



BankDirector

Breakout 2:
**How to Ensure Strong
and Effective Executive
Pay Governance**

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#BBTF23



BankDirector

Executive Compensation:

How to Ensure Strong and Effective Executive Pay Governance

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Why Is Executive Pay Governance Important?

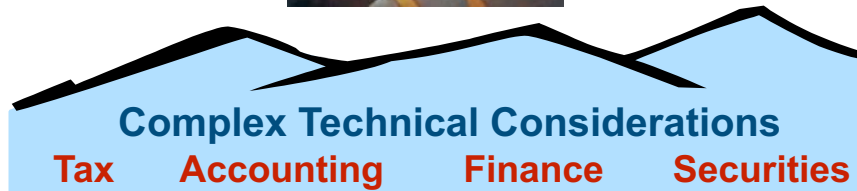
- 1) Attract and engage best leadership while maximizing compensation ROI
- 2) Fulfill the fiduciary obligations of the Board/Compensation Committee

Boards/ Compensation Committees

Executives = \$\$\$



Shareholders = ROI



Executive Pay: Total Compensation Management

All executive pay issues fall into one of four “buckets”:

1. Pay Governance Process

- How do we manage pay?

2. Compensation Levels/Mix

- How much do we pay versus “market” and what is the mix?

3. Plan Design

- What should we pay for?
- How to structure plans?

4. Communication

- What do we communicate and disclose about pay?

1. Pay Governance Process: How Do We Manage Pay?

Compensation Committee Charter

- Public: required by NYSE and NASDAQ
- Specific requirements + tailored to company
- Charters expanding to human capital
- Private: very uncommon

Calendar of Pay Events

- Summarizes annual executive pay decisions
- Clarifies “decision rights”
- Review/approvals
- “Best practice”: both private and public

Compensation Philosophy

- Public: required proxy disclosure
- Guiding principles around pay
- Private: sometimes but must be “realistic”

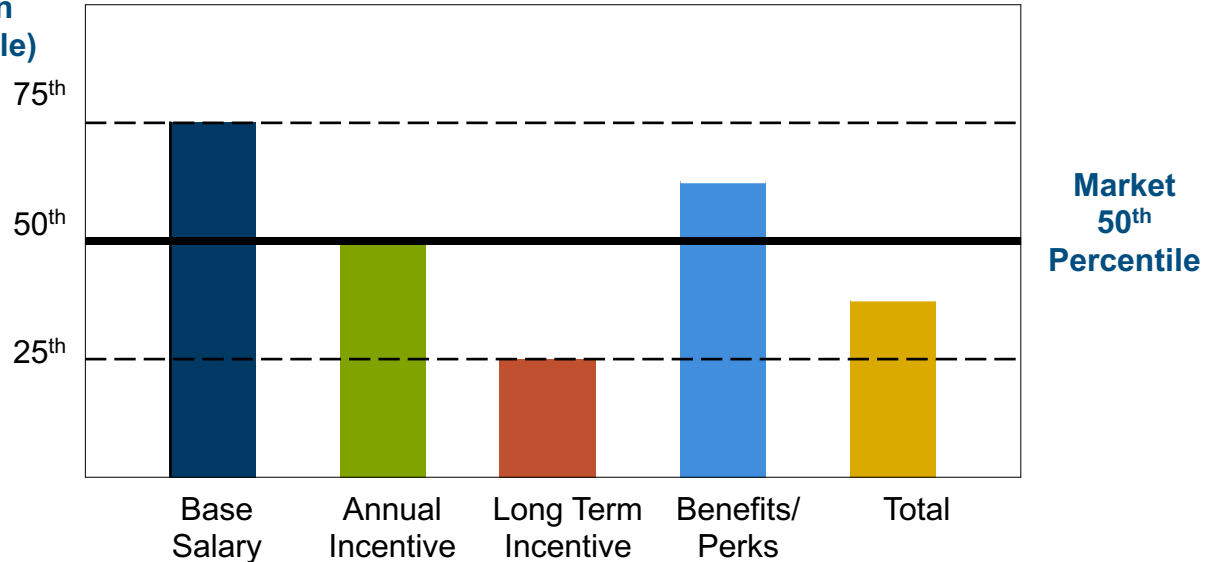
Both the content and “quality” of Compensation Committee reports is also critical to effective pay governance

2. Compensation Levels/Mix: How Much Do We Pay?

It is imperative that companies understand how their compensation levels and mix of pay compare to a defined “market”

Rule #1 of Executive Pay Analysis: all executive compensation market values must be size-adjusted (“assets” or “revenues”)

Competitive
Position
(Percentile)



Summary: Pay Governance Questions (Part 1)

Governance Process	Questions
1. Committee Charter	<ul style="list-style-type: none">• What are the responsibilities of the Compensation Committee under our charter?
2. Calendar of Events	<ul style="list-style-type: none">• What is the calendar of Committee agendas?• Which meetings require decisions?
3. Pay Philosophy	<ul style="list-style-type: none">• What is our compensation philosophy?

Compensation Levels/Mix	Questions
1. Market definition	<ul style="list-style-type: none">• What is our labor market?• Which public peers are included?
2. Business size and market values	<ul style="list-style-type: none">• What is the median size in the analysis?• How were the market values size-adjusted?
3. Total compensation	<ul style="list-style-type: none">• Do we understand all “material” elements of executive compensation?• Have we reviewed a “tally sheet” summarizing all elements of pay?

3. Plan Design: What Do We Pay For?

Must Review Each Element

Annual Incentives

- What are the performance metrics? Why?
- “Stretch” in goals? Plan risk?

Long-term Incentives

- Which forms and why?
- Performance metrics? Why?

Total Retirement

- What form (DC vs. DB)?
- Total annualized value?

Executive Benefits/Perks

- Termination payments?
- Supplemental benefits?
- Perks?

4. Communication: What Do We Communicate About Pay?

Internal Communications and External Disclosure

Internal Communication	External Disclosure
<ul style="list-style-type: none">• Incentive plans: goals/why? progress? final results?	<ul style="list-style-type: none">• Proxy CD&A
<ul style="list-style-type: none">• Retirement: annual \$ value today in “plain English”?	<ul style="list-style-type: none">• Investor/shareholder outreach
<ul style="list-style-type: none">• Total compensation value	
<ul style="list-style-type: none">• Compensation Committee: “tally sheets” on total executive pay value	

Summary: Pay Governance Questions (Part 2)

Plan Design	Questions
1. Annual Incentives	<ul style="list-style-type: none">• What are the metrics? And, why?
2. Long-term Incentives	<ul style="list-style-type: none">• What forms of LTI are granted? Why?
3. Retirement	<ul style="list-style-type: none">• What is value of total program? Annualized cash-equivalent value?
4. Executive Benefits/Perks	<ul style="list-style-type: none">• What is paid for general severance? What is paid for termination after a change-in-control?• What other executive benefits? Value?

Communication	Questions
1. Proxy statement	<ul style="list-style-type: none">• What does our CD&A say about our pay programs?
2. Internal communications	<ul style="list-style-type: none">• What do we communicate to participants about our pay programs?