

Fundamentals of Executive Compensation

OCTOBER 1, 2025 | PART TWO



Fundamentals of Executive Compensation



- **Part One:** Design Fundamentals



- **Part Two:** The Regulatory and Governance Context



- **Part Three:** Finance and Measurement Basics

REGULATORY & GOVERNANCE CONTEXT



11:00 a.m. ET

Part One Quiz

11:15 a.m. ET

Regulatory & Governance Framework

12:35 p.m. ET

Break

12:45 p.m. ET

Peer Group Exercise

1:05 p.m. ET

Proxy Advisory Firms & Shareholder Proposals

1:20 p.m. ET

Governance Basics

1:50 p.m. ET

Review and Hot Topics for Day 3

Executive Compensation

The Regulatory & Governance Framework

Regulatory & Governance Framework

- The regulation of executive pay has reflected the shifting role and influence of key stakeholder groups
- Corporate scandals and economic downturns have shaped regulations and increased scrutiny of executive pay
 - Dodd Frank
 - The Role of Disclosure
- Influence of proxy advisory firm recommendations

The U.S. Governance Landscape

- In the U.S., governance of executive compensation is shared by Congress and the Executive Branch
- Congressional action on executive pay is often included in broader financial system regulation and tax reform
- The Securities and Exchange Commission (SEC) has the most direct day-to-day impact on executive pay

Dodd-Frank Disclosure Requirements

Issue	Requirement	Regulatory Status
Say on Pay	<ul style="list-style-type: none"> Shareholders have the right to vote on executive pay 	<ul style="list-style-type: none"> First SOP votes in 2011 Proxies
Pay Ratio	<ul style="list-style-type: none"> Ratio of median global employee to CEO 	<ul style="list-style-type: none"> First Disclosures in 2018 Proxies
Pay for Performance	<ul style="list-style-type: none"> Link between comp “actually paid” & financial performance 	<ul style="list-style-type: none"> Rule proposed 4/29/15; 3-2 vote Re-proposed in 2021 and finalized 2022
Clawbacks	<ul style="list-style-type: none"> No-fault policy on current, former executive officers 3-year lookback 	<ul style="list-style-type: none"> Stock exchange listing standard SEC rules proposed 7/1/15; 3-2 vote Re-proposed in 2021 AND 2022. Finalized Oct 2022
Hedging Disclosure	<ul style="list-style-type: none"> Disclosure of Hedging Policies 	<ul style="list-style-type: none"> Rule finalized December 2018 First disclosure in proxy for fiscal years starting on or after July 1, 2019
Incentive-Based Compensation	<ul style="list-style-type: none"> Prohibit excessive compensation in financial services Prevent risks of “material financial loss” 	<ul style="list-style-type: none"> Rule proposed 3/30/11; re-proposed 4/21/16 Placed on agenda for spring 2024

SEC Rulemaking: Democratic Era

- **2020-2024, the SEC had a Democratic majority and issued rules on:**
 - 10b5-1 plans
 - Pay-for-performance disclosures
 - Clawbacks
 - Climate
- **Proposed rules (not finalized):**
 - Section 956 Dodd-Frank Act regarding incentive compensation for financial institutions (Proposed for 3rd time in June 2024)
 - Human capital metrics rules (Target: 2025)
 - Board diversity (Original Target: April 2024)

Human Capital Metrics

Included in the SEC Regulatory Agenda for several years; Will not move forward under Republican led SEC

- **2020 SEC HCM Rule.** Required a principles-based disclosure of human capital to the extent it is material to the business:
- SEC influenced by activist investors and academics to **issue a more prescribed disclosure that could include quantitative data:**
 - Number of full/part-time, contingent workers (contractors and temps)
 - Turnover
 - Training
 - Total cost of workforce
- Implications for executive compensation as media and other stakeholders will draw pay comparisons between regular workers and the C-suite

Push for Pay Equity Through Disclosure

- While not strictly an executive compensation issue, concerns regarding pay equity are a significant governance issue
 - Expansive reporting requirements from EU Directive
 - U.S. public policy actions focused on state and local salary history prohibitions
 - A nationwide pay equity/ pay transparency rule proposed for all government contractors performing contract work (Abandoned before Trump took office)
- Shareholder activists in the U.S. target specific industries and ask for expanded disclosure
 - Arjuna Capital, Proxy Impact, New York Pension Funds and Comptroller

Non-Compete Agreements

- In 2024, FTC issued nationwide ban on non-compete agreements viewing them as anti-competitive and stifling innovation and the creation of new businesses
 - Rule was supposed to take effect September 4, 2024 but blocked by legal challenges
 - **In 2025, FTC announced it will not defend existing rule and have asked for comments on how non-compete agreement restrict competition**
 - The Center supports reasonable non-competes for senior executives and those with access to confidential or proprietary information. Clear distinction between non-competes and other restrictive covenants, such as forfeiture agreements
 - Bipartisan support of banning non-competes – expect state bans and limited federal rules

The Role of Disclosure

- The Proxy Statement is the primary way public companies disclose the details of their executive pay programs
- We'll focus on two key elements of disclosure: the Compensation Discussion and Analysis (CD&A) and the Summary Compensation Table (SCT)
- Investors generally do not feel proxy disclosures are effective, contributing to a growing use of supplemental materials

CD&A

- The CD&A provides narrative disclosures explaining the elements of a company's executive compensation program –
 - A “principles-based” disclosure that conveys the “how” and “why” concerning compensation decisions made during the year
- It is one of the company's primary engagement tools used to tell their compensation story to investors
- The general design and content of the CD&A is largely up to each individual company

CD&A: Typical Elements

- Executive Summary
- Elements of compensation during the year
- Performance against targets for the year
- Compensation decisions made
- Compensation policies and processes
- Employment agreements

Summary Compensation Table

- Principal source of specific pay disclosure and must include all compensation earned by Named Executive Officers (CEO, CFO and 3 Top Highest Paid Officers)
 - Salary, cash bonuses, equity awards, change in pension value, and 'all other compensation'
 - May cover up to 7 execs depending on NEO departures
- Includes both compensation actually earned and pay that has been awarded but not yet earned
 - Represents a picture of 'intended' pay levels

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Nonequity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation	Total (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
PEO									
PFO									
A									
B									
C									

Nonperformance-based bonus awards

Disclose ASC Topic 718 Grant Date Fair Value

Disclose incentive-based cash compensation not within scope of ASC Topic 718 when earned (includes incentive-based annual awards)

Disclose sum of increase in actuarial value of pension benefits and above-market earnings on deferred compensation

Catchall for any other compensation that cannot be covered else where

Sum of columns (c) thru (i)

Where does it appear?

	Does this need to be included in the SCT?	If so, in which column?
An award from a performance-based LTI plan, paid in cash	YES	Non-equity incentives
An award of stock options granted as part of a new NEO's hire-on package	YES	Option Awards
The amount an NEO defers from his regular salary to the company's 401k plan	YES	Salary
Reimbursement of travel expenses for a new NEO during the recruiting process	NO	
A charitable contribution made by the company on behalf of an NEO to their alma mater	YES	All Other Compensation

Supplemental Disclosures

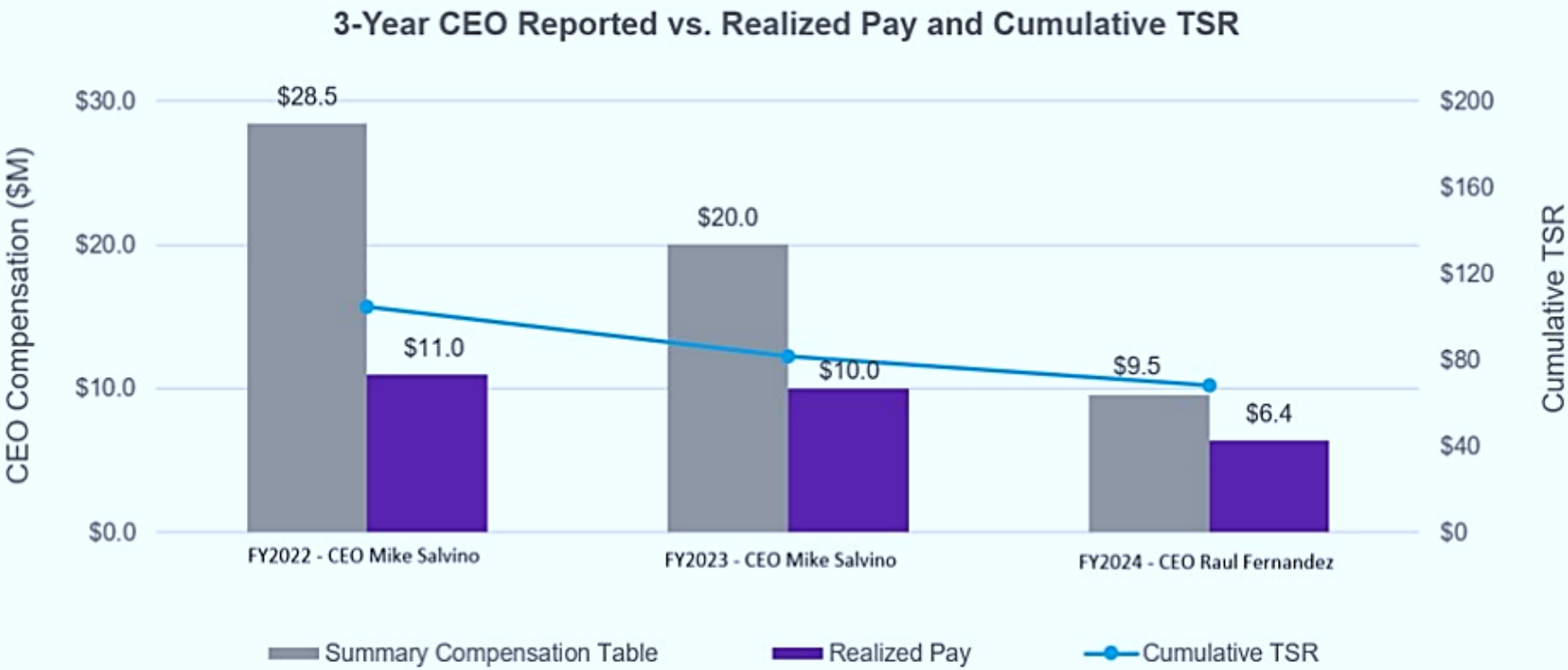
- Investors generally do not find company disclosures clear or helpful in understanding executive pay – particularly the pay-performance connection.
- In 2022, SEC issued another definition of “compensation actually paid” with the final Pay For Performance rules.
- To address this, some companies have expanded the use of supplemental disclosures.
- Many of these disclosures incorporate the concepts of realized and/or realizable pay.

Realized and Realizable Pay

- **Realized Pay:** actual pay received during the year.
- **Realizable Pay:** actual salary, annual incentive and cash bonus received, plus:
 - Long term cash incentives not yet earned valued at target
 - Equity incentives not yet earned valued at target using year-end stock price

DXC Technology Disclosure

Cumulative TSR is calculated based on DXC Technology's stock price on the last trading day of fiscal 2024 in comparison to the Company stock price on the last trading day of fiscal 2021 and assumes an initial investment of \$100 on the last trading day of fiscal 2021, plus any reinvested dividends.



Vornado Realty Trust Disclosures

Total Realized Compensation Table

The Total Realized Compensation and Total Direct/Realizable Compensation earned by our Named Executive Officers for the 2022-2024 period were as follows:

Name	Year	Salary (\$) ⁽¹⁾	Cash Bonus (\$) ⁽²⁾	Grant Date Fair Value of Restricted Unit Awards as Long-Term Equity Compensation (\$) ⁽³⁾	Performance Awards (Value Realized) (\$) ⁽⁴⁾	Total Realized Compensation (\$) ⁽⁵⁾	Total Direct/Realizable Compensation (\$) ⁽⁵⁾
Steven Roth	2024	1,000,000	1,500,000	—	6,480,634	8,980,634	2,500,000
	2023	1,000,000	3,700,000	6,120,625	1,528,721	12,349,346	19,719,375
	2022	822,419	1,500,000	3,390,004	—	5,712,423	9,102,606
Michael J. Franco	2024	1,000,000	1,500,000	—	1,963,857	4,463,857	2,500,000
	2023	1,000,000	2,900,000	4,546,750	411,913	8,858,663	15,057,250
	2022	1,000,000	1,500,000	1,057,502	—	3,557,502	4,615,076
Haim Chera	2024	1,000,000	1,501,119	—	626,858	3,127,977	2,501,119
	2023	1,000,000	1,500,000	2,331,671	131,645	4,963,316	8,221,671
	2022	1,000,000	1,500,000	337,518	—	2,837,518	3,175,064
Barry S. Langer	2024	1,000,000	1,500,000	—	1,578,518	4,078,518	2,500,000
	2023	1,000,000	2,900,000	3,497,500	331,231	7,728,731	12,482,500
	2022	1,000,000	1,500,000	850,001	—	3,350,001	4,200,083
Glen J. Weiss	2024	1,000,000	1,500,000	—	1,819,912	4,319,912	2,500,000
	2023	1,000,000	2,900,000	3,497,500	382,194	7,779,694	12,482,500
	2022	1,000,000	1,500,000	980,018	—	3,480,018	4,460,110

Today's SEC: Disclosure Reform

- Chair Atkins described current disclosure as a “Frankenstein patchwork” citing that the purpose of disclosure is to illuminate executive pay levels for investors not influence how companies determine those levels
- Convened Roundtable aimed at improving existing rules and streamlining useful information for investors in their voting decisions
 - 2006 Dodd-Frank requirements
 - Pay-for-performance disclosures and CAP
 - Clawbacks
 - Perks including executive security

Today's SEC: Disclosure Reform

- Center comments supported:
 - Eliminating duplicative tables from the proxy and streamlining the SCT to include annual total target compensation and total annual earned compensation
 - Reducing NEOs from 5 to CEO and CFO only
 - Amending clawback requirement to exclude “little r” restatements and provide more flexibility to boards in using discretion
 - Eliminating the cost of executive security from an executive's total compensation

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Break

Our Session Will Resume Shortly

Executive Compensation

Group Exercise: Peer Groups

Who are your pay peers?

- How many peers are listed?
- Is the peer group comparing pay, performance or both?
 - If the company has two peer groups, what factors may have influenced that decision?
- What criteria are used to select the peer group or groups?
- Are there any companies you expected to see that weren't in either of the peer groups?
- Were any peer companies ones that you didn't expect to see? Why?

Executive Compensation

Proxy Advisory Firms & Shareholder Proposals

What are Proxy Advisory Firms?

- Firms that assist institutional investors in voting their shares at shareholder meetings through analysis, vote recommendation and voting administration
- Two firms control 80% of the market – Institutional Shareholder Services (ISS) and Glass Lewis
- Proxy advisors develop policies on a broad range of issues, including corporate governance, executive compensation, and mergers and acquisitions

Proxy Advisor Impact

- Recommendations have a significant impact on the outcome of a shareholder vote
- Smaller investors rely on proxy advisor recommendations and do not complete independent analysis
- Impact of a 'NO' recommendation by ISS may cause support for a Say on Pay proposal to decline by on average by 28%

Areas of Concern

- Potential conflicts of interest
 - Providing voting recommendations to investors while providing consulting services to companies
 - Providing recommendations on shareholder proposals backed by their own clients
 - Ownership may be problematic (Glass Lewis)
- Lack of knowledge of how pay plans operate leads to errors and inaccurate interpretations
- Failure to meaningfully engage with companies

ISS Methodology

- Three quantitative pay for performance tests
 - Relative degree of alignment
 - Absolute degree of alignment
 - Multiple of Median
- If there is an elevated level of concern from the quantitative tests, they will consider a qualitative review that examines:
 - Poor pay practices
 - Poor communication and responsiveness

Glass Lewis Methodology

- Recently announced an overhaul of their pay and performance alignment methodology
 - Expanded measurement period from 3 to 5 years
 - Introduced two new tests for a total of 5 weighted quantitative tests
 - CEO STI Payouts vs TSR:
 - CEO CAP vs TSR
- Final measurement will be based on a new 0-100 score, replacing their previous letter grade approach

Shareholder Engagement Practices

- Valuable communication tool to understand how the company is perceived
- Director engagement is on the rise (usually Lead Independent Director or Comp Committee Chair)
- Preparation is key. Know investor expectations and proxy voting policies
 - Recognize “hot button” topics and differing priorities among investors
- State meeting goals and tailor discussion to optimize time together
 - Use intentional, precise language
 - Active listening
 - Understand their engagement preferences

Shareholder Engagement Shake-Up

- New SEC guidance about what constitutes “changing or influencing” a company may make passive investors less likely to engage.
 - Expect investors to be vague about the positions on various topics
 - Questions may be more open-ended with less prescriptive agendas
 - May read disclaimers that they are not intending to influence the company
 - Many have removed statements about voting against directors if certain expectations are not met
 - As a result, companies may have less information about investor expectations and see more surprises in proxy voting.

Shareholder Proposals

- Originally focused on governance and compensation practices and now encompass a wide range of issues (ESG and anti-ESG)
 - 2025 has seen rise in anti-DEI proposals – with almost no success
- Activism had banner year globally
 - 6% uptick in U.S. campaigns (115)
 - 26% increase in Asia-Pacific companies; European campaigns decreased
- Activism pressure resulted in 27 CEOs ousted from the role with several large company CEOs turning over preemptively as boards sought to avoid public clashes

Executive Compensation

Governance Basics

Board Duties

- Directors manage the business on behalf of and have a fiduciary duty to the corporation and the shareholders:
 - **Duty of Care:** Make informed business decisions based on all material information reasonably available
 - Duties listed within charter; Duty of obedience
 - **Duty of Loyalty:** Act in a manner reasonably believed to be in the best interest of the corporation and shareholders - no self-dealing
- Boards conduct most of their work through established committees

Common Board Committees

Three committees are required by most stock exchanges:

Audit

Compensation

Nominating &
Governance

- **Finance and Executive Committees** are common (more than 33% of S&P 500)
- **Compensation / Human Capital Management Committee** scope is expanding to include broader talent-related issues

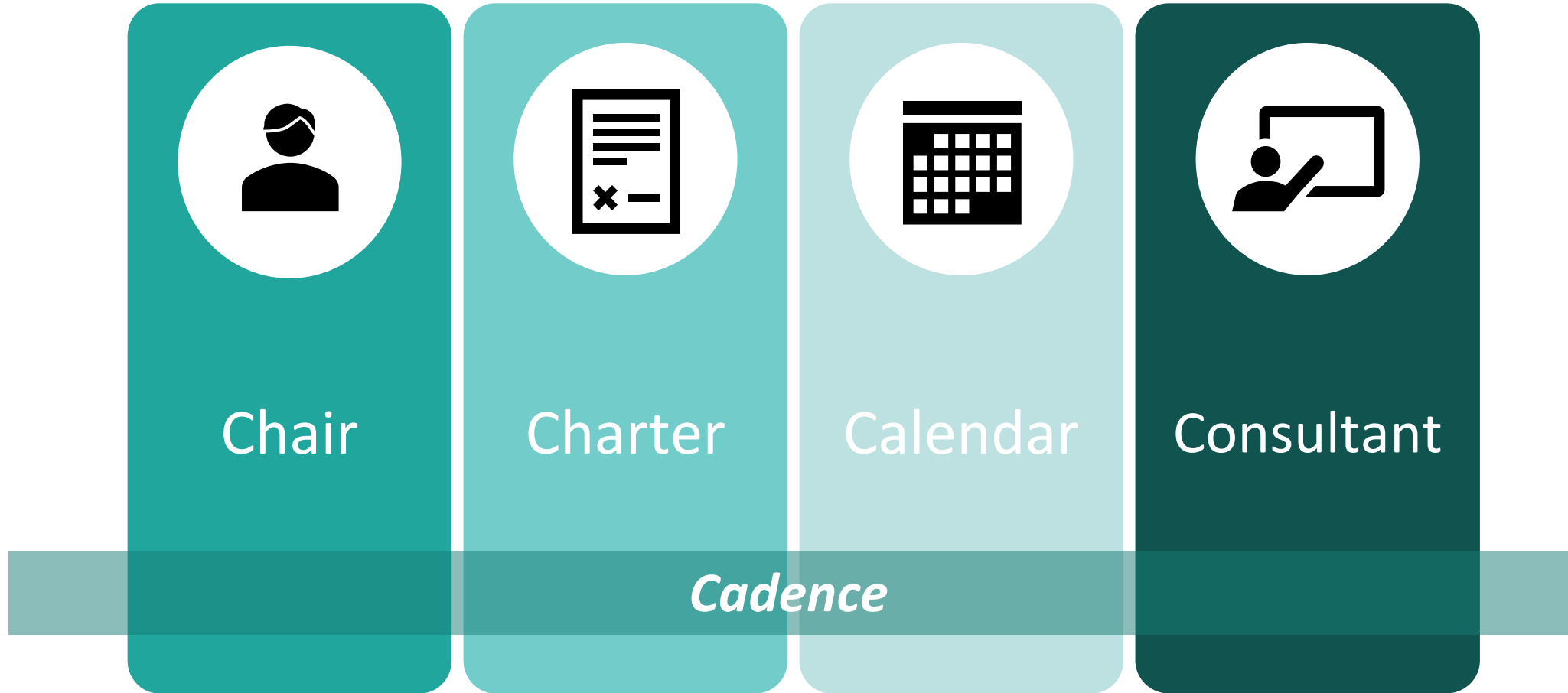
A Real World Perspective

Patricia F. Russo

Board of Directors: GM, Merck, and KKR

Chairman of the Board, Hewlett Packard Enterprise

Comp Committee Roles and Process



Committee Chair



Chair

- Primary role is to set the Committee's agenda and facilitate its decision-making process
- Must maintain independence while communicating effectively with management
- Engage and manage independent advisor

Committee Charter



Charter

- Required by stock exchanges, sets forth the Committee's responsibilities
- Also provides the authority to hire independent advisors
- Typically, responsibilities are translated into activities in the Committee's Annual Calendar to ensure they are met

Committee Calendar



Calendar

- Establishes plan to fulfill committee responsibilities over the course of the year
- Typically, four to six meetings per year, each with assigned duties/actions
- Also supported by standard meeting format and agendas

Committee Consultant



Consultant

- Committees may engage their own advisor, independent of management
 - Independent viewpoint
 - Technical expertise
 - Access to competitive information
 - Important to some external stakeholders
- **Key question:** will the advisor be allowed to perform work for management?

The Com Committee's Expanding Role

- Expanded topics covering the larger workforce include:
 - Succession, talent management and retention
 - Human capital metrics including DEI, culture and engagement
 - Pay equity and transparency
 - Reskilling
 - Safety and wellbeing
- Committees review scorecards / HR dashboards, discuss workforce planning and hear from subject matter experts in these areas.
- Meeting efficiency is key: using consent agenda for routine items, move informational items to the Appendix and send materials sufficiently in advance so meetings can focus on the most critical topics.

Fundamentals of Executive Compensation

Part Two Recap

Tomorrow: Group Discussion

- What topics would you like to further discuss or have a question about?
- Email questions to Megan at mwolf@hrpolicy.org

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Thank you!