

ON POINT

TIMELY, ACCURATE, INSIGHTFUL

PM&P On Point: The New Normal of Annual Compensation Disclosure

Executive Summary

Introduction

About Our Survey

Effectively communicating all aspects of an executive compensation program is a growing priority for Boards and management teams, driven by increased public interest, the informational needs of shareholders, and regulations. Our survey was designed to learn more about the communication approaches companies use to develop the Compensation Discussion & Analysis (CD&A) section of their annual proxy statement and gauge the levels of perceived effectiveness of these documents.

Data was analyzed across a variety of demographics. Given that the area of proxy disclosure has a heavier impact on publicly-held organizations vs. those with other forms of ownership (e.g., closely-held, family-held, privately-held, mutual, cooperative, or membership organizations), our study focuses on the responses from 93 publicly-held participants.

What Do We Mean by “Effective?”

Effective CD&As go well beyond the legally-required disclosure and:

- *Reinforce the philosophy, objectives and decision-making processes that guide the design and operation of the executive compensation program;*
- *Tell a story that connects the business landscape, business strategy, leadership team objectives, and financial and strategic achievements that inform the Compensation Committee’s decisions;*
- *Address the concerns of multiple stakeholders and audiences including institutional and retail investors, proxy advisors, media, employees, and the general public; and*
- *Provide this information in a relevant, useful, and easily-understood format.*

Introduction

Why it Matters

While disclosure mandates aren't new, expectations about the quality and clarity of this information have changed dramatically over the years, with stakeholders paying far more attention to the content and overall readability of CD&As. In fact, recent research from the Stanford Graduate School of Business reported that institutional investors are deeply dissatisfied with compensation disclosures. We believe that by leveraging fundamental communication “best-practices,” these disclosures can be measurably improved, ultimately leading to better understanding and engagement among all stakeholders.

How to Get More Information

The complete survey results are available for purchase at www.pearlmeyer.com/thenewnormalreport.

Please contact Sharon Podstupka to discuss any aspect of these findings at sharon.podstupka@pearlmeyer.com or (212) 407-9551.

Report Findings

Results of our research fall into three key areas:

1

Trends in Content Development

Reader-friendliness is key

2

Teams and Timing

It pays to plan and prepare

3

The Influence of Dodd-Frank

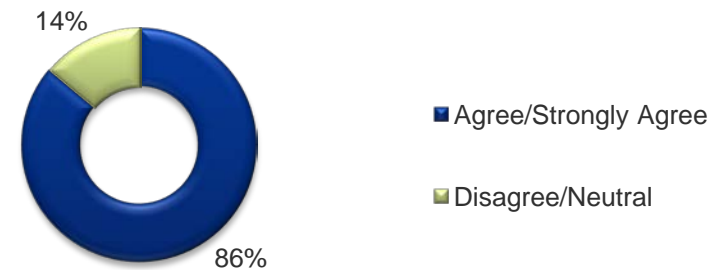
Disclosure mandates have critical impact

Trends in Content Development

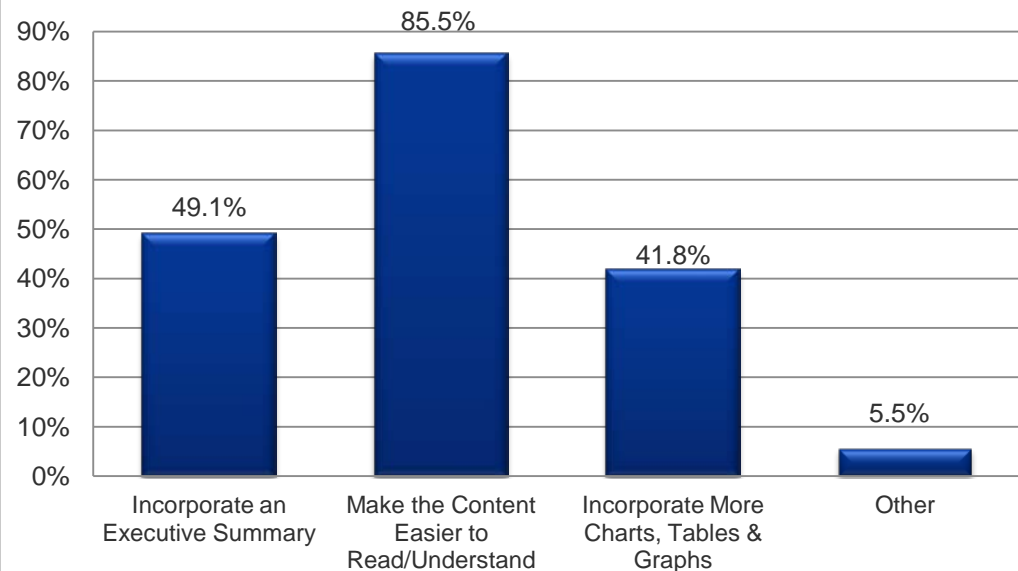
Almost **90%** say reader friendliness is as important as technical accuracy...

...and **the #1 request** by Compensation Committees is to make the CD&A narrative easier to read and understand.

Ensuring Disclosure is Written in a Reader-Friendly Manner is as Important as Ensuring Technically Accurate Content

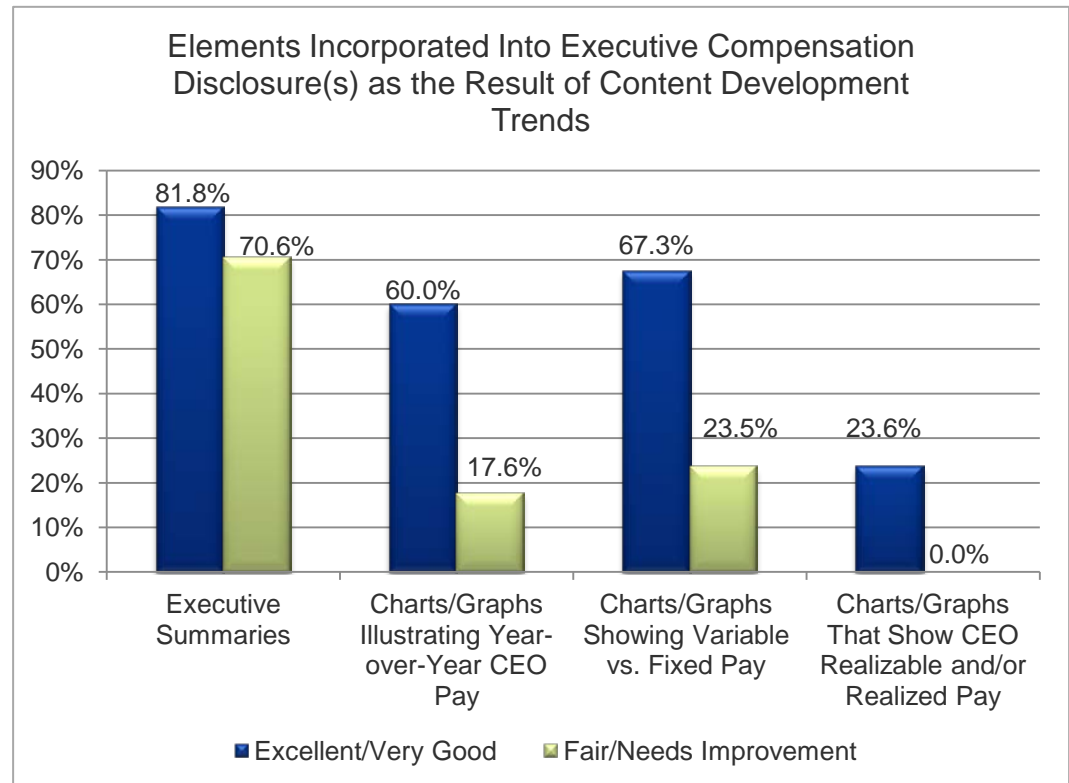


The Board/Compensation Committee Requested the Following Actions



Trends in Content Development

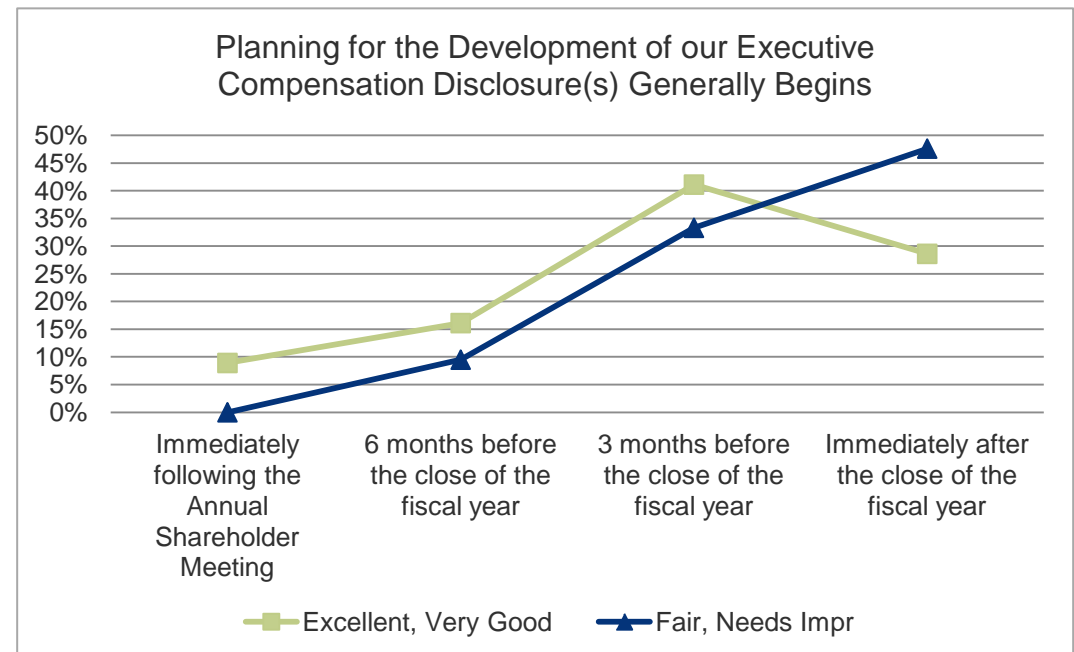
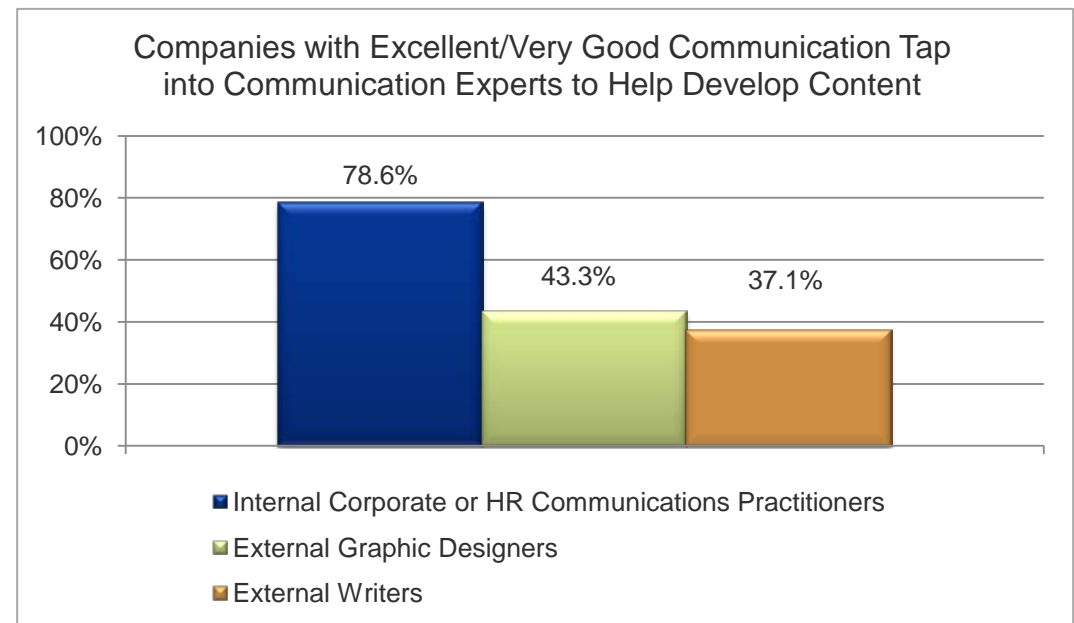
Companies reporting excellent/very good communication effectiveness levels are **better at leveraging content trends.**



Teams & Timing

Companies reporting excellent/very good communication effectiveness **use communication experts** to help develop content...

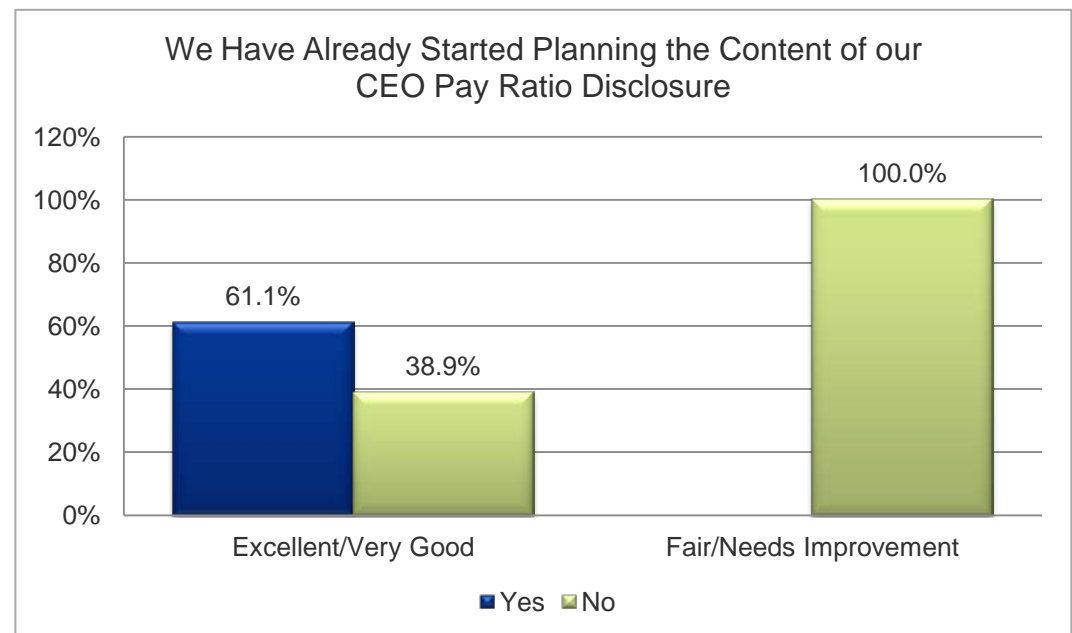
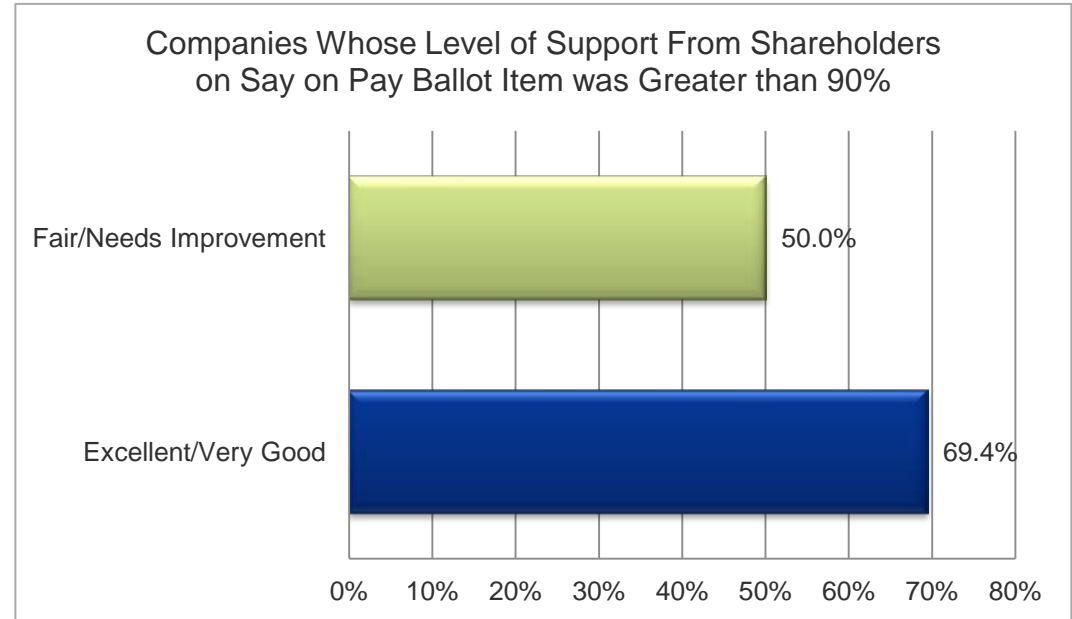
...they also **plan in advance** and start drafting before the close of the end of the fiscal year.



The Influence of Dodd-Frank

Companies reporting excellent/very good communication effectiveness received **higher Say on Pay votes...**

...and **60% have started planning for future disclosure** as the result of the pending CEO Pay Ratio rule.



Key Takeaways

The CD&A has grown from a required chapter in a legal document to a critical communication tool that outlines a company's executive compensation philosophy and program design and explains how it supports the corporate business strategy.

However, there is still tremendous room for improvement in most of the CD&As developed today.

Stanford's recent research shows there is deep dissatisfaction among investors with quality and clarity of information. We see that Compensation Committees overwhelmingly say reader-friendliness is critically important and make it their number one request during CD&A development. And yet **only 11.4% currently rate their CD&A effectiveness as excellent.**

What should be done?

Leverage
specialized
resources

Allow for
significant
planning and
generous
timelines

Use plain,
concise
language

Incorporate
graphic
depictions
of key
information

About Pearl Meyer & Partners

For more than 25 years, Pearl Meyer & Partners (www.pearlmeyer.com) has served as a trusted independent advisor to Boards and their senior management in the areas of compensation governance, strategy and program design. The firm provides comprehensive solutions to complex compensation challenges for multinational companies ranging from the Fortune 500 to not-for-profits as well as emerging high-growth companies. These organizations rely on Pearl Meyer & Partners to develop global programs that align rewards with long-term business goals to create value for all stakeholders: shareholders, executives, and employees. Pearl Meyer & Partners maintains U.S. offices in New York, Atlanta, Boston, Charlotte, Chicago, Houston, Los Angeles, San Francisco and San Jose, as well as an office in London.

Contact Us

For other information and guidance on compensation issues, or to learn more about Pearl Meyer & Partners' services, please feel free to contact any of our offices listed on the next page.

Please note: This survey and its contents are confidential and proprietary and should not be provided to other parties outside the firm for which the data was reported (non-participating firms) without the express written consent of Pearl Meyer & Partners.



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