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Via E-mail: rule-comments@sec.gov
Securities and Exchange Commission,
100 F Street, N.E., Washington, DC 20549-1090.
Attention: Vanessa Countryman, Secretary

February 18, 2021

Re: Period for Pay Versus Performance – File No. S7-07-15

Ladies and Gentlemen:

I appreciate the opportunity to comment on the Securities and Exchange Commission's (the "Commission") proposal to implement Section 953(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act"). Herein I provide comments and analysis relating primarily to the Reopening of Comment Period for Pay Versus Performance, which is intended to allow interested persons further opportunity to analyze and comment upon the Proposed Rules in light of developments since the publication of the Proposing Release and the further consideration of the Section 953(a) mandate.

This letter provides comment on the central premise of the Proposal, Section 953(a) of the Dodd-Frank Act added Section 14(i) to the Securities Exchange Act of 1934. Section 14(i) requires that the Commission adopt rules requiring issuers to disclose in any proxy or consent solicitation material for an annual meeting of shareholders a clear description of any compensation required to be disclosed under 17 CFR 229.402 ("Item 402 of Regulation S-K"), including information that shows the relationship between executive compensation actually paid and the financial performance of the issuer, taking into account any change in the value of the shares of stock and dividends of the issuer and any distributions. The commission notes that they are considering whether additional requirements would better implement the Section 953(a) mandate by providing investors with additional decision-relevant data. Specifically, the Commission proposed requiring TSR (as defined in Item 201(e) of Regulation S-K) as the measure of "financial performance" of the registrant. The Commission is also considering requiring registrants to disclose, in addition to their TSR and the TSR of their peer group, certain other measures of performance, which could provide additional clarity to investors as to the relation between executive compensation and financial performance.

This letter also provides comment on the claims of The Commission about the benefits of the Proposed Rules. Specifically, the Commission states that, "We believe that including a tabular list of those performance measures that drove recent compensation actually paid may help address concerns that using only TSR may mislead investors or provide an incomplete picture of performance." The Commission also believes that the Proposed Rules may facilitate the analysis of registrants' executive compensation actually paid in relation to company performance.

The conclusion from this comment is that the CEO equity compensation expense is a distinct measure that shareholders consider when voting on management sponsored proposals and compensation committee members up for re-election. The results are consistent with the

Committee’s conjecture that, “no one approach to disclosure of stock and option awards addresses all of the issues regarding disclosure of these forms of compensation” (71 FR, No. 250, page 78340). Measures of equity compensation that capture equity earned by the CEO may help to meet the informational demands of shareholders. However, there is evidence to suggest that firms altered equity compensation schemes in response to the removal of the equity compensation expense disclosure. Therefore, it is important to consider the unintended consequences of the disclosure and to understand how regulation of compensation disclosures may influence compensation features.

The basis for this comment stems from a research paper that I co-authored that was published in *The Journal of Management Accounting Research* (Cadman, Carrizosa, and Peng, 2020). That paper is included in this letter. My comment also extends from additional research that is cited herein. Please feel free to reach out to me for further clarification or comment.

A handwritten signature in black ink, appearing to read "B. Cadman". The signature is fluid and cursive, with a large initial "B" and a stylized "C".

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I. An Overview of the Research on Compensation Disclosure and Corporate Governance.

CEO compensation is a significant focus for shareholders when participating in corporate governance. However, there are several measures of equity compensation that may provide shareholders with distinct and useful information for evaluating CEO pay. The SEC has required two distinct measures of CEO compensation. One measure is the grant date fair value, which is the fair value of all equities granted during the fiscal year. This measure provides shareholders with information about what is granted, but not necessarily earned, during the fiscal year. The SEC has also required firms to report the ASC 718 expense, which is the equity ownership that is transferred to the CEO during the fiscal year. This transfer of ownership is the portion of the grant date fair value of prior and current grants that vest during the year as a result of meeting performance benchmarks or time-based vesting.

II. The Relation Between Investor Participation in Corporate Governance Through Voting and Compensation Disclosure.

In Cadman et al., 2020, we study investor support for management sponsored equity plan proposals and abnormal CEO equity compensation expense. We find a negative relation between investor support for management sponsored equity plan proposals and abnormal grant date fair value of annual equity compensation attributed to the CEO. We also find a negative relation between investor support for management sponsored equity plan proposals and abnormal CEO equity compensation expense. These results suggest that shareholders consider the ASC 718 expense in addition to the grant date fair value when participating in compensation-related governance.

We then explore the relation between the two measures of CEO equity compensation and shareholder votes for the election of board members who sit on the compensation committee. We find that votes in support of board members that serve on the compensation committee decrease in abnormal grant date fair value of annual equity compensation. We also find that votes in support of board members that serve on the compensation committee decrease in abnormal CEO equity compensation expense, which further suggests that shareholders consider the ASC 718 expense as an incrementally valuable measure of compensation when participating in compensation-related governance.

We consider the role of proxy advisory services provided by Institutional Shareholder Services (ISS). After controlling for ISS recommendations, we find that voting outcomes remain significantly related to abnormal equity compensation expense. We also test whether the distinct measures of equity compensation are determinants of ISS recommendations and find that only the grant date fair value of equity compensation is a significant determinant of the ISS recommendation. Together, these results suggest that shareholders consider equity compensation expense in addition to the ISS recommendation when voting.

III. Compensation Changes in Relation to Changes in Compensation Disclosure.

We also consider how compensation schemes change after firms are not required to disclose the ASC 718 equity compensation expense. On December 20, 2009 the SEC removed the required disclosure of the ASC 718 expense, instead requiring firms to include the grant date fair value of annual equity grants in the Summary Compensation Table of the proxy statement as part of the “Total Compensation” (2009 rule). In most cases the ASC 718 expense cannot be calculated from the information provided after the removal of the expense from the proxy statement. Cadman, Rusticus, and Sunder (2013) find that firms lengthen vesting periods following the adoption of ASC 718, presumably to reduce the recognized expense on the income statement. We expect a similar response to the disclosure of the expense on the proxy statement beyond the previously documented response to the recognition of the expense on the income statement. Consistent with our prediction, we find that firms shorten vesting periods after the SEC removed the disclosure of the equity compensation expense from the proxy statement and that the reduction in vesting periods is more prominent in the set of firms that lengthened vesting periods after the adoption of ASC 718.

IV. Summary

Collectively, the results suggest that the CEO equity compensation expense is a distinct measure that shareholders consider when voting on management sponsored proposals and compensation committee members up for re-election. The results are consistent with the SEC’s inference that, “no one approach to disclosure of stock and option awards addresses all of the issues regarding disclosure of these forms of compensation” (71 FR, No. 250, page 78340). Our findings suggest that measures of equity compensation that capture equity earned by the CEO may help to meet the informational demands of shareholders. We also provide evidence on how firms alter equity compensation schemes in response to the removal of the equity compensation expense disclosure, which contributes to understanding how regulation of compensation disclosures influences compensation features.

REFERENCES

- Cadman, B. D., T. O. Rusticus, and J. Sunder. 2013. Stock option grant vesting terms: Economic and financial reporting determinants. *Review of Accounting Studies* 18 (4), 1159–1190.
- Cadman, B. D., R.D. Carrizosa, and X. Peng. 2020. Compensation Disclosures and Corporate Governance through Shareholder Voting. *Journal of Management Accounting Research* 32 (3), 27-48.

Compensation Disclosures and Corporate Governance Through Shareholder Voting


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ABSTRACT

There are several measures of equity compensation that may provide shareholders with distinct and useful information for evaluating CEO pay. We examine whether shareholders consider additional disclosures of equity compensation measures beyond the grant date fair value when participating in corporate governance. We find that CEO equity compensation expense, a distinct measure of equity compensation, is a determinant of shareholder voting for management sponsored equity plans and voting for directors that serve on the compensation committee. After controlling for ISS recommendations, we find that voting outcomes remain significantly related to abnormal equity compensation expense. Consistent with shareholders considering the equity compensation expense, we document that firms shorten equity compensation vesting periods when they are no longer required to disclose the equity compensation expense. Our findings suggest that shareholders rely on multiple, distinct measures of equity compensation when participating in corporate governance.

Keywords: proxy statement disclosure, CEO compensation, shareholder voting, equity compensation, corporate governance

JEL Classifications: M12, M52, G34

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I. INTRODUCTION

Corporate governance through shareholder voting is an important form of governance that has increased dramatically over the past two decades (Bebchuk and Weisbach 2010; Gillan and Starks 2000, 2007). CEO compensation is a significant focus for shareholders when participating in corporate governance. However, there are several measures of equity compensation that may provide shareholders with distinct and useful information for evaluating CEO pay.¹ The SEC has required two distinct measures of CEO compensation. One measure is the grant date fair value, which is the fair value of all equities granted during the fiscal year. This measure provides shareholders with information about what is granted, but not necessarily earned, during the fiscal year. Prior research focuses on the grant date fair value of annual equity compensation, and finds that shareholder voting is related to abnormal CEO compensation (Ertimur, Ferri, and Muslu 2011; Cai and Walkling 2011; Armstrong, Gow, and Larcker 2013; Ertimur, Ferri, and Oesch 2013). The SEC has also required firms to report the ASC 718 expense, which is the equity ownership that is transferred to the CEO during the fiscal year. This transfer of ownership is the portion of the grant date fair value of prior and current grants that vest during the year, which results from meeting performance benchmarks or time-based vesting. We exploit the setting in which the SEC required firms to provide an additional measure of equity compensation, the ASC 718 expense, to examine whether shareholders consider this alternative measure of CEO equity compensation when participating in compensation-related governance.

From December 15, 2006 until December 20, 2009, the SEC required firms to report the stock and option expense (ASC 718 expense) recognized by the firm for the named executive officers in the Summary Compensation Table of the proxy statement as part of the “Total

¹ Which of these measures of equity compensation are relevant remains an open question that has been debated by companies, regulators, and shareholders (SEC, 2015).

Compensation” (2006 rule).² At the same time, the SEC required firms to report the grant date fair value of equity compensation in the Plan-Based Awards Table of the proxy statement.³ We begin by examining the relation between shareholder support for management sponsored proposals and the two measures of CEO equity compensation. Armstrong et al. (2013) document that the percentage of votes in support of management sponsored compensation proposals is lower for firms with higher grant date fair value of CEO compensation. Consistent with prior literature, we find a negative relation between investor support for management sponsored equity plan proposals and abnormal grant date fair value of annual equity compensation attributed to the CEO. At the same time, we find a negative relation between investor support for management sponsored equity plan proposals and abnormal CEO equity compensation expense, which suggests that shareholders consider the ASC 718 expense in addition to the grant date fair value when participating in compensation-related governance.

We then explore the relation between the two measures of CEO equity compensation and shareholder votes for the election of board members who sit on the compensation committee. Cai, Garner, and Walkling (2009) and Ertimur et al. (2011) document that vote-no campaigns and withholding votes for board members that sit on the compensation committee increase with the grant date fair value of CEO pay. Consistent with prior literature, we find that votes in support of board members that serve on the compensation committee decrease in abnormal grant date fair value of annual equity compensation. We also find that votes in support of board members that

² The SEC identifies the “named executive officers” as the CEO, CFO and three highest paid other executive officers for fiscal years ended on or after December 15, 2006.

³ Murphy (2013) argues that the required disclosure of equity compensation expense in the summary compensation adds confusion for shareholders to distinguish between the granted pay and the realized pay. During the rule-making process, some investors noted that “executive compensation disclosure and financial reporting are separate and distinct” and the equity compensation expense would conceal the total impact of executive compensation decisions from shareholders. If shareholders do not consider the information captured by the expense, it may not be related to shareholder voting.

serve on the compensation committee decrease in abnormal CEO equity compensation expense, which further suggests that shareholders consider the ASC 718 expense as an incrementally valuable measure of compensation when participating in compensation-related governance. Finally, we consider shareholder proposals. Prior research finds evidence that activist investors use shareholder proposals to target firms and convey dissatisfaction about governance (Ertimur, Ferri, and Stubben 2010; Ertimur et al. 2011; Gillan and Starks 2000, 2007). We find no evidence that either measure of abnormal equity compensation is related to shareholder proposal targeting.

We consider the role of proxy advisory services provided by Institutional Shareholder Services (ISS). After controlling for ISS recommendations, we find that voting outcomes remain significantly related to abnormal equity compensation expense. We also test whether the distinct measures of equity compensation are determinants of ISS recommendations and find that only the grant date fair value of equity compensation is a significant determinant of the ISS recommendation. This result is consistent with ISS's stated focus on the grant date fair value.⁴ Together, we find that shareholders consider equity compensation expense in addition to the ISS recommendation when voting.

We also consider how compensation schemes change after firms are not required to disclose the ASC 718 equity compensation expense. On December 20, 2009 the SEC removed the required disclosure of the ASC 718 expense, instead requiring firms to include the grant date fair value of annual equity grants in the Summary Compensation Table of the proxy statement as part of the "Total Compensation" (2009 rule). In most cases the ASC 718 expense cannot be calculated from the information provided after the removal of the expense from the proxy statement.⁵ If

⁴ In "Evaluating Pay for Performance Alignment" (2014) ISS indicates that they measure the grant date fair value of equity grants when measuring pay.

⁵ When the vesting is based on performance, or equity grants are based on achieving performance targets, such as long-term incentive payouts, the ASC 718 expense cannot be calculated from the available disclosures.

shareholders consider the equity compensation expense attributable to the CEO when participating in compensation-related corporate governance, we expect changes in the disclosure of the equity compensation expense to influence equity grant features. Cadman, Rusticus, and Sunder (2013) find that firms lengthen vesting periods following the adoption of ASC 718, presumably to reduce the recognized expense on the income statement. We expect a similar response to the disclosure of the expense on the proxy statement beyond the previously documented response to the recognition of the expense on the income statement. To the extent that firms concerned with the disclosed equity compensation expense lengthened vesting periods, we predict those firms to shorten vesting terms after removing the equity compensation expense from the proxy statement.⁶ Consistent with our prediction, we find that firms shorten vesting periods after the SEC removed the disclosure of the equity compensation expense from the proxy statement and that the reduction in vesting periods is more prominent in the set of firms that lengthened vesting periods after the adoption of ASC 718.

Collectively, the results suggest that the CEO equity compensation expense is a distinct measure that shareholders consider when voting on management sponsored proposals and compensation committee members up for re-election. The results are consistent with the SEC's inference that, "no one approach to disclosure of stock and option awards addresses all of the issues regarding disclosure of these forms of compensation" (71 FR, No. 250, page 78340). Our findings suggest that measures of equity compensation that capture equity earned by the CEO may help to meet the informational demands of shareholders (e.g. Armstrong, Core, and Guay 2014; Edmans, Gabaix, and Jenter 2017). Our findings also inform deliberations by the SEC to require companies

⁶ It is important to note that the ASC 718 equity compensation expense recognized on the income statement does not change over this disclosure regime.

to disclose the relationship between executive pay and a company's financial performance.⁷ Finally, we provide evidence on how firms alter equity compensation schemes in response to the removal of the equity compensation expense disclosure, which contributes to understanding how regulation of compensation disclosures influences compensation features.

II. ASC 718 EXPENSE DISCLOSURE AND SHAREHOLDER VOTING

Shareholders actively participate in compensation-related corporate governance through voting (Shleifer and Vishny, 1997). The SEC requires firms to provide a proxy statement in advance of the annual shareholder meeting that includes executive compensation disclosures, which provides shareholders with information to evaluate executive compensation schemes. Equity-based compensation is often the most significant single component of annual compensation.⁸ The required disclosures of equity compensation have centered around two measures of annual equity compensation: the grant date fair value of annual equity grants and the equity compensation expense recognized in the year.⁹ From 2006 through 2009, the SEC required

⁷ The proposal includes a requirement to disclose an additional equity compensation measure that reflects equity "actually paid" in the year. According to the proposal, "equity awards would be considered actually paid on the date of vesting and at fair value on that date, rather than fair value on the grant date as required in the summary compensation table. Both amounts would be disclosed in the new table." See SEC press release 2015-78 (<http://www.sec.gov/news/pressrelease/2015-78.html>).

⁸ 40.3 percent (44 percent) of total compensation is equity-based for firms in ExecuComp during our sample period, where the percentage of compensation is the grant date fair value (ASC 718 expense) of equity grants as reported by the firm divided by the sum of grant date fair value (ASC 718 expense) of equity grants and all non-equity compensation reported in the Summary Compensation Table.

⁹ The comment letters from various constituents regarding proposed amendments to executive disclosure requirements in 2006 differed in their support for the inclusion of either equity grant date fair value or expense in the Summary Compensation Table. Some user groups prefer firms to report the grant date fair value, because they believe that grant date fair value reflects the compensation decisions made by the board in the current period. Examples include investor groups, compensation consultants and proxy advisors. See, for example comment letters from California Public Employees' Retirement System, Towers Perrin and ISS. Other user groups, such as auditors, prefer the firm to report the ASC 718 expense because they believe it reflects realized pay in the year and is consistent with financial reporting rules. See, for example comment letters from Grant Thornton (SEC, 2008). In support of the two measures providing distinct information, the SEC noted when adopting the 2006 rule that the combination of the two disclosures were an improvement and recognized that, "no one approach to disclosure of stock and option awards addresses all of the issues regarding disclosure of these forms of compensation" (71 FR, No. 250, page 78340).

firms to report the stock and option expense (ASC 718 expense) recognized by the firm for the named executive officers in the Summary Compensation Table of the proxy statement as part of the “Total Compensation”. At the same time, the SEC required firms to report the grant date fair value of equity compensation in the Plan-Based Awards Table of the proxy statement.¹⁰

The grant date fair value reports the fair value of all equities granted during the fiscal year. Often the ownership of these equities does not transfer to the CEO at the grant date. Because the transfer of ownership occurs in the future, the CEO’s actions will affect the value of the equities when the ownership transfers in the future periods. Prior research suggests that firms grant equity to balance the portfolio of equity incentives (e.g. Core and Guay 1999). Therefore, investors can use this measure to assess the CEO’s incentives to take actions that affect future value.

In contrast to the grant date fair value, the ASC 718 expense reports the transfer of equity ownership to the CEO. Specifically, the ASC 718 expense is measured by allocating the portion of grant date fair value of prior and current grants that vest during the year. In some cases, equity grants vest over time, which links vesting to the executive’s continuing services to the firm. In other cases, vesting is conditional on meeting performance targets, which directly links vesting to performance. As a result, the ASC 718 expense of equity compensation provides a distinct measure that aggregates the transfer of ownership from portions of previous and current equity grants to the CEO in the current period. This measure may help shareholders assess the link between realized

¹⁰ Appendix A Panel A provides an example of the Summary Compensation Table and the Plan-Based Awards Table following the 2006 rule. The Summary Compensation Table provides the ASC 718 expense for the named executive officer. The Plan-Based Awards Table provides the grant date fair value of the stock and options awarded for the year. These values consist of the estimated value of all the equity grants during the fiscal year. In the case of performance-based equity grants, the Plan-Based awards table provides a threshold, target, and maximum amount of shares underlying the equity grants, while the “Grant Date Fair Value” column provides the expected payout, which is generally the grant date fair value of the “target” amount of shares. The two measures of equity compensation are distinct; the sum of the Grant Date Fair Value (\$) column of the Plan-Based Awards Table (\$7,336,883) does not equal the sum of the Stock Awards (\$) and Option Awards (\$) columns of the Summary Compensation Table (\$3,708,749).

performance and equity ownership that transfers to the CEO in the current period.¹¹

Despite the required disclosure of an additional measure of equity compensation, the ASC 718 expense, and the fact that research on compensation-related corporate governance has increased over the past decades (Bebchuk and Weisbach 2010; Gillan and Starks 2000, 2007), much of the prior research has focused on the grant date fair value of equity compensation. Specifically, prior research finds that the level of executive compensation measured with the grant date fair value of equity grants is an important determinant of shareholder voting and shareholder proposal targeting. For example, Ertimur et al. (2011) and Armstrong et al. (2013) document that the percentage of votes in support of management sponsored compensation proposals is lower for firms with higher CEO compensation. Cai et al. (2009) finds that votes for director elections are negatively related to the abnormal CEO compensation. Ertimur et al. (2011) finds that the probability of being targeted by shareholder proposals and shareholder support for such proposals increase with CEO pay. All of these studies measure equity compensation with the grant date fair value, perhaps to be consistent over their sample periods.

We examine whether shareholders consider both measures of equity compensation when participating in compensation-related corporate governance. We conjecture that the ASC 718 compensation expense is a distinct measure of equity compensation from the grant date fair value and predict that shareholders consider both the grant date fair value and the ASC 718 equity compensation expense when participating in compensation-related corporate governance through voting and proposals.¹²

¹¹ The disclosure of the two measures of equity compensation may provide different information to investors. For example, the grant date fair value reflects the board's expectations of the probability of achieving performance hurdles for performance-based equity grants. Also, the ASC 718 expense reflects the performance outcomes that resulted in vesting of previously granted equity. However, we are not measuring the information content of the disclosures. Rather, we focus our tests on the measures as reported by the firm to assess whether shareholders consider both measures of equity compensation when participating in compensation-related corporate governance.

¹² In addition to the disclosure of the equity compensation measures, the placement and form of the compensation

III. EMPIRICAL METHODOLOGY

Equity Compensation Measures

We obtain CEO compensation data from the ExecuComp database and complement it with additional data collected directly from proxy statements. We measure the ASC 718 equity compensation expense with the sum of the STOCK_AWARDS and OPTION_AWARDS from ExecuComp. We also measure the grant date fair value of annual CEO equity grants with STOCK_AWARDS_FV and OPTION_AWARDS_FV from ExecuComp. Close examination of the expense and fair value variables led us to conclude that ExecuComp incorrectly reports the measure of stock and option expense (STOCK_AWARDS and OPTION_AWARDS) frequently. Over 40 percent of the stock and option expense values are exactly the same as their corresponding fair values for observations with fiscal-year ends that fall between December 15, 2006 and December 20, 2009. We find that in most cases where the expense and fair value are identical, ExecuComp incorrectly populates the expense numbers with the fair value (over 75 percent of observations). To correct this error, we manually collect the correct stock and option expense values directly from the Summary Compensation Table in the corresponding proxy statement on SEC EDGAR for every firm-year where ExecuComp reports identical expense and grant date fair values for stock or option grants. We replace the stock and option expense variables with the corrected data.

Shareholder Voting and Proposals

information within the proxy statement may also influence how investors incorporate each equity compensation measure when making decisions. For example, Libby, Bloomfield, and Nelson (2002) suggest that placement and classification of information in financial reports affect investors' use of such information.

To provide evidence on shareholders' use of the two measures of equity compensation, we consider shareholder involvement in corporate governance through voting. We first examine voting outcomes of management sponsored equity compensation-related proposals. The 2003 SEC Regulation Release No. 34-48108 requires new equity plans and material modifications to existing equity plans to be approved by shareholders in a binding vote. Management sponsored proposals for equity plans and amendments occur regularly for a broad sample of firms during our sample period.

We also examine shareholder votes in support of the election of directors that serve on the compensation committee. Shareholders may influence compensation decisions by withholding votes for directors that are integral to the design and approval of executive compensation (Cai et al. 2009; Fischer, Gramlich, Miller, and White 2009). Finally, we examine shareholder compensation proposal targeting. The SEC shareholder proposals rule 14a-8 allows shareholder proposals related to executive or director compensation to be included in proxy statements. Prior studies show that activist investors use proposals to express disagreements and to influence changes related to executive compensation (Ertimur et al. 2011; Gillan and Starks 2000).

We obtain data on shareholder proposals and voting results from the ISS Voting Analytics Database. These voting outcomes correspond to proposals on the same proxy statement that reports CEO equity compensation. We measure shareholder support for compensation-related proposals using the percentage of favorable votes for the proposals. We measure support for directors as the percentage of votes "For" the election of a director that has served on the compensation committee. Finally, we identify shareholder proposals that relate to executive compensation.

Empirical Design

To test the relation between compensation-related corporate governance and the measures of CEO equity compensation, we estimate the following model of voting outcomes and shareholder proposals:

$$\begin{aligned}
\text{VotesFor}_{i,t} = & \alpha_0 + \alpha_1 \text{AbnEquityCompFV}_{i,t} + \alpha_2 \text{AbnEquityCompExp}_{i,t} \\
& + \alpha_3 \text{PredEquityComp}_{i,t} + \alpha_4 \ln(\text{NonEquityComp}_{i,t}) + \alpha_5 \text{DirectorN}_{i,t} \\
& + \alpha_6 \text{Indep}\%_{i,t} + \alpha_7 \text{IndepOwn}_{i,t} + \alpha_8 \text{ROA}_{i,t} + \alpha_9 \text{Ret3yr}_{i,t} + \alpha_{10} \ln(\text{Delta}_{i,t}) \\
& + \alpha_{11} \text{CEOOwn}_{i,t} + \alpha_{12} \text{Size}_{i,t} + \text{Year} * \text{IndFE} + \epsilon_{i,t}
\end{aligned} \tag{1}$$

The dependent variable is *VotesFor MgmtProp* or *VotesFor CompCmte*, for firm *i* in year *t*. *VotesFor* is the proportion of votes “For” an item on the proxy statement, defined as the number of “For” votes divided by the sum of all votes (“For”, “Against” and “Abstain”). *VotesFor MgmtProp* is the proportion of votes for management sponsored equity compensation plans. *VotesFor CompCmte* is the average proportion of votes for election of directors on the compensation committee. We estimate Eq. (1) with OLS regression. We also examine *Shareholder Proposal*, an indicator variable equal to one if a firm is targeted by a shareholder compensation-related proposal. We estimate a Logit regression of Eq. (1) when the dependent variable is *Shareholder Proposal*.

AbnEquityCompFV and *AbnEquityCompExp* are abnormal CEO equity compensation measured with the grant date fair value of equity compensation as reported in the Plan-Based Awards Table, and the ASC 718 equity compensation expense as reported in the Summary Compensation Table of the proxy statement, respectively. We split compensation into abnormal and predicted measures since prior research suggests that compensation-related voting outcomes are consistent with sophisticated analysis of compensation disclosures (e.g. Cai et al. 2009; Cai and Walkling 2011; Ertimur et al. 2013). The abnormal compensation is estimated using the

following empirical model:

$$\begin{aligned}
 \ln(EquityComp_{i,t}) = & \beta_0 + \beta_1 \ln(CEO\ Tenure_{i,t}) + \beta_2 \ln(Sales_{i,t-1}) + \beta_3 SP500_{i,t-1} \\
 & + \beta_4 BTM_{i,t-1} + \beta_5 Ret_{i,t} + \beta_6 Ret_{i,t-1} + \beta_7 ROA_{i,t} + \beta_8 ROA_{i,t-1} \\
 & + IndFE + \epsilon_{i,t}
 \end{aligned} \tag{2}$$

We estimate Eq. (2) annually for all firms in the ExecuComp database and separately for CEO equity compensation expense and the grant date fair value of annual equity grants. We use the natural logarithm of the compensation level plus one dollar as the dependent variable.

As in Core, Guay, and Larcker (2008) and Ertimur et al. (2011) we include the following determinants of equity compensation in Eq. (2). *CEO Tenure* is the number of years that the CEO has served in the current position. *Sales* is the firm's annual sales. *SP500* is an indicator variable equal to one if the firm is a constituent of the S&P 500 index for the year. *BTM* is the book value of total assets divided by the sum of the book value of debt and the market value of equity at the end of the fiscal year. *Ret* is the annual stock return. *ROA* is net income divided by average assets. The model also includes industry fixed effects using two-digit SIC codes. The residuals from this estimation are abnormal pay levels *AbnEquityCompExp* and *AbnEquityCompFV*. The predicted value of equity compensation is *PredEquityComp*.

In Eq. (1) we include the natural logarithm of non-equity compensation, *ln(NonEquityComp)*. We also include a set of control variables that affect shareholders' votes on compensation-related proposals from prior studies (Cai and Walkling 2011; Ertimur et al. 2013). Specifically, we include the number of independent directors, *DirectorN*, the percentage of independent directors on the board, *Indep%*, and the percentage of stocks owned by independent directors, *IndepOwn* as controls for corporate governance effectiveness. We include return on assets, *ROA* and the stock return over three-year period, *Ret3yr* as controls for the effect of firm

performance on shareholders' votes. We also include the natural logarithm of the sensitivity of the CEO's equity portfolio to 1 percent stock price change, $\ln(\Delta)$, to control for the effect of incentives provided by the CEO's equity holdings. CEO_{Own} is the fraction of outstanding shares owned by the CEO. We control for the effect of firm size using $Size$, measured as natural logarithm of the market value of equity. All firm and market performance variables are obtained from CRSP and Compustat. Director information is obtained from Institutional Shareholder Services database. All variables, including voting outcomes are measured for the same fiscal year as the proxy statement.

Consistent with prior literature we expect a negative coefficient on $AbnEquityCompFV$, $\alpha_1 < 0$ when predicting "For" votes, and a positive coefficient on $AbnEquityCompFV$, $\alpha_1 > 0$ when predicting shareholder proposal targeting. To the extent that investors also consider the ASC 718 equity compensation expense when participating in compensation-related corporate governance, we expect a negative coefficient on $AbnEquityCompExp$, $\alpha_2 < 0$ when predicting "For" votes, and a positive coefficient on $AbnEquityCompExp$, $\alpha_2 > 0$ when predicting shareholder proposal targeting.

IV. DATA AND RESULTS

Descriptive Statistics

Our sample includes 3,058 firm-year observations with fiscal years ending between December 15, 2006 and December 20, 2009 after requiring non-missing data. Table 1 Panel A reports the summary statistics. The mean grant date fair value of equity compensation for our sample of CEOs is \$3,155,000, and the mean reported equity compensation expense is \$3,145,000.

Appendix B provides the results from Estimating Eq. (2) on the pooled sample.¹³ The results are generally consistent with those found in prior studies (e.g. Core et al. 2008; Ertimur et al. 2011). The mean abnormal logarithm of equity compensation estimated in Eq. (2) using the grant date fair value and the expense are 0.36 and 0.39, respectively.¹⁴

The mean proportion of “For” votes for management sponsored equity plans, *VotesForMgmtProp*, is 81 percent. The mean proportion of votes “For” directors that serve on compensation committees is 92 percent. These statistics are generally consistent with prior studies that focus on voting outcomes.

Table 1 Panel A also reports summary statistics of the other economic determinants from Eq. (1). The average number of independent directors for our sample firms is 9.46, which corresponds to 78 percent of the board being independent. Independent directors own 1 percent of the firm on average. The average return on assets (*ROA*) and three-year stock return (*Ret3yr*) are 5 percent and 30 percent, respectively. The natural logarithm of the sensitivity of equity holdings to a 1 percent change in stock price (*Delta*) is 12.58. The CEO owns 3 percent of the firm, on average. The average natural logarithm of the market value of equity in our sample is 7.79. These statistics are generally consistent with prior studies of similar firms during this sample period.

Panel B of Table 1 reports the Pearson correlations between variables. The correlation coefficient between the abnormal grant date fair value of equity compensation and the abnormal equity compensation expense is 0.36. Despite this correlation, there is a difference between the grant date fair value of annual equity grants and the equity compensation expense in 97 percent of

¹³ We estimate annual regressions to measure abnormal equity compensation, but present the pooled regression results for parsimony.

¹⁴ The mean residual from estimating Eq. (2) is 0, by construction. The model is estimated on the total sample of firms in ExecuComp, from which our sample is a subset. Our sample firms are larger, more profitable, and with higher abnormal compensation than ExecuComp firms, on average. These firm and compensation characteristics are similar to Ertimur et al. (2011)

our sample. The mean absolute difference is significant at \$1,305,000.

Shareholder Voting

We first examine votes for management compensation proposals. Table 2 reports results from estimating Eq. (1) using *VotesFor MgmtProp* as the dependent variable. In columns (1) and (2) we find that both the fair value and the expense measures of abnormal CEO equity compensation are significant and negative determinants of shareholder votes for management sponsored proposals. When we include both measures of equity compensation in the same model, we find in column (3) that both measures are significant determinants of the voting outcome. These results suggest that shareholders consider both the equity compensation expense and the grant date the fair value of equity compensation when voting on management sponsored equity compensation proposals.

We find no evidence that voting outcomes on management sponsored proposals are related to either the predicted level of CEO equity compensation or non-equity compensation.¹⁵ This lack of significant relation suggests that shareholders focus on the abnormal component of equity compensation when voting on these management proposals. Consistent with prior research, ROA is positively associated with voting support for management sponsored equity proposals. None of the other control variables are significant determinants of voting outcomes.

Next, we test votes for directors that serve on the compensation committee. Table 3 reports the results from estimating Eq. (1) using *VotesFor CompCmte* as the dependent variable. In columns (1) and (2) we find negative and significant coefficients on the abnormal CEO equity pay for both measures of equity compensation. When we include both measures of abnormal CEO

¹⁵ We include *PredEquityCompFV* in column (3) as the measure of predicted equity compensation. Including *PredEquityCompExp* yields similar results to those reported in column (3).

equity in column (3), we find that the proportion of “For” votes for a director that serves on the compensation committee remains negatively associated with both *AbnEquityCompFV* and *AbnEquityCompExp*. This result suggests that shareholders consider the equity compensation expense and the grant date fair value of annual equity grants when electing directors that serve on the compensation committee.

We also find evidence that the predicted grant date fair value of equity compensation and non-equity compensation are negatively related to votes for a director that serves on the compensation committee. These results suggest that shareholders consider total equity and non-equity compensation when voting on these directors. Consistent with prior research, we also find that votes “For” director elections are positively related to the number and percentage of independent directors, *ROA*, the 3-year return, and firm size.

One concern with the tests that include both measures of equity compensation is that despite the documented differences, the correlation between the measures of equity compensation may influence the test results. To address the possibility that the correlation between the measures of equity compensation influence the test results, we conduct a variance inflation factor (VIF) analysis. The mean VIF is 3.1 in column (3) of both tables, which suggests that multi-collinearity is not a serious concern in our tests. We also conduct likelihood ratio tests comparing the models in columns (1) to the model in column (3) and find that including the ASC 718 expense improves the fit of the model. We also consider the likelihood ratio of model (2) to (3) and find that including the grant date fair value of equity compensation significantly improves the fit of the model.¹⁶

¹⁶ We replicate the tests presented in Table 2 and 3 using generalized linear models and find qualitatively similar results. We also test the robustness of our findings to controlling for all explanatory variables used to estimate the abnormal and predicted compensation measures in Eq. (2). If those variables are related to shareholders’ voting, other than through their effects on CEO compensation, the documented effects of CEO compensation measures on these outcomes might be spurious. In untabulated results we find that our inferences remain after including the additional variables as determinants of shareholder voting.

The evidence supports our conjecture that the ASC 718 expense is a distinct measure of CEO compensation that shareholders consider when voting.

Shareholder Compensation Proposals

Next we examine the relation between the measures of compensation and shareholder proposals. SEC Rule 14a-8 provides an opportunity for individual shareholders owning a relatively small amount of a company's securities to have his or her proposal placed alongside management's proposals in that company's proxy materials for presentation to vote at an annual or special meeting of shareholders. We estimate Eq. (1) using a Logit regression with *Shareholder Proposal* as the dependent variable. Table 4 reports results from estimating the model using the abnormal equity compensation measures. We find no evidence that either measure of abnormal compensation influences shareholder targeting. These results suggest that abnormal equity compensation is not a determinant of shareholders targeting firms with proposals. The coefficients on predicted equity compensation are positive and significant. We also find that larger firms are more likely to be targeted by shareholder compensation proposals and that firms with better accounting and stock performance are less likely to be targeted.¹⁷

Although total compensation is not the focus of our study, Ertimur et al. (2010) finds that total compensation measured with the grant date fair value of equity is a significant determinant of shareholder proposals. Therefore, we consider measures of total compensation. In untabulated results, we find that abnormal CEO total pay that includes the ASC 718 equity compensation expense is positively related to shareholder proposal targeting, while the predicted total

¹⁷ We also study voting for compensation proposals sponsored by shareholders. In untabulated results we find that votes "For" shareholder compensation proposals are not related to either measure of abnormal equity compensation measure.

compensation measure that includes the ASC 718 expense is also significant. When we include both abnormal CEO total pay measures in the model, we do not find any evidence that either measure of abnormal total compensation is a significant determinant of shareholder proposal targeting, while the predicted total compensation remains a significant determinant. These results provide some evidence that shareholders focus on the total compensation measure reported in the Summary Compensation Table, which supports the conjecture in Ertimur et al. (2011) of a “lack of sophistication” by shareholders that target firms with proposals.

Institutional Shareholder Services

Prior research finds that recommendations of proxy voting service firms affect shareholder voting (Cai et al. 2009; Ertimur et al. 2011). Therefore, it is possible that our finding of a relation between shareholder voting and equity compensation expense extends from ISS considering the equity compensation expense when providing recommendations to shareholders. After controlling for ISS recommendations, we find in columns (1) and (3) of Table 5 that the relation between the grant date fair value of equity compensation and voting outcomes weakens; the grant date fair value becomes an insignificant determinant of votes for management proposals and a marginally significant determinant of votes for directors that serve on the compensation committee. At the same time, the relation between the equity compensation expense and voting outcomes remains. We also find that the ISS recommendation is a significant determinant of voting outcomes.

One explanation for these results is that the ISS recommendation may rely on the grant date fair value of equity compensation, not the ASC 718 expense. In this case, the ISS recommendation may subsume the grant date fair value as a determinant of shareholder voting outcomes. The focus of ISS on the grant date fair value is consistent with their recent publication

of a white paper, “Evaluating Pay for Performance Alignment” (2014). In that document, ISS indicates that they measure the grant date fair value of equity grants when measuring pay.¹⁸ To test whether ISS focusing on the grant date fair value is an explanation for the results in Column (1) and (3), we examine the relation between the distinct measures of equity compensation and ISS recommendations. In columns (2) and (4) of Table 5 we find that the ASC 718 equity compensation expense is not a significant determinant of ISS recommendations, while the grant date fair value is a significant determinant of ISS recommendations for directors that serve on the compensation committee ($p\text{-value} < 0.05$) and marginally significant for management proposals ($p\text{-value} < 0.20$). These results suggest that ISS considers the grant date fair of equity compensation, but not the ASC 718 expense, when determining their recommendation. At the same time, our results in columns (1) and (3) suggest that shareholders consider the ASC 718 expense in addition to the ISS recommendation when voting.¹⁹

Growth Opportunities

To provide further evidence on the relation between shareholder governance through voting and the measures of equity compensation, we estimate a cross-sectional test based on the variation in firm growth opportunities. Incentive alignment is more important for firms with greater growth opportunities because the CEO’s actions in the current period affect firm value when growth opportunities are realized in the future. In addition, Ahmed (1994) finds that accounting earnings are not very informative about firm’s growth opportunities, which suggests

¹⁸ They suggest that “Companies themselves measure their executives’ compensation against competitors with respect to pay and pay opportunities, not “realized” pay. The awards delivered to executives become the basis for future realizable pay.” Note that this document was published by ISS after our sample period. Nevertheless, the document provides a framework for how ISS measures equity compensation when evaluating pay-for-performance more generally.

¹⁹ This is consistent with the ISS document that concedes that “Some observers suggest that shareholders evaluate “realized” rather than granted pay in determining whether pay and performance are aligned.”

that assessing contemporaneous performance is more difficult when there are more growth opportunities. Therefore, we predict that shareholders of firms with greater growth opportunities are more concerned about incentive alignment than pay-for-realized performance. To the extent that the grant date fair value captures equity incentives, while the ASC 718 expense may be used to evaluate realized pay-for-performance, this suggests that the grant date fair value influences voting outcomes to a greater (lesser) extent than the ASC 718 expense when the firm faces greater (fewer) growth opportunities.

To test this conjecture, we partition firms into two sub-samples: based on the sample median level of the firm's median market value of equity divided by the book value of equity level (MTB) over the three years prior to the sample period. Table 6 reports these results. In support of our conjecture, for firms with low market-to-book ratios, we find that voting outcomes of management sponsored proposals are negatively related to *AbnEquityCompExp* (p -value < 0.05), while there is not a significant relation between *AbnEquityCompFV* and voting outcomes. In contrast, for firms with high market-to-book ratios, we find that voting outcomes are negatively related to *AbnEquityCompFV* (p -value = 0.19), while there is not a significant relation between *AbnEquityCompExp* and voting outcomes. We find a similar pattern of results when testing voting outcomes of compensation-committee director elections: voting outcomes are negatively related to *AbnEquityCompExp* (p -value < 0.05), but not related to *AbnEquityCompFV* for the sample of firms with low market-to-book; while voting outcomes are negatively related to *AbnEquityCompFV* (p -value < 0.01), but not *AbnEquityCompExp* for firms with high market-to-book ratios.²⁰ The results support our conjecture that the grant date fair value influences voting

²⁰ We also test for differences in the relations between voting outcomes and the measures of equity compensation when we split the sample based on the median 6-year average R&D expense divided by total assets. We find a similar, but weaker pattern. Specifically, when testing for voting outcomes of management sponsored proposals, we do not find significant relations for either subsample and either measure of equity compensation. However, when testing

outcomes to a greater (lesser) extent than the ASC 718 expense when the firm faces greater (fewer) growth opportunities.

V. PROXY DISCLOSURE ENHANCEMENTS RULE AND VESTING TERMS

Given our evidence that shareholders consider the equity compensation expense when participating in compensation related corporate governance, we explore the effects of removing the equity compensation expense from the proxy statement on compensation design. In 2009, the SEC adopted the Proxy Disclosure Enhancements, which became effective for fiscal years ending on or after December 20, 2009 and altered how firms report equity grants in the Summary Compensation Table. Specifically, the new rule eliminated the reporting of the ASC 718 equity compensation expense from the proxy statement. The rule also required firms to report the grant date fair value of the annual stock and option grants to named executive officers in separate columns of the Summary Compensation Table and to include the grant date fair value in the calculation of Total Compensation.²¹

Carter, Lynch, and Tuna (2007) and Cadman et al. (2013) find that recognizing the ASC 718 expense of stock options on the income statement influenced contracting schemes. We focus on the impact of the disclosure of equity compensation expense attributed to the CEO on the proxy

voting outcomes of compensation-committee director elections, we find that voting outcomes are negatively related to *AbnEquityCompExp* (p -value < 0.05), but not related to *AbnEquityCompFV* for the sample of firms with low R&D intensity; while voting outcomes are negatively related to *AbnEquityCompFV* (p -value < 0.01), but not *AbnEquityCompExp* for firms with high R&D intensity.

²¹ Appendix A Panel B provides an example of the Summary Compensation Table and the Plan-Based Awards Table after the adoption of the 2009 rule. The Stock Awards (\$) and Option Awards (\$) columns of the Summary Compensation Table report the sum of the grant date fair value of the stock and option compensation, respectively. The sum of the Stock Awards (\$) and Option Awards (\$) columns of the Summary Compensation Table (\$7,928,457) is equal to the sum of the Grant Date fair Value (\$) column of the Plan-Based Awards Table (\$7,928,457). That is, after the adoption of 2009 rule, the firm reports the aggregate of equity grants from the Plan-Based Awards Table in the Summary Compensation Table. The ASC 718 equity compensation expense attributed to the CEO is not provided and, in most cases, cannot be replicated with information provided in the proxy statement after the adoption of the 2009 rule.

statement. To the extent that firms are concerned with disclosing high CEO equity expense on the proxy statement we expect them to extend vesting terms after the adoption of the 2006 rule, and shorten vesting terms after the 2009 rule eliminated the equity compensation expense from the proxy statement. To provide evidence on the contracting consequences of removing the equity compensation expense disclosure from the proxy statement, we test the change in vesting terms following the adoption of the 2009 rule. By focusing on the 2009 rule, we are able to isolate the effect of the disclosure of equity compensation expense on the proxy statement because the equity compensation expense is eliminated from the proxy statement, while the grant date fair value disclosure is retained and the financial reporting consequences of equity compensation on the income statement do not change.²²

We use equity grant date fair values and vesting and performance measurement terms to create two vesting measures for each firm-year that aggregate all equity grants in the year: 1) *VestingVW*, is the grant date fair value-weighted average vesting term, and 2) *VestingMax*, is the maximum vesting term. We obtain vesting data for a subset of the sample from Incentive Lab, who collect vesting and performance measurement data for equity grants reported in the Plan-Based Awards Table of the annual proxy statement.²³ We use the reported grant date fair values except when Incentive Lab indicates that a grant does not have an individually identifiable fair value, in which case we estimate the missing fair value using market inputs available on the grant dates along with reported grant characteristics.²⁴

²² We do not focus on the change after the adoption of the 2006 rule because the disclosure on the proxy statement required by the 2006 rule occurred soon after the adoption of ASC 718. Also, because equity compensation expense is not observable prior to the required disclosure, we cannot identify the incentives to lengthen vesting terms in response to the required disclosure by the 2006 rule.

²³ Though performance-based equity grants typically vest immediately upon achievement of performance goals, the performance measurement period affects expense recognition similar to vesting periods for stock or option grants.

²⁴ To estimate fair values for stock (performance) grants, we multiply the number of shares (target shares) by the closing stock price on the grant date. We estimate Black-Scholes option values using the closing stock price, annualized daily stock return volatility measured over the year prior to the grant, reported exercise price and expiration date, and

Table 7 Panel A presents descriptive and univariate test statistics for the composite vesting measures, for the periods before and after the 2009 rule. For the value-weighted (maximum) vesting measure, we find that the mean vesting term declines from 40.86 (45.21) months to 39.52 (43.19) months after the adoption of the 2009 rule. This difference in the mean pre-2009 (Dec. 15 2006 to Dec. 20, 2009) and post-2009 (Dec. 20, 2009 to Mar. 31, 2015) values of *VestingVW* (*VestingMax*) of 1.34 (2.02) months is statistically significant. These results provide evidence that firms shortened equity grant vesting periods, on average, after the 2009 rule no longer required firms to report the equity compensation expense in the Summary Compensation Table.

To the extent that firms concerned about the magnitude of the equity compensation expense lengthened vesting periods when it was a required disclosure, we predict those firms to shorten vesting terms after the equity compensation expense is removed from the proxy statement. To test this prediction, we create firm-specific measures of the degree of increase in vesting periods after the 2006 rule. We measure the differences in value-weighted average vesting period ($\Delta Vest2006VW$) and maximum vesting period ($\Delta Vest2006Max$) between the pre-2006 period (Dec. 15, 2005 to Dec. 15 2006) and the pre-2009 period.²⁵ We then partition the sample at the median into firms with high and low $\Delta Vest2006VW$ and $\Delta Vest2006Max$. Finally, we test whether there is a more significant decline in *VestingVW* and *VestingMax* from the pre-2009 to the post-2009 period (Dec. 20, 2009 to March 31, 2015) for firms in the high $\Delta Vest2006VW$ and $\Delta Vest2006Max$ groups, respectively.

Table 7 Panel B reports the pre-2009 and post-2009 vesting measures for the high and low $\Delta Vest2006VW$ and $\Delta Vest2006Max$ groups for the sample of firms for which we are able to measure

expiration date matched risk-free rate.

²⁵ Each firm can have multiple observations in the post-2006 period, therefore we use the average post-2006 vesting measures to construct $\Delta Vest2006$.

VestingVW and *VestingMax* for all three periods, i.e. pre-2006, pre-2009, and post-2009 periods. The decrease in *VestingVW* and *VestingMax* for the high group is negative and significant, while the decrease in vesting for the low group is not significant for *VestingVW* and significant for *VestingMax*. Consistent with our prediction, the difference between the changes in *VestingVW* and *VestingMax* across the two groups is significant.

Over our sample period, factors that are related to vesting terms other than the disclosure requirement may also vary. To address the influence of these factors on the results we document in Table 7, we estimate multi-variate regressions of *VestingVW* and *VestingMax* as a function of the *Post2009* indicator interacted with *HighΔVest2006VW* and *HighΔVest2006Max*, where *High* indicates values of $\Delta Vest2006VW$ and $\Delta Vest2006Max$ above the median. *Post2009* is an indicator variable for fiscal years ending on or after Dec. 20, 2009. We also include a set of economic determinants of vesting patterns previously documented by Cadman et al. (2013). The variable of interest is the interaction of *Post2009* and *HighΔVest2006VW(Max)*. In Table 8 we find significantly negative coefficients on *HighΔVest2006VW*Post2009* and *HighΔVest2006Max*Post2009*. These results support those of our univariate tests and provide further support that firms with high $\Delta Vest2006VW$ and high $\Delta Vest2006Max$ reduced vesting patterns after adoption of the 2009 rule more than firms with low $\Delta Vest2006VW$ and low $\Delta Vest2006Max$.

Together, the results suggest that firms altered contracts in a way that supports our inference that shareholders consider the equity compensation expense when participating in corporate governance through voting and shareholder proposals.

VI. CONCLUSION

We find evidence that shareholders consider both the equity compensation expense

reported in the Summary Compensation Table and the grant date fair value of equity reported in the Plan-Based Awards Table when participating in compensation-related corporate governance. Specifically, we find that votes for management compensation-related proposals and votes for the election of directors that sit on the compensation committee are negatively related to abnormal CEO equity compensation expense and grant date fair value of annual equity grants. The effect of the ASC 718 equity compensation expense is incremental to that of the grant date fair value documented in prior literature. We also find evidence that shareholders consider equity compensation expense in addition to the ISS recommendation when voting. Finally, we find that firms shorten vesting terms after the SEC removed the equity compensation expense from the Summary Compensation Table and that the reduction in vesting periods is more prominent in the set of firms that experienced a larger increase in vesting periods when the SEC required firms to disclose the compensation expense.

Overall, our findings suggest that additional disclosures of equity compensation beyond the grant date fair value are useful to shareholders participating in corporate governance through shareholder voting. We contribute to broad streams of literature on the role of compensation disclosures on governance by providing insight into shareholders' use of compensation disclosures. We also shed light on the determinants of ISS recommendations and that shareholders incorporate information beyond the ISS recommendation. Finally, we provide further insight into how disclosure regulation influences compensation schemes.

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