MERIDIAN
COMPENSATION PARTNERS, LLC

Energy Insights

Download this article as a PDF

CHANGING THE ROLE OF PROXY DISCLOSURES

With Rules Changing Companies Have an Opportunity to Focus on Disclosure Improvements

Posted by Tom McNeill on October 1, 2013

The recent release of the SEC's proposed rules on CEO Pay Ratio disclosure has everybody thinking about preparation of their proxy disclosures. While changes required under these proposed rules likely won't be in effect until the 2016 proxy season, there are other changes that companies should be focusing on for the 2014 proxy season. Specifically, many companies have an opportunity to make significant improvements to their disclosures of compensation and governance practices, changing them from a "necessary evil" to an important shareholder-communications tool.

A review of proxies across all industries confirms that the role of proxy disclosures is changing. There are a number of companies that are often cited for their high-quality disclosures – Coca Cola, Eli Lilly, Johnson & Johnson, Lockheed Martin and Prudential Financial are a few that come to mind. Unfortunately, few energy companies appear on these "best-in-class" lists.

Certainly some energy companies have made enhancements to certain aspects of their disclosures (including Anadarko Petroleum, Cameron International, Cimarex Energy, Chesapeake Energy, ExxonMobil, Noble Energy, and Weatherford International), yet few have gone "all in" to make comprehensive changes to better tell their story. In short, the bar has been raised and more work is required for energy companies to catch up with evolving disclosure standards.

Several pay practices that are common across the energy industry have drawn scrutiny from shareholder advisors and the media, including the use of discretion in bonus plans, high proportion of time-based equity, and an alleged lack of rigor in performance targets. Despite valid reasons for some of these pay practices, energy companies have generally not done an effective job at presenting their case as to why they are appropriate.

So what should companies do? I suggest following the lead of some of the "best in class" companies noted above and adding some or all of the following features to proxy disclosures:

Features	Objectives
Proxy Summary	Set the tone; introduce key issues and challenges regarding compensation and corporate governance
CD&A Summary	Brief statements, not a thesis; describe how the pay programs are designed to link pay and performance
Lists of Pay Practices	Focus on key takeaways; make it easy to find the answers (i.e., what we do, and what we don't do)
Focused Narratives	Offer specific rationale for pay levels, structure and decisions (i.e., the facts behind the discretion used in the bonus plan; how performance targets are established)
Use of Color and Graphics	Make the proxy a more interesting read and more effectively illustrate key messages such as pay and performance alignment

It's not too early to start planning for your 2014 proxy. The addition of any of these features will surely improve the proxy and will help your dialogue with shareholders and their advisors, and should yield better SOP results.