

On Our Radar: Deadline to Submit Peer Groups for Glass Lewis' New Methodology Quickly Approaching

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Effective 2020, Glass Lewis & Co. will institute a new methodology for developing the compensation peer groups that drive the A-F grades for its Pay-for-Performance Methodology (“P4P Methodology”) and subsequent recommendations on say-on-pay (SOP). This change is the result of Glass Lewis’ transition to CGLytics as its exclusive global compensation data partner. Fortunately, other than the change to the peer group methodology, there are no other modifications to the P4P Methodology this year. As a result of the P4P Methodology update, however, we encourage all companies to affirmatively submit their 2020 peer group to Glass Lewis in their portal in the next two weeks, as described below.

Old Peer-of-Peer Methodology

Prior to 2020, Glass Lewis’ peer methodology was derived from Equilar (its former compensation data partner) based on the strength of connectivity between groups of corporate peers (known as a peer-of-peers methodology), using a company’s self-disclosed peers in its proxy statement as a starting point. According to Glass Lewis, this methodology is being retired, at least in part, because it believes “group think” drove the process. Glass Lewis has stated that a truly independent and robust comparison should also consider investor views of factors such as industry, country, and company size. By incorporating the investor view for 2020, it believes it can avoid the “echo-chamber” effect and market-wide ratcheting on executive compensation levels that is encouraged by peer-of-peers methodologies that rely exclusively on how companies reference one another in their disclosures.

New Peer Group Methodology

The new methodology will begin with a company’s self-disclosed peers, and then incorporate investor views on both industry-based and country-based peers, in addition to the company’s peer-of-peers. It will then scrutinize this larger pool of potential peers by introducing additional screens based on corporate revenue, market capitalization, and assets; weightings for peers based on the source and frequency of confirmation; and peer rankings based on a strength-of-connection approach that considers all potential peers, not just those resulting from the network effects of corporate disclosures.

What's the Impact?

Glass Lewis states that this new methodology will have an eight-fold increase in the number of independent tests applied to a company's self-disclosed peers, resulting in a 14% reduction in overlap between a company's self-disclosed peers and the peers that Glass Lewis uses. Glass Lewis represents that there will be no material change to the distribution of the A-F grades awarded or the number of against recommendations as a result of the new peer methodology because the PFP Methodology distributes grades evenly. Glass Lewis has also stated that it expects to support the same level of SOP proposals as it has in recent years.

What Should I Do Next?

Glass Lewis is now accepting updated peer group submissions to include in its 2020 PFP Methodology as it believes it is an ideal opportunity to confirm the accuracy of your company's publicly-disclosed information. In fact, they advise making this submission even if there is no planned change from last year. If you do not intend to disclose a peer group in 2020, this is an opportunity to confirm prior publicly-disclosed information to improve accuracy. Also, you will have the opportunity to explain to GL analysts why you will not be disclosing peers this year. They will only consider one primary peer group, and will not include private companies in their assessment of peer groups.

You can submit your peer group here, but you must do so by January 31, 2020 for proxy statement filings through July 31, 2020 and July 31, 2020 for proxy statement filings through January 31, 2021.

About the Author

Deborah Lifshy is a managing director in the New York office, where she specializes in advising clients on compensation matters from a legal perspective including securities disclosure, taxation and corporate governance issues, negotiation contracts, and reasonableness opinion letters.

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