EQUILAR

December 2023

Corporate Governance Outlook 2024

An Equilar Publication

Featuring Commentary From

DFIN

Table of Contents

1100 Marshall Street, Redwood City, CA 94063
121 W Wacker Drive, Suite #1805, Chicago, IL 60601
1120 Avenue of the Americas, Suite #4045, New York, NY 10036

Phone: (650) 241-6600 | **Fax:** (650) 701-0993 | **E-mail:** info@equilar.com
www.equilar.com

Editor-in-Chief
Amit Batish

Contributing Author
Joyce Chen

Data and Analysis
MaryClare Colombo
Erin Le
Weige Wu
Heidee Xiong

Design and Layout
Aileen Pan
Danny Shin

Executive Summary

The looming question facing the corporate governance world heading into 2023 was how companies would fare in light of new Pay Versus Performance (PvP) disclosure rules set forth by the United States Securities and Exchange Commission (SEC) in August 2022. While the process added a layer of complexity to executive compensation and required a quick learning curve, companies made it across the finish line. Going into 2024, compliance with PvP rules is expected to be less stressful; however, companies are anticipated to continue refining their practices to better align executive compensation with financial performance. Ongoing regulatory guidance from the SEC may further shape how companies interpret and comply with the rules, while potential adjustments to compensation structures and addressing challenges related to data complexity could be focal points for navigating in the future.

While PvP disclosure data did not have a direct impact on investor voting decisions in 2023, it is something to keep an eye on in 2024. Nevertheless, 42% of Equilar 500 companies received Say on Pay approval rates between 90% to 95%, and 30.5% secured over 95% approval in 2023. Despite the percentage increasing for the first time since 2019, companies should continue to be aware of evolving expectations and proactively engage with shareholders to foster more pronounced advancements in aligning executive pay with performance in the future.

Ultimately, executive compensation is just a piece of the puzzle. Governance practitioners should plan to focus their attention on a host of separate topics as the calendar flips to January 2024. This publication analyzes pressing trends in corporate governance over the last five years. DFIN offers independent commentary on how to effectively address these issues with investors and other stakeholders.

A Look Back at Disclosure Trends in 2023

Over the last five years, companies across Corporate America have made a concerted effort to interact with shareholders on numerous governance issues. Consequently, 93% of Equilar 100 companies discussed their shareholder engagement efforts through disclosure in 2023—with 86% featuring detailed disclosures—representing an 11.4% increase since 2019. This trend may indicate a growing recognition of the pivotal role that shareholder engagement plays in building long-term relationships and aligning corporate strategies with investor expectations.

Separately, in many ways, a company's board of directors serves as the backbone for good governance. The performance of the board is crucial for any public company, and accountability is key for shareholders. Board evaluation disclosures serve as a valuable tool, offering companies the opportunities to showcase the effectiveness of their boards in fulfilling their duties. By leveraging this, companies can not only highlight areas of strength but also demonstrate a proactive commitment to governance and a dedication to continuous improvement. Among Equilar 100 companies, those providing comprehensive disclosure on their board evaluation achieved a study-high of 81% in 2023, demonstrating a notable increase of 19.1% from 68% in 2019.

Perhaps the most discussed governance topics in recent years are those that fall under the environmental, social and governance (ESG) category. ESG is no longer just a buzzword, and conversations around these topics continue to grow louder as investors pay closer attention to the response from companies. Among the Equilar 100, 97% of companies discussed their ESG initiatives to some degree in 2023, with 59% of companies opting for full disclosure. It is worth noting that the disclosure percentage for ESG falls slightly below the prevalence of shareholder engagement and board evaluation disclosures. This discrepancy could stem from companies strategically prioritizing disclosures that have a more immediate impact on their financial performance or market perception, particularly if there is a predominant short-term focus. ESG considerations, often linked with long-term sustainability, might consequently receive comparably less emphasis in some cases.

Growing investor interest around ESG is evidenced by the rise in shareholder proposals on these issues. Since 2019, the prevalence of shareholder proposals focused on social and environmental concerns has more than doubled at Equilar 500 companies, reaching 312 in 2023. There is no question shareholders are leveraging their power to advocate for companies to prioritize and proactively address environmental and social considerations, a trend worth watching in the year to come.

Monitoring Diversity at the Board Level

Despite the concerted push for gender diversity, especially at the corporate leadership level, Equilar data reflects a potential resistance to change, even a step back from progress. The appointment of new female Russell 3000 directors experienced a decrease of 11.2% since Q1 of 2023, dropping from 41.1% to 36.5%. The historical male dominance in the business world is a well-known challenge, and achieving gender parity on boards remains an ongoing struggle. The limited pipeline for female executive talent exacerbates the issue, resulting in fewer opportunities for women to secure board positions. To address this disparity, public awareness, shareholder activism and regulatory interventions can play pivotal roles in encouraging organizations to actively tackle gender imbalances in board appointments. The data underscores the need for continued efforts and intentional strategies to create more inclusive and diverse corporate leadership going into 2024.

Methodology

Corporate Governance Outlook 2024, an Equilar publication, analyzes the proxy statements and shareholder voting results for Equilar 500 companies from 2019 to 2023. The Equilar 500 tracks the 500 largest, by reported revenue, U.S.-headquartered companies trading on one of the major U.S. stock exchanges (Nasdaq, NYSE or NYSE American). The Equilar 100, a subset of the largest revenue reporting companies in the Equilar 500, was manually reviewed for specific examples of disclosure in targeted areas. Year one (2023) was defined as companies with a fiscal year ending from June 1, 2022 to May 31, 2023, and previous years were defined similarly. The narrative portion of this report examines the most pressing issues in corporate governance and executive compensation, as well as trends in disclosure practices. DFIN offers independent commentary on what to expect in 2024 and how to prepare for the shifting governance landscape.

Key Findings

113.7%

Increase in social and environmental shareholder proposals at Equilar 500 companies since 2019

81%

Of Equilar 100 companies featured detailed board evaluation disclosures, a near 20% increase since 2019

97%

Of Equilar 500 companies discussed their ESG efforts to some degree in 2023, up from 39.6% in 2019

Income

Was the most commonly company-selected measure found in first-year Pay Versus Performance disclosures, employed by 63.1% of Equilar 500 companies

Beyond the Numbers | DFIN

A Q&A With Ron Schneider, Director of Corporate Governance Services at DFIN

To provide additional insights on the trends uncovered in *Corporate Governance Outlook 2024*, Equilar sat down with Ron Schneider, Director of Corporate Governance Services at DFIN. Schneider provided insight into the most pressing issues companies should prepare for heading into 2024. Below is a snapshot of the conversation. The full conversation with Schneider can be found at the end of this publication.

Equilar: What are some general tips or advice you would provide companies heading into 2024 as they prepare for the year's pressing governance challenges? How do companies ensure they are not overlooking any new or critical topics?

Ron Schneider: As we plan for 2024 investor engagement, disclosure and the annual proxy season, companies must be equally cognizant of recent and pending regulatory changes (from the SEC and also EU, California and other jurisdictions that will impact many companies), as well as evolving investor areas of focus.

Keep in mind that investor interests—including in annual proxy disclosure—are NOT limited to or bounded by SEC disclosure requirements. Add to this the recent efforts to politicize ESG and human capital initiatives, and the ever-present challenges in balancing the interests of a range of stakeholders, amid what likely will be a noisy election season—and it's literally a minefield that companies must navigate.

Given this turbulent environment, some tried and true practices can heighten company awareness of the issues and challenges, as well as of emerging best practices including in disclosure. These include:

- Consume the thought leadership programming of leading legal, investor, compensation, governance and other advisory firms—decide which issues are most relevant for your company.
- Engage with your investors outside of proxy season, which will give you time to digest, consider and act on their input. Consider attending the biannual Council of Institutional Investors (CII) conferences, where you can hear from and interact in person with your major investors.
- Cultivate your own trusted "peer network" of industry colleagues who may be facing the same challenges as you and may share some approaches or insights you can consider. Attending professional associations, conferences and other events is a great way to meet and develop your network.
- Tap into your board and its members' wealth of knowledge, experience and perspectives.

Next, armed with this information, instead of "marking up" last year's proxy, do some re-imagining of what it should look like (content and design). As part of this, review your peer company practices and disclosures, as well as those of the "governance leader" companies (including finalists/winners at the annual Corporate Governance and Investor Relations awards competitions).

Between the investor engagement, and your peer review, identify the informational gaps you can best fill. Then make sure your next proxy helps to tell your company's best stories around:

- Strategy and performance
- Board competencies, diversity, refreshment and oversight
- Executive compensation and its alignment with the business strategy
- Identified ESG risks and opportunities and operationalization to capitalize upon these

Doing so effectively will require a collaborative, cross-functional approach. "Legal, meet IR, HR and sustainability" (and vice versa)!

Equilar: Shareholder engagement disclosures have continually risen in prevalence over the years, and engagement will certainly continue to be a point of emphasis in 2024. How can companies maximize their efforts through engagement opportunities?

Schneider: Companies have been proactively engaging with their major investors on governance and executive compensation for years, with ESG recently becoming the "third leg" of this engagement stool. Yet only a decade ago, few "took credit" for this best practice by discussing it in proxies and other vehicles. What has occurred over the past decade, is the gap between "engagers" and "those that discuss engagement" has been narrowing.

In order to effectively discuss your engagement, you first must have a robust engagement program—and results—to discuss. As noted above, engagement can occur by phone, video meeting or in person, and is most actionable when it occurs prior to finalizing annual proxy disclosures.

Tips for effective engagement include:

- Do your pre-engagement research including reviewing the investors' websites to see what they disclose about voting policies or trends, and their preferred means of engagement. Your proxy solicitor and IR agency can be very helpful here as well. Investors get their backs up when asked questions they already publicly disclosed the answers to.
- Have the right, knowledgeable team at your end. On the management side, a combination of legal, IR/finance, HR/benefits and sustainability should be able to cover most topics that may arise. Consider also including relevant board members, depending on the anticipated topics to be discussed.
- Send the investors a proposed agenda in advance of the meeting or call, so they can be prepared. You may want to talk about your recent Say on Pay vote, yet the investor may want to talk about your classified board or latest strategies. Better you learn this before than during the call, which helps both sides to be prepared and have the right people on the call.
- Share the engagement feedback with the board, C-suite, affected line executives and outside advisors.
- Collectively decide which feedback and topics you wish to address, whether through changes to past practices or sharpened disclosure informed by the feedback.
- Gain maximum credit for "engagement responsiveness" by listing in tabular format, the investor feedback and any subsequent actions you took in response (e.g., three columns, "we spoke, we listened, we acted").

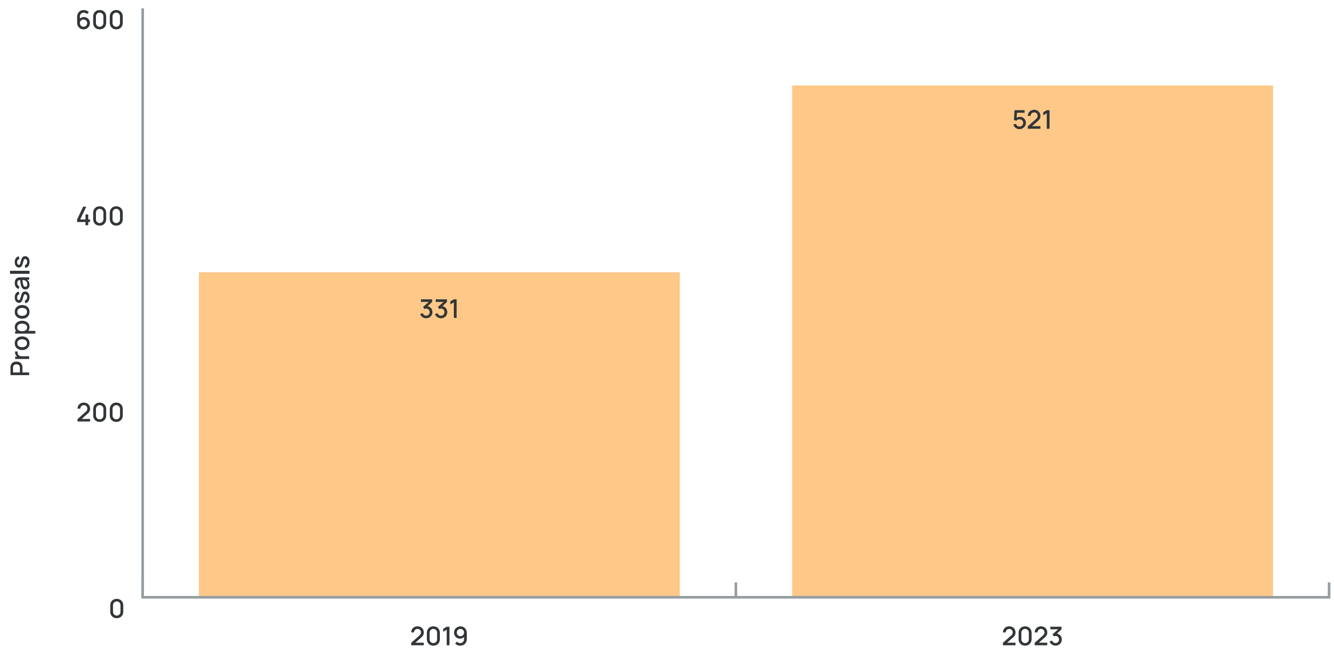
Read More From DFIN

Key Governance Expectations in 2024

on page 22 of this report.

Fig. 01

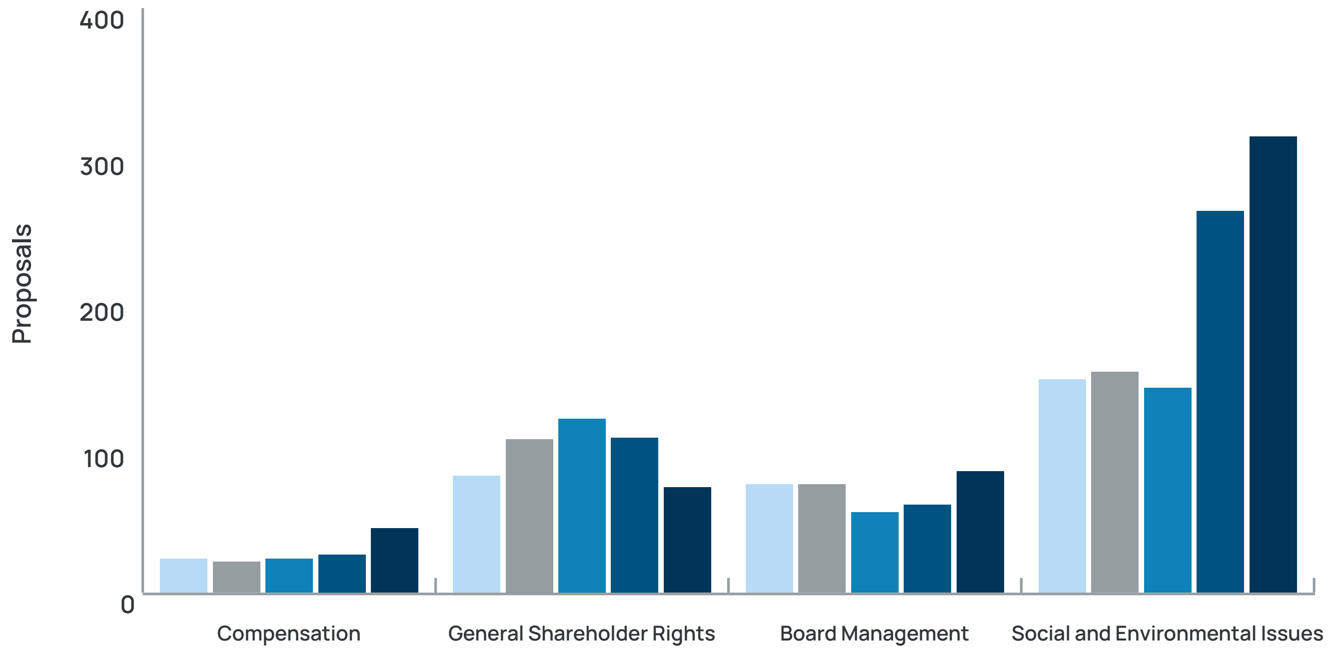
Shareholder Proposals (Equilar 500)



1. The frequency of shareholder proposals experienced a notable 57.4% upswing over the study period, escalating from 331 in 2019 to 521 in 2023 (Fig. 1)

Fig. 02

Shareholder Proposals by Type (Equilar 500)

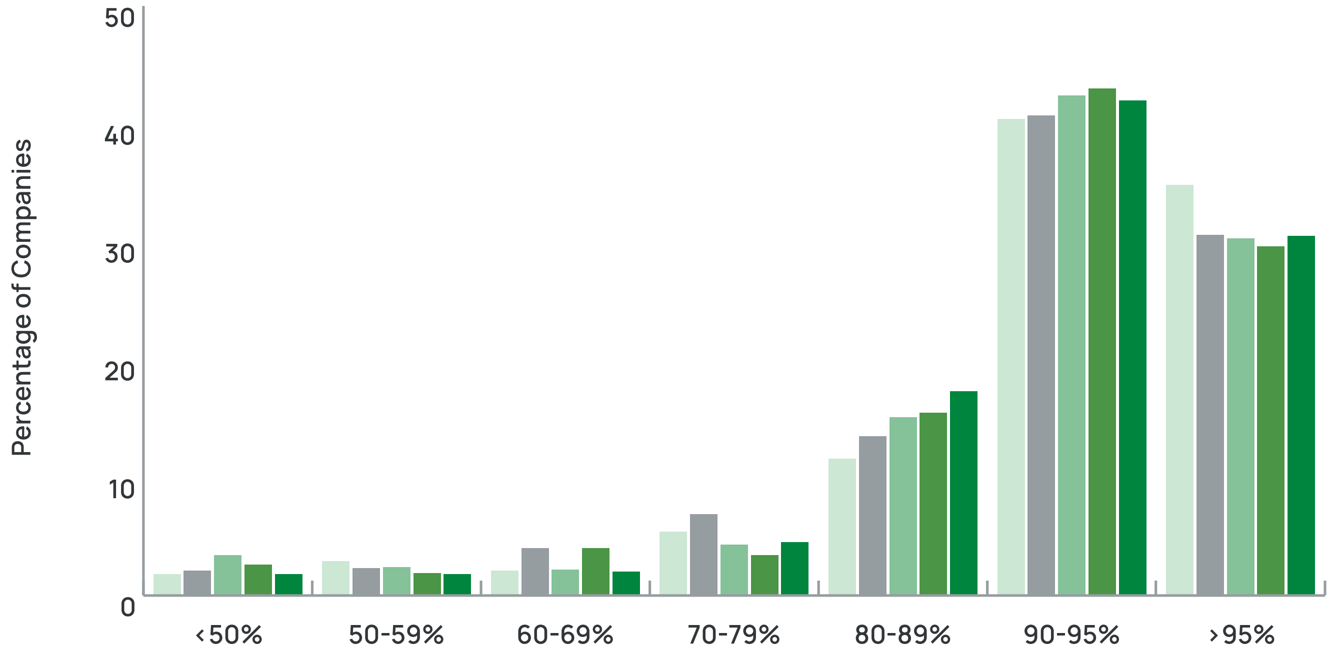


	Compensation	General Shareholder Rights	Board Management	Social and Environmental Issues
2019	23	80	74	146
2020	21	105	74	151
2021	23	119	55	140
2022	26	106	60	261
2023	44	72	83	312

1. Social- and environmental-related shareholder proposals remained the most common in 2023, more than doubling from 146 to 312 during the study period (Fig. 2)
2. Despite consistently representing the smallest proportion of shareholder proposals each year, compensation-related shareholder proposals witnessed a notable 69.2% increase in 2023 (Fig. 2)
3. The number of proposals concentrated on general shareholder rights continued its downward trend, declining 32.1% to 72 in 2023—the lowest of the study period (Fig. 2)
4. Board management-related proposals emerged as the second-most common proposal type in 2023, experiencing a 12.2% increase from 2019 to 2023 (Fig. 2)

Fig. 03

Say on Pay Voting Trends (Equilar 500)



	<50%	50-59%	60-69%	70-79%	80-89%	90-95%	>95%
2019	1.8%	2.9%	3.1%	5.4%	11.6%	40.4%	34.8%
2020	2.1%	2.3%	4.0%	6.9%	13.5%	40.7%	30.6%
2021	3.4%	2.4%	2.2%	4.3%	15.1%	42.4%	30.3%
2022	2.6%	1.9%	4.0%	3.4%	15.5%	43.0%	29.6%
2023	1.8%	1.8%	2.0%	4.5%	17.3%	42.0%	30.5%

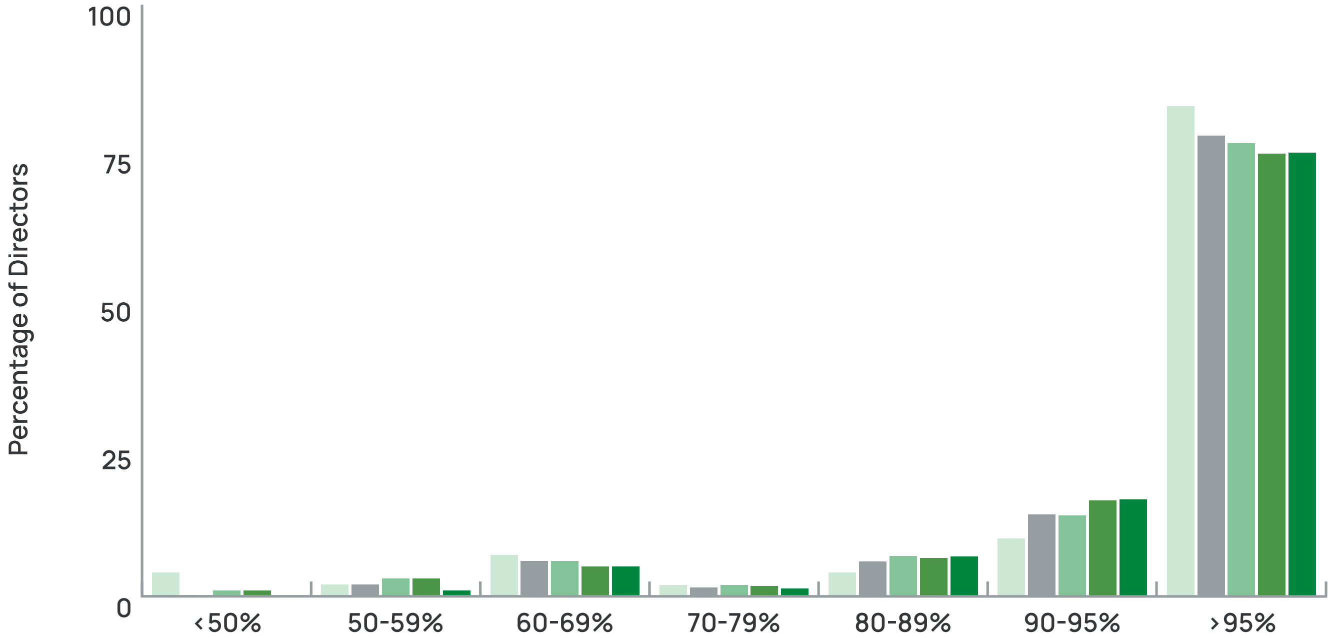
1. There was a slight increase in the percentage of Equilar 500 companies passing Say on Pay with over 95% approval, rising by 3% from 29.6% in 2022 to 30.5% in 2023 (Fig. 3)

2. The percentage of companies receiving 90-95% Say on Pay support decreased in 2023, dropping by 2.3% compared to 2022 (Fig. 3)

3. In 2023, 5.6% of Equilar 500 companies received approval levels below 70% (Fig. 3)

Fig. 04

Director Approval (Equilar 500)



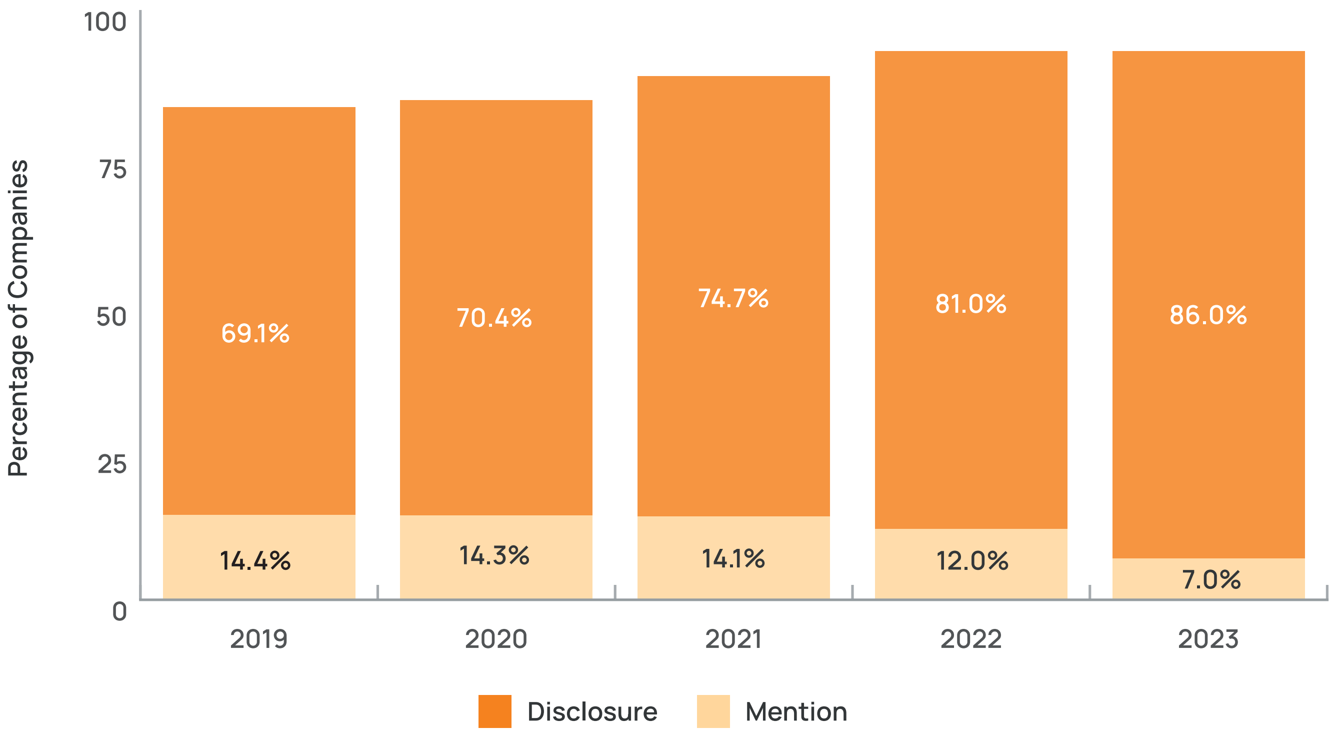
	<50%	50-59%	60-69%	70-79%	80-89%	90-95%	>95%
2019	0.4%	0.2%	0.7%	1.9%	4.1%	9.8%	82.9%
2020	0.0%	0.2%	0.6%	1.5%	5.9%	13.8%	77.9%
2021	0.1%	0.3%	0.6%	1.9%	6.8%	13.7%	76.6%
2022	0.1%	0.3%	0.5%	1.7%	6.5%	16.2%	74.8%
2023	0.0%	0.1%	0.5%	1.3%	6.7%	16.4%	75.0%

1. For the first time in the study period, there was an increase in the percentage of Equilar 500 directors receiving over 95% approval, rising by 0.3% from 74.8% in 2022 to 75% in 2023 (Fig. 4)

2. In 2023, 0.6% of directors received less than 70% approval, marking a slight decrease from 0.9% in 2022 and 1% in 2021 (Fig. 4)

Fig. 05

Shareholder Engagement Disclosures (Equilar 100)



1. The percentage of Equilar 100 companies addressing their shareholder engagement efforts remained constant at 93% in 2023, showing no change from the previous year (Fig. 5)
2. Companies within the Equilar 100 that provided comprehensive disclosure on their shareholder engagement policies reached a study-high of 86% in 2023, marking a substantial increase of 24.5% from 69.1% in 2019 (Fig. 5)
3. The percentage of companies featuring only a mention of their policies hit its lowest point in the study period—dropping 51.4% since 2019—showcasing the urgency for more detailed disclosure (Fig. 5)

Disclosure Example | BANK OF AMERICA

Undoubtedly, shareholder engagement will be essential for good corporate governance practices in 2024. Bank of America does an exceptional job of disclosing the Company's shareholder engagement efforts, featuring the four core areas of their cycle.

Our Board-driven shareholder engagement process

Deliberate, assess, and prepare

Our Board **assesses and monitors:**

- investor sentiment
- shareholder voting results
- trends in governance, executive compensation, human capital management, regulatory, environmental, social, and other matters

Our Board **identifies and prioritizes** potential topics for shareholder engagement.

Outreach and engagement

Our Lead Independent Director and executive management regularly meet with shareholders to **actively solicit input** on a range of issues, and report shareholder views to our Board.

A **two-way dialogue is maintained** to clarify and deepen our Board's understanding of shareholder concerns, and provide shareholders with insight into our Board's processes.

In 2022 and early 2023, our management also **engaged with investors** at virtual conferences and other forums.

Respond

Our Board responds, as appropriate, through continued discussion with shareholders and enhancements to our policies, practices, and disclosures.

For more information on **governance enhancements** informed by shareholder input, please see page 37.

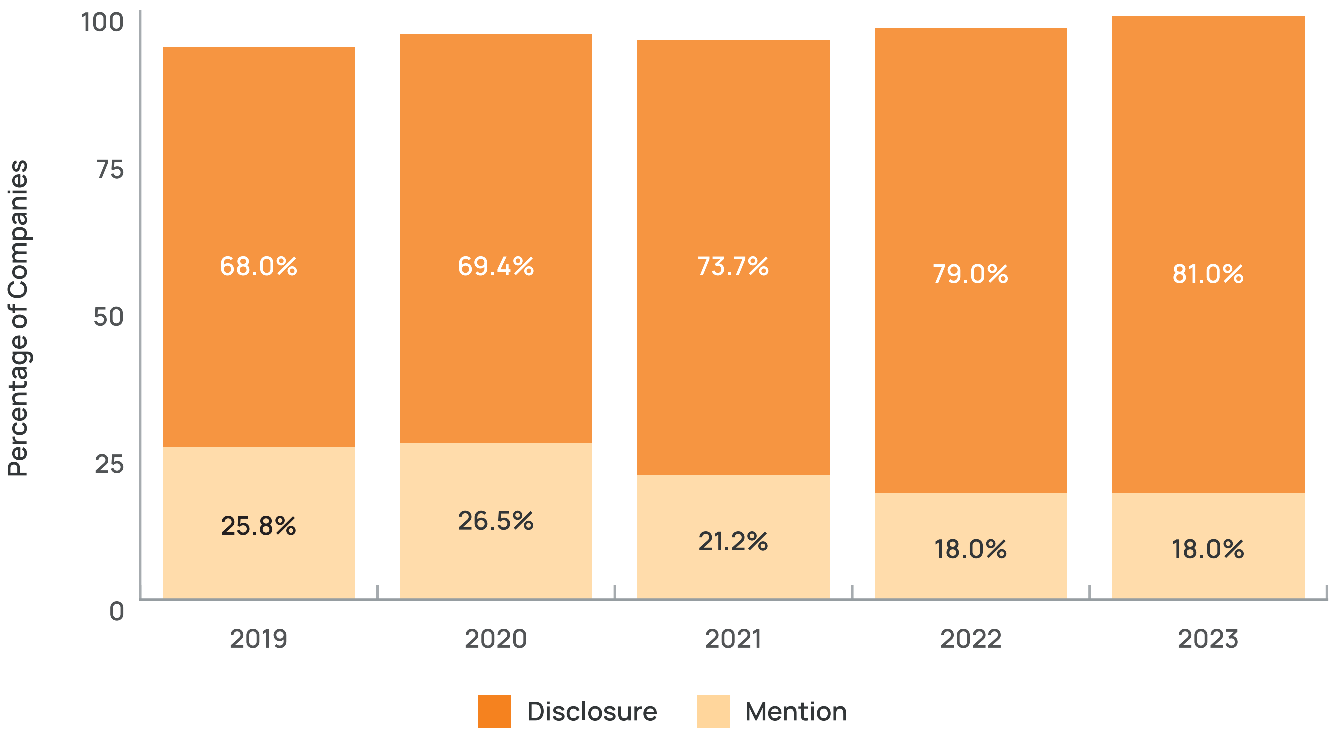
Evaluate

Shareholder input informs our Board's ongoing process of **continually enhancing governance** and other practices.

Our Board and executive management review shareholder input to **identify consistent themes**, and **research and evaluate** any identified issues or concerns.

Fig. 06

Board Evaluation Disclosures (Equilar 100)



1. The percentage of Equilar 100 companies addressing their board evaluation efforts reached 99% in 2023 (Fig. 6)

2. Among Equilar 100 companies, those providing comprehensive disclosure on their board evaluation achieved a study-high of 81% in 2023, demonstrating a notable increase of 19.1% from 68% in 2019 (Fig. 6)

3. The percentage of companies mentioning their board evaluation process remained constant at 18% in both 2022 and 2023 (Fig. 6)

Disclosure Example | AT&T

Board evaluation disclosures continue to become a more common practice among Equilar 100 companies. In this example, AT&T captures its evaluation process in an easy-to-follow four quadrant graph, highlighting the various stages along the way.

Annual Multi-Step Board Evaluations

Each year, the Governance and Policy Committee and the Chairman of the Board lead the Board through three evaluations: a Board self-evaluation, Committee self-evaluations, and peer evaluations. Through this process, Directors provide feedback, assess performance, and identify areas where improvement can be made. We believe this approach supports the Board's effectiveness and continuous improvement.

ONE-ON-ONE DIRECTOR PEER EVALUATIONS

Members discuss the performance of other members of the Board including their:

- Understanding of the business
- Meeting attendance
- Preparation and participation in Board activities
- Applicable skill set to current needs of the business

Responses are discussed with the individual Director if applicable.

ONGOING FEEDBACK

- Directors provide ongoing, real-time feedback outside of the evaluation process
- Lines of communication between our Directors and management are always open
- The Chairman and Committee Chair both have individual conversations with each member of the Board – providing further opportunity for dialogue and improvement
- Follow up – Results or feedback requiring additional consideration are addressed, where appropriate

COMMITTEE SELF-EVALUATIONS

Candid open discussion to review the following:

- Committee process and substance
- Committee effectiveness, structure, composition, and culture
- Overall Committee dynamics
- Committee Charter

BOARD SELF-EVALUATION SURVEY

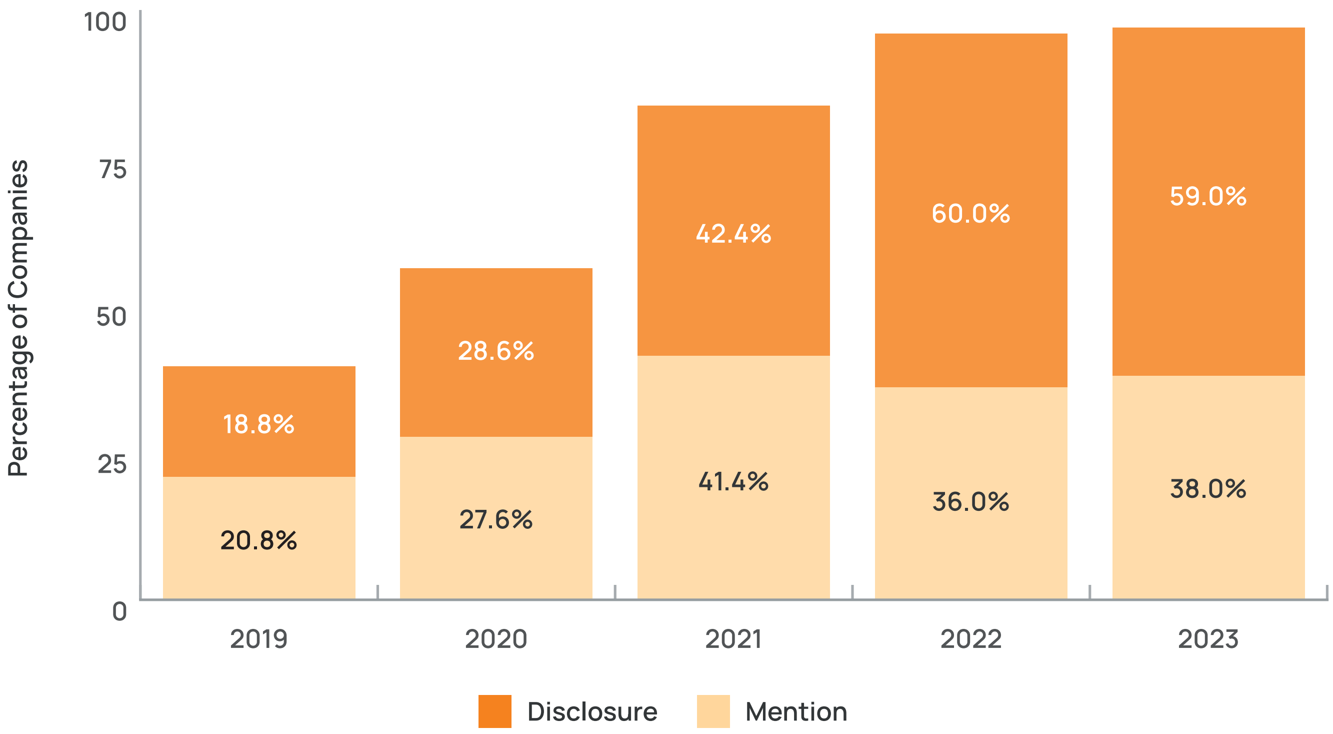
The self-evaluation survey (reviewed annually by the Governance and Policy Committee) addresses key topics such as those below, among other things:

- Process and substance
- Effectiveness, structure, composition, culture, and overall Board dynamics
- Performance in key areas
- Specific issues which should be discussed in the future

Responses are discussed and changes and improvements are implemented, if applicable.

Fig. 07

ESG Disclosures (Equilar 100)



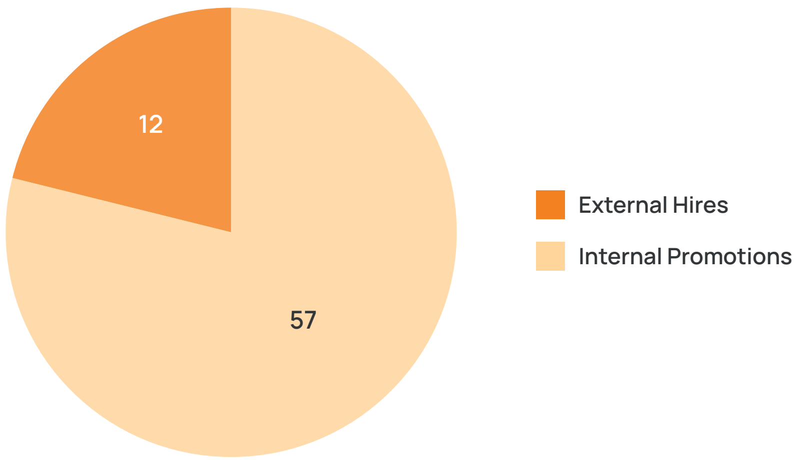
1. The percentage of Equilar 100 companies that discussed their ESG efforts increased to 97% in 2023 (Fig. 7)

2. Within the Equilar 100, 59% provided full disclosure on their ESG efforts in 2023, marking a small one percentage point reduction from the previous year (Fig. 7)

3. The percentage of companies mentioning their ESG policies experienced a modest increase from 36% in 2022 to 38% in 2023 (Fig. 7)

Fig. 08

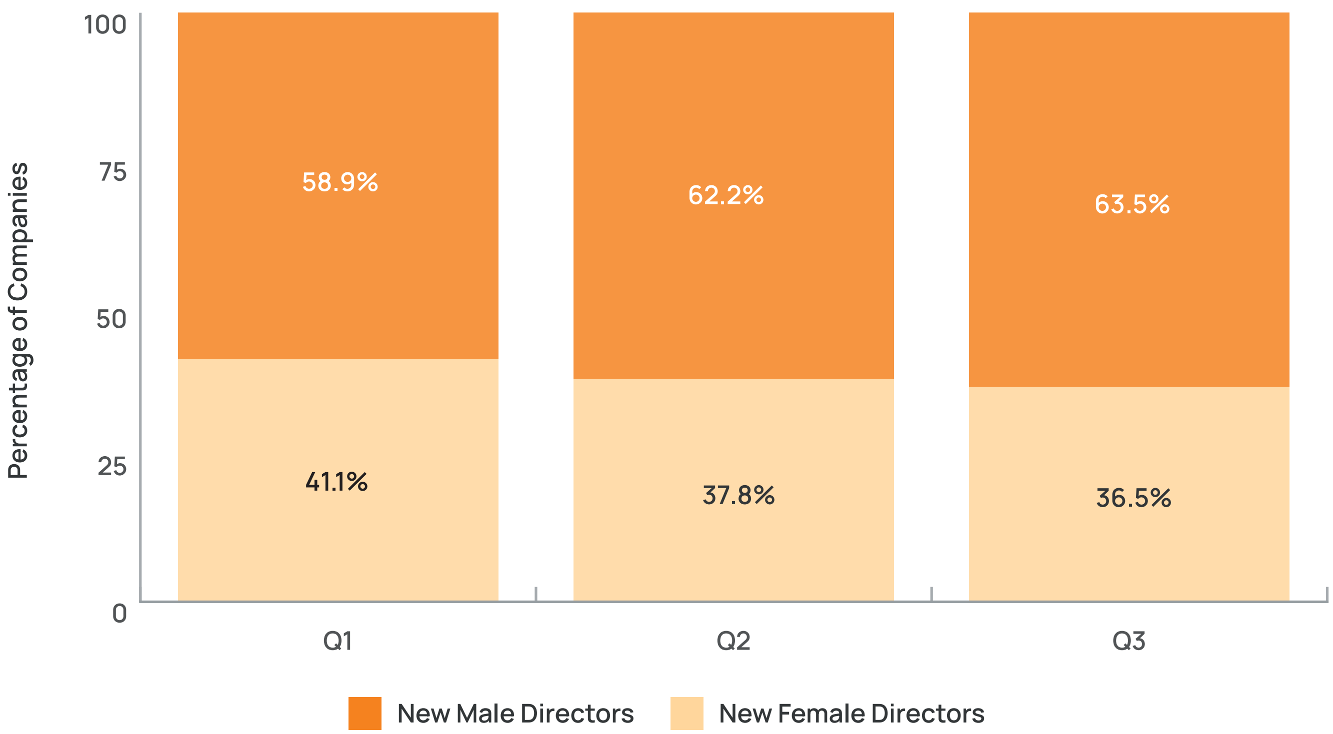
CEO Transitions (Equilar 500)



1. In 2023, the majority of CEOs (82.6%) were appointed through internal promotions, while 17.4% were hired through external recruitment (Fig. 8)

Fig. 09

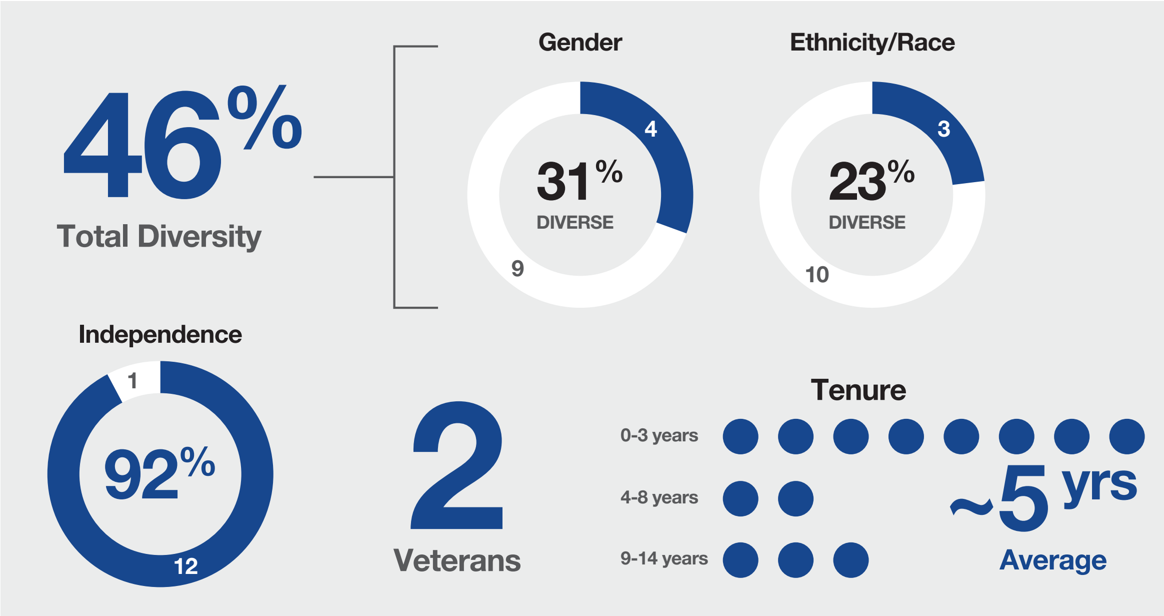
Board Appointments by Gender, 2023 (Russell 3000)



1. The appointment of new female directors experienced a decrease of 11.2% from Q1 to Q3 in 2023 (Fig. 9)
2. In 2023, the recruitment of new male directors saw a notable 7.8% increase from Q1 to Q3 (Fig. 9)

Disclosure Example

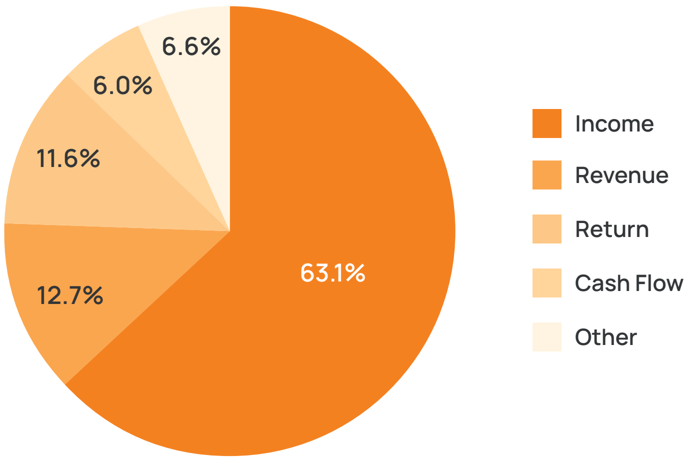
While momentum around board diversity has lost steam over the last year, companies continue to showcase the various composition elements of their boards of directors. The Boeing Company captures its board's composition in this visually appealing disclosure, highlighting statistics focused on diversity, tenure and more.



Data reflect 2023 director nominees

Fig. 10

Most Common Company-Selected Measure in PvP Disclosures, 2023 (Equilar 500)



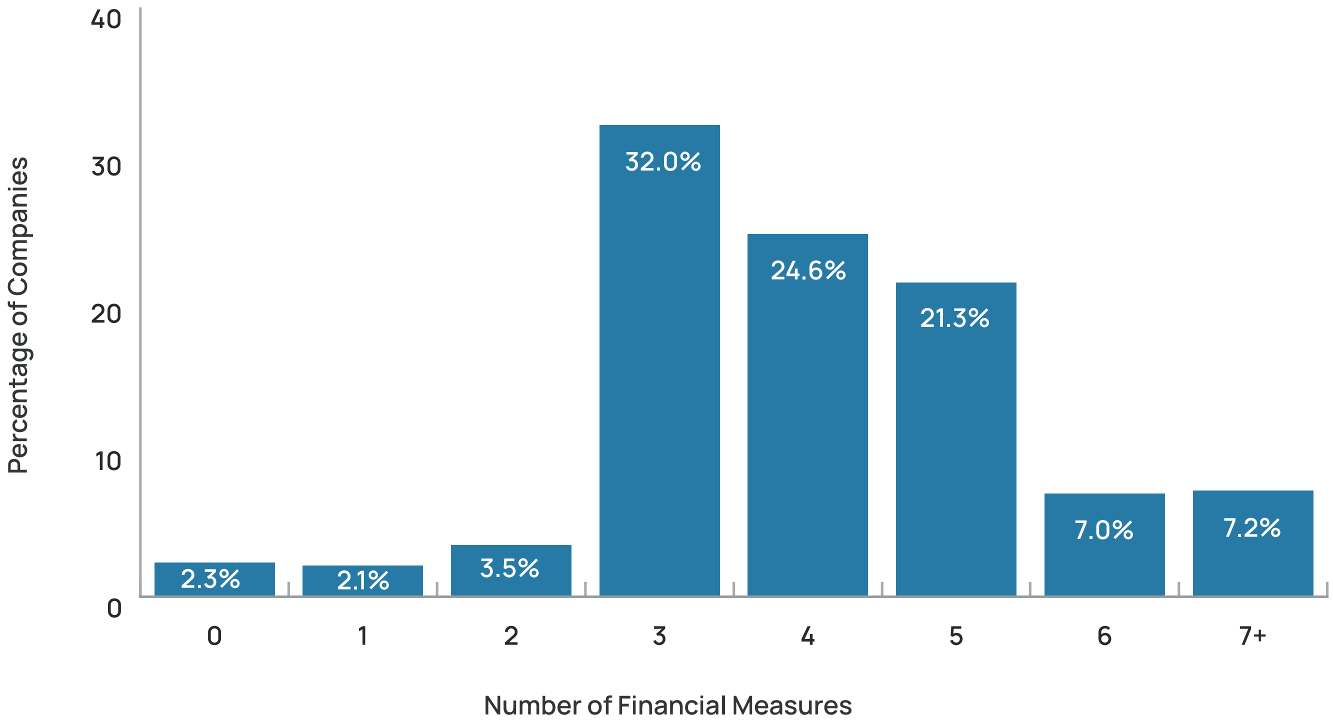
1. Income stands out as the predominant company-selected measure featured in PvP disclosures in 2023—employed by 63.1% of companies—surpassing the combined percentage of all other measures (Fig. 10)

2. Revenue and return emerge as the second- and third-most commonly chosen metrics, accounting for 12.7% and 11.6% of companies, respectively (Fig. 10)

3. The remaining portion of metrics, comprising cash flow and other company-selected measures, make up 6.6% and 6% of the total, respectively (Fig. 10)

Fig. 11

Number of Financial Measures in PvP Disclosures, 2023 (Equilar 500)



1. The prevalent choice among Equilar 500 companies was employing three financial measures in PvP disclosures, with 32% of companies adopting this approach (Fig. 11)

2. Overall, the majority of companies (77.9%) elected to disclose three to five financial measures (Fig. 11)

3. Notably, 7.2% of companies elected to disclose seven or more financial measures (Fig. 11)

A Deep Dive | DFIN

Key Governance Expectations in 2024

A Q&A with Ron Schneider, Director of Corporate Governance Services at DFIN

Equilar: The prevalence of shareholder proposals at Equilar 500 companies has jumped nearly 60% since 2019, with social and environmental proposals more than doubling in that time span. What do you believe is driving these trends?

Ron Schneider: Filing of shareholder-sponsored proposals is a long-utilized arrow in the quiver of investors seeking to engage companies on issues and to effect change. Relatively cost-effective, they require the investor to own more than $2,000 in stock or 1% of the company, and there is no actual filing fee. They are often filed after more traditional engagement efforts are either rebuffed or appear ineffective, raising the temperature a bit. Though typically "non-binding" (unless crafted as amendments to by-laws), they are not non-consequential as "passing" shareholder proposals, if not subsequently acted upon by the company, raise the ire of proxy advisors and can result in recommendations to "vote against" (or "withhold") from directors the following year.

Beginning in the 1980s, these proposals primarily focused on governance issues including rolling back anti-takeover (alternatively referred to as "shareholder protective") practices, such as declassifying staggered boards, separating the board chair and CEO positions, eliminating supermajority vote requirements, adopting majority rather than plurality board election standards, and giving shareholders the right to act at special meetings or by consent in lieu of a meeting. Over time, most larger companies abandoned these practices, and proponents aimed their sights at mid- and small-cap companies.

During this time, "social" proposals sponsored by smaller, "socially responsible" investors typically failed to gain much traction in terms of voting support. That changed as the intensifying impact of climate change caused larger, mainstream investors to draw a direct line between climate risk and financial risk, and they began to embrace a range of environmental and social proposals they previously had not. Along with this enhanced voting support, the SEC recently began allowing shareholder proposals with more detailed, prescriptive language about climate including emissions, risk and target-setting.

For these reasons, the shift in prevalence from traditional "governance" to environmental and social proposals is a very natural occurrence as more investors embrace shareholder proposals as a useful tool in their shareholder engagement (now termed "investment stewardship") toolkit. Companies seeking to avoid these proposals may have some success by embracing shareholder engagement, but perceived stonewalling will ultimately result in renewed proxy proposals.

Equilar: As seen in the study results, board evaluation disclosures continue to be more and more common, with 81% of Equilar 500 companies including one in 2023. How critical is it to address this topic through disclosure in today's Corporate America?

Schneider: Boards occupy a critical role in the oversight and success of companies. In the "governance triangle," shareholders "own" the company, directors are their elected representatives and management "runs" the company, subject to board oversight and continuing support.

The range of issues boards are tasked with overseeing continues to expand, with the ascendance of environmental (e.g., climate impact) and social (e.g., human capital) concerns, increasing cybersecurity challenges, the promise or threat of AI, and other emerging challenges.

The greater complexity and demands of board service makes it no longer an "honorific" lifetime appointment. While qualities like strong character and insightful judgment are still "table stakes" for board service, greater experience and technical expertise in an expanding list of areas is required.

Add to that increasing calls for greater board diversity (including gender, age, race/ethnicity, geographic background) and for regular refreshment to keep boards armed with emerging skills and competencies, causing board composition to become more dynamic.

One way to measure and guide this dynamism is regular evaluation of a) current director performance and contributions, and of b) new competencies required to guide the company through emerging challenges. Then there is the challenge of finding these new and increasingly diverse directors. Here, companies are "casting a wider net" in their director recruitment efforts.

Adding urgency to these efforts is the ever-present specter of activism and the market for corporate control. If companies and their boards aren't seen as taking sufficient action and constantly preparing for the future, others are willing to step in and impose change from the outside.

As companies either maintain or ramp up effective board evaluation and recruitment efforts that either yield (or are intended to result in future) refreshment and diversity, they want current and potential investors and other audiences to appreciate the significance and efficacy of their efforts in these areas, which requires publicizing them. As with many board "processes" such as oversight of risk and ESG, increasingly we are seeing traditional narrative descriptions of these processes being supplemented or replaced by visual, process flow depictions, often including the "outcome" from following these processes, such as "by following this process, over the past W years, we have added X new directors, yielding Y additional diversity and Z critical new skills."

Equilar: As we enter year two of PvP requirements, what elements of the PvP disclosure do you believe might be different from year one? What is the biggest lesson learned from first-year disclosures?

Schneider: Last year's proxy season was notable for the very short time companies had to comply with finalized SEC Pay Versus Performance (PvP) rules. Originally part of the Dodd–Frank Wall Street Reform and Consumer Protection Act (Dodd–Frank) law enacted on July 21, 2010, the rule was first proposed by the SEC in April 2015 but not finalized until August 25, 2022, requiring companies to include the new disclosures in their spring 2023 proxies.

This entailed rapid education on the topic. To comply, companies first had to make decisions about their most important performance measures and the appropriate comparison peer group. Then, arriving at the data required multiple, even hundreds of calculations depending on the number and type of equity vehicles employed. And then, decisions about where to locate the information (with most companies placing them outside of the CD&A, among traditional compensation tables, usually adjacent to their pay ratio disclosure). Most also used two to four graphs to illuminate relationships among the data.

Also significant was the fact that PvP was the first element of "structured data" proxy disclosure requiring iXBRL data tagging (and likely won't be the last). This required legal teams to confer with their financial reporting colleagues who had more pre-existing experience with such data tagging.

Most companies report their goal in year-one PvP was simply to "comply" and get across the finish line in time, which most did. With this intense learning curve under their belts, subsequent compliance should be less stressful.

Investors (and their proxy advisors) appear to have "taken a look" but last year we did not see any significant changes to their traditional "pay for performance" (PfP) and Say on Pay analytical models made in advance of the disclosures. At this date we are still waiting to see whether, for year two, investors and proxy advisors will take a more rigorous approach to evaluating PvP data.

It's important to note that PvP now provides many investors with FIVE views of executive pay and its alignment with performance:

- The summary compensation table
- The CD&A and its PfP story
- Proxy advisor methodologies
- Investor analysis, often employing Equilar datasets
- The new PvP disclosures

Of these, what is most within company reach, is to tell their most effective PfP story in the CD&A, which many companies have been doing for years. To keep that disclosure front and center in investor minds, in year one of PvP a few companies added a disclaimer at the start of the new disclosure stating in effect, "this is new required disclosure, but it does not reflect how our board looks at pay. For that, we refer you back to our CD&A starting on p xx." We encourage companies to renew their efforts to drive the narrative in this important area.

Equilar: Taking the current governance landscape into consideration, what steps can companies take to build confidence that they are putting their best foot forward with respect to good governance practices?

Schneider: You can have the best structures and processes but will only "get credit" for these to the extent they are publicized and understood.

Ask yourself, "does our board have the right skills for the times?" If so, publicize that. If not, work to rectify it.

Engage with your investors. As frustrating as it may seem, they want you to succeed and will not be shy with suggestions about strategy and performance, executive and board leadership, compensation, governance, and sustainability.

Review and benchmark yourself against peer company and governance leader structures, processes, and disclosures. Are you doing everything you can to engender confidence in your board and its ability to provide effective oversight of a growing array of critical issues?

Almost every company has some feature or process that someone will criticize—at a point in time. Focus your audiences on longer term evolution. Timelines are great vehicles for "reminding" readers of where you were and where you are heading. We are seeing these effectively used to highlight company evolution in:

- Strategy and M&A
- Governance practices
- Executive compensation
- Board refreshment
- ESG and disclosure journey

Equilar: Do you have any closing thoughts or parting wisdom?

Schneider: In the coming year, an increasing area of board focus, and specifically that of the audit committee, is preparing for auditing and assurance of company ESG data. This reporting is moving from voluntary reporting in the form of corporate sustainability reports, SASB or TCFD aligned fact sheets or responding to rater/ranker questionnaires, to name a few, to mandated, standardized, structured data in audited regulatory disclosures. Boards and audit committees, as part of their oversight, should confirm that management has the requisite governance and control processes in place, just as they do over traditional financial reporting.

We are already seeing evidence of these new oversight and control procedures in updated governance documents and committee charters, clearly assigning responsibility and accountability for the controls of ESG data, moving towards the CFO position, supported by existing financial reporting SaaS products like DFIN's ActiveDisclosure. In practice, we are seeing more cross-functional collaboration with legal, IR, sustainability, HR and financial reporting coming together to identify the relevant ESG data and procedures for updating and secure maintenance needed to prepare for auditing, assurance, and disclosure under regulated rule-making.

About the Contributor

Donnelley Financial Solutions (DFIN) is a leading global risk and compliance solutions company. We provide domain expertise, enterprise software and data analytics for every stage of our clients' business and investment lifecycles. Markets fluctuate, regulations evolve, technology advances, and through it all, DFIN delivers confidence with the right solutions in moments that matter.

Learn about DFIN's end-to-end risk and compliance solutions online at DFINsolutions.com or you can also follow us on X @DFINSolutions or on LinkedIn.

Additional proxy disclosure examples, similar to those found in this publication, can be found in DFIN's Guide to Effective Proxies, 11th edition.

Ron Schneider

Director of Corporate Governance Services
Donnelley Financial Solutions (DFIN)

Ron joined DFIN as Director of Corporate Governance Services in April 2013. He is responsible for providing thought leadership on emerging corporate governance, proxy and disclosure issues.

Over the past four decades, Ron has advised senior management, the C-suite and boards of public companies of all sizes, industries and stages of growth facing investor activism, as well as challenging and sensitive proxy solicitations involving corporate governance, compensation and control issues.

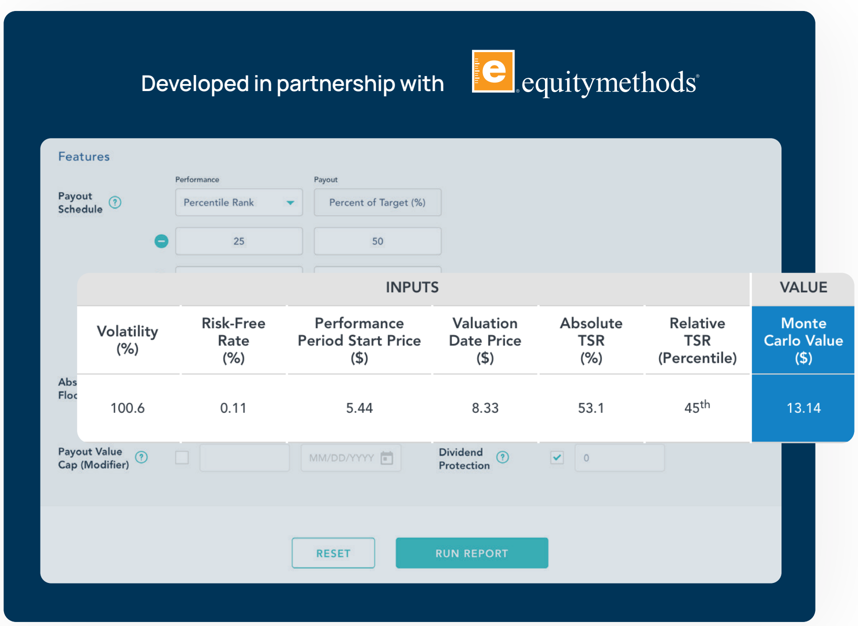
His primary recent focus has been helping companies conduct engagement programs with their top institutional investors with the objective of identifying and addressing investor concerns through best practices in proxy disclosure.

At DFIN, Ron works closely with clients and our firm's sales and service teams to identify and implement appropriate changes to proxy statement design, content and navigation that fit each client's unique corporate culture and proxy-related objectives.

During his career he has managed more than 1,600 proxy solicitations, 200 tender or exchange offers and 30 proxy contests, with his proxy fight clients succeeding in over 70% of such situations.

Ron earned a B.A. in Economics from Princeton University.

Support Your Pay Versus Performance Story



Monte Carlo Simulator

Pro Forma Modeling

Get rapid estimates of relative TSR-based award valuations on demand.

Plan Assessment

Run unlimited experiments to analyze the impacts of various incentive plan details.

Process Autonomy

Take control of the process to tell your story.

EQUILAR INSIGHT

Learn more at **www.equilar.com/equity-valuation**