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Bold Predictions for Equity and Executive Compensation in the Next Four Years

March 15, 2021

During this year's State of the Union in Equity Compensation webcast, we looked at changes in equity compensation and the broader corporate governance landscape. Much of our discussion centered on the growth of environmental, social, and governance (ESG) trends. We also covered award design trends in general, along with revisions to the proxy and compensation landscape.

In this article, we'll summarize our predictions of what lies ahead. We'll start with what we think is pretty likely to happen by 2023. Then we'll move on to what we think is likely but will take longer to materialize, say by 2024. After that will be the events we think could happen by 2024, but with less certainty—maybe a 50-50 chance. Here's the hit list:

Likely Outcomes by 2023:	1. TSR prevalence reaches 70% 2. ESG metric prevalence in LTIPs in the S&P 500 reaches 10% 3. Say on Pay failures increase slightly in the 2021-22 proxy seasons 4. The Dodd-Frank clawback rule is finalized 5. The Dodd-Frank pay versus performance disclosure is finalized 6. State pay equity laws shift to disclosure and reporting 7. Investor pressure for voluntary pay equity disclosure results in disclosure from 25% of the S&P 500
Likely Outcomes by 2024:	8. Post-vest holding periods are in use among 20% of companies 9. ISS and the SEC settle their lawsuit, and proxy advisor regulation stays 10. Proxies are more customized and rely on more visualization 11. Revisions to HCM disclosure are more rules-based and prescriptive 12. Mandatory national pay equity reporting arrives 13. The SEC drafts a proposal on mandatory climate exposure
Coin-Flip Probability by 2024:	14. ESG metrics appear in 20% of LTIPs 15. The 10-K gains a non-financial reporting section 16. Standard-setting on non-financial reporting converges and matures 17. The SEC requires a Say on Climate disclosure

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Likely Outcomes by 2023

TSR prevalence reaches 70%

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Most public companies already use total shareholder return in their long-term incentive programs in some way. Our own research indicates the prevalence is 60% of the S&P 500. The pandemic economy has thrown many industries into disarray, making it difficult or impossible to set goals for financial metrics in the usual way.

In the face of industry uncertainty or forecasts of negative growth, the answer for many companies will be to introduce or increase reliance on relative TSR (rTSR). Relative TSR works as a metric because it requires the company to simply outperform other companies in the same situation. Many companies are willing to set successive one-year absolute financial goals but not a single three-year goal. An rTSR modifier that sits on top of the whole award can help respond to the classic shareholder critique that the long-term incentive program is not adequately long-term.

Given the challenges companies face with goal-setting uncertainty, along with continued investor interest in aligning incentives directly, we anticipate 70% of the S&P 500 will be using rTSR by the end of the 2023 proxy season.

ESG metric prevalence in LTIPs in the S&P 500 reaches 10%

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We've long discussed the tailwinds pushing the importance of ESG, starting with major investors and extending to social and regulatory trends. The recent modernization of Regulation S-K to broaden the human capital management (HCM) disclosure is just one more example.

Now boards are looking to incorporate ESG measures in executive compensation. ESG as a performance metric gives rise to unique challenges, even beyond the philosophical debates on the relative importance of financial and non-financial performance.

But the governance and shareholder relations benefits of ESG-based compensation are continuing to increase, and the challenges of implementing them are dissipating. Many larger companies already have a track record of setting and measuring meaningful goals, often in a separate report that's not (yet) tied to compensation. This history gives more comfort with the metrics and opens the door to including them in incentive plans.

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Our anecdotal experience so far in 2021 is that more companies are doing exactly that. While only a handful of companies have included ESG in their LTIP (it's more common in short-term incentive programs), we expect the prevalence to grow meaningfully in the next year or two. It won't be a fit for every company, but we expect notable traction.

Say on Pay failures increases slightly (but only slightly) in the 2021-22 proxy seasons

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The events of 2020 were unique. Not only was there a recession, but the effects were wildly disparate. Technology companies did superbly, especially those enabling people to work or shop from home. Companies relying on travel and leisure were hit uniquely hard. And along that spectrum, other companies felt the impact differently.

All of this unpredictability led to compensation decisions outside the norm of the last decade-plus. Companies used goal modifications, special grants, and discretionary adjustments more than ever. In an ordinary year, these adjustments may have been a red flag to proxy advisors and investors, who want to see pay and performance tightly linked without any semblance of bailing executives out.

We predict that slightly different rules will apply for pandemic-affected pay cycles. Most of the adjustments we've seen were done in good faith, for good reasons, and with appropriate tradeoffs to avoid overpaying for underperformance. With the high volume of unusual modifications and changes, we expect proxy advisors and investors to direct their scrutiny first to the more extreme cases. Even for more vanilla adjustments, the possibility of a negative vote remains due to other contextual factors that tip the scale or simply a misunderstanding based on the framing in the proxy.

The Dodd-Frank clawback rule is finalized

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It might be unrealistic to expect Gary Gensler's new Securities and Exchange Commission to finalize all the unfinished pieces of Dodd-Frank executive compensation regulation. Still, at least one is likely to get through in 2021. Which one? We think it will be clawbacks (Section 954).

Most large companies have voluntarily implemented clawback rules, many of which go far beyond what Dodd-Frank would require. This will probably motivate the SEC to view Dodd-Frank as a minimum for all companies to reach. Unlike the clawbacks that Sarbanes-Oxley mandated, Dodd-Frank encompasses no-fault financial restatements and covers all executives (not just the CEO and CFO).

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We've published extensively on clawbacks, most recently in Corporate Governance Advisor. Numerous enforcement challenges make clawbacks tough to pull off. Within the US, California's expansive view of what constitutes wages will make that state's courts the toughest place to enforce clawbacks. We think these obstacles will be surmountable with well-structured grant agreements, though remain concerned with enforceability outside the US (and mostly in continental Europe).

Another implementation challenge to watch for is tabulating the amount to recoup on performance awards, especially ones with TSR-based metrics. The Dodd-Frank rules, as written, will require recomputing the compensation that would have been paid had there not been a restatement of the financials. This is easy to do for a metric like earnings, not so much for a metric like TSR that relies on assumptions about how the stock price would have moved had there not been a restatement. We expect to see companies apply techniques used in litigation support to solve these sorts of problems.

We don't expect Dodd-Frank clawbacks to undercut the already growing momentum for broad language covering reputational harm, excessive risk-taking, and violations of codes of conduct. The McDonalds case study suggests that boards will broaden definitions of for-cause termination and make it contractually easier to make determinations about executive conduct. This may create accounting grant date problems if broad, overly subjective language starts to appear in grant agreements. In other words, more legal flexibility could spell more accounting complexity.

The Dodd-Frank pay versus performance disclosure is finalized

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After clawbacks, we expect to see the SEC finalize their exposure draft on pay versus performance disclosure in the proxy. This will standardize what many companies are already trying to do by reporting realized pay alongside their summary compensation table (SCT) values. (We tend to like reporting both realizable and realized pay, though the draft disclosure focuses only on the latter.)

The conceptual premise of the SCT is that the deal struck at the time of award grant is the central question for shareholders to assess. The problem with this perspective is that with the advent of performance awards, boards haven't firmly committed to a specific number but rather to a contingent number based on future performance. How these awards pay out says less about the values captured upfront in the SCT than about the rigor of goal-setting and alignment of executive pay to shareholder value creation.

Nonetheless, a majority of companies do not voluntarily report realizable pay. Why? It adds complexity and tends to swing year over year in response to stock price movements and

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financial results. Some third parties have developed standardized dashboards, but without confidential company data, these visuals are noisy. For these reasons, we generally like a standardized framework for reporting realized pay.

One complexity associated with the proposed rules is that if the fair value at vesting is used, companies granting stock options will need to employ option pricing models to value their in-the-money or out-of-the-money vested and unexercised options. We cover option pricing and other complexities in an earlier blog post on the topic.

Overall, the proxy tables have not changed much. And while there are valid concerns with the draft rules, any effort to begin switching the proxy away from an exclusive focus on grant date is probably healthy.

State pay equity laws shift to disclosure and reporting

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As we discuss below, we think there'll be national pay equity reporting and disclosure in the not-too-distant future. The past few years have witnessed a patchwork of state-level pay equity laws coming together, most recently in Colorado with its Equal Pay for Equal Work Act (SB 19-085). While this is likely to continue, the more interesting dimension is the possibility of state laws mandating proactive reporting of pay data.

California has taken the lead with SB 973, which was codified into law in September 2020 and requires disclosure of pay data using the EEOC's EEO-1 format. All companies with more than 100 employees must submit a report, which is analogous to the EEOC's EEO-1 Component 2 requirement that was halted under the Trump administration. Illinois is following suit with ratification this past February of SB 1480.

We wouldn't be surprised to see other states continue the trend. Illinois' law isn't coming into effect until 2023, and we expect other states will aim to give adequate preparation lead time as well. Our guess is that by the middle of 2023, at least five states will have ratified legislation requiring pay disclosure along the lines of EEO-1 Component 2.

We're trying to make predictions, not assessments. For those unfamiliar with the EEO-1 framework, it requires disclosure of the count of employees as stratified into 10 job categories and 12 pay bands. This fits certain industries and organizational contexts better than others, which leads to our next prediction.

Investor pressure for voluntary pay equity disclosure results in disclosure from 25% of the S&P 500

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The shareholder ecosystem is too complex to boil down to a simple set of relationships. That said, let's focus on one unfolding dynamic that will lead to mounting pressure for larger S&P 500 companies to voluntarily disclose pay equity analysis outcomes.

Activist investors like Arjuna Capital have made pay equity a battleground issue by submitting shareholder proposals requesting disclosure. In the old days, these proposals would have collected dust and never come close to passing. Now, large institutional investors such as BlackRock have signaled interest in these proposals and will use them to jumpstart progress where there hasn't been any or where they believe it's been too slow.

Using Arjuna Capital as a case study, you can see a list of the companies they targeted with shareholder proposals in 2020. Mastercard and Starbucks acquiesced and agreed to provide the disclosure in exchange for Arjuna Capital withdrawing their proposal. Others will see the proposal put to a vote during the 2021 proxy season.

We predict that BlackRock, State Street, Vanguard, and other large institutions will increasingly side with these proposals. The effects will be twofold. One will be to encourage other activist investors to submit similar proposals. The other will be to motivate companies to proactively offer disclosure to avoid dealing with a successful or nearly successful proposal that management opposes.

Interspersed in the debate on whether to report is another debate on what to report. Arjuna Capital and other, similar groups want everything—including the disclosure to cover the global employee base and provide both the adjusted pay gap and unadjusted pay gap. Here, we're more skeptical as to whether companies will adopt a Burger King "have it your way" approach to disclosure. The probability of this happening is a coin flip.

Likely Outcomes by 2024

Post-vest holding periods are in use among 20% of companies

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Post-vest holding periods have been on the list of "next big things" for years. Although we don't think they're right for most business-as-usual LTIPs—they can add much complication and friction for most recipients—we think they'll continue to solidify their place in the executive compensation toolbelt.

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For example, some of the challenges of post-vest holding requirements are minimized when a top executive already has ownership requirements. That's because sale restrictions are a familiar concept and there are enough owned shares that holdings other than the current grant may be sold if needed. We find that special grants to senior executives can be especially good fits for post-vest holding requirements. First, special grants—like retention grants or front-loaded "mega" grants—may especially benefit from the governance optics and messaging of a post-vest hold. Second, these grants may be especially sizable or otherwise value-sensitive, making the valuation discount even more beneficial.

With the widely varying circumstances that companies faced in the last year, retention grants, turnaround grants, and other special grants are becoming more common. These new grants are more likely to have a post-vest holding requirement, and add to the list of those companies whose existing LTIPs already had such a requirement. Before long, we expect at least 20% of companies to have at least one outstanding award with a post-vest holding requirement.

ISS and the SEC settle their lawsuit, and proxy advisor regulation stays

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The SEC under Jay Clayton drove long-awaited proxy advisor regulation and reform. The final rule, *Exemptions from the Proxy Rules for Proxy Voting Advice*, went into effect in November 2020. Earlier, when the SEC published proposed guidance for comment and review in 2019, one proxy advisor—Institutional Shareholder Services—launched a lawsuit against the SEC.

The lawsuit was put on hold for most of 2020 while the SEC worked toward final rules. But once these rules were released in July 2020, ISS wasted no time reactivating the lawsuit. As we talked about in a recent blog post, the issues primarily center on the desire to view proxy advisory firms as engaging in solicitations that should fall under the Exchange Act of 1934. This raises the bar for accuracy and creates consequences for misleading statements.

It's possible that Gensler's SEC will settle the lawsuit in a way that rolls back the rules finalized in 2020. However, we suspect that Gensler will review the final rule, appreciate the concessions made relative to the proposed language, and embrace the legal arguments the SEC made in response to the lawsuit.

Proxies are more customized and rely on more visualization

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We think multiple forces will prompt companies to further customize their proxy Compensation Discussion & Analysis (CD&A) sections. One is proxy advisor regulation and the higher bar proxy

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advisors have to meet to steer clear of misleading misstatements. The best way to expose these is to analyze your own statements more comprehensively, and make this clear to the users of proxy reports. A second force is related guidance issued by the SEC in 2019 (and supplemented in 2020) raising the bar on investment advisers to conduct their own analysis and not robotically rely on the voting recommendations of proxy advisory services they license.

A third force is that proxy advisors, particularly ISS, are diversifying the types of analytics they run to assess pay-for-performance and other compensation governance topics of interest. For example, ISS has expanded its emphasis on economic value added as a key component of its Financial Performance Assessment. We've discussed how EVA at a theoretical level is fine but introduces its own noise and complexity when applied in practice. Companies that object to the implications of these proxy advisor tests may wish to tell their own counter-narrative in their proxy.

For all these reasons, we see pressure to develop more supplementary analytics and narratives in the proxy. If ISS is indiscriminately applying its EVA framework to all the companies in its universe, why not develop an EVA measure of your own that you believe fits your industry and situation better? The SEC's pay versus performance disclosure may result in standardized realized pay reporting, but in that case, why not also show realizable pay on unvested awards?

At the same time, it's easy for the proxy to devolve into an overly technical document filled with jargon that puts investors off. It's also tough to rescind disclosures after you begin making them. Careful strategy is needed about how to tell your own narrative more holistically, ideally with visuals that shield the reader from denser text. We expect to see innovation along these lines over the next few years.

Revisions to HCM disclosure are more rules-based and prescriptive

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In the fall of 2020, the SEC adopted Release No. 33-10825, Modernization of Regulation S-K Items 101, 103, and 105. A principal component is the requirement for companies to discuss their human capital management strategy, including metrics they use for measurement and monitoring.

The lead-up to this release involved a heated debate on whether the SEC's guidance should be rules or principles-based. On a 3-2 vote, the SEC selected a principles-based version. The argument for principles over rules is that all companies face different circumstances and should be allowed to pick what they think matters most to disclose. The critique is that this will lead to light, meaningless, and non-comparable disclosures.

Our collection of the early disclosures shows they're all over the map, but we're reserving opinion as to whether this is a bug or a feature. We predict the new SEC will study the

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disclosures and conclude, within the next few years, that the low comparability and light commentary merit more exacting rules. More specifically, we wouldn't be surprised to see the SEC release an exposure draft in late 2022 or 2023, with a go-live in 2024.

What does this mean and what should you be doing now? Simple: Build the analytics, monitoring, and reporting as if external disclosure was mandatory. A theme in much of our writing is that these metrics are squishy and noisy given what they're measuring and the noise in the underlying data. So start documenting the reporting processes, fluxes, and drill-downs to bring transparency to why the numbers move.

What might revised rules entail? We wouldn't be surprised to see granular tabular disclosure of diversity and ethnicity statistics with some sub-sectioning by geography and level. There will also be a push for companies to disclose future targets so investors can track progress, though this may be tougher to require in the form of amended rules. Finally, we expect to see mandatory pay equity, which could occur through an amendment to this regulation or an altogether new one.

Mandatory national pay equity reporting arrives

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As we discussed, state pay equity laws have cropped up around the country and California is going live with mandatory pay data reporting. Our prediction is that this is a precursor to national legislation through the Equal Employment Opportunity Commission. More specifically, we predict that by 2024, the EEOC will mandate EEO-1 disclosure for all companies above a particular size level. The controversial "Component 2" push that was halted under the Trump administration could be resurrected. Alternatively, we could see the EEOC specify a higher employee threshold for reporting, such as 500 or 1,000 employees.

Another avenue for required reporting and disclosure is the SEC, such as their expanding the scope of the human capital management disclosure. At least in the short run, this seems less likely than an EEOC-driven initiative since the Biden administration will look for this information to be much broader than only those companies with publicly listed securities.

The central question in pay equity reporting is whether and how companies can make adjustments for differences in role, performance, tenure, and other categories unrelated to gender and ethnicity. Covered extensively in our prior writing, estimations of the *adjusted pay gap* use statistical regression analysis to control for these bona fide job differences, whereas the *unadjusted pay gap* simply reports differences as they appear in the data.

Unadjusted pay gap disclosures are much easier to mandate, but most experts would argue they're imprecise and don't square with the complexity of the talent ecosystem. Given their ease of reporting, countries like the United Kingdom have taken their regulation down this

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path. Interestingly, Switzerland's rule provides discretion in using a "scientific and legally compliant method" but requires independent verification from a qualified third party.

Coming back to the US and what we can expect to see in the next few years, it's hard to believe there won't be any form of national reporting requirement. Our recommendation is to start preparing now by developing broad and robust pay equity analysis internally, but keep this under the umbrella of legal privilege. Study both the adjusted and unadjusted pay gaps. Drill down on the unadjusted pay gaps by studying representation levels, which link to diversity and inclusion reporting.

The SEC drafts a proposal on mandatory climate exposure

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The close cousin to mandatory human capital management reporting is climate reporting. As proponents of this path argue, financial reporting is incomplete if it only provides backward-looking operational results without covering how a company's operations may be affected by systemic risk factors.

This is wildly controversial. The Wall Street Journal reported on an interesting back-and-forth between Gary Gensler and Senator Pat Toomey during Gensler's Senate confirmation hearing. We appreciate both sides of the debate, but the signaling was unambiguous: Gensler sees that the market is asking for ESG disclosure and wants to respond to that demand in the form of regulation. Indeed, the two Democratic commissioners under the Clayton SEC also signaled their intense expectation that stronger climate disclosure is needed.

As we discuss below, it's unclear whose job it is to create accounting standards that cover matters like human capital and climate exposure. The SEC is not a standard setter. Meanwhile, the Task Force on Climate-Related Financial Disclosures and Sustainability Accounting Standards Board are rapidly accepting frameworks. (More on this later.)

Setting aside these bigger questions of who will do standard-setting and when it's appropriate to give the car keys to these private sector entities, some action by the SEC on climate seems inevitable. Our prediction is that we'll see a climate disclosure similar in theme to the HCM rule of 2020, but of course with more rules than principles. If forced to guess, we'd say the SEC will cherry pick the simplest items from the TCFD's recommendations and start there.

Climate disclosure will touch every function within an organization. Accounting and finance will need to create centers of excellence in tracking and reporting of non-financial data. Compensation and legal will devote more real estate in the proxy to disclosures that extend well past executive compensation. Investor relations is already fielding a much wider array of questions. Larger companies are already living this reality by virtue of the questions

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institutional investors have been asking for years, but the next steps will drill further into the details of tracking and reporting.

Coin-Flip Probability by 2024

ESG metrics appear in 20% of LTIPs

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As we discussed, ESG metrics are starting to gain momentum in the LTIP after having been consigned to the STIP in the past. How wide their adoption will become is anyone's guess, but we have a framework we can apply based on more mature LTIP trends like TSR.

Think of ESG metric adopters in four groups. The first group is the Early Adopters. These are the companies who were already using ESG metrics in their LTIP before 2020. Since they were leading the trend rather than responding to universal market forces, adoption reflected ESG metrics that were core to either their values or their business model.

The next group is the First Wave Adopters. These companies are adopting ESG metrics in the next 12 months. They probably have been tracking metrics internally for several years and have a somewhat robust strategy and reporting process. Now they're putting their money where their mouth is, so to speak. We expect this to be a notable but still relatively small portion of the market, skewed toward larger and more visible companies at first.

Next up will be the Mainstream Adopters. This is a majority, or at least plurality, of the market. They're interested in ESG metrics but don't want to be an Early Adopter. Instead, this group will implement ESG metrics once best practices have had a chance to emerge from the earlier groups and settle somewhat. The speed of adoption among this Mainstream Adopter group will determine how prevalent ESG metrics become in the next few years. We may see ESG metrics normalize very quickly. On the other hand, progress may be slow but steady.

The final group is the Later (or Never) Adopters. Nothing in compensation is one size fits all, and ESG metrics are no exception. A sizable portion of the market will remain largely averse to ESG in the LTIP, perhaps due to a lack of good metrics relevant to their business or out of a desire to not dilute other key incentives they need to drive in their plan. While some of these companies will simply never find ESG the right LTIP fit, others will adopt eventually if a sizeable majority of companies use ESG metrics and best practices are clear.

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The 10-K gains a non-financial reporting section

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Investors are asking companies to devote a section of the financial statement to non-financial matters, specifically the "E" and "S" of ESG. The argument is that many investors don't want to study quarterly earnings—they just want to understand the company's exposure to climate change, its progress on diversity initiatives, and so forth. The information that's useful to them isn't in the income statement. The counter argument is that all that information is in the corporate sustainability reports and jamming it into the 10-K upends the purpose of that report.

This brings us to the pivotal question: Will the fundamental composition of the 10-K change to include non-financial information?

The HCM disclosure that the SEC rolled out offers a hint. It's principles-based, which means there's no yardstick for what and how much gets disclosed. Second, there's no mechanism for auditing the disclosure. So while investors could ostensibly rely on the HCM disclosure for making their decisions, it clearly carries different weight from values in the financial statements themselves.

If many ESG proponents get their way, the 10-K will gain a section for tabular and narrative disclosure on environmental and social matters. Standards will govern the measurement of relevant criteria, such as net carbon emissions from operations, supply chain diversity, human capital diversity, pay equity, and talent mobility. It may be gradual or sudden. Our own view is that anything this drastic happening is less than 50-50 because the institutions that produce and govern financial reporting just aren't ready.

However, we're closely monitoring the SEC's language. On March 11, John Coates, the Acting Director of the Division of Corporation Finance, further signaled the SEC's commitment toward ESG disclosure as a decision-useful information package for investors.

Standard-setting on non-financial reporting converges and matures

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If even half of what's been said so far about ESG comes to pass, US capital markets will have a gaping problem. Who will develop comprehensive measurement and reporting standards? Who will be charged with their enforcement? And who will audit them? If there's shareholder litigation on these reporting topics—which there undoubtedly will be—how will the courts decide what is appropriate, reasonable, and customary?

The status quo is an intriguing amalgamation among multiple bodies, including the Financial Accounting Standards Board, SEC, and the Public Company Accounting Oversight Board. At a

Financial Accounting Foundation event, former SEC Chair Mary Jo White reminded the audience of the critical partnership between the private sector (FASB) and the public sector (SEC) that underpins financial reporting in our capital markets.

It doesn't appear as though the FASB is rushing to be the dominant standard-setter on non-financial matters (perhaps because any revision to their name—FASB—just wouldn't roll off the tongue the same way). Of course, hard-form proponents of revamped corporate financial reporting say it's fine for FASB to sit this round out because other private sector organizations are waiting for their moment in the sun. On climate issues, the TCFD has emerged as the front-runner. The SASB has the most breadth in its coverage and, in 2020, merged with the International Integrated Reporting Council.

The TCFD and SASB aren't competing with one another. In fact, the TCFD is chaired by Michael Bloomberg who just so happens to be the chair emeritus of the SASB. We wouldn't be surprised to see some combination of the two bodies. Investors like Blackrock have also strongly endorsed the TCFD and SASB.

But that's the easy part. The harder part is whether the SEC will and should endorse non-financial disclosures as essential to corporate financial reporting and stand ready to enforce compliance. This would change the scope of how public accounting firms audit, which would change the scope of the PCAOB's responsibilities. It would also change the composition of corporate accounting departments and ERP systems. Entirely new flavors of class action lawsuits would emerge. It would even change what accounting students are taught in school.

Our prediction is that by 2024 we'll see further consolidation in how ESG-related standards are promulgated, but trepidation on the part of the SEC and Congress as to how much control private sector standard-setters like SASB and the TCFD should wield over corporate reporting. Nonetheless, change is coming, voluntary disclosure is being demanded by shareholders, and there's no time like the present to begin preparing.

The SEC requires a Say on Climate disclosure

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Earlier we suggested we'll probably have a mandatory 10-K disclosure on climate similar to the HCM rule from 2020. Going one step further, we think there's a coin flip probability that the SEC will also require a "Say on Climate" proxy disclosure mimicking the rationale behind Say on Pay. Say on Pay gives shareholders a nonbinding vote on whether they approve of the compensation decisions that the board of directors approved. Amid growing calls for the board to oversee and govern climate exposure, we're starting to see a movement for a similar nonbinding vote in the proxy.

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We're concerned about that because, unlike executive compensation decisions, climate exposure is not reasonably comparable across publicly traded companies. We'd be surprised to see mandatory Say on Climate, but we also hear how interested the SEC is about climate exposure and investor reporting, so let's stay tuned.

Wrap Up

That's it! The next few years are bound to be eventful. We'll monitor for any action on these predictions and keep you apprised. In the meantime, if you'd like to discuss any of the topics covered in this article, please don't hesitate to reach out.

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