, respectively).

### Reevaluate time-based versus performance-based awards:

Time-based stock options do not count as being performance-based. ISS wants to see at least 50% of LTI as performance-based, while Glass Lewis is requesting 33%. Regardless, maintaining a minimum threshold of at least 50% for performance-based awards helps decrease risk. Since this is not guaranteed compensation, firms can easily mitigate the effects of poor scoring upon a negative pay-for-performance review.

### Keep your eye on stock price:

While investors are willing to give companies the benefit of the doubt regarding non-Total Shareholder Return (TSR) based metrics in the short-term, there is an expectation that both short and long-term final payouts will be properly adjusted if there is sustained TSR underperformance.

### Increase focus on non-employee director compensation:

This is a new red flag item due to the number of plaintiffs lawsuits increasing every year.

### Learn from the past:

As the saying goes, you often learn from past mistakes. Gain insights from last year's drivers of negative proxy advisory firm recommendations and update accordingly. What were the perceived quantitative and qualitative disconnects triggering low scores from ISS and Glass Lewis?

## We are here to help you navigate the impact of regulatory decisions

We are trusted advisors to boards and compensation committees, providing direction in benchmarking pay and performance for strategic compensation programs that align to business strategies. We support boards in corporate governance, regulatory compliance, and risk protection policies. To learn more about how we can partner with your firm, please email info@mclagan.com.

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