THE FUTURE OF COMPENSATION AND CORPORATE GOVERNANCE AMID A TRUMP PRESIDENCY

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One thing is for certain, the results of the election created a myriad of questions regarding the future of American politics. Less certain, though, is the level of impact the results will have on the futures of various executive compensation and corporate governance policies that have been at the forefront of discussions since outgoing President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") into law in 2010. With President-elect Donald Trump on his way to the White House, majority control of both the U.S. Senate and House of Representatives shifting to the GOP, and the announcement of Ms. Mary Jo White - Chairwoman of the Securities and Exchange Commission ("SEC") - leaving her post, the regulatory framework that has implemented and monitored Dodd-Frank is undergoing a sea change. In this regard, we explore what this could mean for various compensation and corporate governance regulations enveloped within Dodd-Frank.

Dodd-Frank

It is safe to assume Dodd-Frank as we know it has a limited shelf life. Mr. Trump has publicly expressed his displeasure with the legislation, stating his intent to "replace it with new policies to encourage economic growth and job creation." Trump has not elaborated further on his plans for Dodd-Frank, but that hasn't kept industry pundits from weighing in on potential changes. As noted in a recent article by Andres Melin and Caleb Melby from Bloomberg.com, completely disassembling Dodd-Frank could result in "a reduced leverage over corporate boards enjoyed by institutional investors who serve as stewards for American savers." With significant potential backlash, it is unlikely that Trump will repeal the entirety of Dodd-Frank. What we can expect is some likely one-off treatment of individual Dodd-Frank provisions.

Say-on-Pay and Proxy Advisory Firms

Although its impact is garnering less attention now than in its early years of adoption, we note Say-on-Pay is likely to see some minor changes under the Trump an environment without Say-on-Pay, these firms may implement policies that dictate an "against" recommendation for directors serving on compensation committees at companies that eliminate Say-on-Pay voting.

CEO Pay Ratio and Pay for Performance Disclosure

Unlike Say-on-Pay, CEO Pay Ratio and Pay for Performance disclosures are not mainstays in the public company corporate governance environment. While CEO Pay Ratio is slated to go in effect for fiscal years beginning on or after January 1, 2017, Pay for Performance rules have not yet been finalized. The contexts of these two policies make for low hanging fruit for the Trump administration. Add to that the CEO Pay Ratio's cost, complexity, and lack of relevance to investors, and it's not hard for us to see these two provisions eliminated under a revised Dodd-Frank legislation.

Summary

President-elect Trump engaged his voters with a platform, and first 100 day agenda, of minimizing government regulation to promote economic and employment growth. Starting with a vow "to issue a temporary moratorium on new regulations that aren't compelled by Congress or public safety," we anticipate some changes to the compensation and corporate governance environment as we know it. We will continue to monitor anticipated regulatory shifts as the country moves closer to Mr. Trump's inauguration in January 2017, and keep you informed as they happen.

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