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Proxy Voting Guidelines for External Managers

Topic: Executive Compensation
Subtopic: Vesting Equity for Government Service
Approved: July 19, 2019

Description:

Resolutions that ask companies to report on or end the practice of ensuring equity vesting for senior executives who leave their firm for a government position.

Topic background:

Equity vesting for employees who leave their firm for a government position, sometimes referred to as a “government service golden parachute,” is intended to encourage government service by employees with valuable industry expertise by seeking to give them rough parity in equity vesting with those who leave for positions elsewhere in industry. Equity-based awards often include stock options, restricted stock, and other stock awards granted under an equity incentive plan. Government service may include positions in a federal, state, local, supranational or international organization. In addition to government positions, some current company policies also apply to those entering the education or nonprofit sector. Proponents of shareholder resolutions are concerned that encouraging industry experts to enter government service may lead to conflicts of interest and biased judgments on industry issues.

Considerations for voting:

- Proponents’ concerns about the potential for conflicts of interest and industry bias in public service merit careful consideration at this time.
- At the same time, these concerns should be weighed against the benefits of industry expertise in complex areas and in light of a considerable body of government policy and regulation about conflicts of interest. In many cases “golden parachute” provisions encourage public service by individuals who might bring strong managerial or technical skills to government, while also ensuring some degree of vesting parity between employees who move to a competitor and those who enter government service. Harvard University, and, in particular, its professional schools in law, medicine, government, business, education, and public health, supports the value of multisectoral experience and encourages its graduates to prepare for multisectoral careers.
- To date, at companies with such “golden parachute” provisions, only small numbers of executives are eligible for – or tend to avail themselves of – government service opportunities and, therefore, these vesting equity provisions.
- There are also concerns that proposals in this form overreach the bounds of shareholder engagement by concerning themselves closely with detailed company policy on executive compensation.

- In view of existing regulations for federal employees regarding conflicts of interest, proposals seeking to end vesting equity for government service may be viewed as duplicative and likely to be ineffective in addressing proponents' concerns.
- However, proposals seeking reporting on the provision of vesting equity for executives who have left a company for government service might be viewed as helpful in enabling shareholders to understand vesting practices and the movement of senior executives between business and government.

Illustrative examples of votes:

1. Vote in favor of proposals requesting reports regarding the provision of vesting equity to executives who leave a company for government service.
2. Vote against resolutions requesting that a company adopt a policy of prohibiting vesting of equity-based awards for senior executives due to a voluntary resignation to enter government service (a "Government Service Golden Parachute").

For purposes of this recommendation, "equity-based awards" include stock options, restricted stock and other stock awards granted under an equity incentive plan. "Government service" includes employment with an U.S. federal, state, local, government, any supranational or international organization, any self-regulatory organization, or any agency or instrumentality of any such government or organization, or any electoral campaign for public office.

Harvard offers broader general guidance on its recommended approach to considering shareholder resolutions in "Overview of Harvard University's Proxy Voting Guidelines for External Managers" (follow [link](#) to download full text). When determining votes on resolutions, we consider each resolution in light of this general guidance as well as in light of a resolution's specific request and contextual information about the relevant company and its approach to the issue.