



California Corporate & Securities Law

Advisory Votes On Executive Compensation May Have Teeth

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While the executive compensation votes mandated by the Dodd–Frank Act are just advisory, they do have the potential for significant impact. With the popularity of majority vote requirements in uncontested elections, incumbent directors may face significant withhold campaigns if they appear to ignore stockholder preferences.

This means that accurately measuring stockholder preferences will be key.

The Securities and Exchange Commission’s advisory vote [proposal](#) limits both stockholder choice and the means to measure stockholder preferences. Given the importance of this proposal, I think it warrants comments in support of greater choice and accuracy. The comment period on this proposal expires next Thursday.

Here are some thoughts to consider in commenting on the proposal:

- The Dodd–Frank Act did not specify the form of the vote with respect to the frequency of shareholder advisory votes on executive compensation.
- The Securities and Exchange Commission has proposed a rule requiring a form of proxy that allows shareholders to specify a choice for only one alternative.
- The SEC’s proposed rule would limit shareholder choice.
- The SEC’s proposed rule prevents companies from adopting forms of proxy that would enable them to better assess shareholder preferences.
- The SEC’s proposed rule would have the unintended effect of favoring the preferences of significant stockholders rather than the broad consensus choice.

For more of my thoughts on the SEC’s advisory vote proposal, see my [comment letter](#).

Please contact [Keith Paul Bishop](#) at Allen Matkins for more information kbishop@allenmatkins.com

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