Wells Fargo Holders Expected to Re-Elect Board, Send Message

Fox Business
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April 25, 2017

Shareholders at scandal-scarred Wells Fargo & Co. voted Tuesday to keep all 15 of the bank's directors, but in a stinging rebuke rarely seen in corporate elections did so in some cases by slim margins.

After a three-hour annual meeting replete with shareholder outbursts and one unscheduled break to remove an angry investor, the San Francisco company announced voting tallies that showed the toll of the aggressive sales practices last fall that cost Wells Fargo $185 million in fines.

Most striking, the bank's nonexecutive chairman, Stephen Sanger, garnered only 56% of shareholders' support, far below the 95% or more that most directors usually get with little fanfare. The head of the bank's risk committee, Enrique Hernandez, fared even worse, getting a 53% vote. In all, nine directors got votes of less than 75%. None of the board's longer-serving directors could muster more than 80% of the vote.

"The outcome is a wake-up call that directors at U.S. companies may no longer glide through a crisis without taking individual hits in reputation," said Stephen Davis, associate director of Harvard Law School's Programs on Corporate Governance and Institutional Investors. "Institutional investors are staffing up for regular, tougher scrutiny of directors."

Mr. Sanger, a former General Mills chief executive who spearheaded the board's response to last year's fake-account scandal, said Tuesday that shareholders "sent the entire board a clear message of dissatisfaction."

Even so, neither Wells Fargo nor the board said there would be any immediate changes in the wake of the vote. Instead, Mr. Sanger reiterated what the bank has told some large shareholders privately: that six directors will step down from the board within the next four years when they hit the mandatory retirement age of 72 years old.

Mr. Sanger, who turned 71 this month, added that the board is "urgently looking" to add new talent beyond the two directors who joined the board in February. Those two directors, along with CEO Timothy Sloan, who joined the board last year, received 99% majorities from shareholders on Tuesday.

Bank investors have increasingly sent tough messages through the ballot box. In 2015, Bank of America Corp. Chairman and CEO Brian Moynihan survived a vote that would have stripped him of one of those two roles at the Charlotte, N.C., bank. J.P. Morgan Chase & Co. Chairman and CEO James Dimon survived a similar vote after the "London whale" trading loss, but two of the New York bank's directors left the board after they garnered vote tallies of less than 60% in 2013.

In 2012, Citigroup Inc. shareholders rejected a board-approved compensation plan for its senior executives, including CEO Vikram Pandit, who left later that year. In 2009, Bank of America shareholders voted to split the chairman and CEO positions in a narrow vote that essentially stripped Kenneth Lewis of his duties as chairman. He left the bank a few months later.

For Wells Fargo, while the unanimous re-election of directors is a relief for the bank the fact that a majority of directors received less than three-quarters support suggests that Wells Fargo's board may face continuing pressure to make more changes.

The breadth and scale of shareholders' limited support, especially with no alternative board candidates, is "very rare," said Sandeep Dahiya, an associate professor at Georgetown University's McDonough School of Business.

Over the past 10 years, only 22 directors a year, on average, out of nearly 40,000 directors at S&P 500 companies received less than 60% of the vote for re-election, according to ISS Analytics, the data arm of proxy advisory firm Institutional Shareholder Services Inc.

Focus on the board election built earlier this month, when ISS recommended that shareholders vote against re-electing 12 Wells Fargo directors who served while the sales practice issues occurred. Some large shareholders thought the board was slow to react to the sales-practices problems, though they have cited improvements in the board's response more recently.

Though Wells Fargo's board has been active over the past several months in seeking shareholder feedback, issuing detailed results of an independent investigation over the sales practices and clawing back about $183 million in pay from executives, Mr. Dahiya said more actions may be necessary.

He said in the coming months it is possible some board members may voluntarily depart as typically the more dissatisfied shareholders are, the more likely directors are to leave. The bank and board declined to comment beyond an earlier press release Tuesday.

Tensions flared at the bank's meeting, held at a golf resort's conference center in Ponte Vedra Beach, Fla. Among the roughly 300 shareholders attending, four shareholders spoke out of turn, yelling at the board or management to voice complaints.

The first shareholder outburst prompted Mr. Sanger to halt the meeting for several minutes while the investor was removed from the room. The investor, Bruce Marks, a housing advocate and activist, had requested that each director speak to what they knew about the sales-practice issues, which resulted in about 5,300 employees being fired over a five-year period.

When Messrs. Sloan and Sanger told Mr. Marks he was out of order, Mr. Marks responded that "Wells Fargo has been out of order for years."

The meeting restarted a few minutes later, with Mr. Sanger saying Mr. Marks had been removed.

Before Mr. Sanger read the vote tallies at the end of the meeting, former and current bank employees and customers came to a microphone, sometimes fighting back tears. Some discussed health problems and stress they say were brought about by the bank's aggressive sales culture. Others recalled decisions by the bank to foreclose their home.

Mr. Sloan in most of these cases directed the speakers to follow up with Wells Fargo officials after the meeting.

One former employee apologized to customers for the bank's aggressive sales tactics, and said that they were why she left the company. Mr. Sloan, in response, asked her to "consider coming back," adding that the bank has rehired more than 1,000 employees who had left because they didn't feel comfortable with the sales practices.

A bank spokesman said most of those rehires, since September, are within the retail banking unit but declined to comment further.

Still, "investors want change," said New York City Comptroller Scott M. Stringer, whose office oversees New York City's pension funds and voted against 10 Wells Fargo directors. "These wrongs need to be made right."