

## Playing Your Cards Right With Executive Compensation Disclosures

As the 2015 calendar gets shorter, are you hedging bets that your next Compensation Discussion & Analysis (CD&A) will wow shareholders and ensure a strong say-on-pay vote next year? Or are you hoping to bluff your way through the next proxy season? Between regulatory changes and a high level of public scrutiny, it's never too early to begin focusing on your executive compensation disclosures.

### Why Communication Strategy Matters More Than Ever

Effectively communicating your compensation plan and its link to the bank's business and leadership strategies is a growing priority among Boards and management teams. As we all know, executive compensation—and the regulation surrounding it—is increasingly complex. A well-planned and artfully delivered disclosure document can improve chances of a favorable say-on-pay outcome and potentially bolster your defenses against shareholder activism. At a minimum, it can help improve overall shareholder engagement and build communication between the Board, management, and other stakeholders.

### The Ante: Emerging Compliance Requirements

Unfortunately, the Dodd-Frank Act's many provisions are still looming and it's only a question of time before the final proposals on matters such as the CEO pay ratio, pay-for-performance, and clawbacks are implemented. These fast-changing rules can make it difficult to keep up from a communication perspective. How might these new mandates complicate or conflict with your compensation strategy and how can a public bank ensure they're fully compliant, while delivering the most effective story to shareholders and employees about the executive pay programs?

Remember—balance is the key. With so many requirements coming, it will be necessary to offset the potential complication of your message with clear details on your compensation design and its alignment with the bank's business strategy. Within the regulatory context, there's an opportunity to discuss:

- How executive compensation supports your business strategy and leadership talent goals;
- How compensation is defined;
- How performance is viewed;
- How sound governance and risk management is practiced; and
- What you pay your executives and why.

It's not just public banks that face these issues. While private entities aren't required to disclose, many feel the resulting public pressure to communicate more and can benefit from the following guidelines.

## **The Winning Hand: Moving Beyond Compliance to Tell Your Story**

Obviously, compliance is important, but companies need to continue shifting program design focus from compliance to a compensation philosophy that supports the long-term business strategy.

Results from Pearl Meyer's [2015 On Point Survey: The New Normal of Annual Compensation Disclosure](#) offer several points to consider as you begin the CD&A development process. Perhaps most surprising is that "reader-friendliness" of the CD&A is just as important to Compensation Committees as technical accuracy. In fact, making the content easier to read/understand ranked as the number one request Compensation Committees make to staff regarding the CD&A. Survey results also indicate those companies who rate their CD&A as "excellent" or "very good" experience a higher percentage of yes votes for say-on-pay from shareholders than companies who don't rate their CD&A as high.

There are three ways to ensure you "win the hand" in regards to your pay communications to shareholders:

1. **Take advantage of emerging trends for content and design.** There have been big changes over the past five years in how information about pay is presented within the CD&A. Content needs to be accurate, complete, and concise while keeping in mind that shareholders are the target audience. Incorporating elements such as executive summaries and visuals that illustrate year-over-year pay levels, mix of variable versus fixed pay, and realizable/realized pay help organize the story and pull the reader through the document. The survey results show a clear pattern: companies with favorable views of their communication use these methods far more than companies who believe their CD&A is only fair or needs improvement.
2. **Leverage the experts to develop and deploy your message.** Using internal corporate communications practitioners, graphic designers, and external writers can be worth the expense. Survey results show that companies who have relied on communication experts to help develop content typically have excellent or very good communication effectiveness and almost 80 percent of these companies are using at least one professional resource.



3. **Adjust your timeframe.** The quality of executive compensation disclosure is more important today than ever and the quantity of information required is growing. Therefore, it's never too early to get started! Our survey confirmed that those who began working on their disclosures before the close of the fiscal year reported excellent or very good communication effectiveness. It's a safe bet to follow their lead.

Taking this disciplined approach to communicating the value of your programs should pay off in the long-term and can help your Board successfully move ahead with strategy-based design.

## About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management on the alignment of executive compensation with business and leadership strategy, making pay programs a powerful catalyst for value creation and competitive advantage. Pearl Meyer's global clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private companies to the Fortune 500 and FTSE 350. The firm has offices in New York, Atlanta, Boston, Charlotte, Chicago, Houston, London, and Los Angeles



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