

VOLUME 8, ISSUE 8
JUNE 12, 2017

Meridian Client Update

House Approves Financial CHOICE Act

On June 8, 2017, the U.S. House of Representative approved the Financial CHOICE Act (“CHOICE Act”), which, if approved by the Senate and signed by President Trump, would repeal and roll back significant portions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”). The House vote was 233 to 186, with one Republican opposing and not a single Democrat supporting the CHOICE Act.

As reported in Meridian Client Update of May 12, 2017, the principal focus of the CHOICE Act is the banking provisions of Dodd-Frank and the Consumer Financial Protection Bureau. However, the CHOICE Act, if enacted, would make the following changes to Dodd-Frank provisions relating to executive compensation and corporate governance:

■ **Disclosure rules** – Repeal the following provisions:

- CEO pay ratio disclosure
- Disclosure of a company’s policy on employee or director hedging of company securities
- SEC’s authority to issue rules on proxy access
- SEC’s authority to issue rules to require disclosure on a company’s board leadership structure (i.e., Chairman and CEO structures)
- Federal financial regulators’ ability to prohibit certain types and features of incentive compensation arrangements maintained by covered financial institutions

■ **Governance requirements** – Modify following governance requirements:

- Mandatory clawback rule¹ (would limit application of the mandatory clawback rule solely to “executive officers” who “had control or authority over the financial reporting that resulted in the accounting restatement”)
- Frequency of Say on Pay vote (would limit the frequency of Say on Pay votes to only in those years “in which there has been a material change to the compensation of executives of an issuer from the previous year.”)

¹ In 2015, the SEC adopted a proposed rule on Dodd-Frank’s mandatory clawback requirement. However, under Republican control, the SEC would appear unlikely to adopt a final rule.

- **Shareholder proposal requirements** – Direct the SEC to amend rules on shareholder proposals to increase ownership requirements to submit a proposal and to increase prior level of shareholder support to resubmit a proposal previously included in a company's proposal
- **Regulation of proxy advisors** – Proxy advisory firms would become subject to a broad set of regulations with the ultimate goal of ensuring that such firms' voting recommendations are based on current and accurate information.

Please see Meridian Client Update of May 12, 2017 for a detailed discussion of the foregoing provisions of the Financial Choice Act.

Meridian Comment. The Trump administration publicly supports the Financial CHOICE Act. However, the Financial Choice Act faces tough sledding in the Senate where the Democrats can avoid a vote on the bill by engaging in a filibuster. Sixty votes are required to override a filibuster; since the Republicans only hold 52 seats, they are powerless to stop a determined filibuster against the bill. Senator Mitch McConnell (R-KY) noted as much during an interview after the Financial CHOICE Act was voted out of Committee.

The most likely way the bill can pass in the Senate is if Senator McConnell deploys the so-called "Nuclear Option" as he did for the confirmation vote on Supreme Court nominee and now Justice Neil Gorsuch. This Option essentially reduces the votes necessary to override a filibuster from 60 to 51. So far, there has been no talk by Senator McConnell of employing this tactic on the Choice Act.

* * * * *

The **Client Update** is prepared by Meridian Compensation Partners' Technical Team led by Donald Kalfen. Questions regarding this Client Update or executive compensation technical issues may be directed to Donald Kalfen at 847-235-3605 or dkalfen@meridiancp.com.

This report is a publication of Meridian Compensation Partners, LLC, provides general information for reference purposes only, and should not be construed as legal or accounting advice or a legal or accounting opinion on any specific fact or circumstances. The information provided herein should be reviewed with appropriate advisors concerning your own situation and issues.

www.meridiancp.com