CII Opposes Automatic Accelerated Vesting of Unearned Equity

Washington, D.C., April 2, 2015 — Members of the Council of Institutional Investors (CII) have approved a corporate governance policy opposing automatic accelerated vesting of unearned equity in the event of a merger or other change-in-control. The recommended best-practice policy states that boards should have discretion to permit full, partial or no accelerated vesting of equity awards not yet awarded, paid or vested. It also calls on boards that accelerate awards in full to disclose their rationale for doing so in a public filing.

The new policy, which CII members adopted April 1, states:

In the event of a change in control, companies should not permit automatic accelerated vesting of all equity awards not yet awarded, paid or vested. A board’s compensation committee may have discretion to permit full, partial or no accelerated vesting of equity awards not yet awarded, paid or vested. For example, adjustments may be appropriate to account for the actual performance delivered or the proportional amount of time that passed from the beginning of the performance or vesting period to the trigger date. If the board decides to accelerate awards in full, the company should disclose in the relevant public filing a detailed rationale of the decision and how it relates to shareholder value.

Equity-based awards play an important role in aligning executive pay with performance. Time-vesting schedules and performance-based hurdles attached to these awards help ensure that executives are rewarded for meaningful outcomes that drive long-term shareholder value. Yet many U.S. companies routinely lift these restrictions in change-in-control situations.

Automatic, full acceleration is sometimes justified as a form of severance. However, after a change in control, senior executives typically receive a severance payout equivalent to two or three times their base salary and annual bonus. In such cases, full acceleration of unvested awards amounts to an extra severance payout.

In adopting the new policy, CII aims to add momentum to the growing trend among U.S. companies to end automatic full vesting. Many large companies permit partial vesting of awards upon a termination, while others require senior executives to forfeit all unvested equity upon a change-in-control termination.

About CII’s corporate governance policies: CII develops and updates, as appropriate, a comprehensive body of corporate governance best practices for U.S. companies on matters including executive compensation, CEO succession and board diversity.