# TABLE OF CONTENTS

Executive Summary 1

Introduction 2
  Overview and Background 2
  Study Scope 2
  Methodology and Definitions 2

Anti-Hedging and Anti-Pledging Policies 4
  Prevalence 4

Clawbacks 5
  Covered Individuals 5
  Compensation Covered 5
  Discretionary Features 5
  Recovery Triggers 5
  Look-Back Period 6

Ownership Guidelines 7
  Ownership Guideline Type 7
  Level of Ownership Required 8
  Definition of Ownership 9
  Time Period 9
  Retention Ratios 10

Appendix 11
  Research Company List 11

Frederic W. Cook & Co. Company Information 13
Over the past decade, the stability of the corporate world has been tested by accounting scandals and the 2008 financial crisis, among other things. These events eroded relations between Boards and shareholders, and stressed the need for high corporate governance standards to restore trust. Among shareholders today, corporate governance is considered an integral part of the investing framework, and is relied upon to provide accountability and protect the interests of shareholders. As corporate governance is critical to shareholders and the backbone of efficient financial markets, it is important for management and board members to be informed on the latest corporate governance trends and recognized “best practices”. In an effort to help one navigate this evolving area we are pleased to present the Frederic W. Cook & Co. 2015 Corporate Governance Study on executive compensation-related corporate governance practices among Top 250 companies. This study covers three main areas: anti-hedging and anti-pledging policies, compensation recovery (“clawback”) policies, and executive stock ownership guidelines.

Key findings include the following:

**Anti-Hedging and Anti-Pledging Policies**
- Prevalence of policies prohibiting hedging by executives among Top 250 companies is 92%; prevalence of policies prohibiting pledging is not as strong at 74%.
  - Across all sectors, prevalence of anti-hedging polices is relatively consistent, while the prevalence of anti-pledging policies varies across sectors (from 33% in telecommunications services to 91% in materials and energy).
  - Among Top 250 companies, 73% have both anti-hedging and anti-pledging polices in place.

**Compensation Recovery (“Clawback”) Policies**
- Ninety percent of top 250 companies have a clawback policy that covers one or more named executive officers (“NEOs”); 78% of top 250 companies have a clawback policy that covers a broader group of executives.
- Clawback policies for 78% of top 250 companies cover both cash and equity incentive compensation.
- The prevalence of clawback trigger definitions was approximately equal for those that include “financial restatement (no fraud or misconduct required)” (38%) and “financial restatement due to fraud or misconduct on part of the executive” (39%).

**Ownership Guidelines**
- Ninety-five percent of top 250 companies disclosed ownership guidelines.
- A multiple of base salary is the most prevalent form of ownership guideline for NEOs.
  - The most prevalent multiple for CEOs is 6 times base salary (40%); for other NEOs it ranges from 3x-3.9x base salary (46%).
- Among top 250 companies, 61% provide five years for executives to achieve ownership guidelines. Thirty-two percent do not have a time period to achieve the guideline, and of these 67% have a retention ratio in place.
- Forty-seven percent of top 250 companies disclosed a retention ratio policy.

---

1The Top 250 companies represent the largest U.S. companies in the Standard & Poor's 500 Index by market capitalization.
Overview and Background

This study presents information on executive compensation-related corporate governance practices currently in place at the 250 largest U.S. companies in the Standard & Poor’s 500 Index (Top 250 companies) as of March 31, 2015. Selection of these companies was based on market capitalization, i.e., share price multiplied by total common shares outstanding as of March 31, 2015, as reported by Standard & Poor’s Research Insight (see Appendix for complete list of companies).

All information was obtained from public documents filed with the Securities and Exchange Commission (SEC), including proxy statements and 8-K filings.

Study Scope

The study covers the following topics:

- Anti-hedging and anti-pledging policy prevalence.
- Clawback policy prevalence and design features, including executives covered, types of compensation covered, recovery triggers, and look-back period.
- Executive stock ownership guideline prevalence and design features, including guideline type, ownership definition, length of time to achieve guidelines, and stock retention ratios.

Methodology and Definitions

Anti-hedging and anti-pledging policy prevalence data were gathered from reviewing each company’s proxy statement.

- **Anti-Hedging Policy** – Any policy that prohibits executives from engaging in transactions that are designed to offset any decrease in the market value of the company’s stock.
- **Anti-Pledging Policy** – Any policy that prohibits executives from using company stock as security for loans (including in margin accounts).

Clawback policies² allow companies to recover incentive-based compensation that was erroneously paid to executives. Clawback policy prevalence and design feature data collected from each company’s proxy statement are grouped into five categories: covered individuals, covered compensation, discretionary features, recovery triggers, and look-back period.

- **Covered Individuals** – Individuals covered by clawback policies, broken down into three categories: (i) one or more named executive officers (“NEOs”), (ii) other current executives, and (iii) former executives.
- **Covered Compensation** – Pay elements covered by clawback policies (i.e., cash incentives, equity incentives)
- **Discretionary Features** – Clawback features that allow for discretion in the recoupment of compensation or enforcement of the policy.
- **Recovery Trigger** – Event that triggers application of the clawback policy to the covered individuals. The most common event, financial restatement, is broken down into three categories for this study: (i) financial restatement due to fraud or misconduct on the part of anyone, (ii) financial restatement due to fraud or misconduct on the part of the executive covered by the policy, and (iii) any financial restatement (no fraud/misconduct required).

²Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) requires companies to adopt and enforce a policy providing for repayment of incentive-based compensation from executive officers when restated financial statements indicated there has been an overpayment. The SEC issued proposed rules for implementation of the Dodd-Frank Act clawback requirement on July 1, 2015, and assuming the final rules are consistent with the proposed rules, most companies will need to amend their clawback policies to comply. Prior to finalization of the rules, however, we see a wide variety of clawback policy designs.
Look-back Period – Once a clawback policy is triggered, the compensation to which recoupment may apply is compensation paid with respect to a specific time period prior to the triggering event.

Executive Stock Ownership Guidelines require executives to achieve pre-determined equity ownership levels, often within a specified period of time. Ownership guideline prevalence and design feature data collected from each company’s proxy statement are grouped into five categories: guideline type, level of ownership required, definition of stock, time period, and retention ratios.

Guideline Type – Pre-determined equity ownership goals are generally stated as a multiple of base salary, number of shares, or value of shares.

Level of Ownership Required – Data on the level of ownership required were collected for the CEO, and for other NEOs as a group. If values differed among other NEOs, an average value was calculated.

Definition of Ownership – Type of equity which counts toward achievement of the guideline. Virtually all companies count shares owned outright and shares (or share units) held in deferral accounts. However, practices differ with respect to counting vested options, unvested options, unvested restricted stock/stock units (RSUs), and unvested performance shares/share units (PSUs).

Time Period – The time period by which the ownership guidelines must be met.

Retention Ratio – Requires executives to retain a certain percentage of the shares they acquire through the exercise of stock options or the vesting of other stock-based awards. Typically expressed as a percentage of net-after-tax profit shares.
The exhibit below displays anti-hedging and anti-pledging policy prevalence by industry sector, as categorized by the Standard & Poor’s Global Industry Classification Standard (GICS). Across all sectors, anti-hedging policy prevalence was consistently high while anti-pledging policy prevalence lags. The materials and utilities sectors exhibit the highest use of anti-hedging and anti-pledging policies.

Overall, most companies (73%) employ both anti-hedging and anti-pledging policies. The second most common practice among Top 250 companies is to only employ an anti-hedging policy (18%).
Among Top 250 companies, 90% disclosed clawback policies in their proxy statement. Prevalence of clawback policy plan design features is shown in the exhibit below.

**Covered Individuals** – The majority cover one or more NEOs (90%) and other current executives (78%). Coverage of former executives was the least prevalent at 15%.

**Compensation Covered** – Prevalence of incentive compensation coverage was relatively equal for cash and equity compensation (84% and 83%, respectively). Within clawback policies, we often found coverage for both cash and equity compensation (78%).

**Discretionary Features** – Among Top 250 companies, 46% disclosed that the recovery of compensation or the enforcement of clawback policies is subject to compensation committee discretion.

**Recovery Triggers** – Definitions vary among the Top 250 companies, however, prevalence is relatively equal for policies that are triggered by financial restatement due to fraud or misconduct on the part of the executive (in other words, the company can only recover compensation from the executive whose fraud or misconduct contributed to the restatement) and polices that are triggered just by financial restatement (no fraud or misconduct required).

### Clawback Policy Plan Design Prevalence

<table>
<thead>
<tr>
<th>Covered Individuals</th>
<th>Compensation Covered</th>
<th>Discretionary Features</th>
<th>Trigger</th>
</tr>
</thead>
<tbody>
<tr>
<td>One or More NEOs</td>
<td>90%</td>
<td>84%</td>
<td>10%</td>
</tr>
<tr>
<td>Other Current Executives</td>
<td>78%</td>
<td>83%</td>
<td>39%</td>
</tr>
<tr>
<td>Former Executives</td>
<td>15%</td>
<td>46%</td>
<td>38%</td>
</tr>
<tr>
<td>Cash</td>
<td>10%</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>39%</td>
<td>38%</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>38%</td>
<td>12%</td>
<td></td>
</tr>
</tbody>
</table>
Look-Back Period – Only 30% of Top 250 companies disclosed a look-back period within their clawback policy. Among those that disclosed a look-back period, 3 years was the most prevalent.
Among Top 250 companies, 95% disclosed ownership guidelines in their proxy statement. Prevalence of ownership guideline design features is shown in the exhibits below.

**Ownership Guideline Type** – Executive ownership guidelines define target stock ownership in various ways. The vast majority of Top 250 companies (86%) define stock ownership as a multiple of base salary. Only 12% of companies express the ownership requirement as a number of shares. Results across sectors generally followed overall results. One notable exception was the information technology sector, where prevalence for the number of shares definition was approximately twice (24%) that of the overall prevalence (12%).

<table>
<thead>
<tr>
<th>Prevalence of Ownership Guideline Type by Sector</th>
<th>Number of Companies</th>
<th>Multiple of Base Salary</th>
<th>Number of Shares</th>
<th>Value of Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financials</td>
<td>47</td>
<td>81%</td>
<td>11%</td>
<td>4%</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>34</td>
<td>82%</td>
<td>9%</td>
<td>0%</td>
</tr>
<tr>
<td>Health Care</td>
<td>36</td>
<td>94%</td>
<td>6%</td>
<td>0%</td>
</tr>
<tr>
<td>Information Technology</td>
<td>34</td>
<td>79%</td>
<td>24%</td>
<td>3%</td>
</tr>
<tr>
<td>Industrials</td>
<td>27</td>
<td>96%</td>
<td>11%</td>
<td>0%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>26</td>
<td>81%</td>
<td>12%</td>
<td>0%</td>
</tr>
<tr>
<td>Energy</td>
<td>21</td>
<td>81%</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>Materials</td>
<td>11</td>
<td>91%</td>
<td>18%</td>
<td>0%</td>
</tr>
<tr>
<td>Utilities</td>
<td>11</td>
<td>100%</td>
<td>9%</td>
<td>0%</td>
</tr>
<tr>
<td>Telecommunication Services</td>
<td>3</td>
<td>100%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>250</strong></td>
<td><strong>86%</strong></td>
<td><strong>12%</strong></td>
<td><strong>1%</strong></td>
</tr>
</tbody>
</table>
Level of Ownership Required – The chart below displays the prevalence of CEO base salary multiples across various sectors. Of the 250 companies studied, the most prevalent multiple for the CEO was 6 times base salary. This result was seen across most sectors. Two exceptions are the financials and consumer staples sectors, where the most prevalent multiples were 5 times and greater than 6 times base salary, respectively.

For other NEOs, the most prevalent base salary multiples were in the 3 – 3.9 times base salary range, as shown in the chart below. In the utilities sector, base salary multiples between 2 – 2.9 and 3 – 3.9 times base salary were equally prevalent. For the rest of the sectors, base salary multiples in the 3 – 3.9 times base salary range were the most prevalent.
**Definition of Ownership** – Most companies count shares owned outright and shares (or share units) held in deferral accounts toward achievement of ownership guidelines, but practices differ with respect to counting options, unvested RSUs, and unvested PSUs. Almost all Top 250 companies exclude unvested options, and the vast majority exclude vested options as well as unvested PSUs from the definition of “ownership.” However, unvested RSUs are much more likely to be included. In the consumer staples sector, the majority of companies counted unvested RSUs towards fulfilling executive ownership guidelines.

<table>
<thead>
<tr>
<th>Types of Equity Awards Counting Towards Ownership by Sector</th>
<th>Number of Companies</th>
<th>Unvested Options</th>
<th>Vested Options</th>
<th>Unvested RSUs</th>
<th>Unvested PSUs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financials</td>
<td>47</td>
<td>4%</td>
<td>15%</td>
<td>49%</td>
<td>9%</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>34</td>
<td>0%</td>
<td>18%</td>
<td>29%</td>
<td>12%</td>
</tr>
<tr>
<td>Health Care</td>
<td>36</td>
<td>3%</td>
<td>14%</td>
<td>42%</td>
<td>14%</td>
</tr>
<tr>
<td>Information Technology</td>
<td>34</td>
<td>0%</td>
<td>12%</td>
<td>21%</td>
<td>6%</td>
</tr>
<tr>
<td>Industrials</td>
<td>27</td>
<td>0%</td>
<td>0%</td>
<td>33%</td>
<td>6%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>26</td>
<td>0%</td>
<td>4%</td>
<td>54%</td>
<td>12%</td>
</tr>
<tr>
<td>Energy</td>
<td>21</td>
<td>0%</td>
<td>5%</td>
<td>43%</td>
<td>5%</td>
</tr>
<tr>
<td>Materials</td>
<td>11</td>
<td>0%</td>
<td>0%</td>
<td>27%</td>
<td>0%</td>
</tr>
<tr>
<td>Utilities</td>
<td>11</td>
<td>0%</td>
<td>0%</td>
<td>27%</td>
<td>9%</td>
</tr>
<tr>
<td>Telecommunication Services</td>
<td>3</td>
<td>0%</td>
<td>33%</td>
<td>33%</td>
<td>33%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>250</strong></td>
<td><strong>1%</strong></td>
<td><strong>10%</strong></td>
<td><strong>38%</strong></td>
<td><strong>9%</strong></td>
</tr>
</tbody>
</table>

**Time Period** – Of the 250 companies, 68% disclosed a time period over which ownership guidelines must be met. A 5 year time period was by far the most common. Among companies that did not disclose a time period, 67% had a retention ratio in place.

**Ownership Guidelines – Years to Achieve Prevalence**

- Less Than 5 Years: 6%
- Not Disclosed: 32%
- Greater Than 5 Years: 61%
- 5 Years: 61%
Ownership Guidelines

Retention Ratios – We found retention ratios in 47% of Top 250 companies, 98% of which also had ownership guidelines in place.

Among companies that disclose a retention ratio, the most prevalent design (77%) is to apply the retention ratio requirement until the ownership guideline is met; 49% of companies with this type of retention ratio do not disclose a time period over which ownership guidelines must be met. The percent of shares required to be retained ranges from 50%-100%, typically of the net-after-tax shares remaining after exercise of a stock option or vesting of a restricted or performance share.
APPENDIX – RESEARCH COMPANY LIST

3M Co.
Abbott Laboratories
AbbVie Inc.
Accenture PLC
Ace Limited
Actavis Plc
Adobe Systems Inc.
Aetna Inc.
Aflac Inc.
Air Products & Chemicals Inc.
Alexion Pharmaceuticals Inc.
Alliance Data Systems Corp
Allstate Corp.
Altria Group Inc.
Amazon.com Inc.
American Airlines Group Inc
American Electric Power
American Express Co.
American International Group
American Tower Corp.
Ameriprise Financial Inc.
Amerisourcebergen Corp
Amgen Inc.
Anadarko Petroleum Corp.
Analog Devices
Anthem Inc
Aon PLC
Apache Corp.
Apple Inc.
Applied Materials Inc.
Archer-Daniels-Midland Co.
AT&T Inc.
Automatic Data Processing
Autozone Inc.
Avago Technologies Ltd
Avalonbay Communities Inc.
Baker Hughes Inc.
Bank Of America Corp
Bank of New York Mellon Corp.
Baxter International Inc.
BB&T Corp.
Becton Dickinson & Co.
Biogen Idec Inc.
Blackrock Inc.
Boeing Co.
Boston Properties Inc.
Boston Scientific Corp.
Bristol-Myers Squibb Co.
Broadcom Corp.
Brown-Forman Corp.
Capital One Financial Corp.
Cardinal Health Inc.
Carnival Corp. PLC
Caterpillar Inc.
CBS Corp.
Celgene Corp.
Centurylink Inc.
Cerner Corp.
Chevron Corp.
Chipotle Mexican Grill Inc.
Chubb Corp.
Cigna Corp.
Cisco Systems Inc.
Citigroup Inc.
CME Group Inc.
Coca-Cola Co.
Cognizant Tech Solutions
Colgate-Palmolive Co.
Comcast Corp.
ConocoPhillips
Constellation Brands - Cl A
Corning Inc.
Costco Wholesale Corp.
Crown Castle International Corp.
CSX Corp.
Cummins Inc.
CVS Caremark Corp.
Danaher Corp.
Deere & Co.
Delphi Automotive PLC
Delta Air Lines Inc.
Devon Energy Corp.
DIRECTV
Discover Financial Services Inc.
Walt Disney Co.
Dollar General Corp.
Dominion Resources Inc.
Dow Chemical
E.I. DuPont De Nemours
Duke Energy Corp.
Eaton Corp PLC
eBay Inc.
Ecolab Inc.
Edison International
EMC Corp.
Emerson Electric Co.
EOG Resources Inc.
Equity Residential
Exelon Corp.
Express Scripts Holding Co.
Exxon Mobil Corp.
Facebook Inc.
FedEx Corp.
Fidelity National Info Svcs
Fiserv Inc
Ford Motor Co.
Franklin Resources Inc.
Freeport-McMoRan Copper & Gold
General Dynamics Corp.
General Electric Co.
General Growth Properties Inc.
General Mills Inc.
General Motors Co.
Gilead Sciences Inc.
Goldman Sachs Group Inc.
Google Inc.
Halliburton Co.
HCA Holdings
HCP Inc.
Health Care REIT Inc.
Hess Corp.
Hewlett-Packard Co.
Home Depot Inc.
Honeywell International Inc.
Humana Inc.
Illinois Tool Works
Intel Corp.
IntercontinentalExchange Grp.
Intl. Business Machines Corp.
International Paper Co.
Intuit Inc.
Johnson & Johnson
Johnson Controls Inc.
JPMorgan Chase & Co.
Kellogg Co.
Kimberly-Clark Corp.
Kinder Morgan Inc.
Kraft Foods Group Inc.
Kroger Co.
L Brands Inc
Estee Lauder Cos. Inc.
Eli Lilly & Co.
Lockheed Martin Corp.
Lorillard Inc.
Lowe’s Companies Inc.
LyondellBasell Industries N.V.
Macy’s Inc.
Marathon Petroleum Corp.
Marriott Intl Inc
Marsh & McLennan Cos.
MasterCard Inc.
McDonald’s Corp.
McGraw Hill Financial
McKesson Corp.
Mead Johnson Nutrition Co
Medtronic Inc.
Merck & Co.
MetLife Inc.
Micron Technology Inc.
Microsoft Corp.
Mondelez International Inc.
Monsanto Co.
Monster Beverage Corp
Moody’s Corp.
Morgan Stanley
Mylan Inc.
National Oilwell Varco Inc.
Netflix Inc.
Nextera Energy Inc.
Nike Inc.
Noble Energy Inc.
Norfolk Southern Corp.
Northrop Grumman Corp.
Occidental Petroleum Corp.
Omnicom Group
Oracle Corp.

O’Reilly Automotive Inc
PACCAR Inc.
PepsiCo Inc.
Perrigo Co Plc
Pfizer Inc.
PG&E Corp.
Philip Morris International
Phillips 66 Co.
Pioneer Natural Resources Co.
PNC Financial Svcs Group Inc.
PPL Industries Inc.
PPL Corp.
Praxair Inc.
Precision Castparts Corp.
T. Rowe Price Group
Priceline Group Inc.
Procter & Gamble Co.
Prologis Inc.
Prudential Financial Inc.
Public Service Enterprise Group Inc.
Public Storage
QUALCOMM Inc.
Raytheon Co.
Regeneron Pharmaceuticals
Reynolds American Inc.
Ross Stores Inc
Salesforce.com Inc.
Schlumberger Limited
Charles Schwab Corp.
Sempra Energy
Sherwin-Williams Co.
Simon Property Group Inc.
Skyworks Solutions Inc
Southern Co.
Southwest Airlines
Spectra Energy Corp.
Starbucks Corp.
State Street Corp.
Stryker Corp.
Suntrust Banks Inc.
Sysco Corp.
Target Corp.
TE Connectivity Limited
Texas Instruments Inc.

Thermo Fisher Scientific Inc.
Time Warner Cable Inc.
Time Warner Inc.
TJX Companies Inc.
Travelers Cos. Inc.
Twenty-First Century Fox Inc.
U.S. Bancorp
Union Pacific Corp.
United Parcel Service Inc.
United Technologies Corp.
UnitedHealth Group Inc.
Valero Energy Corp.
Vantas Inc.
Verizon Communications Inc.
Vertex Pharmaceuticals Inc.
VF Corp.
Viacom Inc.
Visa Inc.
Vornado Realty Trust
Walgreen Co.
Wal-Mart Stores Inc.
Waste Management Inc.
Wells Fargo & Co.
Western Digital Corp.
Whole Foods Market Inc.
Williams Cos Inc.
Yahoo! Inc.
YUM! Brands Inc.
Zimmer Holdings
Zoetis Inc
Frederic W. Cook & Co., Inc. is an independent consulting firm specializing in executive and director compensation and related corporate governance matters. Formed in 1973, our firm has served more than 3,000 organizations in a wide variety of industries from our offices in New York, Chicago, Los Angeles, San Francisco, Atlanta, Houston and Boston. We currently serve as the independent advisor to the compensation committees at a substantial number of the most prominent companies in the U.S.

Our office locations:

**New York**
685 Third Avenue
28th Floor
New York, NY 10017
212-986-6330

**Chicago**
190 South LaSalle Street
Suite 2120
Chicago, IL 60603
312-332-0910

**Los Angeles**
11100 Santa Monica Blvd.
Suite 300
Los Angeles, CA 90025
310-277-5070

**San Francisco**
135 Main Street
Suite 1750
San Francisco, CA 94105
415-659-0201

**Atlanta**
One Securities Centre
3490 Piedmont Road NE,
Suite 550
Atlanta, GA 30305
404-439-1001

**Houston**
Two Allen Center
1200 Smith Street
Suite 1100
Houston, TX 77002
713-427-8333

**Boston**
34 Washington Street
Suite 230
Wellesley Hills, MA 02481
781-591-3400

Web Site: [www.fwcook.com](http://www.fwcook.com)

This study was authored by Alex Greenwood with assistance from Cimi Silverberg and other Frederic W. Cook & Co. consultants. Questions and comments should be directed to Mr. Greenwood in our San Francisco office at agreenwood@fwcook.com or (415) 659-0206, or Ms. Silverberg in our Chicago office at cbsilverberg@fwcook.com or (312) 894-0073.