

The Conference Board 2006 Executive Compensation Conference

The Ramifications of Expanded Disclosure and Tally Sheets

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■ Agenda

- **A little history – from tally sheets to the new SEC disclosure rules.**
- **Past use of tally sheets – How their use has evolved.**
- **The new disclosure rules – brief overview.**
- **What to do to get ready NOW.**
- **Implications of the new rules**

■ From Tally Sheets to the New SEC Disclosure Rules

- “Holy Cow” moments
- Concept of a tally sheet
- What’s in a tally sheet?
- Use of tally sheets
- The new SEC disclosure rules – a prescribed tally sheet

■ Past Uses Of Tally Sheets

- **General use by most Boards in 2005**
- **Various forms utilized with the following common features:**
 - All elements of compensation included.
 - » Direct compensation
 - » Retirement benefits
 - » Perquisites and other income
 - » Equity holdings
 - » Contractual obligations (Change in control, post employment etc.)
 - One or more “total compensation” numbers
 - » Accrual versus W-2 reporting
 - » Projected compensation using target
 - » “What if” incentive plan calculations
- **The use of tally sheets has led to Board discussions of:**
 - Total compensation
 - Sensitivity of compensation to changes in performance levels.
 - Post employment compensation
 - Interaction of various pay elements

■ The New Disclosure Rules

- **The Compensation Discussion and Analysis report - CD&A**
 - Similar to the MD&A, this is the centerpiece of the new disclosure rules
 - Increased liability exposure – CD&A will be “filed”
 - Greater disclosure of stock option grant practices
- **Compensation Committee Report - CCR**
 - An abbreviated CCR will also be required, but will be “furnished” not “filed”
- **More Tables**
 - Increased tabular disclosure for easier understanding
- **Bottom Line Numbers**
 - Disclosure of a single, total compensation number for each NEO
- **More Individuals Covered**
 - Proposed disclosure of additional three NEOs

■ The New Disclosure Rules

- **Principal Financial Officer as NEO**
 - PFO must be included as an NEO
- **Perquisites**
 - More perquisite disclosure
- **Governance Practices**
 - More stringent disclosure of interlocks, beneficial ownership and disclosure of compensation governance practices
- **Post-Employment Compensation**
 - Retirement Benefits
 - Detailed disclosure of compensation and benefits due under various termination scenarios (e.g., change-in-control and severance)
- **Director Compensation**
 - Disclosure of compensation for each Director in tabular format, including information about equity awards and perquisites
- **Plain English**
 - CD&A written using SEC standards for Plain English

■ The New Disclosure Rules

- **CD&A**
 - Central principles based discussion of compensation and benefits programs
- **Three-Year Snapshot of Total Compensation**
 - Summary Compensation Table (SCT)
 - Grants of Plan-Based Awards Table
- **Equity Holdings**
 - Outstanding Equity Awards at Fiscal Year-End Table
 - Option Exercises and Stock Vested Table
- **Post-Employment Payments**
 - Pension Benefits Table
 - Nonqualified Deferred Compensation Table
 - Narrative disclosure of post-employment compensation and benefits
- **Director Compensation**
 - Mirrors SCT disclosure, but required only for current year

■ What To Do To Get Ready NOW

- Create a mock-up of CD&A report and tables
 - Begin data accumulation now – what is easy and what is difficult to get?
 - Start with the tables – engage the Compensation Committee in discussion.
 - This year!
- Document the Board’s processes and record keeping
- Identify potential areas that will require further explanation
- Identify and inform executives who may be future NEOs, and educate them as to the breadth of the New Rules, such as the impact of elective transactions, “pledged share” disclosure, etc.
- Begin tracking potential additional three non-NEOs
- Refine data collection system (e.g., which departments / personnel will collect and report data)
- Monitor one-time compensation transactions (e.g., relocations, special awards, retention awards, etc.)
- Review and consider restructuring perquisites program
- Review CIC and the severance arrangements
- Adjust the charter of the Compensation Committee to reflect the new disclosure landscape
- Schedule additional Compensation Committee meetings

■ Implications Of The New Rules

- **More information**
 - Better information
 - A lot of hard work and costly
 - Too much information?
 - Corporate voyeurism
- **Disclosure is a bigger factor in plan design**
- **Lowering cap on perquisite disclosure may cause a shift in pay to other elements of compensation.**
 - “Hot button” perquisites such as use of corporate airplane and payment of country club dues may be eliminated and replaced by other compensation such as cash or performance-based equity awards
- **Will not control the level of executive compensation**
 - In fact, it might help escalate it
 - We may see a decline in separation/change-in-control pay

■ Implications Of The New Rules

- **Are tally sheets dead?**
 - The need for a dynamic tally sheet
 - What do the required SEC disclosure not cover? What else will the Compensation Committee want to see?
 - Use of tally sheets for plan design changes – what ifs?
- **New Rules Problem Areas**