A Checklist for the 2018 Proxy Season

With Labor Day now behind us, there are at least two truths we *must* adhere to: we can't wear white until next spring, and we need to start preparing for the next proxy season. While executives at some companies may still be decompressing from their 2017 annual meetings, it is never too early to start planning for proxy drafting and off-season shareholder engagement. The smartest and most proactive companies already have their eyes on the prize for 2018.

There are a number of steps you can take as you plan ahead, and these tend to coalesce around a few big-picture themes. Vigilant attention to each area can help your company avoid any surprises and ensure the best possible outcome at your 2018 shareholder meeting.

Assess your exposure

This is always a great place to start your proxy season preparations and set the tone for what may potentially be discussed internally and externally during this off-season. The first step – reviewing how the past year went – should not focus solely on prior proxy vote results. Instead, understanding any issues raised by investors or proxy advisors, even if shareholders ultimately supported management, is crucial, as some underlying issues could linger and become more problematic as investors and proxy advisory firms shift their focus. Reflecting on all feedback, both the good and the critical, is healthy and necessary. Additionally, understanding any prospective concerns that could arise from recent or anticipated changes in corporate performance, regulation or executive compensation should be a point of focus in the off-season. Staying informed and keeping apprised of any such changes will help you to avoid any unexpected pitfalls during the proxy season.

Here are a few next steps to consider:

- Review the past year, including annual general meeting (AGM) results and proxy advisor reports.
- Identify potential ongoing or prospective issues.
- Understand the changing landscape, including regulatory matters, emerging issues for investors and any proxy advisor policy changes.

Manage your process, teams and partners

This might seem obvious, but this kind of management is often overlooked until the last minute. Forming your proxy team, which includes engaging outside advisors who can help draft the proxy and/or Compensation Discussion & Analysis (CD&A), is an important step. These advisors can help manage the overall process, in addition to providing input on the best disclosure practices to incorporate into your filings. Partnering – and communicating openly – with relevant board members can also be critical to success.

Be sure to include all relevant parties as you form your proxy team. This includes: human resources, legal, the corporate secretary's office, executive compensation professionals, as well as outside advisors and printers.

As you partner with the Board and/or compensation committee, don't forget to keep them informed along the way, and to think about how they can best contribute throughout the process (e.g., through engagement meetings). Ask yourself, how does my company stack up against its peers?

Some of the most important factors to keep in mind as you manage your process include costs, of course, as well as the timeline (i.e., filing date, AGM date, record date, compensation committee meetings, proxy drafts, etc.).

Know your quantitative metrics and results

If your company has not considered the CEO-to-median-employee pay ratio disclosure yet, it is high time to start. *New for 2018, companies will be required to disclose this ratio.* You should dedicate time not only to preparing the calculation and determining what methodology to follow, but also on thoughtfully drafting the disclosure. Other analyses, while annual and more routine in nature, are equally important and thus deserve your attention. For example, if you are seeking shares for your equity plans, modeling out these requests versus proxy advisor models and investor guidelines is critical to avoiding surprises. Likewise, understanding projected pay-for-performance scoring will help avoid surprises for compensation-related proxy ballot items, such as say-on-pay or compensation committee nominees.

Last, but certainly not least, engage with your shareholders

As a proactive company on the forefront of governance practices you have no doubt been engaging with your shareholder base for years. But if not, now is definitely the time to start. This holds true even if your past annual meetings have gone smoothly and very few issues arose. Creating an ongoing dialogue with shareholders is important and helps assuage their reactions if an unforeseen bump in the road does occur.

For companies that have faced high shareholder opposition in votes during the past year, focusing attention on investor outreach is critical to avoiding ongoing issues. Some of these outreach meetings may be contentious; however, as your advisors will tell you, thoughtful preparation for these meetings will result in fruitful dialogue and a positive experience for all parties involved. Furthermore, as part of this process, companies should determine if proactive outreach by your proxy advisory firm is necessary and, if so, schedule those meetings as soon as practicable.

By focusing attention on these four areas, you should be well positioned for the upcoming proxy season. Again, it's never too early to start thinking about the year ahead, and thoughtful preparation now can mean smooth sailing when spring rolls around.

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