



Council of Institutional Investors®

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Leading Investor Group Urges Companies to Commit to Long-Term Executive Compensation

Minneapolis, Sept. 18, 2019 —The Council of Institutional Investors September 17 overhauled its [policy on executive compensation](#), urging public companies to dial back the complexity of their executive compensation plans and set longer periods for measuring performance for incentive pay.

While acknowledging that boards of directors need to tailor pay packages to company-specific circumstances, the new policy suggests firms explore adopting simpler plans comprised of salary and restricted shares that vest over five years or more. The policy also recommends that companies consider barring the CEO and CFO from selling stock awarded to them until after they depart to ensure management prioritizes the company's long-term success.

"The policy revision reflects concerns on excessive complexity in U.S. executive pay plans, and questions on the effectiveness of some approaches to pay-for performance," said CII Executive Director Ken Bertsch. "Steadily rising average pay, even when market performance is mediocre, suggests that pay-for-performance can be a mirage."

The policy suggests boards and investors step up their scrutiny of performance-vesting shares—stock awarded based on achievement of corporate performance milestones. Although these arrangements can work very well for some companies, recent research calls into question whether they provide a strong enough connection to long-term company performance on a broad level. Their goals and metrics can be numerous, wide-ranging, adjustable and hard to understand.

Responding to the widening gap between compensation for workers and executives, the new CII policy recognizes rank-and-file pay as a valid "reference point" for setting executive pay at appropriate levels.

The policy also expands the circumstances under which boards should have legitimate discretion to claw back executive pay, covering not only financial restatements but also personal misconduct and ethical lapses that cause material reputational harm.

About CII: The Council of Institutional Investors (CII) is a nonprofit, nonpartisan association of U.S. asset owners, primarily pension funds, state and local entities charged with investing public assets and endowments and foundations, with combined assets of \$4 trillion. CII's associate members include non-U.S. asset owners with more than \$4 trillion in assets and a range of asset management firms with more than \$35 trillion under management. CII is a leading voice for effective corporate governance, strong shareowner rights and transparent and fair capital markets.