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Executive Compensation Bulletin

Preference for annual say-on-pay votes grows—for now

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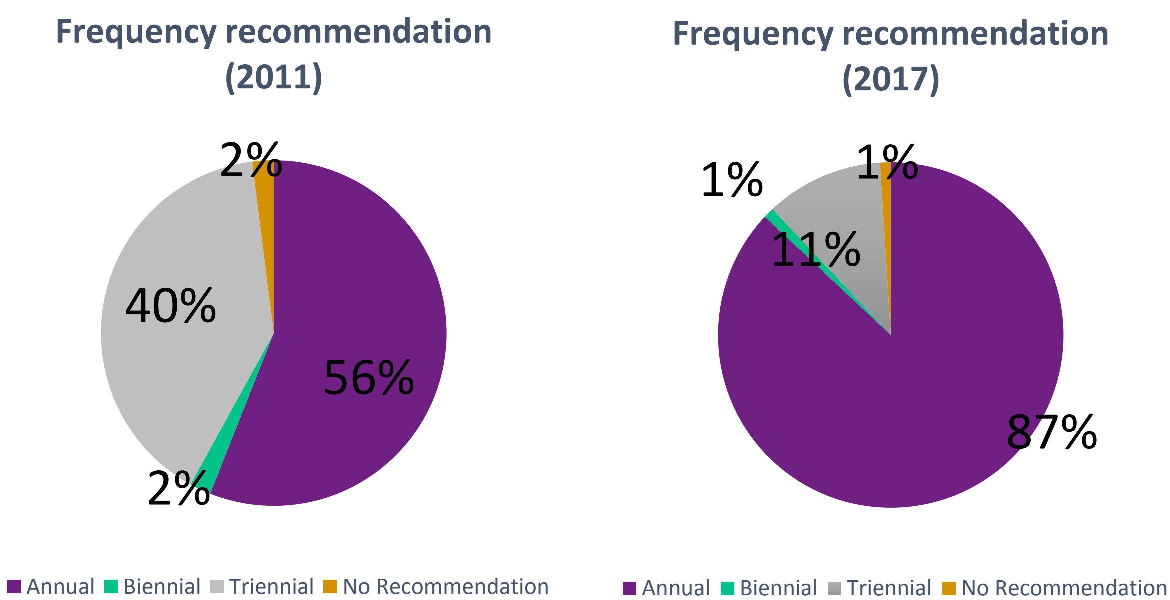
2017 data indicate a growing preference for annual say-on-pay frequency recommendations and adoptions, although possible future legislation could alter the course of this trend.

In January 2011, the Securities and Exchange Commission adopted a rule requiring public companies to conduct a shareholder vote every six years to determine how often a company should hold a say-on-pay vote. The choices were: every year, every other year or every three years. The process was labeled as the "say-on-frequency vote."

Data show that in 2011, companies that recommended annual and triennial frequencies each represented sizeable portions of all public companies queried. In 2017, we observe that far more companies are recommending an annual frequency compared with 2011 (*Figure 1*).

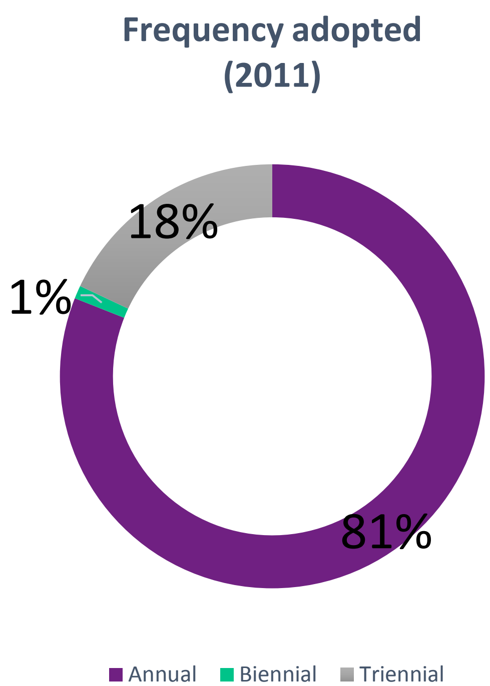
Figure 1: Shift in say-on-pay frequency recommendations

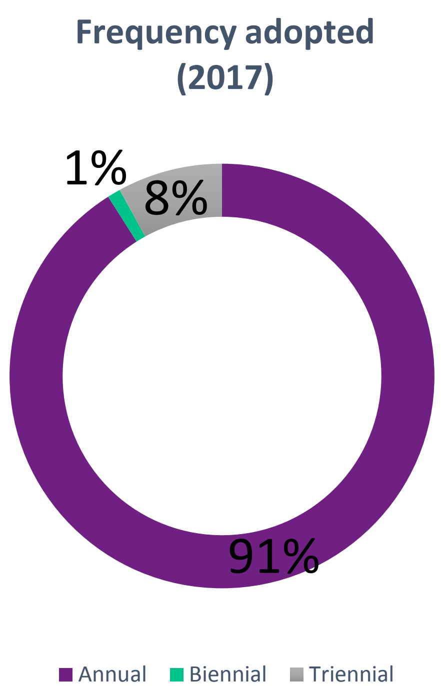


Source: Willis Towers Watson's Global Executive Compensation Analysis Team based on publicly available information.

Frequency votes, held for the first time during 2011, showed that a vast majority of companies ultimately adopted an annual frequency. Results on say-on-frequency votes observed in 2017 show that more companies are now opting for an annual say-on-pay vote frequency in comparison with 2011, to the detriment of triennial frequency (*Figure 2*).

Figure 2: Growth in annual say-on-pay frequency adopted





Source: Willis Towers Watson's Global Executive Compensation Analysis Team based on publicly available information.

We looked at Russell 3000 companies that held a frequency vote in both 2011 and 2017, comparing 1,678 frequency recommendations and 1,591 frequency adoptions, and found:

- 27% of companies switched from a triennial to an annual recommendation, and 9% from triennial to annual adoption
- Small cap companies had the highest amount of triennial to annual frequency recommendation changes
- Fewer than 10 companies have switched from an annual to a triennial frequency in 2017

2017 data show that companies are following their shareholders' preferences by opting for annual say-on-pay votes. Aside from a few notable exceptions, most institutional investors favor annual say-on-pay votes. Consequently, companies with a strong record of say-on-pay support, that might otherwise aspire to shift to triennial votes, often default to annual say-on-pay votes to align themselves with investors' preferences.

Looking ahead, it will be interesting to see how the frequency of say-on-pay votes evolves, considering that proposed legislation, including provisions of the Financial Choice Act, would require votes only in cases of material changes to compensation programs rather than over any fixed duration. Despite the nearly universal adoption of annual votes based on current shareholder preference and policy, it appears potential alternatives for say-on-pay vote frequencies may be on the horizon.

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