ADVISORY SHAREHOLDER SERVICES DISCRETIONARY REVIEWS

By: Tyler Brown, Chris Crawford & Brent Longnecker

With the holidays in full swing many companies are finalizing fiscal year end policies and looking forward to 2017 with hope of a continued rebounding of the US economy. Companies are gaining traction in meeting with shareholders and key stakeholders for their thoughts on 2017 and beyond as well as evaluating all of the upcoming compensation philosophical decision points and submitting key mandatory filings. Specifically, equity plan proposals have been the most recent focus of shareholder advisory firms.

Over the past several years, advisory firms have released Frequently Asked Questions ("FAQ") sections of voting guidelines that many companies, shareholders, and company advisors turn to for guidance on how to view certain aspects of plans and policies, either positively or negatively. As part of this FAQ, advisory firms have listed quantitative and qualitative areas of focus where Companies could gain a favorable or unfavorable recommendation from these advisory firms. Specifically, the quantitative, or formulaic, approach has been able to be dissected and readily understood, thereby allowing for estimates to be derived that will fall within a close proximity of shareholder advisory firms' methodology and voting policy. However, the qualitative factors put forth by advisory firm decision makers is a discretionary decision making process and at times, very unpredictable.

The qualitative factors are the most concerning to companies in the process of gaining approval of a new stock plan primarily due to their vague and incomplete nature. These factors are not readily disclosed, and as a result do not detail all of the areas of potential pitfalls companies may encounter by utilizing perceived best intentions, which can be misunderstood due to voting being left to the discretion of the review by advisory firm analysts. Recently companies have been receiving recommendations against their plans or proposed policies due to these discretionary overriding factors that the general business population is not made aware of, which creates areas of tension between executives, shareholders and board members. The only one smiling are those with business models which thrive on continued uncertainty.

More specifically, the advisory firms' publications have not been clear with the keep of these vague areas. Therefore companies are being forced into subscribing to an advisory service, which may not guarantee a passing. Advisory firms have continued to petition for more stringent filings and full disclosure while maintaining an area of complete secrecy within some areas of their own policies. Throughout meetings with Corporate America's business leaders' one resounding message has continued to arise and hold dominance in the public opinion: business leaders are calling for a plan of action and a change in advisory firms' policies provide full disclosure on qualitative measures.

LONGNECKER & ASSOCIATES
ALL IN.