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Meridian Client Update

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Highlights of Dodd-Frank Wall Street Reform and Consumer Protection Act

On Friday June 25, House and Senate conferees reconciled Senator Christopher Dodd's (D-CT) and Representative Barney Frank's (D-MA) financial reform bills with the final bill dubbed the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Bill"). The Dodd-Frank Bill will likely be voted on by Congress later this week. However, with the recent passing of Senator Robert Byrd (D-WV), it is possible that the Republicans could mount a successful filibuster to stop a vote on the bill. As of this writing, it is unclear whether the Republicans are inclined to pursue this strategy.

Absent a filibuster, passage of the Dodd-Frank bill is expected, with the President aiming to sign the bill by July 3. The final bill contains nearly all of the corporate governance and proxy disclosure provisions contained separately in Senator Dodd's and Representative Frank's financial reform bills, but does **not** include the requirement of majority voting for directors or a prohibition on excessive compensation paid by bank holding companies contained in the pre-reconciled bills. The Dodd-Frank bill also contains a few interesting modifications to "say on pay".

Outlined below are highlights of the Dodd-Frank Bill corporate governance and proxy disclosure provisions:

Management Say on Pay Provisions

- Non-binding shareholder vote on executive pay disclosures (vote **not** required annually but must occur at least once every 3 years).
- Shareholder vote to determine frequency of vote on executive pay disclosure (this vote must occur at least once every 6 years and determines if vote on executive pay disclosure should occur every 1, 2 or 3 years).
- Non-binding shareholder vote on golden parachutes in the event of a corporate transaction (only if golden parachutes were not previously subject to a vote on executive pay disclosure).

Proxy Disclosures

- Disclosure of pay versus performance.
- Disclosure of ratio of CEO pay to median employee pay.
- Disclosure of whether employees or directors can purchase financial instruments intended to offset decreases in market value (i.e., hedging transactions on employer securities).
- Disclosure of board leadership structure (CEO and chairman structure).
- Disclosure of retention of compensation consultant and any conflict of interest raised by consultant's work and resolution of such conflict.

Special Rules for Financial Institutions

- Disclosure of pay structure alignment with sound risk management.
- Regulators authorized to issue rules prohibiting incentive arrangements which encourage inappropriate risk.

Compensation Committee/Compensation Advisor Independence Standards

- Compensation committees must meet certain independence standards.
- Prior to the retention of any compensation advisor, a compensation committee must take into account certain factors to be identified by the SEC to determine independence of the compensation advisor.

Other Key Provisions in the Act

- SEC authorized to issue regulations regarding proxy access.
- Mandatory recoupment of incentive compensation (including stock options) paid to executive officers due to erroneous financial statements.
- Prohibition on brokers from voting uninstructed shares on election of directors, executive pay and other significant matters.

If the Dodd-Frank Bill passes Congress, we will issue a comprehensive analysis of the foregoing corporate governance and proxy disclosure provisions.

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