MEMORANDUM

August 20, 2010

To: Public Comment File

From: Scott H. Kimpel
Office of Commissioner Troy A. Paredes

Re: Dodd-Frank Wall Street Reform and Consumer Protection Act

On August 19, 2010, Commissioner Troy A. Paredes and Scott H. Kimpel, Counsel to the Commissioner, met with Timothy J. Bartl and Charles G. Tharp of the Center on Executive Compensation.

Messrs. Bartl and Tharp submitted the following agenda in advance of the meeting:

> Mr. Bartl would appreciate the opportunity to discuss several new compensation and disclosure requirements in the Dodd-Frank Act, including
>
> - Improving the disclosure of executive compensation versus performance
> - Implementation of the ratio of median employee to CEO pay
> - Implementation of the recoupment requirement for executive officers and
> - Implementation of the periodic shareholder vote on executive compensation.
>
> He would also like to discuss the role and influence of proxy advisory services over the pay development process and the evaluation of pay versus performance.

Messrs. Bartl and Tharp also provided copies of various articles and other discussion materials, copies of which are attached hereto.

Attachments

Copyright material redacted. Author cites:

Richard Floersch, “The Right Way to Determine Executive Pay”, *The Wall Street Journal*, (March 5, 2009)

Katie Wagner, “Center on Executive Compensation Proposes Tables to Avert Confusion”, *Financial Times*, (June 14, 2010)

Center On Executive Compensation

About the Center On Executive Compensation

A Principled Voice on Pay Practices

Hosted by HR Policy Association, the Center On Executive Compensation is dedicated to developing and promoting principled pay practices and advocating compensation policies that serve the best interests of shareholders and other corporate stakeholders. The Center believes that a sound, reasoned approach is in the best interest of all the key constituents as changes to executive compensation are debated. The following provides an overview of the Center's role in the executive compensation debate, an explanation of the need for the Center, and a summary of its core principles.

The Role of the Center The Center on Executive Compensation is an advocate for the principled pay practices described below. Specifically, the Center:

- Provides senior HR executives with a stronger voice in executive compensation matters;
- Offers a thoughtful and principled voice on the proper design and governance of executive compensation from the corporate perspective;
- Advocates sound practices and policies at the national level that appropriately bridge the pay-for-performance philosophies of companies with the concerns of key stakeholders;
- Educates the public and policy makers about the sound corporate governance practices embraced by the vast majority of U.S. corporations and how their executive compensation programs align with shareholder and other stakeholder interests;
- Issues timely commentary on current trends and changes being considered in the executive compensation arena, in order to help promote a more balanced point of view; and
- Conducts research and provides it to the public in order to help inform the executive compensation dialogue.

The Need for the Center The ongoing debate over executive compensation is focused on the most appropriate ways to structure executive compensation so that performance incentives are aligned with results. For the most part, the means and methods used have been appropriate and effective. More than 1,700 publicly traded companies are acting responsibly and consistent with sound corporate governance standards to the benefit of their shareholders, employees and the communities they serve.

www.ExecComp.org 1100 13th Street NW Suite 850 E-mail: info@ExecComp.org Tel: 202.408.8181

However, serious exceptions with equally serious consequences have occurred to the detriment of shareholders, employees and other stakeholders. In response, Boards of Directors, senior corporate executives, Congress, regulatory agencies and shareholder organizations have rightly taken action to strengthen corporate governance standards, enforce more rigorous pay-for-performance practices, reinforce Board responsibility for executive compensation and improve disclosure. The net result of all these changes is that significant improvements have been made in executive compensation.

Still, scandals continue to prompt both scrutiny and debate by regulators, legislators, watchdog groups and pension funds over governance and pay practices of publicly held companies. In the absence of a cohesive and reasoned corporate point of view, some of these well-intentioned efforts have, unfortunately, resulted in unintended consequences that have led to distortions in pay packages, greater expenses and a harmful erosion of the overall reputation of corporate America and its executives.

In today's emotionally charged world of executive pay, the Center On Executive Compensation believes that a reasoned voice on the proper design and governance of executive compensation is needed to ensure that today's cure for yesterday's curse does not become tomorrow's crisis.

The Center's Principles Headquartered in Washington, DC, the Center was created to ensure that the Association was supporting the critically important work of its members—the senior human resource executives of leading companies—and providing them with a stronger voice in the executive compensation debate.

The Center believes that properly designed and managed incentive programs are key factors in promoting economic performance and the corresponding benefits that flow to shareholders, consumers, employees and society in general.

The Center promotes executive pay and governance principles that are aligned with the best interests of shareholders and other stakeholders. Specifically, the Center believes that compensation arrangements should be:

- fully compliant with the applicable laws and regulations;
- independently informed and approved;
- appropriately customized to the company's culture, strategy and industry;
- transparent and accessible; and
- fair and reasonable.

More information on the Center and its program of work can be found on its website at www.execcomp.org. If your company is interested in subscribing to the Center, please contact Tim Bartl at tbartl@execcomp.org or call him at 202-408-8181.

Center On Executive Compensation
Advisory Board

Richard R. Floersch, Chairman
Executive Vice President, Chief Human Resource Officer
McDonald's Corporation

Maureen K. Ausura
Senior Vice President, Human Resources
Lowe's Companies, Inc.

J. Thomas Bowler
Senior Vice President, Human Resources and Organization
United Technologies Corp.

Jeffrey J. Brundage
Senior Vice President, Human Resources
American Airlines Inc.

Brian J. Cook
Senior Vice President, Human Resources
USG Corporation

Michael L. Davis
Senior Vice President, Global Human Resources
General Mills, Inc.

Walter M. Oliver
Senior Vice President, Human Resources and Administration
General Dynamics Corporation

Randolph H. Powers
Manager, Compensation, Benefit Plans and Policies
Exxon Mobil Corporation

Karen S. Salinaro
Vice President, Compensation and Benefits
IBM Corporation

Laurie A. Siegel
Senior Vice President, Human Resources & Internal Communications
Tyco International

Cathy Streker
Vice President, Human Resources
Textron Inc.

William Tompkins
Vice President, Total Rewards & HR Technology
Gap, Inc.

Marc L. Ugol
Senior Vice President, Human Resources
United Airlines

Center On Executive Compensation

Principled Pay Practices

The Center On Executive Compensation

Mission Statement:

The Center On Executive Compensation is dedicated to developing and promoting principled pay practices and advocating compensation policies that serve the best interests of shareholders and other corporate stakeholders. The Center believes that the management of the executive compensation function by corporations should be conducted in accordance with a set of clearly defined principles. The Center encourages companies to incorporate these principles in the development, administration and communication of their executive compensation arrangements. The Center further believes that executive compensation principles should be periodically updated to reflect the most contemporary thinking on the subject. The following page provides links to the explanation of the Center's current principles, as well as a document providing more detail of how they are applied in practice.

Principled Pay Practices

- ***Aligned*** With the Best Interests of the Company's Shareholders and Other Stakeholders
- ***Fully Compliant*** With Applicable Laws and Regulations
- ***Independently Informed and Approved***
- ***Appropriately Customized*** to the Company's Culture, Values, Industry and Strategy
- ***Transparent and Accessible***
- ***Fair and Reasonable*** to the Company's Shareholders and Executives as a Whole

www.ExecComp.org 1100 13th Street NW Suite 850 E-mail: info@ExecComp.org Tel: 202.408.8181

***Aligned*: Executive Compensation Arrangements Should Be Aligned With the Best Interests of a Company's Shareholders and Other Stakeholders**

- Link to Results. Incentives should be contingent on achieving stringent, well-defined results-based measures linked to a company's business, with a significant share of the total compensation at risk, or not guaranteed, and compensation proportionate to results.
- Ensure Appropriate Incentive Balance. Incentives should be structured to mitigate the possibility that executives would be encouraged to make decisions that could significant reduce the long-term value of the firm by including, for example, caps on total earnings potential, an appropriate mix among short- and long-term compensation elements and an appropriate balance among equity used in long-term incentives.
- Require Appropriate Ownership Stake. Executives should have a significant ownership stake in their company, driven by an appropriate amount of pay delivered through equity-based compensation, a substantial portion of which is linked to results, and implemented through meaningful ownership and/or retention guidelines applied to option exercises, stock vesting and/or payouts of stock compensation.
- Enable Necessary Talent. Executive compensation arrangements should enable companies to attract, retain and develop the executive talent necessary to serve the shareholders' and other corporate stakeholders' best interests, while ensuring a proper balance between pay that is focused on results and that which is focused on retention.
- Support the Business Strategy. Compensation should be structured to support the company's ability to execute its business strategy.

***Fully Compliant*: Executive Compensation Arrangements Should Be Structured and Executed in Full Compliance With Applicable Laws And Regulations and a Culture of Compliance Should Be Adopted to Guide a Company's Pay Policies and Practices.**

***Independently Informed and Approved*. Executive Compensation Arrangements Should Be Approved by the Board of Directors' Independent and Active Compensation Committee That Is Guided by High Corporate Governance Standards Implemented Through a Well-Defined Charter and Informed by Independent Advisors.**

The Board's compensation committee will:

- Employ Sound Corporate Governance Practices. Leading corporate governance practices help ensure that all elements of compensation are carefully reviewed and appropriately structured.
- Use Independent Compensation Advisors. Outside advisors retained by the compensation committee should not provide other services that create an actual or perceived conflict of interest with the executive pay advice provided.

- Conduct Periodic, Independent Competitive Compensation Reviews. A thorough periodic assessment of the company's executive compensation programs and practices helps to reinforce sound governance and appropriate compensation design.
- Evaluate Committee Regularly. Committee member evaluation helps ensure the committee acts consistent with its charter thus reinforcing accountability.

***Appropriately Customized*: Executive Compensation Arrangements Should Be Appropriately Customized to and Aligned With the Company's Culture and Values, Business Strategy, Industry, and Competitive and Financial Conditions.**

- Utilize Well-Defined, Relevant and Rigorous Results-Based Metrics. Incentive plans should be customized to the company to support the realization of its business strategy while limiting overly aggressive or overly conservative decisionmaking.
- Ensure Pay Peer Group Is Appropriate for the Company. The pay peer group typically includes similarly situated companies in terms of industry, size, location(s) and performance and should correlate closely with the performance peer group.
- Confirm Compensation Levels Are Proportionately Appropriate Relative to Competitors. By comparing the company's compensation program to that of its peers, the compensation committee can determine the competitiveness of each element of executive compensation and the total program.

***Transparent and Accessible*: The Compensation Committee Should Ensure That the Company's Executive Compensation Program Is Disclosed in a Clear and Understandable Manner and Ensure That the Company Is Accessible to Explain the Program to Shareholders and Other Stakeholders.**

- Provide Clear, Concise, Customized Disclosure. Executive compensation arrangements should be disclosed and explained in a clear, concise and customized manner that facilitates a full understanding of the rationale for and levels of all aspects of reportable executive compensation.

- Be Accessible. Designated company executives and/or directors should be accessible to discuss and respond to inquiries about the company's executive compensation policies and practices with its shareholders and other corporate stakeholders.

***Fair and Reasonable*: Executive Compensation Arrangements Should Be Fair to the Company's Shareholders and Executives When Viewed as a Whole, and Reasonable Given the Context in Which the Arrangements Are Structured and Compensation Is Earned**

Pensions & Investments

SEC Issues Proxy-Voting Concept Release
By Doug Halonen
July 14, 2010

The SEC on Wednesday issued a concept release seeking public comment on whether the agency should reform the corporate proxy voting system to make it more accurate and transparent.

Among the specific issues on which the agency is seeking comment is whether pension funds and other lenders of securities should be provided more notice about the content of upcoming shareholder meetings so they can "decide whether to recall their shares and regain their right to vote these shares," SEC Chairwoman Mary Schapiro said during an agency meeting Wednesday morning.

The SEC also is seeking comment on whether proxy advisory firms should be subject to new SEC regulations and disclosure requirements.

"Some companies and investors have raised concerns that proxy advisory firms may be subject to conflicts of interest or may fail to conduct adequate research and base recommendations on erroneous or incomplete facts," according to an SEC fact sheet.

Charles G. Tharp, executive vice president for policy, Center on Executive Compensation, in a statement commenting on the release said: "There have been legitimate questions raised around the analytical rigor with which compensation is reviewed and reported by proxy advisory services. The Center hopes to work with the commission to ensure that, moving forward, analysis is conducted and recommendations on pay votes are made in a way that supports a clearer pay for performance analysis."

The SEC issues concept releases to seek public comment on issues officials believe might warrant regulation in the future.

The public will have 90 days to comment on the concept release after it is published in the Federal Register. The publication date hasn't been set.

IN THEIR OWN WORDS: EXECUTIVE COMPENSATION FROM THE PERSPECTIVE OF THE LARGEST INSTITUTIONAL INVESTORS

September 10, 2008

SUMMARY AND KEY FINDINGS

Prepared by the Center On Executive Compensation

1100 THIRTEENTH STREET | SUITE 850
WASHINGTON DC 20005
202.408.8181 | FAX 202.789.0064 | WWW.EXECCOMP.ORG

©Center On Executive Compensation 2008

SUMMARY AND KEY FINDINGS

IN THEIR OWN WORDS: VIEWS OF EXECUTIVE COMPENSATION FROM THE LARGEST INSTITUTIONAL INVESTORS

A first-of-its-kind study commissioned by the Center On Executive Compensation (the Center) to identify the perspectives of the nation's largest 25 institutional investors on executive compensation confirms that making broad assumptions about the views of institutional investors on this topic often does not reflect realities, underscoring a need for a thoughtful and reasoned approach to any executive compensation policy changes. Specifically, the study reveals that:

- The majority of large institutional investors do not support a shareholder vote on executive compensation, believing instead that boards should be responsible for compensation decisions and held accountable through greater disclosure and ultimately by shareholders who determine whether to reelect them;
- Large institutional investors are not generally concerned with the level of executive compensation, provided it is clearly and appropriately linked to company results; however, they believe the pay-for-performance link could be further strengthened and unanimously support equity as a form of aligning executives and shareholders' interests;
- One-third of the large institutional investors raised unsolicited concerns over the influence that proxy advisory services have over the proxy voting process, including compensation matters;
- Despite updated SEC disclosure rules, the overwhelming majority of large institutional investors have been disappointed in the rules and how companies have implemented them, especially the lack of clarity in the Compensation Discussion and Analysis. The investors believe there is room for improvement and most believe that it will occur over time. In the meantime, they do not support a "one-size-fits-all" approach to selecting or determining performance metrics, instead preferring multiple performance metrics tailored to measure the achievement of a company's strategic goals.
- Large institutional investors were split on the issue of the independence of executive compensation consultants, with just under half supporting independence and the others divided between disclosure of other relationships with the company and those not seeking any disclosure.

More information on the purpose, methodology and key findings of the study follow.

©Center On Executive Compensation 2008

I. PURPOSE OF THE STUDY

The involvement of certain institutional investors in the executive compensation debate has intensified in recent years with various organizations frequently quoted in the press as representing institutional investors or shareholders generally. However, it was not clear that the positions taken by these organizations were truly reflective of the views of the largest of these institutional investors based on management of U.S. equities.

The Center, which is committed to developing and promoting principled pay and governance practices and advocating compensation policies that serve the best interests of shareholders and other corporate stakeholders, believed this question deserved further analysis. It commissioned a first-of-its-kind study to better understand the views of the country's 25 largest institutional investors, as reported on the *Institutional Investor* magazine website in February 2008.

Because these institutions collectively manage over $6 trillion in U.S. equities—roughly 65 percent of the total of the top 300 institutional investors—and $19.8 trillion in total assets, they carry significant weight. The Center believed that the views of this important shareholder constituency should be better understood and factored into the ongoing national dialogue about how best to inform and structure executive pay practices and the rules and regulations that guide them. Moreover, the Center's members were interested in securing the findings as a part of their individual efforts to expand and enhance their dialogue with shareholders on these topics.

The findings will be made available to senior human resource executives, directors, compensation consultants, law makers and regulators, academics and the media. They will be a part of the Center's effort to contribute a balanced and reasoned understanding of what often can be a complex and highly individualized executive compensation process as debates on the issue take place in corporate America, in the halls of Congress and regulatory agencies, and even in this year's presidential election.

In addition, the Center intends to conduct further research and policy development activities as a result of the study. These activities include:

- Developing a new methodology for explaining the link between actual pay and actual performance that companies can use internally and/or in their executive compensation disclosures;

©Center On Executive Compensation 2008

- Examining new approaches to structuring severance arrangements to ensure that they serve the purpose of recruitment but do not continue in perpetuity; and
- Conducting more research over the structure and operation of mechanisms for obtaining the views of large shareholders.

II. METHODOLOGY

To conduct the study, the Center turned to Kevin F. Hallock, Professor of Labor Economics and of Human Resources Studies and Director of Research at the Center for Human Resource Studies at Cornell University. Starting in March 2008, Professor Hallock conducted one-on-one interviews with senior representatives from 20 of the largest 25 institutional investors on a range of issues currently dominating the national discourse on executive compensation. These representatives were the heads of the organization or the chairs or senior members of the institution's proxy committee and involved with corporate governance and executive compensation.

III. SUMMARY OF KEY FINDINGS

The following summarizes the top three executive compensation concerns as identified by the institutional investors as well as the Study's other findings.

A. Top Three Issues: Large institutional investors are most concerned about: (1) ensuring pay-for-performance, followed by (2) preserving the Boards' role to set compensation and being able to "trust" and rely on compensation committees, and (3) seeking greater clarity in company's pay disclosures and the SEC's requirements.

1. Pay for Performance: Pay for performance dominated the list of investor concerns, with the majority feeling that there is room for improvement in how performance is measured and disclosed relative to pay. These investors believe that current executive pay levels are not too high so long as they reflect performance and shareholders also have benefited. Certain other findings in the study confirmed and supported this view:

    - multiple performance metrics should be used so that it is more difficult for companies to "manipulate" the results;
    - some form of equity should be included in the pay package to more strongly align executive and shareholder interests;

©Center On Executive Compensation 2008

- a long-term view (3-5 years) is better than a quarter-by-quarter outlook when it comes to evaluating shareholder value.

2. The Board's Role: The majority of these investors did not support the adoption of "say on pay," which requires shareholders to have an annual nonbinding vote on executive compensation, with most instead preferring that the Board set compensation and be held accountable through greater transparency and, ultimately, shareholder votes on whether to reelect the Board. The composition of a board's compensation committee was deemed important and something they "look at."

3. Disclosure: Despite the U.S. Securities and Exchange Commission's updated executive compensation disclosure requirements, the majority of these investors expressed disappointment in the clarity of disclosures, both the compensation discussion and analysis ("CD&A") and the compensation tables. The investors believe that there is still room for improvement and some indicated that it will come over time. Rather than relying solely on the CD&As or the tables, these investors utilize a wide variety of sources when considering executive compensation, including meetings with company managers and analyses from other entities (such as RiskMetrics and Glass-Lewis), and many only turn to the CD&A if some sort of outlier is identified through their quantitative analysis.

B. Large institutional investors do not have a shared view on all executive compensation issues. While they agree about some issues, such as pay for performance and rejecting "say on pay," they are almost evenly split on others, such as the necessity of maintaining the independence of the compensation consultant and disclosure of performance targets.

1. Issues on Which Large Institutional Investors Generally Agreed. Almost in unanimous agreement, surveyed investors coalesced around issues including:

   - *Level of Executive Compensation.* Seventy-five percent were not concerned with the level of executive pay, as long as it was clearly linked to performance and investors understood the link.
   - *Disclosure.* The institutional investors were disappointed in the SEC's disclosure rules and believed that company implementation of the rules needs to be improved. Investors found the CD&A overly wordy, legalistic and jargony, and the

©Center On Executive Compensation 2008

tables difficult to understand. Given that most companies have had only two years at most of filing proxies using the new rules and the SEC is still in the process of interpreting how it will enforce them, some indicated that they expect clarity will improve over time.

- *Equity Compensation.* Equity should be included as part of a well-designed executive compensation plan because, as one investor put it, "at the highest level we want [executives] to think and act like shareholders."
- *Performance Metrics.* Investors believe that multiple metrics should be used in measuring performance to ensure that the pay is aligned to specific company strategies and to minimize the potential that incentive targets could be manipulated.

2. Issues on Which the Institutional Investors Had Differing Views. Institutional investors were not monolithic in their views on executive compensation and governance. Some areas in which their views were split into two or three categories included:

- *Say on Pay.* The majority of institutional investors did not support say on pay -- a nonbinding shareholder vote one executive compensation. The largest share of investors – about half – indicated they opposed the adoption of "say on pay" resolutions, which require an annual nonbinding vote on executive compensation for a variety of reasons. Investors' comments explaining their reasons for this conclusion include that "the [compensation] committee has better information than we do," that "engagement [with the Board] is a better avenue," and that say on pay would not work well under the U.S. system of dispersed ownership. Only about one-quarter of the firms interviewed supported a shareholder vote. Another quarter had "mixed views."
- *The Use of Proxy Advisory Services.* Nearly all institutional investors indicated that they used proxy advisory services, with a good number using the services for research, rather than for their voting recommendations. In addition, in unsolicited comments, a third of those interviewed expressed concern over the influence that advisory services have over the proxy voting process, particularly RiskMetrics, which holds the largest share of the market.
- *Compensation Consultant Independence.* Views of the institutional investors split into three parts on this subject. About one-quarter of the institutional investors interviewed had no concerns with consulting firms providing executive

©Center On Executive Compensation 2008

compensation advice and performing other work for the company. One-quarter believed that the dual role could be provided with appropriate disclosure, and just under half believed that independence was essential.

- *Disclosure of Performance Targets.* One third of investors interviewed opposed disclosure of incentive plan performance targets, one third supported disclosure, and another third had mixed views. One conclusion that can be drawn from these results is that there is an incomplete understanding of the competitive harm that could result if certain confidential incentive targets that are closely related to business strategy are required to be disclosed.

3. Issues on Which Investors Had Divergent Views. Investors had a mix of views on the following issues:

   - *Severance and Change-in-Control.* Many investors interviewed recognized the purpose behind severance and change-in-control provisions. However, several also expressed concern that these provisions were too large in some cases, or that it was difficult to express a general sense of whether they are good or bad because they are specific to the contexts and circumstances at individual companies.
   - *Executive Retirement Plans.* Roughly one-fifth of investors interviewed believed that companies should pay the market rate for retirement and about the same number believed that executives should receive the same retirement arrangement as other employees. A good number of comments in the interviews focused on equity grants provided to executives changing companies to make them whole for retirement and other benefits lost as a result of the switch.

IV. COMPARISON OF INSTITUTIONAL INVESTOR FINDINGS VERSUS ACTIVISTS' VIEWS

In his report, Professor Hallock concludes that though further study is needed, it ***"[appears to] be the case that some of the strong views held by activist institutional investors are not generally held by the majority of or even very many of the largest institutional investors."***

The differences are most notable in the following three areas:

- Support for Say on Pay
- Level of Executive Compensation
- Performance Metrics/Targets

©Center On Executive Compensation 2008

The Center believes that additional research is warranted to understand the differences in institutional investors' views on these issues.

V. CONCLUSION

This study confirms that making broad assumptions about the views of institutional investors on executive compensation often does not reflect realities. Overall, the views of the largest institutional investors support the notion that the current system of corporate governance, in which the board compensation committee sets executive compensation levels, is working. It also demonstrates that investors expect compensation plans that are tailored to the company's competitive position and strategic goals and that undue influence by proxy advisory services could harm such approaches.

In sum, the Center believes that the study lends support to its position that a thoughtful approach to policy changes involving executive compensation is essential. The largest institutional investors not only carry substantial influence because of their size, but their primary motivation is to maximize returns for their investors. Thus, their views should be given careful consideration as the dialog over executive compensation and deliberations over public policy changes continue.

Appendices

- Appendix A: Largest 25 Institutional Investors
- Appendix B: Center On Executive Compensation Action Items
- Appendix C: Sample Institutional Investor Quotes From the Study
- Appendix D: About the Author, Professor Kevin F. Hallock
- Appendix E: Interview Guidelines
- Appendix F: About the Center on Executive Compensation

©Center On Executive Compensation 2008

APPENDIX A

LARGEST U.S. INSTITUTIONAL INVESTORS BASED ON U.S. EQUITIES UNDER MANAGEMENT

As Ranked by Institutional Investor Magazine

1. Fidelity Investments
2. Barclays Global Investors
3. Capital Group Companies
4. State Street Global Advisors
5. Vanguard Group
6. AXA Group
7. Wellington Management Company
8. Legg Mason
9. T. Rowe Price Group
10. Mellon Financial Corp.
11. Northern Trust Global Investments
12. JP Morgan Asset Management
13. BlackRock
14. TIAA-CREF
15. Goldman Sachs Group
16. Morgan Stanley Investment Management
17. Franklin Resources
18. Prudential Financial
19. Janus Capital Group
20. Dodge and Cox
21. Amvescap
22. UBS Global Asset Management
23. MetLife
24. Davis Selected Advisors
25. Old Mutual Asset Management

NOTE: List of top 25 Institutional Investors as ranked by *Institutional Investor Magazine* based on year-end 2006 numbers, as listed on its website as of February 2008. Year-end 2007 rankings were released after the study was completed.

©Center On Executive Compensation 2008

APPENDIX B

CENTER ON EXECUTIVE COMPENSATION RESEARCH PROJECTS BASED ON REPORT'S FINDINGS

In response to the Professor Hallock's Study of the largest institutional investors on executive compensation, the Center On Executive Compensation has identified the following research projects designed to reinforce pay for performance and responsible compensation practices.

Develop a New Methodology for Explaining the Link Between Actual Pay and Actual Performance

Most large institutional investors interviewed in the study identified pay and performance alignment as a primary concern, with many of those seeking better disclosure of the pay for performance link. The Center seeks to develop a methodology that compensation committees can use to measure whether there is a strong correlation between company performance and executive compensation. The methodology would compare total shareholder return and actual total pay, as opposed to "total compensation" as disclosed in the summary compensation table, which is not based on realized amounts. The "actual pay" would be determined by cash compensation and the realized and unrealized gains on vested equity held by the executive over a period of years and compared to the increases in stock price during the same period. This would enable boards and, where disclosed, shareholders to determine whether a true link exists, thus enhancing comparability.

Develop and Promote a Standard on Clawback Policies in the Event of Financial Restatement

The institutional investors interviewed sought clear indications that the board and compensation committees are paying for performance. Over the past year, there has been considerable discussion about the need for boards of directors to recoup incentive compensation when the company has engaged in fraud or has otherwise restated earnings. Some activists have opined that clawbacks should apply in the event of extraordinary shareholder losses.

In keeping with its pay for performance principles, the Center believes that clawback policies should apply in the event of all material restatements that, if the actual results had been known prior to the payment of incentive compensation, would have resulted in the Compensation Committee approving a lower payout. Correspondingly, restatements affecting the financial results that determine bonuses and equity payouts would prompt a recoupment of the portion of incentive payouts that were based on the misstated earnings. The Center will be working to more fully articulate its position on clawbacks this fall.

Identify New Approaches to Structuring Severance Arrangements to Ensure That They Serve the Purpose of Recruitment But Do Not Continue in Perpetuity

Several large institutional investors expressed concern over the practice of providing large cash severance arrangements, especially as part of senior executive pay

©Center On Executive Compensation 2008

CENTER ON EXECUTIVE COMPENSATION RESEARCH PROJECTS (Continued)

packages, where the executive has been with the company for several years. While severance arrangements play a legitimate role in recruiting new executives from outside the company, these amounts are often called "pay for failure" if the executive is forced to depart and the severance arrangement is triggered. This reaction is even more pronounced where the executive is also receiving substantial vested equity upon departure. The Center seeks to develop best practices and policy proposals that encourage companies to adopt severance arrangements for newly hired senior executives that sunset as equity awards vest. This keeps severance aligned with its true purpose--to encourage an executive to join a new company.

Develop Mechanisms to Increase Communication Between Companies and Large Institutional Investors.

In light of the conclusions reached in this report, it is clear that greater communication between large companies and large institutional investors on executive compensation would help both parties understand the perspective of the other. The Center will explore ways to help companies provide a structure that facilitates communication with their largest shareholders.

©Center On Executive Compensation 2008

©Center On Executive Compensation 2008

APPENDIX C

VIEWS OF THE LARGEST INSTITUTIONAL INVESTORS, IN THEIR OWN WORDS

Issue	Investor Quotes	Page
Say on Pay	"We are not supporting say on pay. It goes against our philosophy about the board."	Page 18
	"It is not clear A, what we are voting on and B, what others are voting on. We can have a much more individual discussion and nuanced discussion" [with the Board].	Page 19
	"We are really doing [say on pay] on a case-by-case basis. We have voted for and against them. I have no clue what you do if it passes."	Page 20
Pay for Performance	"We want compensation to be aligned with performance. We want to strengthen the link between pay and performance. We also want to see more customized compensation programs tailored to the specific companies."	Page 5
	"We have no objection to executives making a substantial amount when investors make a lot, too. . . . We worry about tarring thousands of executives for the behavior of a few."	Page 5
Role of the Board and Compensation Committee	"We don't feel it is the role of the shareholders to set compensation. But it is our role to elect the Board. We look at the composition of the compensation committee."	Page 6
	It is hard to substitute your judgment for the judgment of the members of the compensation committee. . . . We are just not experts at executive compensation.	Page 6
SEC Disclosure Rules	The compensation discussion and analysis is "too much information and legalese that has not achieved its intent."	Page 13
	"What we have seen from last year is still pretty complicated disclosure. Things are not as user-friendly as planned. So it lends itself to a more simplistic view of compensation."	Page 13
	"We really are screening for outliers. The nuance of the detail doesn't help to determine an overall investment over a three-to-five year plan."	Page 13
External Sources/Proxy Advisory Services	"On the proxy voting part, we outsource to ISS. We don't tend to override that."	Page 17
	"We use the ISS model for options but don't necessarily vote according to their recommendations [External sources are] becoming too powerful."	Page 18
	"I think ISS has too much power. Too many funds roll their way."	Page 18

©Center On Executive Compensation 2008

Issue	Investor Quotes	Page
Metrics and Performance	"We like there to be more than a single metric. But there have been instances where the committee wants the executive to focus on a single metric. What we often learn when we engage with a compensation committee is that they have a lot more information than we have."	Page 10
	"We don't want to micromanage or opine on what the metrics ought to be since they vary by industry."	Page 10
	"This really should be a board decision that has objective and subjective [components] and is not just formulaic"	Page 10
Executive Pay Levels	I have no problem with paying a lot if executives add value."	Page 8
	"Across the board we would say that we disagree that CEO pay is too high."	Page 8
	"As a general rule we consider it fair in terms of total and in consideration of what is put forth. It is not easy to run large organizations. We need highly motivated people."	Page 8
Disclosure of Metrics/Targets	"If you disclose the way in which your senior officers are being paid, you are in some ways disclosing the strategy of the firm."	Page 15
	"[There are] probably mixed concerns about whether [targets] disclose competitive risks. My personal view is that this is overstated."	Page 15
	"Information about the past is helpful, but we want to see where we are going. We are sensitive to the competitive norm. But we wouldn't recommend [disclosure of targets] if we thought it would cause competitive harm."	Page 16
Severance and Change-in-Control	"You want people to be protected. On the other hand you don't want it to get out of control"	Page 22
	[Severance and change-in-control] is hard. You have to go back to common sense."	Page 22
	"Change-in-control agreements are going to be there and they should be for employee retention."	Page 23
Equity	"We prefer some form of equity for directors and the management team to be aligned with our interest."	Page 24
	"At the highest level, we want them to think and act like shareholders. We think it is appropriate to have a substantial amount of personal wealth in the firm."	Page 24
Compensation Consultant Independence	"[As for the independent compensation consultant] I would say it is not important. We just want the issues to be transparent and disclosed."	Page 28
	"I understand all the arguments. On the other hand, we are all [adults]. I think the board has to make the decision."	Page 28
	"Best practice would be to have an independent compensation consultant."	Page 28

APPENDIX D

ABOUT THE AUTHOR

Kevin F. Hallock is Professor of Labor Economics and of Human Resource Studies and Director of Research at the Center for Human Resource Studies (CAHRS) at Cornell University in Ithaca, NY. This year he is serving as the Chairman of the Cornell University Financial Policy Committee. In addition to his posts at Cornell he is a Research Associate at the National Bureau of Economic Research (NBER) in Cambridge, Massachusetts and a Senior Fellow on Executive Compensation, Board Compensation and Board Practices at The Conference Board. He also serves on WorldatWork's Executive Rewards Advisory Board.

At Cornell he has recently taught courses on designing compensation plans, on Finance for HR Managers, and on the effects of Job Loss on companies. He has written extensively on executive compensation in the for-profit and non-profit organizations. One recent project, using stock option exercise information, estimates the value employees place on options and the cost of the options to firms.

Kevin's work has been discussed in various national publications such as the Wall Street Journal, The New York Times, Barron's, Business Week, Time Magazine and Newsweek. He is the recipient of the Albert Reese Award for the Best Dissertation on Labor Economics from the Industrial Relations Section at Princeton University and the John Dunlop Outstanding Scholar Award from the Labor and Employment Relations Association. Kevin earned his Ph.D. in economics from Princeton University.

©Center On Executive Compensation 2008

APPENDIX E

Interview Guidelines

Kevin F. Hallock

Survey Outline: I am Kevin Hallock, a Professor of Labor Economics and Human Resource Studies at Cornell and I do research on executive compensation, among other areas. I am trying to determine the views of America's largest institutional investors on the subject of executive compensation for a project I am working on that is funded by the Center On Executive Compensation. While I may disclose information from specific responses I will keep the identity of each of the individual respondents confidential, and will not attribute specific responses to any specific organization. I expect that the interview will take approximately 30-40 minutes.

1. What is your view of the issue of executive compensation today and what are the top three issues that are of concern to you at this time?
2. What is your view of the overall level of executive compensation?
3. What is your view on the alignment of pay and performance? Why?

   How do you measure/compare pay and performance when analyzing executive compensation?

   a. What are the important/best metrics in considering pay for performance?
   b. Should pay be capped even in instances of extraordinary performance?
   c. Does your view change if pay is "out of line" with performance? Why?
4. What is your view on the new SEC disclosure rules generally?
   a. Has the new CD&A given you/institutional investors greater insight into the rationale for pay?
   b. Do you look at the CD&A for other purposes (e.g. to discern business strategy)?
   c. What is your view of the usefulness of the Tables?
   d. What is your view of the length of disclosure?

©Center On Executive Compensation 2008

5. What is your view of disclosure of performance metrics and targets?
   a. What is your view of the disclosure and usefulness of performance metrics and targets in the CD&A? Is the disclosure useful? Why?
   b. (Do you want to see the performance targets to assist in understanding the company's compensation program? Do you want to see the performance targets to assess the company's expected performance for reasons unrelated to pay?)
   c. Do the potential negative consequences of performance target disclosure concern you (companies eliminating targets, changing company-specific targets to reported targets, the effects on firm performance of such changes etc.)

6. What external sources to you use to become informed about the issues relating to executive compensation?
   a. Do you rely on specific sources (including reports, websites, webcasts, articles, services, institutions)? If so, which ones? How often is this reviewed?
   b. Do you have a particular focus on any of the following?: Institutional Shareholder Services (ISS), The Council of Institutional Investors, Glass, Lewis and Company, The National Association of Corporate Directors, the Conference Board or the Corporate Library?
   c. If so, how do you use their research and/or recommendations?

7. What is your view of "say on pay," that is an annual nonbinding shareholder vote on executive compensation?
   a. Would you favor a vote on pay? Is the vote a burden?
   b. In lieu of a vote, would you prefer more engagement with management on pay and how so? How often?
   c. What about more engagement with management generally? Who else should be part of that conversation?
   d. Could the vote lead to fiduciary exposure that is not wanted?
   e. Should say on pay be mandated by legislation or by stock exchange rules so that it applies to all or none?
   f. In the event of a "no" vote by shareholders, what should the board do then?

©Center On Executive Compensation 2008

8. What is your view of severance or change in control agreements?
   a. What do you consider when you hear "severance"? Severance or previously agreed amounts?
   b. Is it an issue that severance multiples are larger inside the US than elsewhere?
   c. What is your view of the new disclosure requirement for severance and change in control?
   d. What is your view of accelerated vesting in terms of change in control or severance?

9. What is your view of the use of equity in executive compensation program design?
   a. What is your view on the use of equity in terms of the effect on dilution?
   b. The mix of pay? Do you want executives more heavily weighted toward one type of pay (e.g. salary, bonus, non-equity incentive, stock, options, restricted stock, performance-based equity, etc.) in the pay package?
   c. The use of time versus performance vesting? Does it depend on the vehicle?

10. What is your view of the role of the compensation consultant?
    a. Is it important to you that the firm providing advice to the board on executive pay have no other relationships with the firm? Why or why not?

11. What is your overall view of retirement plans for senior executives?
    a. What is your view on the level of retirement amounts for executives?
    b. What is your view on the issue of grants for past service for mid-career hires?
    c. What is your view of deferred compensation? Does it differ depending upon the circumstances for payout (retirement versus termination?)

12. Is there anything else you think is important or relevant to executive compensation that we have not yet discussed and does your organization have written guidelines or opinions on these issues that I may read?

©Center On Executive Compensation 2008

Center On Executive Compensation

Compensation Committee Checklist for Assessing Incentives and Risk

As Board Compensation Committees consider and finalize executive compensation arrangements for 2010, they will seek to confirm that the company's incentive programs are appropriately structured for the company and discourage executives from taking "excessive risk." Many Committees will also voluntarily disclose how their compensation programs address the subject of risk. The Center On Executive Compensation, a research and advocacy organization that provides a principles-based perspective on executive compensation matters, has created the following checklist to help guide Compensation Committees on these issues. The questions that form the basis of the checklist are provided below and in greater detail on the subsequent pages.

1. **Do the performance criteria and corresponding objectives represent a balance of performance and the quality and sustainability of such performance?**
2. **Is the mix of compensation overly weighted toward annual incentive awards or is there a balance of annual and long-term incentive opportunities?**
3. **When compared to a carefully chosen peer group, is the relationship between performance and incentive plan payouts within the range of competitive practices?**
4. **Is there a relationship between performance criteria and payouts under the annual incentive award consistent with targeted performance under the long-term incentive awards?**
5. **Are the long-term incentive performance measures or equity devices overly leveraged and thereby potentially encourage excessively risky behavior?**
6. **Is there a requirement that a meaningful portion of the shares received from incentive award payouts be retained by the participants?**
7. **Has the Board of Directors adopted a recoupment policy which provides for the clawback of incentive payouts that are based on performance results that are subsequently revised or restated and would have produced lower payouts from incentive plans?**
8. **Does the Compensation Committee discuss the concept of risk when establishing incentive performance criteria and approving incentive payouts? Are such discussions recorded in the minutes of the Committee meeting? Does the Compensation Discussion and Analysis articulate how the company's incentive plans mitigate risk?**

Role of the Compensation Committee in Assessing Excessive Risk

The Center On Executive Compensation believes that the Compensation Committee is in the best position to assess the appropriate relationship between the risk inherent in compensation arrangements and how that level of risk corresponds to the overall business strategy and competitive environment of the company. The Compensation Committee is responsible for establishing company-specific performance goals and potential incentive payouts that will motivate and reward performance supporting the long-term success of the company. The following checklist is offered to aid Compensation Committees in assessing the extent to which the design and administration of executive compensation encourages or reinforces excessive risk-taking by management.

1. **Do the performance criteria and corresponding objectives represent a balance of performance and the quality of such performance?**
    - The committee should evaluate whether performance criteria under annual and long-term incentive plans include measures of performance (such as financial or managerial goals) and measures of the quality of that performance (such as return measures or measures of sustainability of performance).
        - For example, incentive plans may focus on performance such as revenue, market share or other growth measures, and profitability, return on invested capital, or other measures of efficiency and return.
    - This dual approach mitigates the potential that executives will aim to achieve increases in measures such as sales or growth while not focusing on the ultimate value creation or sustainability of such performance.
2. **Is the mix of compensation overly weighted toward annual incentive awards or is there a balance of annual and long-term incentive opportunities?**
    - Does the annual incentive make up more than 50 percent of the total compensation opportunity?
        - To avoid placing too much focus on achieving short-term results, the annual incentive should not comprise a disproportionate share of the total annual executive compensation opportunity (base salary, annual incentive, estimated value of long-term incentive).
            - Too much emphasis on short-term results may jeopardize long-term performance

2. **Is the mix of compensation overly weighted toward annual incentive awards or is there a balance of annual and long-term incentive opportunities? (Continued)**
    - Recognizing that each company will be slightly different, the median division among the elements of compensation for Fortune 500 companies are
        - Salary ≈ 15-20 percent
        - Annual Incentive ≈ 15-20 percent
        - Long-Term Incentive ≈ 60-70 percent
    - Annual incentive in excess of 50 percent of annual compensation opportunity should trigger additional Compensation Committee scrutiny and potentially re-allocation of the annual pay opportunity to other components of the pay package.
    - Does the annual incentive plan have unlimited payout potential?
        - The annual incentive plan should limit total payouts and the range of payouts should be set at a reasonable level, as determined by the Compensation Committee, to avoid encouraging decisions that maximize short-term earnings opportunities (swinging for the fences) at the expense of long-term viability.
    - Do the annual incentive plan criteria and administration mitigate excessive risk?
        - It may be advisable to provide the Compensation Committee discretion in the incentive plan to adjust above-target payouts downward in the face of excessively risky behavior and discuss why this discretion was exercised in the proxy statement.

3. **When compared to a carefully chosen peer group, is the relationship between performance and incentive plan payouts within the range of competitive practices?**
    - The range of performance, and corresponding payouts, should be within a realistic range of results as compared to the performance of the company's peer group.

4. **Is there a relationship between performance criteria and payouts under the annual incentive award consistent with targeted performance under the long-term incentive awards?**
    - While the annual and long-term incentive plans play different roles in the compensation plan, it is important that annual and long-term incentive plan objectives, metrics and targets are aligned to ensure that both types of awards encourage consistent behaviors and sustainable performance results.

5. **Do the long-term incentive performance measures or equity devices potentially encourage excessively risky behavior?**
    - Do the long-term incentive performance measures require excessively risky behavior to realize target or above target payouts? (e.g., do the targets require performance at so high a level that executives would take improper risks to achieve them?)
    - Do the performance criteria and vesting periods of long-term incentive awards overlap and thereby reduce the incentive to maximize performance in any one period?
        - With overlapping awards, an attempt to increase short-term performance may jeopardize company performance in future years and thus payouts under other outstanding awards.
    - Does the mix of long-term incentive awards meet the Committee's pay for performance objectives?
        - The Compensation Committee should determine the specific mix of long-term incentive awards that serve the best interests of the shareholders and the company, and may include:
            - performance-vested performance shares or units (which reward the attainment of key financial objectives)
            - time-vested or performance-vested restricted stock or restricted stock units (which may aid in the retention of key talent)
            - stock options or stock appreciation rights (which provide value only if share price appreciates thereby producing direct gains to shareholders).

6. Is there a requirement that a meaningful portion of the shares received from incentive award payouts be retained by the participants?

- Require meaningful stock ownership requirements to link executives' interests to shareholders' interests
- In the Compensation Committee's discretion, require executives to hold a percentage of net equity received as a continuing link between shareholder and management interests.
- The level of share ownership should build over the executive's career
  - As the executive approaches a targeted retirement date the compensation committee may determine it advisable to approve a phased-diversification plan.
  - If the Compensation Committee determines appropriate, ownership may be also be required for some period after retirement
    - consistent with Internal Revenue Code Section 409A, which requires "key executives" to delay payout of deferred compensation for six months' after departure.
  - Holding requirements should not be so great as to potentially encourage overly conservative management decisions that would harm shareholder value.

7. Has the Board of Directors adopted a recoupment policy which provides for the clawback of incentive payouts that are based on performance results that are subsequently revised or restated and would have produced lower payouts from incentive plans?

- Adopt a strong clawback provision to provide for recoupment in the event of a material restatement.
- The Compensation Committee, in its discretion, should determine when the need for a clawback is triggered, to whom the clawback should apply and the mechanism for recouping incentive payments.

8. Does the Committee discuss the concept of risk when establishing incentive performance criteria and approving incentive payouts? Are such discussions recorded in the minutes of a Committee meeting? Does the Compensation Discussion and Analysis articulate how the company's incentive plans mitigate risk?

- In addition to competitiveness and the linkage of pay and business strategy, the relationship between business risk and incentive compensation should be a key consideration in setting performance criteria, the corresponding mix of awards and the range of incentive plan opportunities.

- The Compensation Committee should meet with the company's principal financial officer and/or corporate risk officer prior to approving financial incentive criteria and meet with him/her periodically to facilitate a complete understanding of how the company's financial performance interacts with its strategy and compensation programs.

- Company proxy disclosures should briefly explain how incentive designs mitigate risk to help demonstrate how risk is considered and addressed by the Committee in approving incentive plans.

©2010 Center On Executive Compensation

Center On Executive Compensation

The Pay Ratio Disclosure Mandate in Dodd-Frank: Examples of the Burdens on Global Companies

Section 953 of the Dodd-Frank Wall Street Reform and Consumer Protection Act would require employers to disclose in their proxy statements and other securities filings the ratio of median employee pay, excluding the CEO, to CEO pay. The requirement is perhaps the most burdensome executive compensation requirement in the bill, as few large public companies have the ability to accurately calculate this ratio. The following examples demonstrate the burden and the extreme difficulty – if not impossibility of calculating the ratio as currently structured.

Company A

Number of Employees Globally: 42,000
Number of Countries: 60
Number of Pay Systems: 10-15

Company B

Number of Employees Globally: 360,000
Number of Countries: 19
Number of Pay Systems: More than 10

Company C

Number of Employees Globally: 78,900
Number of Countries: 40
Number of Pay Systems: Over 40

Company D

Number of Employees Globally: 137,000
Number of Countries: 68
Number of Pay Systems: Over 1,000

Company E

Number of Employees Globally: 33,000
Number of Countries: 35
Number of Pay Systems: About 75

Company F

Number of Employees Globally: 107, 500
Number of Countries: 52
Number of Pay Systems: Over 115 and over 100 vendors

www.ExecComp.org
1100 13th Street NW
Suite 850
Washington, DC 20005
E-mail: info@ExecComp.org
Tel 202.393.8161
Fax 202.789.0364

Disclosure of the Ratio of Median Employee Pay to CEO Pay in Dodd-Frank Requires Proxy Calculations for Each Worker Globally

Pay Ratio Provides Little Useful or Comparable Information to Investors, But Even If it Did, Inability to Provide Timely, Accurate Data Makes Compliance Nearly Impossible

A little-noticed requirement in the recently passed financial reform bill would require employers to disclose in their proxy statements and other securities filings the ratio of median employee pay, excluding the CEO, to CEO pay. The requirement in Section 953 of the Dodd-Frank Wall Street Reform and Consumer Protection Act is perhaps the most burdensome executive compensation requirement in the bill, as few large public companies have the ability to accurately calculate this ratio. The requirement imposes substantial, costly and counterproductive regulatory burdens on employers at a time when growing the economy and encouraging job growth are top priorities. At a minimum, the Center believes that Congress should indicate through legislative history that it intended the SEC to have some latitude to interpret the provisions of this requirement in a reasonable fashion. Ultimately, Congress should eliminate this provision or at least amend it to make compliance substantially less onerous and costly.

Employers Required to Calculate Pay for All Employees According to the Proxy Disclosure Rules Designed for Senior Executives Section 953(b) of the Dodd-Frank Act requires the SEC to promulgate rules mandating companies to disclose in their proxies three additional numbers:

- The median compensation of "all employees" of the company except for the CEO;
- The total compensation for the CEO, as disclosed in the summary compensation table in the proxy statement; and
- The ratio of the median employee pay to CEO pay.

Neither the provision nor the legislative history provides any insight on how this provision is to be interpreted. The scope of the section depends upon the definition of "all employees" and whether any relief is given to the calculation of median employee pay.

Read Literally, "All Employees" Refers to All Employees Globally The statute does not clarify what is meant by "all employees" whose pay is to be used to calculate the median compensation. Read literally, the phrase means all employees of the issuer globally, and could even be read to include affiliates and subsidiaries. Alternatively, the phrase could be read narrowly to mean all U.S. employees. In addition, there is no indication of whether "all employees" includes part-time or merely full-time employees. A logical interpretation would be that the disclosure requirement applies to all full-time U.S. employees. Comparing the pay of a U.S. CEO to that of employees in the U.S. and other global geographical labor markets would yield a meaningless ratio, since the CEO pay is calculated based on the U.S. market. At a minimum, Congress should make clear via legislative history that the SEC has the latitude to

www.ExecComp.org 1100 13th Street NW Suite 850 Washington, DC 20005 E-mail: info@ExecComp.org Tel: 202.408.8181 Fax: 202.789.0064

interpret "all employees" to provide the most logical comparison of pay in identical geographical markets.

Median Calculation Requires Separate Pay Calculation for Each Employee. The provision requires companies to determine the median pay of all employees except for the CEO, using the same calculations they use to determine total pay under the SEC's proxy disclosure rules. Because the definition of median means "midpoint," companies will be required to calculate pay as specified by the proxy rules for each individual employee and then determine the median of those values. For large employers, this means they will have to accurately calculate pay for tens of thousands and in some cases, hundreds of thousands of employees to determine the median.

No Public Employer Calculates All Employee Pay According to SEC Disclosure Rules Calculation of the ratio of median employee to CEO pay will impose a virtually insurmountable compliance burden on companies without providing investors with data that will materially inform their voting or investment choices. No public company currently calculates each employee's total compensation as it calculates total pay on the Summary Compensation Table for the named executive officers, because disclosure of executive pay has a different purpose than internal accounting.

The SEC's proxy disclosure rules are designed to promote investor understanding regarding the executive compensation decisions made by the compensation committee in the previous year. Thus, the Summary Compensation Table total pay number includes amounts that employers typically would not include for rank and file employees, such as the additional actuarial value of defined benefit pension plans and the full grant date fair value of equity awards. By contrast, the proxy disclosure rules are not meant to compare compensation between executives and nonexecutives. The requirement will particularly problematic for companies with broad-based equity compensation plans and defined benefit pension plans, as they will be required to make additional calculations to determine total pay consistent with the Summary Compensation Table approach.

Accuracy a Significant Concern in Making the Disclosure, Especially for Global Employers If the ratio requirement applies to all global employees, global companies will be faced with the difficult, if not impossible, task of calculating the median employee pay for employees across dozens of countries. For many of these employers, compensation data is housed in dozens of computer systems, and the data may not be sufficiently accurate for SEC disclosure purposes. For example one global employer with over 200,000 employees operating in over 60 countries has data housed in over 100 different systems. The company has would be required to develop and coordinate a consistent calculation across all countries and then ensure that the results were accurate, thus allowing its CEO and CFO to sign the proxy statement, as required under section 302 of Sarbanes-Oxley. Whether most global companies could develop this information in time for the 2011 proxy season is dubious.

Broad Survey Confirms Difficulty of the Calculation. The example above is consistent with a 2006 survey conducted by Professor Robert L. Clark of North Caroline State University of a sample of Fortune 1000 companies regarding the SEC's proposed requirement to disclose the compensation of three additional employees. The survey found that only 20 percent of

respondents indicated that they keep the information necessary to calculate total compensation for highly compensated employees – much less all employees -- in a single database. Seventy percent of respondents said that they neither had the requisite systems in place to calculate total compensation as required by the SEC and that it would a substantial burden to do so. As one survey respondent indicated "Our biggest concern would be in trying to identify and accurately value the total compensation package for a number of employees in foreign countries," which would include country-specific requirements and practices, such as government-funded pensions.

Exchange Rate Fluctuations Blur Comparability. Exchange rate fluctuations will impact the calculation of total pay for global employees, further obscuring the comparability of the data. For employers with a substantial share of employees outside the U.S., exchange rate fluctuations from one year to the next could have a material impact on the pay ratio without any changes in the levels of compensation having occurred. This is particularly a concern, given the volatility in the European currency markets over the past year.

Ratio Must Be Included in Multiple Filings Annually The language of section 953(b) states that the ratio must be included in any filing described in Section 229.10(a) of Regulation S-K (the regulation that sets forth federal proxy disclosures). That section not only covers proxy filings, but also registration and going-private transaction statements, quarterly and annual reports, among others. Still not clear is whether companies would be required update the ratio for each filing.

Disclosure Based on SEC's Disclosure Rules as of July 2010. . .Forever The legislative language requires employee compensation to be calculated according to the Commission's disclosure rules that are currently in effect, even if the rules are later amended. Ironically, this could mean that the CEOs compensation could be calculated in one way for Summary Compensation Table disclosure purposes, and another for pay ratio disclosure purposes.

At a Minimum, the SEC Should Be Given Sufficient Latitude to Reasonably Implement the Pay Ratio Calculation Ultimately, Congress should eliminate the pay ratio calculation as part of a technical corrections bill or at least revise it to make compliance substantially less onerous. In the meantime, it should communicate that it intended the SEC to have the ability to interpret the calculation in a way that makes sense for shareholders and companies alike.

©2010 Center On Executive Compensation, All Rights Reserved

Eaton Corporation
Proxy Statement
Filed March 18, 2010
Pages 19-21

The following tables summarize Mr. Cutler's 2009 realized pay and performance over the period in which the elements of compensation were earned. The information in these tables is intended to supplement the information contained in the Summary Compensation Table on page 40. The tables differ substantially from the 2009 Summary Compensation Table required by the SEC and are not a substitute for that table. The equity grants reported in the following tables reflect the gross compensation value prior to the deduction of applicable taxes to Mr. Cutler upon exercise of stock options and vesting of restricted share awards in 2009, irrespective of when the awards were granted, versus the grant date fair value of equity awards that were granted in 2009 as shown in the Summary Compensation Table. In addition, the Summary Compensation Table includes compensation based upon the change in pension value and nonqualified deferred compensation earnings, which is not shown in the following tables. The Committee monitors these amounts as part of the Tally Sheet review (discussed on page 26) and considers these programs in the context of a competitive overall benefit design and not as an element of its annual compensation decisions. Therefore, the change in pension values and above market earnings on non-qualified deferred compensation are excluded from the tables in this Executive Summary.

A. M. CUTLER - CHAIRMAN AND CHIEF EXECUTIVE OFFICER
COMPARISON OF REALIZED COMPENSATION TO PERFORMANCE

Element of Compensation	Period Earned	Target	Amount Received	Performance Results Over the Period Earned
Cash				
Base Salary	2009	$1,150,200	$ 973,248	We generally target the market median when establishing base salaries. Based on a market analysis conducted early in 2009, the Committee determined no increase was necessary. Subsequent to establishing Mr. Cutler's 2009 base salary the Committee approved Mr. Cutler's election to reduce his annual salary by 8 weeks of pay, or 15.4%.
Annual Incentive Compensation	2009	$1,322,730	$ 0	In 2009 we did not meet our Earnings Per Share and Cash Flow Return on Gross Capital objectives and the Committee exercised its discretion to reduce awards under the Senior Executive Incentive Plan to $0.
Long-Term Cash Incentive	2006-2009	$1,800,000	$ 575,000	In 2006, Earnings Per Share and Cash Flow Return On Gross Capital objectives for the 2006-2009 Executive Strategic Incentive Plan grant were established. Actual results delivered a payout at 25% of target which was then multiplied by Mr. Cutler's individual performance rating to determine his final award.
Total Cash			$1,548,248	
Equity amounts realized upon the exercise of stock options and vesting of equity awards				
Stock Option Exercises	2000-2009	n/a	$4,424,222	The gains upon exercise of stock options were based on the stock price appreciation from 2000 to 2009. Additional details, including the number of shares exercised are reported in the Option Exercises and Stock Vested Table on page 46. The table on page 21 illustrates annualized and cumulative returns from the grant date to the exercise date.
Restricted Shares Vesting	2004-2008	n/a	$ 800,728	This represents the vesting of 21,100 restricted share awards that were granted in 2004, 2005 and 2007. Additional details are reported in the Option Exercises and Stock Vested table on page 46. The table on page 21 illustrates annualized and cumulative returns from the grant date to the exercise date.
Total Realized Value from Equity			$5,224,950	
Other Executive Benefits	n/a	n/a	$ 155,741	This includes the items disclosed as "other" compensation in the Summary Compensation Table on page 40, such as use of our aircraft, financial planning, and company matching contributions to the Eaton Savings Plan for the first three months of 2009, prior to the suspension of the match.
Total Realized Compensation			$6,928,939	

The following table further demonstrates that our incentive plans and programs are structured to deliver greater rewards for strong performance, smaller rewards if we do not achieve target performance, and no reward if we do not meet threshold performance levels by illustrating the decline in Mr. Cutler's compensation that has occurred over the last three years. This reduction in realized compensation is attributable to the impact that the economic environment has had on (a) our ability to achieve our Earnings Per Share ("EPS") and Cash Flow Return on Gross Capital ("CFR") goals under the annual and long-term incentive plans and (b) on our share price as it relates to the realized value from stock option exercises and vested restricted share awards.

Last Three Years Realized Compensation and Performance Summary

	Base Salary(a)	Annual Incentive(b)	Long-Term Cash Incentive (ESIP)(c)	Vested Restricted Shares/Stock Options Exercised(d)	Other Compensation(e)	Total Compensation	Comments
2009	$ 973,248	$ 0	$ 575,000	$ 5,224,950	$ 155,741	**$ 6,928,939**	See table above for additional details regarding 2009 elements of compensation.
2008	$1,132,500	$ 320,000	$3,667,600	$ 10,629,856	$ 237,298	**$15,987,254**	Annual incentive was delivered at 20% of target and an individual performance rating of 115%; long-term ESIP CFR and EPS goals were achieved at 163% of target and multiplied by and individual rating of 125% for the four year period.
2007	$1,069,305	$2,548,000	$6,972,197	$ 13,731,236	$ 224,778	**$24,545,516**	Annual incentive achieved at 175% of target objectives and multiplied by an individual performance rating of 100%; ESIP CFR and EPS objectives were achieved at 200% of target and multiplied by an individual performance rating of 111% for the four-year award period.

(a) Reflects 2009, 2008 and 2007 W-2 reported salary.

(b) Reflects actual annual incentive payments earned in 2009, 2008 and 2007 (if any) and paid in the first quarter of the following year.

(c) Reflects actual payments made in 2010, 2009 and 2008 for the 2006-2009, 2005-2008 and 2004-2007 ESIP award periods.

(d) Please see the Option Exercises and Stock Vested table on page 46 for additional details on 2009 stock option exercises and vested restricted shares.

(e) Please refer to footnote (4) in the Summary Compensation Table for additional details regarding all other compensation paid in 2009.

The following table illustrates the annualized and cumulative returns on our common shares from the grant dates to the exercise dates for the realized values reported for Mr. Cutler in the previous tables:

Year Vested/Exercised	Grant Date	Exercise Date	Realized Value from Option Exercises	Realized Value from Restricted Stock Vesting	# Years Restricted Shares/ Stock Options Held	Cumulative Return	Annualized Cumulative Return Over Period Held
2009	8/1/2000	12/7/2009	$ 907,261		9.4	172%	11%
	8/1/2000	12/7/2009	$ 378,495		9.4	172%	11%
	8/1/2000	12/7/2009	$ 355,841		9.4	172%	11%
	1/25/2000	8/13/2009	$ 1,253,866		9.6	130%	9%
	1/25/2000	8/13/2009	$ 794,448		9.6	130%	9%
	1/25/2000	8/13/2009	$ 692,614		9.6	130%	9%
	1/25/2000	4/27/2009	$ 41,698		9.3	75%	6%
	2/27/2007	2/27/2009		$ 306,340	2.0	(52)%	(31)%
	2/24/2004	2/24/2009		$ 313,713	5.0	(25)%	(5)%
	2/22/2005	2/22/2009		$ 180,675	4.0	(34)%	(10)%
2008	1/26/1999	10/30/2008	$ 154,453		9.8	87%	7%
	1/26/1999	5/29/2008	$ 1,605,422		9.3	273%	15%
	1/26/1999	5/29/2008	$ 5,518,060		9.3	273%	15%
	1/26/1999	5/29/2008	$ 62		9.3	273%	15%
	1/27/1998	1/25/2008	$ 114,665		10.0	170%	10%
	1/27/1998	1/24/2008	$ 114,337		10.0	165%	10%
	1/27/1998	1/24/2008	$ 247,315		10.0	165%	10%
	1/27/1998	1/23/2008	$ 104,177		10.0	167%	10%
	1/27/1998	1/23/2008	$ 231,382		10.0	167%	10%
	1/27/1998	1/22/2008	$ 96,669		10.0	165%	10%
	1/27/1998	1/22/2008	$ 227,902		10.0	165%	10%
	1/27/1998	1/18/2008	$ 113,795		10.0	164%	10%
	1/27/1998	1/18/2008	$ 251,709		10.0	164%	10%
	1/27/1998	1/17/2008	$ 257,923		10.0	162%	10%
	2/27/2007	2/27/2008		$ 708,645	1.0	7%	7%
	2/22/2005	2/22/2008		$ 238,740	3.0	27%	8%
	2/24/2004	2/22/2008		$ 644,598	4.0	48%	10%
2007	1/26/1999	8/17/2007	$ 2,928,275		8.6	251%	16%
	1/21/1997	1/18/2007	$ 73,286		10.0	207%	12%
	1/21/1997	1/18/2007	$ 260,043		10.0	207%	12%
	1/21/1997	1/18/2007	$ 1,271,864		10.0	207%	12%
	1/21/1997	1/17/2007	$ 1,273,410		10.0	209%	12%
	1/21/1997	1/17/2007	$ 260,198		10.0	209%	12%
	1/21/1997	1/16/2007	$ 2,458,951		10.0	202%	12%
	1/21/1997	1/16/2007	$ 494,056		10.0	202%	12%
	1/21/1997	1/12/2007	$ 1,214,659		10.0	199%	12%
	1/21/1997	1/12/2007	$ 243,047		10.0	199%	12%
	1/21/1997	1/11/2007	$ 240,503		10.0	198%	12%
	1/21/1997	1/11/2007	$ 1,192,140		10.0	198%	12%
	2/25/2003	2/25/2007		$ 1,119,727	4.0	160%	27%
	2/24/2004	2/24/2007		$ 454,626	3.0	51%	15%
	2/22/2005	2/22/2007		$ 246,450	2.0	28%	13%

In summary, our compensation programs for Mr. Cutler and the other Named Executive Officers are heavily weighted on performance. We place an emphasis on long-term performance and delivering a balanced portfolio of cash and equity compensation as further described in the following narrative.

Avon Products, Inc.
Proxy Statement
Filed March 25, 2010
Pages 38-39

Actual Pay for Performance

The chart below illustrates how actual 2009 pay was tied to individual and company performance. The chart uses CEO pay as an example to show this linkage:

Actual CEO Pay Received in 2009

Form of Compensation	Total Received/Earned	Annualized Amount	Performance Results Over Performance Period That Produced the Compensation
Salary	$1,375,000	$1,375,000	In line with the company-wide merit-freeze and in consideration of competitive data, no adjustment was provided for 2009. This is the sixth year that Ms. Jung has been at this salary level.
Annual Incentive	$3,043,906	$3,043,906	The annual incentive paid to Ms. Jung is based on exceeding either an annual global operating profit goal of $925 million or an annual global revenue goal of $9.25 billion. The Committee considered the level of difficulty in this year's plan as well as performance against strategic initiatives relating to active representative growth, units sold, beauty market share and cost management. See the "Annual Incentive Compensation" section above for additional detail.
2008-2010 Long-Term Incentive Cash Plan	N/A (Paid after 2010)	N/A (Paid after 2010)	The Long Term Incentive cash award is earned over the three-year performance period, 2008-2010, and payable once the period is over. Payouts, if any, will be disclosed in next year's proxy. Ms. Jung's three-year target is $8,250,000 (annualized target for 2009 is $2,750,000). Payouts will be tied to the achievement of a three-year cumulative economic profit goal (defined as operating profit minus the product of a capital charge and capital employed; capital employed means net fixed assets plus accounts receivable plus inventory). If the economic profit goal is achieved, the Committee may consider other factors, such as beauty market share growth and active representative growth, when determining individual awards.
Stock Option Exercises	$2,723,763	$340,470	The gain upon exercise of stock options in 2009 was approximately $2.7 million, based upon stock price appreciation between 2001 and 2009. The stock price appreciated from a grant price of about $21 to a price in November, 2009 (time of exercise) of about $32 per share. Because this amount was earned over the 8 years the award was outstanding, the annualized gain (i.e., the gain spread equally over the period the options were held), is approximately $.3 million for each year the options were outstanding.

Form of Compensation	Total Received/Earned	Annualized Amount	Performance Results Over Performance Period That Produced the Compensation
Performance-based Restricted Stock Unit (PRSU) Vesting	$1,732,348	$577,449	The value of the performance restricted stock units that vested and settled in 2009 was approximately $1.7 million, and was earned over the three-year period from 2006 to 2009. These required the achievement of the cumulative operating profit goal of $3.1 billion and cumulative revenue goal of $28.4 billion in order to vest. Because the total value was earned over the three-year vesting / performance period, the annualized earnings are approximately $.6 million per year.
Total Actual Compensation Earned/Received in 2009	$8,875,017	$5,336,825	See explanations under the Salary, Annual Incentive and Long-term Incentive boxes above. Amounts exclude any earnings under the 2008-2010 cash plan (as awards are determined and paid at the end of the performance period). The amounts include the annualized gain for stock option exercises and restricted stock unit vesting as well as total annual salary and annual incentive payments. For amounts earned over more than one year, the annualized amount represents the pro-rata portion attributable to 2009.

Note: This Table differs substantially from the Summary Compensation Table

* Total Actual Compensation does not include the value of benefits and perquisites, as they are generally not directly related to performance.

Additional Information

Post-Termination Payments

During 2009, we entered into a separation agreement with Ms. Smith that provided for her departure as President, effective as of October 30, 2009, and her compliance with certain non-solicitation, non-competition, confidentiality, non- disparagement, and cooperation provisions, which we believe is a valuable protection given global competition in beauty and direct selling, as well as the exceptional skills and experience that Ms. Smith can potentially offer a competitor company as CEO. The separation agreement also provides for twenty-four months' base salary, pro-rated annual and long-term bonuses and a pro-rated portion of performance contingent restricted stock units in accordance with the terms of the applicable bonus and stock plans, and continued participation in medical and other benefit programs, as well as the continuation of certain perquisites and stock option vesting, for specified periods of time. The separation agreement provides for extended non-solicitation, no-hire and non-competition restrictions through April 30, 2012 and includes Ms. Smith's general release of claims against the Company. See the narrative discussion following the "Grants of Plan-Based Awards" on page 44 and "Potential Payments Upon Termination of Employment or Change-in-Control—Separation of Ms. Smith" beginning on page 60 for a further description of Ms. Smith's separation agreement.

In March 2010, the Committee adopted a single change in control policy applicable to senior officers at or above the senior vice president level who serve on our Executive Committee, other than Ms. Jung, for whom the terms of her employment agreement will continue to apply. The policy supersedes individual arrangements upon a change in control, if any (other than for Ms. Jung), and is intended to ensure consistency.

Pitney Bowes, Inc.
Proxy Statement
Filed March 26, 2010
Page 33

The supplemental table below is designed to provide additional details on the payments received by our CEO in 2009.

SUPPLEMENTAL TABLE OF CEO PAY RECEIVED IN 2009

Form of Compensation	Period Covered	Target Compensation ($)	Total Received ($)	Performance Results Over Performance Period That Produced the Compensation
Salary	2009	950,000	950,000	Due to the economic climate and company performance, there were no merit increases in 2009.
Annual Incentive	2009	1,520,000	937,200	The company achieved 2009 income from continuing operations objective of $408,263,000. The company exceeded its performance targets for adjusted free cash flow and the strategic performance objective. The Committee determined that the achievement of organic growth, adjusted earnings per share and adjusted EBIT fell short of expectations and thus resulted in no payout for those objectives. The Committee compared actual performance to the predetermined targets to determine the resulting performance factor of approximately 61%. This represents a decrease of approximately 36% from the performance factor in 2008.
Performance Award Payout	2008	475,000	337,250	Based on actual 2008 adjusted earnings per share of $2.78, the performance award payout was 71% of the target award level. Awards vested 50% in August 2009 and another 50% will vest in February 2011. The Committee decided to pay 50% of the August 2009 award in the form of stock and the remaining 50% was paid in cash and all taxes were withheld from this payment. Mr. Martin received 7,799 shares based on the closing stock price of $21.62 on August 14, 2009.
Long-Term Incentive Payout	2007-2009	2,000,000	1,580,000	The long-term incentive award was earned over the three-year performance period, 2007-2009, and produced a total payout of $1,580,000. The company achieved its income from continuing operations objective for 2007-2009 of $485,412,000. Adjusted EPS was not achieved and adjusted free cash flow exceeded the target level. Total shareholder return modifier (TSR) adjusted the payment downwards. Based on the 2009 results, the total long-term incentive payout was $0.79 per unit.
Stock Option Exercises	2009	not applicable	0	There were no stock option exercises in 2009.
Restricted Stock Vesting	2009	not applicable	0	There were no restricted stock vestings in 2009.
All Other Compensation	2009	not applicable	103,272	
Total 2009 Target		**4,945,000**		
Total Payments Received in 2009*			**3,907,722**	

Note: This table differs substantially from the Summary Compensation Table required by the U.S. Securities and Exchange Commission and is not meant to be a substitute for that table.

* This amount does not include the value of other benefits, such as pension plan value attributed to 2009, since they are not payments Mr. Martin received in 2009.

KeyCorp
Proxy Statement
Filed April 2, 2010
Pages 60-62

Performance Assessment Against 2009 Goals

KeyCorp's 2009 capital ratios were strong and both liquidity and funding ratios were strengthened throughout the year. Performance fell below or in the lower end of established performance ranges on credit quality and profitability measures. Progress was made on leadership goals and the execution of corporate initiatives in improved efficiency and investments in the branch network was on track to achieve agreed upon goals. The Compensation Committee determined that the actions taken in 2009 to strengthen capital, reserves and liquidity; address asset quality; and invest and reshape KeyCorp's businesses have set the stage for KeyCorp to emerge from this extraordinary period as a strong, competitive company. Recognizing that many of the participants in the Incentive Plan are professionals in finance, operations, technology, compliance, risk management and human resources who made significant contributions in 2009, the Compensation Committee used its discretion to fund a pool of 50% of target incentive pay for Incentive Plan participants, excluding our CEO and the named executive officers.

While KeyCorp was prohibited from linking our CEO's pay directly to performance, we have provided the supplemental tables below to provide a clearer view of our CEO's compensation than that provided by the Summary Compensation Table found on page 67 of this proxy statement. The Summary Compensation Table displays the actual pay realized in 2009, and indicates the accounting expense for long-term equity grants and actuarial increases in retirement and deferred compensation earnings. The supplemental tables below provide information regarding actual level of compensation realized in 2009 (first table), and the long-term awards granted in 2009 that must be earned over future years (second table).

CEO Actual Pay Received in 2009

Form of Compensation	Period Covered	Total Received ($)	Annualized Amount ($)	Performance Results Over Performance Period That Produced the Compensation
lary	2009	1,642,731	1,642,731	Not tied to performance criteria.
ınual Incentive	2009	0	0	Mr. Meyer was prohibited from receiving an Annual Incentive due to the ARRA. As discussed above, the Compensation Committee still assessed his performance against the goals established for the Annual Incentive Plan.
›ng-Term Incentive Payout	2007-2009	0	0	The targets set in the first quarter of 2007 for the 2007-2009 performance cycle were as follows: Cumulative EPS of $9.11; cumulative EPA of $1,055 million; and average ROE of 16.41%. KeyCorp's performance fell short of the threshold at the end of the 2007-2009 long-term performance cycle and no performance shares vested for the cycle.
ıuity Compensation:				
›ck Option Exercises	2009	N/A	N/A	N/A
:stricted Stock Vesting	2003-2009	152,223	25,371	Vested based on passage of time.
›tal Annual Compensation Earned in 2009	2009	1,794,954	1,668,102	

2009 Future Potential Pay

Year of Award	Type of Long-Term Incentive Award	Performance Period/Vesting Period	Performance Criteria	Financial Accounting Expense Estimate	Linkage to the Creation of Shareholder Value
09	Performance Shares	N/A	N/A	N/A	N/A
09	Restricted Stock	N/A	N/A	Total grant date fair value = $1,247,483	Shares vest after the later of 3 years or repayment of TARP.
09	Stock Options	N/A	N/A	Total grant date fair value = $2,142,000	Vested upon grant, however require a holding period until the later of one-third per year for 3 years or the repayment of TARP.

SHAREHOLDER ALIGNMENT AND EXECUTIVE RETENTION

EXECUTIVE STOCK OWNERSHIP GUIDELINES

KeyCorp has stock ownership guidelines for its senior executives, as well as specific requirements for shares that must be purchased by each executive outside of KeyCorp-sponsored plans ("beneficially owned shares"). The Compensation Committee monitors peer practices to determine if any changes to the guidelines are warranted. For 2009, the guidelines continued to be stated as a dollar value but, to be more consistent with peer group practices, the Compensation Committee reduced the percentage of base salary from 6X to 5X for our CEO and from 4X to 3X for the other named executive officers. The new guidelines are as follows:

- Our CEO must own Common Shares with a value equal to at least five times his annual base salary payable in cash, including a minimum of 10,000 beneficially owned shares.
- Our CEO's direct reports must own Common Shares with a value equal to at least three times their annual base salary payable in cash, including a minimum of 5,000 beneficially owned shares.
- Newly-hired or promoted senior executives are expected to meet or exceed their required ownership levels within three years of the date they become subject to the requirements and are required to comply within five years.
- The value of the stock owned is determined quarterly, using the average of the previous twelve-month-end closing market price of the Common Shares.
- Beneficially owned shares and unvested restricted shares and units, as well as phantom shares owned by the senior executives under KeyCorp's 401(k) Savings Plan and deferred compensation plans, count toward the ownership requirements. Performance shares delivered in cash and unexercised stock options do not count toward the ownership requirements.
- Our CEO and all Section 16 officers[4] are required to hold 100% of the net shares obtained upon the exercise of any stock option (less the applicable exercise price and withholding taxes) for at least one year following the exercise date or, if later, until the executive officer meets the ownership requirements.

Assessing Stock Ownership

The Compensation Committee reviews the stock ownership of the senior executive team to monitor compliance with the Executive Stock Ownership Guidelines and reviews ownership status with our CEO at each Compensation Committee meeting. As of September 30, 2009, our CEO and each of the other named executive officers met the beneficial ownership guidelines and all but Mr. Hancock had met the multiple of salary requirement. Prior to his resignation on February 12, 2010, Mr. Hancock would have had three years from his date of hire (December 2008) to comply.

Other Alignment and Retention Tools

There are several other ways that KeyCorp's equity-based awards help align the compensation interests of employees with the investment interests of shareholders and promote executive retention:

Conditional awards. All restricted stock and special retention options are awarded on the condition that the recipient executes an agreement that:

- restricts his or her post-employment use of confidential information; and
- prohibits him or her from soliciting KeyCorp clients or hiring KeyCorp employees for a period of one year following termination of employment.

(4) Identified on page 50 of this proxy statement.

The Boeing Company
Proxy Statement
Filed March 15, 2010
Page 37

As noted on page 34, the supplemental table provided below shows elements of our CEO's 2009 compensation that the Compensation Committee reviewed in making compensation decisions. This supplemental table includes a comparison of actual pay realized in 2009 compared to actual pay realized in 2008.

CEO COMPARISON OF ACTUAL PAY REALIZED

Name	Year	Salary (1)	Annual Incentive (2)	Long-Term Incentive Plan (LTIP) Payout (3)	Equity Compensation		Total Actual Compensation Realized (6)
					Stock Option Exercises (4)	Restricted Stock Vesting (5)	
W. James McNerney, Jr.	2009	$1,930,000	$2,340,300	$2,160,000	$ —	$2,643,846	$ 9,074,146
	2008	$1,915,288	$1,476,500	$4,613,125	$ —	$6,562,525	$ 14,567,438
Change in Payout from Prior Year		0.8%	58.5%	-53.2%	N/A	-59.7%	-37.7%

(1) We generally target salary for all executives at the 50th percentile of peer group companies. Based on this target, as well as individual and company performance in 2008, no base salary increase was provided in 2009. The last base salary increase was effective March 1, 2008.

(2) Company economic profit in 2009, as adjusted to reflect core operating performance, was $2.4 billion versus a target of $2.6 billion, resulting in a payout factor of 70%. The 2008 payout factor was 60%. The awards for both years were modified for individual performance.

(3) The total three-year payout for Mr. McNerney's 2009 LTIP award was earned over the 2007-2009 performance period and produced a total payout of $2,160,000, or $720,000 per year. Performance criteria for this award were: Cumulative economic profit (2007-2009) target of $10.7 billion. Company performance, as adjusted to reflect core operating performance, was $8.3 billion. The resulting award payout factor for the three-year period was 36% ($36 per Performance Award unit). The 2008 LTIP award (earned over the 2006-2008 performance period) had a payout factor of 111% ($111 per Performance Award unit).

(4) There were no exercises of stock options by our CEO in 2009 or 2008.

(5) The amounts reported in this column represent the value of restricted stock awards that vested and were earned in 2009 and 2008. There were originally three restricted stock awards made in 2005 as new hire (replacement) grants, with annual vesting schedules of 17% (ratably over six years), 20% (ratably over five years) and 33% (ratably over three years). The values of the portions vesting in 2009 for the two remaining awards were $1,221,750 and $1,422,096, for a total of $2,643,846. The values of the portions vesting in 2008 were $2,338,740, $2,696,640, and $1,527,145, for a total of $6,562,525.

(6) The amounts reported in this column do not include the value of benefits and perquisites, as they are not related to performance. As reported in the Summary Compensation Table on page 34, total benefits and perquisites ("All Other Compensation") for 2009 and 2008 were $1,002,642 and $846,057, respectively.

Center On Executive Compensation

Pay for Performance at a Glance: A Simpler, Clearer Model for Explaining CEO Compensation in Proxy Statements

Companies Urged to Adopt Two Tables Providing Snapshot of the Link Between Actual Pay and Actual Performance at the Front of the CD&A

Companies, shareholders, investors and activists all generally agree that executive pay should be linked to performance and that this link should be clearly disclosed. Yet, the U.S. Securities and Exchange Commission's disclosure rules, particularly the total compensation number in the Summary Compensation Table, do not foster a clear understanding of this link. The total number in the Summary Compensation Table mixes current actual compensation with future potential compensation, confusing whether a company has paid for performance and the criteria to earn compensation under long-term incentive grants.

Because the pay for performance link is expected to receive increasing attention from regulators, institutional investors, proxy advisory services and the media, without a clear, logical approach for explaining the linkage, stakeholders are likely to draw the wrong conclusions. Rather than wait for the SEC or investor activists to drive changes in disclosure practices, the Center On Executive Compensation is urging its Subscribers and other forward thinking companies to adopt its "pay for performance at a glance" approach at the front of their Compensation Discussion and Analyses (CD&As). By adopting a standardized approach to disclosing the pay-for-performance relationship, companies, acting in concert, can establish the de facto standard for the disclosure of executive pay and rectify many of the incorrect and misleading assertions by pay critics and the media.

The Center's model would provide for two tables at the front of the CD&A, following a short executive summary:

- The first table would disclose actual pay earned in the reporting year and the corresponding performance that earned it;
- The second table would disclose the estimated potential future pay from long-term incentives, compared with the performance required to earn the estimates.

Under both tables, the explanation of performance would also include a brief description of why the incentive plans and levels are best suited to the company and its overall business strategy, without divulging confidential information.

The Rationale for Clearer Pay for Performance Disclosure in the Proxy

Changes in disclosure regulations and best practice are accelerating the push for better, simpler and shorter pay for performance disclosure. The SEC's current

www.ExecComp.org 1100 13th Street NW Suite 850 Washington, DC 20005 E-mail: info@ExecComp.org Tel: 202.408.8181 Fax: 202.789.0064

executive compensation disclosure rules require companies to disclose what their pay plans provide and why they were adopted. However, triennial proxy statement reviews by the SEC staff mandated by Sarbanes-Oxley routinely result in comments seeking greater explanation of the rationale behind a company's pay programs. Even then, compensation disclosures in large company proxies routinely exceed 25 pages, with many topping 35 pages. The sheer length of these documents requires a compelling executive summary at the front of the CD&A to clearly and succinctly communicate a company's pay philosophy and approach.

Recent pay developments are reinforcing the need for clearer and understandable explanations of why companies have adopted pay programs. Increasingly, disclosure regarding how the potential for excessive risk in incentives in the CD&A is mitigated is becoming a best practice. Moreover, the threat of a mandated annual nonbinding shareholder vote on pay ("say on pay"), which is typically premised on pay for performance, makes a compelling synthesis of what a company paid and why essential.

Companies With Clearer Disclosure Have an Advantage. As various pressures mount for clearer disclosure, companies that can tell their pay for performance stories succinctly will have an advantage in the marketplace with regulators, institutional investors, proxy advisory services and activists. These interests are less likely to "red flag" a company simply because they do not understand the pay program. Clearer disclosure is also likely to encourage better engagement by those institutional investors who seek to discuss pay issues with the company. Not only is improved disclosure likely to lead to better compliance, it may streamline interaction with stakeholders.

The Current Summary Compensation Table Mixes Actual and Future Potential Pay

The purpose behind the Pay for Performance at a Glance Approach is that the Summary Compensation Table does not give an accurate picture of pay and performance, leading interested parties to potentially wrong conclusions. As noted above, the total number in the Summary Compensation Table:

- Mixes current actual pay (salary, bonus, and payouts of annual and long-term cash incentive program awards) with future potential pay (grants of restricted stock/RSUs, options, and long-term incentive plan payments), which currently represent a pro-rata portion of the financial accounting estimate of the future pay.
- Combines the payouts of short- and long-term cash incentive awards in one column, requiring stakeholders to calculate the respective amounts from other disclosures in the current and prior years' proxy statements in order to match the pay with the appropriate time frame for performance.

The Summary Compensation Table

Name/Position	**Fiscal Year**	**Salary**	**Bonus**	**Stock Awards**	**Option Awards**	**Non-Equity Incentive Plan**	**Chg in Pension Value**	**All Other Comp**	**Total**
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
		Actual	Actual	Potential	Potent'l	Actual	N/A	Actual	Mix
		Pay	Pay	Pay	Pay	Pay		Pay	

Because of this mix of reporting to come up with a total compensation number, the table:

- Distorts the relationship between actual pay and actual results by comparing a mix of past and future potential pay to past results (absent substantial calculations) and
- Confuses the relationship between potential future pay and the performance that would be required to earn the estimated pay.

Without a different message to counter the inaccurate conclusions that could result by using the numbers in the Summary Compensation Table, stakeholders will continue to rely on the total compensation number.

The changes proposed by the SEC to the disclosure of equity on the Summary Compensation Table, while a welcome development, do not address the mix of current and future pay in the table. Instead, they remove anomalies associated with the accounting approach, and provide a more consistent estimate of future payments. While the SEC may address this issue at some point in the future, it is not expected to do so in the near term. For this reason, companies are encouraged to adopt the following disclosures in the CD&A.

The "Pay for Performance at a Glance" Model

The Center On Executive Compensation believes that in the near term clearer disclosure of the pay for performance link will become a best practice, and it could become a regulatory requirement, if say on pay becomes law. For these reasons, the Center is urging its Subscribers and all proactive companies to incorporate the two following tables at the beginning of their CD&As as part of a brief executive summary of the pay program. Each table would disclose the pay for the CEO only, because the CEO's pay typically receives the greatest amount of attention, and typically sets the tone, if not the framework of pay for the other named executive officers.

Table 1: Actual Pay in the Reporting Year Compared to Performance. The first table would report the actual pay received by the CEO in the reporting year, including

- salary;
- annual incentives;
- payouts of long-term equity (restricted stock, RSUs, stock options, etc.) or cash incentive plans;
- total compensation received in the reporting year;

Each of the rows of the table would describe the location of these elements in the Summary Compensation Table, and the columns would provide the total amount, annualized amount (if a long-term award), and a description of what was awarded and why. The purpose of the "annualized amount" column is to facilitate comparability of total pay for CEOs between different companies, given that long-term incentive periods and stock option exercise periods and restricted stock vesting periods may differ among companies. Because these amounts are typically earned over several years, the annualized amount may more accurately represent what is earned in the reporting year.

Salary Disclosure. The salary disclosure element would describe how the company sets the salary level in reference to the company's peers (e.g., at the 50th percentile). It would also disclose whether there was a change from the prior year, why the change was made and the total salary.

Annual Incentive Disclosure. The annual incentive disclosure would reiterate the performance measures on which the annual incentive was based. It should disclose performance actually achieved as a percentage of targeted performance. Where practicable, companies should also disclose information about the executive's level of performance. Such disclosure should not be made if disclosing performance targets would be competitively harmful.

Long-Term Incentive Payout Disclosure. The long-term incentive disclosure would provide the earnings from long-term incentive plan payouts that the executive received in the reporting year and the annualized gain. The disclosure would provide the total payout, the incentive measures on which performance payouts received in the prior year were based, and the time period over which the incentives were earned. The table would also discuss the performance actually achieved in relation to targeted performance. The value of performance share payouts would also be reported here.

Stock Option Exercises. As with long-term incentive payouts, the table would report the amount of compensation realized for the reporting year from stock option exercises. The narrative in the table would report the total gains upon the exercise of stock options, the stock price appreciation which generated the gains, and the period over which the options were outstanding. The annualized amount would be reported in a separate column, as explained above.

Restricted Stock Vesting. Similarly, the value of the amount realized through the vesting of restricted stock would be reported, and an annualized amount would be listed in a separate column because the total amount was earned over multiple years, not just the year in question. The narrative in the table would disclose the appreciation in stock price over the period as well as the vesting period.

Other Compensation. To provide completeness of disclosure, perquisites and other non-performance-based compensation would be disclosed in the Summary Compensation Table, but would not be included in the discussion of performance-based compensation.

Total Actual Compensation Earned in the Prior Year. The amounts from the individual elements of actual pay would be totaled, thereby providing a snapshot of the actual pay earned during the prior year, the performance generating such pay, and the time period over which pay was earned. An annualized total would also be provided so that the amount actually earned in the current year is disclosed.

Table 2: Potential Future Incentive Pay Compared to Future Performance. The second part of the Center's proposal is aimed at clearer disclosure of long-term incentives granted in the reporting year. Since such awards are contingent upon future service and performance, the Center believes that they should not be combined with current actual pay, as is currently done in the Summary Compensation Table. Instead, the FAS 123R estimates of the equity granted in the current year should be disclosed,

along with performance required to achieve those estimates, in a separate table. This allows shareholders to evaluate whether long-term incentive grants are reasonable in light of the performance required to achieve them without mixing actual pay with estimated future potential pay. There are four elements to this disclosure:

- An explanation of the meaning of the values in the Summary Compensation Table.
- A performance award disclosure.
- A stock and stock options disclosure
- The total estimate of the future value of performance-based awards.

Each of these is discussed below.

Describe What the Summary Compensation Table Values Mean. The first element of the disclosure is a short narrative that explains that the values in the stock and options tables are accounting expense estimates related to the years over which the awards vest. This description would carefully explain that the numbers in the table do not reflect actual earnings, but are estimates of potential future earnings if performance is achieved. It should state that actual earnings will be determined only when the awards vest, if at all.

Performance Awards Disclosure. A second disclosure under future pay and performance addresses performance awards, such as performance shares, performance share units, and performance-vested restricted stock and restricted stock units. For these types of awards, the company would list the performance that would need to be achieved under each form of award to reach the estimated payout for each year in which an award is outstanding in the Summary Compensation Table.

Descriptions of the performance would vary by company because of differences in the equity devices used. For example, in describing performance based on relative total shareholder return, the company would describe how the performance relates to the company's peer group, such as at, above or below the median of the peers. As with the annual incentive disclosure, specific financial targets should only be disclosed if they are already disclosed elsewhere or if such disclosure would not result in competitive harm.

Stock Options Disclosure. Companies would provide a similar disclosure for stock options. The disclosure would list the grant date of the options, and the grant date stock price. For each tranche, the company would report the required increase in stock price over the grant date price that would produce the estimate shown as an expense for the award in column 6 of the Summary Compensation Table. To give a good estimate of performance, the company should also list the total increase in shareholder value of the potential stock price increase if performance is achieved. For example, if the Black-Scholes value is 40 percent of the stock option award, the stock would have to appreciate by 40 percent over the vesting period to make this a true reflection of future pay.

Total Financial Accounting Estimate of Awards. The disclosure would include the total estimate of each type of long-term incentive award. Performance-based award estimates would be valued at target performance and for stock options and restricted stock the grant date fair value accounting estimate would be disclosed.

This approach makes it clear that the equity-based incentives are an estimate rather than actual pay. However, the approach also gives shareholders a clearer view of the level of performance required to receive the compensation and thereby makes explicit the pay for performance linkage of equity-based incentives.

Benefits of the "Pay for Performance at a Glance" Approach

The "Pay for Performance at a Glance" concept provides several benefits that companies and their compensation committees should consider as they start planning for the 2010 proxy season. The tables provide a template for helping companies explain how current and future pay and performance actually relate, and thus helping companies to tell their pay for performance stories. Thus, the approach helps reinforce compliance with the SEC's disclosure rules. In addition, the explanations provided can help reframe the debate away from the total number in the Summary Compensation Table.

The approach is likely to be helpful in demonstrating proactive compensation practices on the issues of risk mitigation. For example, an explanation of risk mitigating design features of incentives could be included in the description of the performance that generated pay, such as having caps on incentives. A company could also reference the share of total compensation comprised of long-term incentives rather than annual pay or discuss how stock ownership guidelines or retention requirements apply to vested restricted stock or stock options exercises.

By disclosing the pay for performance link and separating actual from future potential pay, the model is likely to streamline engagement with major institutional investors as well as activist investors. Pay numbers are coupled with clear explanations of the performance that generated them, which may be particularly helpful in years in which long-term incentives pay out due to strong early-year performance, even though the current year's performance is lower. In addition, the approach may allow companies to shorten their CD&As by placing the explanation of the CEO's pay package in a table, rather than a narrative.

Companies Urged to Adopt Pay for Actual Performance in Their 2010 Proxies

It is likely that with many pay changes still in the works, including the potential of mandated say on pay for all companies, that the SEC will ultimately require clearer disclosure of how pay and performance are connected. The Center believes that its approach is one that the SEC would consider using if it becomes the de facto standard -- that is, it is viewed as having credibility among companies and investors.

To build this credibility and support, the Center is encouraging its Subscribers and all members of the HR Policy Association to incorporate the disclosure in their 2010 proxies. The SEC's Division of Corporation Finance has encouraged companies to use supplemental tables in the CD&A to explain their pay arrangements, and the Center's approach is consistent with SEC rules. At a minimum, we urge you to prepare the

disclosure and show it to your compensation committee and judge whether it provides them with a more complete understanding of your pay programs. The Center will continue to advocate for the approach with the SEC, other policymakers and to the public at large.

Conclusion

The increased focus on executive compensation will lead to more intense scrutiny of the relationship between pay and performance. By adopting these relatively simple approaches to disclosure, companies can make that connection clearer for shareholders, while providing a useful contrast between the information in the Summary Compensation Table and what executives actually earned.

Sample First Paragraph of a CD&A Executive Summary Using the Pay for Performance at a Glance Approach

Executive Summary

The company has a pay-for-performance philosophy that seeks to link the interests of the named executive officers with those of the shareholders and that guides the Committee's decisions regarding executive compensation. Despite an unfavorable economic environment in the second half of the year, in 2008, the company still generated positive earnings and posted an increase in cash flow. Long-term results were also positive and on par with peer companies.

To assist shareholders in assessing the extent of the pay for performance link, the company has provided two supplemental tables, one that shows how actual pay compares with actual performance and another that shows the future performance required to realize gains from the long-term incentives awarded. These tables differ from the Summary Compensation Table (page X) in that the Summary Compensation Table is a mixture of actual pay realized in 2008 and the accounting expense for long-term incentives that are contingent upon future performance. The Summary Compensation Table also includes elements considered compensation under SEC rules which are not directly related to performance, specifically items included in "All Other Compensation" and the actuarial increases in pension value and nonqualified deferred compensation earnings. The tables are not intended as a replacement for the Summary Compensation Table, and while no approach to explaining the link between compensation programs and performance is perfect, the company believes the following tables provide greater clarity into the relationship.

Table 1 provides information as to the actual levels of compensation realized during 2008 by Mr./Ms. (Name), the company's Chief Executive Officer, and a description of the performance results that generated the realized compensation. In the case of long-term incentive payouts, gains on stock options exercised and restricted shares that vested during the year, these awards were earned over multiple years but were realized in 2008. For this reason, Table 1 provides both the total compensation realized and the annualized amount of compensation ratably attributable to 2008 and the other years between the grant date and 2008. Because the ratable amount is not known until the year in which the award is realized, and this is the first year the company has used this format, the ratable portion for years before 2008 is not reflected in previous years' compensation. Going forward, the company intends to use the actual pay framework annually, which should enhance the comparability of realized pay year-to-year.

Table 2 shows long-term incentive awards granted in 2008 that must be earned over future years and describes the performance requirements that must be satisfied to realize value from these awards. If the future performance objectives are not achieved, if service requirements are not satisfied or if the value of the company's stock does not appreciate, the awards will not result in compensation to the executive. Table 2 allows shareholders to assess the structure of future incentives in support of sustained future contributions to creating shareholder value.

©2009 Center On Executive Compensation

Table 1: Comparison of Actual Pay Received in 2008 to Actual Performance*

Form of Compensation	Period Covered	Total Received ($)	Annualized Amount ($)	Performance Results Over Performance Period That Produced the Compensation
Salary	2008	$1,000,000	$1,000,000	The company generally targets salary for all executives at the 50th percentile of peer group companies. Based on this analysis, no adjustment was necessary for 2008.
Annual Incentive	2008	$1,800,000	$1,800,000	The annual incentive paid to NEOs is based on EBITDA, which measures economic profit and is a good measure of short-term performance; free cash flow from continuing operations, which reflects the company's ability to generate cash; and other corporate objectives, which are not disclosed due to competitiveness concerns. 2008 EBITDA increased by 11.4% over the prior year and exceeded the targeted level of performance. Free cash flow from continuing operations increased by 7% over 2007, totaling $3.3 billion and exceeded target. The Compensation Committee determined that accomplishment of other targeted corporate objectives fell short of expectations and thus resulted in no payout.
Long-Term Incentive Payout	2006-2008	$6,450,000	$2,150,000	The Long Term Incentive award was earned over the three-year performance period, 2006-2008, and produced a total payout of $6,450,000, or $2,150,000 per year. Performance criteria for this award were: (1) EPS growth, weighted 50%, which exceeded the targeted level; EPS reflects the company's profit per share and is a measure of the after-tax returns generated by the company. (2) Opening new markets in key strategic regions, weighted 25%, which was not achieved at the targeted level, and (3) Total return to shareholders compared against peer group companies, weighted 25%, for which the company ranked 7th out of 15 peer companies, producing a payout at target. Overall the payout represented 105% of target.
Equity Compensation				The gains upon exercise of stock options in 2008 were $8 million, based upon stock price appreciation between 2000 and 2008. During that time, the stock price appreciated from $15 to $35 per share, reflecting the company's strong growth and profitability. Because the $8 million was earned over the 8 years the award was outstanding, the annualized gain (i.e., the gain spread equally over the period the options were held), is $1 million for each year the options were outstanding, reflecting the amounts earned over the performance period.
Stock Option Exercises	2000-2008	$8,000,000	$1,000,000	
Restricted Stock Vesting	2006-08	$4,500,000	$1,500,000	Similarly, the value of the restricted stock that vested in 2008 was $4.5 million, and was earned over the three-year period from 2006 and 2008. Because the total gain was earned based on stock over the three-year vesting period, the annualized gain (i.e., the gain spread equally over 2006, 2007 and 2008) is $1.5 million per year. The company uses restricted stock to retain our top talent and to further align their interests with those of shareholders.
Total Actual Compensation Earned in 2008	2000-2008	$21,750,000**	$7,450,000**	See explanations under the Salary, Annual Incentive and Long-term Incentive boxes above. For amounts earned over more than one year, the annualized amount represents the pro-rata portion attributable to 2008. It includes the annualized gain for LTIP payout, stock option exercises and restricted stock, as well as total annual salary and annual incentive.

Note: This Table differs substantially from the Summary Compensation Table required by the U.S. Securities and Exchange Commission and is not meant a substitute for that table.

* Sample disclosure for illustrative purposes only.

** Total Actual Compensation does not include the value of perquisites, as they are not related to performance. Total perquisites for the year were $450,000.

Table 2: Comparison of Future Potential Pay to Estimated Future Performance*

The numbers in the stock awards and option awards columns of the Summary Compensation Table do not reflect what the named executive officers actually earned in 2008. Instead, the numbers are estimates of the accounting expense recognized for those awards in the current year. In contrast, the values presented below are based on the estimates of the company's total accounting expense if performance is achieved, as listed in the Grants of Plan-Based Awards Table. At the vesting date, the compensation earned by the executive may be nothing or it may be greater than the estimates in the Proxy Statement, based on the executive's and the company's performance, and the value of the equity.

The Table that follows explains the performance that is required to be achieved to earn the estimated values of stock awards and option awards granted in 2008 and listed in the 2008 Grants of Plan-Based Awards Table.

Year of Award	Type of Long-Term Incentive Award	Performance Period/Vesting Period	Performance Criteria	Financial Accounting Expense Estimate	Description of Linkage Between Performance Criteria/Objectives and the Creation of Shareholder Value
2008	Performance Shares	2008-2010	• 50% Earnings Per Share Growth	• Total estimated pay from EPS at target** = $XX	EPS is a key measure of the profitability and after-tax returns generated by the company. The target EPS level is set by the compensation committee applying its judgment based on factors including market competitiveness and its expectations for company performance.
			• 50% Company's Total Shareholder Return compared to the median TSR of peer group companies	• Total estimated pay from TSR** = $XX	Total Shareholder Return demonstrates our ability to create value compared with our peer group competitors.
2008	Restricted Stock	2008-2010	• Value of the shares, which vest after three years	• Total grant date fair value = $XX	The company uses restricted stock to retain its NEOs, all of whom started their positions with the company within the last four years, and to further align their interests with those of shareholders.
2008	Stock Options	2008-2010	• Share price appreciation	• Total grant date fair value = $XX	Stock options align the interests of management with shareholders through share price appreciation. Under company policy, executives are also required to retain 50% of the shares remaining upon exercise of a stock option after paying taxes and exercise costs, further continuing the alignment. To realize compensation equal to the accounting expense shown in the Summary Compensation Table for this award, the price of our company's shares would need to appreciate by 33% over the grant date stock prices of $9.44 during the vesting period. All shares vest after four years.

Note: This Table differs substantially from the Summary Compensation Table required by the U.S. Securities and Exchange Commission and is not meant a substitute for that table.

* Sample disclosure for illustrative purposes only. Each company's disclosure would have to be customized to its incentive plans.

** The Center believes the SEC Division of Corporation Finance staff's recent interpretation requiring performance-based awards to be shown on the Grants of Plan-based awards at maximum rather than at target would create unnecessary confusion and inconsistencies with other reporting. For this reason, the Center has reported performance-based awards at target levels

Center On Executive Compensation **Policy Brief**

Executive Compensation Disclosure Requirements in Senate Financial Reform Bill Would Discourage Long-Term Financial Performance

Section 953 of H.R. 4173 Would Require Flawed Comparison Between Total Pay and Short-Term Financial Results and Between CEO and Median Employee Pay

Section 953 of the Senate-passed financial reform bill (H.R. 4173) would effectively mandate the disclosure of the relationship of pay to short-term financial performance and thus encourage pay practices that contradict linking executive compensation to long-term results. The new requirement is contrary to recent SEC rules, sound risk management and pay for performance concepts, and it is likely to encourage companies to focus on formulaic compensation arrangements rather than those that emphasize long-term, sustainable performance based on financial, strategic and operational objectives. The disclosure of pay for short-term performance requirement should be removed from the legislation to avoid these unintended consequences. If the requirement is retained, at a minimum, the language should be amended to provide a comparison between executive compensation and not only financial, but also operational and/or strategic performance, to mitigate the unintended consequences to better reflect the long-term basis on which pay arrangements are structured. Section 953 would also require companies to disclose in their proxies the ratio of average employee pay to CEO pay. This requirement would provide no meaningful information to shareholders but would require companies to incur astronomical administrative costs in calculating median annual employee pay across global operations and multiple pay systems. This provision should be removed in its entirety.

Executive Compensation Plans Blend Short-Term and Long-Term Elements to Promote Long-Term, Sustained Growth Compensation plans for the senior executives reported in proxy statements typically include salary and annual incentives, which reflect performance over one year, and long-term incentives, the actual value of which is determined based on performance over three years or more. According to Equilar, Inc., long-term incentives made up 62 percent of the total pay package for S&P 500 CEOs in 2009, while salary comprised 12 percent and annual incentives comprise 23 percent. Annual incentives focus on financial performance over a year, firm-wide operational goals, such as innovation, environmental compliance and workplace safety that have taken on more prominence based on recent crises, and individual performance. Long-term incentives typically focus on the financial performance and returns to shareholders over a three-to-five-year period, as well as achievement of long-term strategic goals. Combined, short- and long-term performance results in share price appreciation and the longer-term creation of shareholder value. Well-designed incentive programs help produce financial performance by encouraging executives to put programs in place to grow the company, *e.g.*, developing corporate systems, innovations and company capabilities to compete successfully in today's global economy.

www.ExecComp.org 1100 13th Street NW Suite 850 Washington, DC 20005 E-mail: info@ExecComp.org Tel: 202.408.8181 Fax: 202.789.0064

New Disclosure Would Encourage Boards to Focus on Short-Term Financial Results Section 953 requires the SEC to expand its proxy disclosure requirements to include "a clear description of any compensation required to be disclosed" under the SEC's existing rules, including "information that shows the relationship between executive compensation actually paid and the financial performance" of the company. Recognizing that disclosure drives behavior, and because pay disclosures already focus on key areas of company performance for the most recent year, the effect of the section will be to encourage boards of directors and their compensation committees to focus on linking reported pay disproportionately to short-term financial results. Neither the legislation nor the legislative history states that the comparison should be actual pay to long-term financial performance. This requirement will encourage management to enhance short-term financial performance rather than incentivizing the creation of sustainable long-term value for shareholders. Ironically, it reinforces, rather than reverses, the short-term approach to compensation which many lawmakers and compensation critics have claimed led to the financial bubble and meltdown that the overall reform legislation is trying to remedy.

Focus on Short-Term Performance Contradicts Sound Risk Mitigation Practices A myopic focus on financial performance is also counter to sound risk management which seeks to balance financial performance with the quality and sustainability of performance. Excessive short-term compensation has been criticized by everyone from the Obama Administration to the Financial Stability Board. Likewise, the Aspen Institute Principles on Long-Term Value Creation, signed by such disparate organizations as the Council of Institutional Investors and The Business Roundtable, state that compensation should "support[] long-term value creation" by promoting "the long-term, sustainable growth of the firm rather than exclusively short-term tax or accounting advantages to either the firm or employee." Focusing exclusively on financial performance will negate the progress made in balancing incentives and risk, and thus moderating potentially "excessively risky behavior." Decisions made by senior executives often have an impact only over the long-term, and their compensation arrangements reflect that time horizon. Requiring a focus on short-term financial performance would encourage executives to take actions that increase short-term financial performance potentially at the risk of long-term performance.

Focus on Pay Versus Financial Performance Will Emphasize Formulaic Pay Approaches Rather Than Those Relying on Compensation Committee Judgment By mandating disclosure of the direct relationship between compensation and financial performance, the section emphasizes a formulaic approach to compensation and renders the compensation committee's judgments in linking pay and results superfluous. An exclusive focus on financial performance is based upon a faulty assumption that compensation is intended only to drive short-term financial performance, rather than the long-term competitiveness of the firm and its growth and sustainability. Companies seeking only near-term financial results have no incentive to invest in long-term research and development, seek only the locations for production that involve the lowest cost and otherwise take steps to reduce the near-term cost of the company. Moreover, the Board's role is to assess whether formula-based pay is reasonable and make adjustments if pay and overall results are not linked. The legislation's focus is the equivalent of substituting a spreadsheet for the compensation committee's reasoned judgment.

Disclosure of Pay Versus Stock Performance Rejected by the SEC in 2006

Section 953 encourages companies to graphically represent the link between short-term pay and financial performance. The graphical approach contradicts a recent SEC regulatory decision on the matter. In its 2006 revision of the executive compensation disclosure rules, the SEC recognized that disclosure had become too reliant on a comparison of pay versus financial performance. It removed the "performance graph," which compared executive compensation to company stock price performance from the compensation section of the proxy. Instead, the SEC adopted the Compensation Discussion and Analysis which is "an overview providing narrative disclosure that puts into context the compensation disclosure provided elsewhere" (essentially the pay tables). The CD&A is designed to "explain material elements" of how a company is actually compensating their named executive officers and how the elements of pay relate to each other. In rejecting the performance graph, the SEC staff stated:

> The disclosure in the Compensation Discussion and Analysis regarding the elements of corporate performance that a given company's policies consider is intended to encourage broader discussion than just that of the relationship of executive compensation to the performance of the company as reflected by stock price. Presenting the Performance Graph as compensation disclosure may weaken this objective.

In sum, as discussed above, condensing an explanation of the pay for performance link to a single graph could lead to inaccurate conclusions regarding whether that link has been achieved.

Proposed Change Would Require Illogical Comparison of Prior Year's Performance to Future Potential Pay, Rather Than Compensation Realized

Ironically, the majority of compensation "actually paid" as defined by the bill does not involve compensation that executives can spend (such as cash or shares of stock). Instead, it refers to the total compensation number in the proxy statement's summary compensation table, which mixes actual compensation (e.g., salary) with an accounting estimate of stock-based compensation, typically earned over three years. These future estimates may not actually be earned because they are contingent upon *future* company performance which typically will not be known until three years after the incentives are granted. The pay actually realized through long-term stock-based compensation may be lower or higher than the estimate disclosed as part of the total compensation number in the Summary Compensation Table and thus result in a much different picture of whether pay and performance are linked. Boiled down to its essence, the proposed pay for performance disclosure requires companies to combine actual and future potential compensation under the label "actual pay" and compare that amount to performance in the last fiscal year. This comparison is illogical and will not produce an accurate determination of whether pay and performance are indeed linked.

If Additional Disclosure Is Mandated, It Should Focus on How Actual Pay Is Related to Actual Performance

Financial performance is but one aspect of a corporate investment strategy and therefore is only one element of an overall compensation strategy. If the pay for performance disclosure in Section 953 is retained in the financial services reform bill, at a minimum it should be expanded to focus on how executive compensation is related to financial, operational and strategic performance. An even better solution would be to require pay

realized during a reporting year to the performance which generated it. That would enable a more linear comparison between actual pay (not the accounting value of stock and stock options) and actual performance.

Disclosure of Pay Ratios Will Not Improve Disclosure or Pay Practices But Will Waste Corporate Resources Section 953 of the bill would also require all publicly held companies to disclose the median total annual compensation of all employees of the company, other than the chief executive officer, and the ratio of that amount to the CEO's compensation. The disclosure would provide little useful information to investors because different industries have differing executive pay levels, as well as differing pay for nonexecutive employees. These differences are based on the skills required to perform the job, the number of high and lower paid employees and the level of executive compensation for that industry. Other than confirming that there are such differences, the ratio would not enhance investors' understanding of whether executive compensation is appropriate, and it would certainly not enhance comparability among executives.

Beyond the lack of insightful information, companies would face an immense administrative burden of preparing the pay ratios. For purposes of this requirement, total annual compensation is defined as the amounts included in total compensation of the Summary Compensation Table, and few companies tabulate total compensation for nonexecutives in this way. A 2006 survey conducted by Professor Robert L. Clark of North Caroline State University found that only 20 percent of respondents indicated that they keep the information necessary to calculate total compensation for highly compensated employees – much less all employees -- in a single database, and 70 percent of respondents said that they neither had the requisite systems in place to calculate total compensation as required by the SEC and that it would a substantial burden to do so.

In addition, companies would be required to tabulate compensation data for all employees globally. As one survey respondent indicated "Our biggest concern would be in trying to identify and accurately value the total compensation package for a number of employees in foreign countries," which would include calculating exchange rate differentials and country-specific requirements and practices.

In sum, the pay ratio disclosure requirement mandates a considerable administrative burden without providing any substantial useful benefit.

Staff contact: Tim Bartl (tbartl@execcomp.org)
©2010 Center On Executive Compensation

Side-by-Side Comparison of Final Executive Compensation Provisions in Financial Reform Legislation

Issue	Corporate and Financial Institution Compensation Fairness Act (H.R. 3269) Rep. Barney Frank (D-MA) Passed House 7/31/09 and Incorporated into H.R. 4173	Restoring American Financial Stability Act (S. 3217) Sen. Christopher Dodd (D-CT) Passed Senate 5/20/10	Conference Agreement: Restoring American Financial Stability Act "Dodd-Frank Act" (H.R. 4173) House and Senate Votes Expected Week of June 28, 2010
Say on Pay	• Annual non-binding advisory vote on compensation of named executive officers as disclosed pursuant to the SEC executive compensation disclosure rules • Investment managers must disclose how they chose to vote at least once a year • Effective date: SEC given 6 months to promulgate regulations; legislation takes effect six months after the SEC's regulations are completed	• Annual non-binding advisory vote on compensation of named executive officers as disclosed the SEC executive compensation disclosure rules • Effective date: 6 months after date of legislative enactment	• Non-binding advisory vote at least every three years on compensation of named executive officers as disclosed pursuant to the SEC executive compensation disclosure rules o Separate shareholder vote required in the first year a company holds a say on pay vote after enactment to determine whether the say on pay vote will be held every one, two or three years and then every six years. • Investment managers must disclose how they chose to vote at least once a year • Effective date: 6 months after date of legislative enactment

Issue	Corporate and Financial Institution Compensation Fairness Act (H.R. 3269) Rep. Barney Frank (D-MA) Passed House 7/31/09 and Incorporated into H.R. 4173	Restoring American Financial Stability Act (S. 3217) Sen. Christopher Dodd (D-CT) Passed Senate 5/20/10	Conference Agreement: Restoring American Financial Stability Act "Dodd-Frank Act" (H.R. 4173) House and Senate Votes Expected Week of June 28, 2010
"Golden Parachute Payments"	• A separate non-binding shareholder vote on "an acquisition, merger, consolidation, or proposed sale" agreements of named executive officers if not yet been voted on as part of annual say on pay vote • Disclosure of total amount of compensation received by all executive officers in the event of "an acquisition, merger, consolidation, or proposed sale" required in the proxy statement	• No provision	• Mandates additional SEC rules regarding disclosure of "agreements or understandings" between a company and named executive officers regarding payments to be made in the event of a change in control, any conditions pertaining to the payments and the total aggregate compensation • Mandates a separate shareholder vote on this compensation in the proxy material relating to the compensation related to the change-in-control, if not yet voted on as part of the annual; biennial or triennial say on pay vote.
Uninstructed Broker Votes on Executive Pay Matters	• No Provision	• Brokers may not vote client shares in say on pay votes *or other executive* unless instructed which way to vote (extension of NYSE Rule 452 to say on pay votes)	• Brokers only allowed to vote client shares in say on pay votes *or other executive compensation matters* if instructed by the beneficial owner (extension of NYSE Rule 452 to say on pay votes)

Issue	Corporate and Financial Institution Compensation Fairness Act (H.R. 3269) Rep. Barney Frank (D-MA) Passed House 7/31/09 and Incorporated into H.R. 4173	Restoring American Financial Stability Act (S. 3217) Sen. Christopher Dodd (D-CT) Passed Senate 5/20/10	Conference Agreement: Restoring American Financial Stability Act "Dodd-Frank Act" (H.R. 4173) House and Senate Votes Expected Week of June 28, 2010
Clawback Requirements	• No provision	• SEC is required to change stock exchange listing standards to require companies to implement and disclose a policy for recoupment of incentive pay in the event of a material restatement that would not have been paid had the financials not been restated • Applies to o current and former executive officers o compensation received during the 3 years prior to the accounting restatement o cash, stock and stock options received as incentive compensation	• SEC directed to change stock exchange listing standards to require companies to implement and disclose a policy for recoupment of incentive pay in the event of a material restatement that would not have been paid had the financials not been restated • Applies to o current and former executive officers o comp ensation received during the 3 years prior to the accounting restatement o cash, stock and stock options received as incentive compensation

Issue	Corporate and Financial Institution Compensation Fairness Act (H.R. 3269) Rep. Barney Frank (D-MA) Passed House 7/31/09 and Incorporated into H.R. 4173	Restoring American Financial Stability Act (S. 3217) Sen. Christopher Dodd (D-CT) Passed Senate 5/20/10	Conference Agreement: Restoring American Financial Stability Act "Dodd-Frank Act" (H.R. 4173) House and Senate Votes Expected Week of June 28, 2010
Enhanced Pay for Performance Disclosure	• No provision	• Proxy statement must have a "clear description of any compensation required to be disclosed" by the SEC • Disclose and show "the relationship between "executive compensation actually paid" (e.g., as defined in summary compensation table) and the *financial performance* of the issuer" o May include a graphical display of the information (e.g., a chart such as the stock performance chart)	• Proxy statement must provide a "clear description of any compensation required to be disclosed" by the SEC o Must show "the relationship between executive compensation actually paid (e.g., as defined in summary compensation table) and the *financial performance* of the issuer o may include a graphical display of the information (e.g., similar to the stock performance chart)
Disclosure of Ratio of Median Employee to CEO Pay	• No provision	• Requires proxy disclosure of median employee pay (as calculated under the SEC's executive compensation disclosure rules) to CEO pay	• Requires proxy disclosure of median employee pay (as calculated under the SEC's executive compensation disclosure rules) to CEO pay

Issue	Corporate and Financial Institution Compensation Fairness Act (H.R. 3269) Rep. Barney Frank (D-MA) Passed House 7/31/09 and Incorporated into H.R. 4173	Restoring American Financial Stability Act (S. 3217) Sen. Christopher Dodd (D-CT) Passed Senate 5/20/10	Conference Agreement: Restoring American Financial Stability Act "Dodd-Frank Act" (H.R. 4173) House and Senate Votes Expected Week of June 28, 2010
Compensation Committee Independence	• All members of the compensation committee must be independent under the Audit Committee independence standards set by Sarbanes-Oxley o A member of the committee may not "accept any consulting, advisory, or other compensatory fee from the issuer" o If no compensation committee exists than compensation decisions are to be made by the independent members on the Board of Directors	• All members of the compensation committee must be independent under independence standards to be set by the Commission • In determining the definition of "independent" the "the national securities exchanges and the national securities associations shall consider relevant factors, including whether o the director receives consulting or similar fees o a member of the board is "affiliated with the issuer," a subsidiary, or an affiliate of a subsidiary o Exemption authority given to SEC	• All members of the compensation committee must be independent under listing standards to be set by the Commission and securities exchanges • In determining the definition of "independent" the national securities exchanges and the national securities associations shall consider relevant factors, including whether o the director receives consulting or similar fees o a member of the board is "affiliated with the issuer," a subsidiary, or an affiliate of a subsidiary • Exemption authority given to SEC

Issue	Corporate and Financial Institution Compensation Fairness Act (H.R. 3269) Rep. Barney Frank (D-MA) Passed House 7/31/09 and Incorporated into H.R. 4173	Restoring American Financial Stability Act (S. 3217) Sen. Christopher Dodd (D-CT) Passed Senate 5/20/10	Conference Agreement: Restoring American Financial Stability Act "Dodd-Frank Act" (H.R. 4173) House and Senate Votes Expected Week of June 28, 2010
Compensation Committee Authority Over Consultants, Legal Counsel	• At discretion of committee to decide whether or not to obtain a compensation consultant. o Committee will be responsible for the appointment, pay, and oversight of consultant • Are not required to follow advice of consultant, but must disclose their recommendation	• At discretion of committee to decide whether or not to obtain a compensation consultant o Committee will be responsible for the appointment, pay, and oversight of consultant • Are not required to follow advice of consultant, but must disclose their recommendation	• At discretion of committee to decide whether or not to obtain a compensation consultant o Committee must be responsible for the appointment, pay, and oversight of consultant • Is not required to follow advice of consultant, but must disclose o that an independent consultant, etc was retained o whether the work of the consultant has raised any conflict of interest and how that interest is being addressed

Issue	Corporate and Financial Institution Compensation Fairness Act (H.R. 3269) Rep. Barney Frank (D-MA) Passed House 7/31/09 and Incorporated into H.R. 4173	Restoring American Financial Stability Act (S. 3217) Sen. Christopher Dodd (D-CT) Passed Senate 5/20/10	Conference Agreement: Restoring American Financial Stability Act "Dodd-Frank Act" (H.R. 4173) House and Senate Votes Expected Week of June 28, 2010
Consultant Independence	• Any compensation consultant or outside advisor (other than attorney) must meet standards of independence determined by the SEC • Within a year of enactment, company must disclose in its proxy whether it chose to engage an independent consultant	• Any consultant, advisor or legal counsel must meet the definition of independence set by the SEC, which shall include the following factors o other services provided by the outside advisor to the company o fees from compensation committee work as opposed to work for management by outside advisor's firm o policies and procedures by the outside advisor's or counsel's firm designed to prevent conflict of interest; o person al and professional relationships, and any stock of the company owned by the consultant, counsel or advisor • Within a year of enactment, company must disclose in its proxy whether it chose to engage an independent consultant and if any conflict of interest has occurred	• A compensation committee must take into account factors affecting the independence of a compensation consultant, legal counsel or outside advisor, including o other services provided by the consultant, counsel or outside advisor ("service provider") to the company o fees from compensation committee work as opposed to work for management by service provider's firm o policies and procedures by the service provider's firm designed to prevent a conflict of interest o person al and professional relationships of the service provider with any member of the comp committee o any stock of the company owned by service provider • Rules of the Commission must be competitively neutral between large and small service providers • 1 year after passage, company must disclose in its proxy whether it engaged an independent consultant, whether conflict has occurred, and how it was addressed

Issue	Corporate and Financial Institution Compensation Fairness Act (H.R. 3269) Rep. Barney Frank (D-MA) Passed House 7/31/09 and Incorporated into H.R. 4173	Restoring American Financial Stability Act (S. 3217) Sen. Christopher Dodd (D-CT) Passed Senate 5/20/10	Conference Agreement: Restoring American Financial Stability Act "Dodd-Frank Act" (H.R. 4173) House and Senate Votes Expected Week of June 28, 2010
Proxy Access	• SEC Given the authority to issue proxy access regulations	• SEC given the authority to issue proxy access regulations	• SEC given the authority to issue proxy access regulations and exempt small issuers
Majority Voting and Director Elections	• No provision	• Majority voting in contested and uncontested elections ○ In contested elections that have more nominees than directors plurality voting will be used • Directors who are not elected to a new term must follow company developed policy and resign • Companies have one year to comply	• No provision
Chairman/CEO Standards	• No provision	• Company must disclose in proxy whether CEO is independent from the Chairman of the board or if they are the same individual and why the company has chosen this structure • Effective date: 180 days after legislation is enacted	• Company must disclose in proxy whether CEO is independent from the Chairman of the board or if they are the same individual and why the company has chosen this structure • Effective date: 180 days after legislation is enacted

Issue	Corporate and Financial Institution Compensation Fairness Act (H.R. 3269) Rep. Barney Frank (D-MA) Passed House 7/31/09 and Incorporated into H.R. 4173	Restoring American Financial Stability Act (S. 3217) Sen. Christopher Dodd (D-CT) Passed Senate 5/20/10	Conference Agreement: Restoring American Financial Stability Act "Dodd-Frank Act" (H.R. 4173) House and Senate Votes Expected Week of June 28, 2010
Other Governance Changes	• Every institutional investment manager "shall report at least annually how it voted on any shareholder vote"	• If a company has staggered terms for directors on the board and wishes to continue this practice they must gain majority shareholder approval within one year of law's enactment • Companies required to adopt and disclose a policy prohibiting employee hedging of company stock	• Companies required to disclose whether they have a policy prohibiting employee hedging of company stock
Compensation Structure Reporting	• No later than 9 months after the date of enactment the appropriate Federal regulators shall jointly prescribe guidelines to require appropriate financial institutions to disclose structures of all incentive based compensation arrangements offered that "could threaten the safety and soundness of a covered financial institution" or "could have serious adverse effects on the economic conditions or financial stability"	• Within 180 days of enactment the Board of Governors, in consultation with the Comptroller of the Currency and the Federal Deposit Insurance Corporation, shall establish standards prohibiting unsafe and unsound compensation plans that lead to excessive compensation or material loss	• No later than 9 months after enactment Federal regulators will jointly prescribe guidelines to require "covered financial institutions" to disclose structures of all incentive-based compensation arrangements offered and to prohibit those structures or features of those structures "that could lead to material financial loss" • Appropriate Federal regulators can impose standards on compensation structures but not compensation amounts • Financial regulators given latitude to apply standards to any "covered financial institutions" as defined by the regulators, provided they have assets of $1 billion or more

©2010 Center On Executive Compensation