



BUILDING AN EFFECTIVE COMPENSATION COMMITTEE

October 2017

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With You Today



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3



Agenda

- ▶ Role and Accountabilities of the Compensation Committee
- ▶ Focus of the Compensation Committee
- ▶ Compensation Committee Engagement
- ▶ Trending Now
- ▶ Resources

4



Learning Objectives

- ▶ Describe general and specific responsibilities of a compensation committee, under current rules and regulations as well as in emerging practice
- ▶ Review trends for designing the compensation strategy and developing programs to balance L/T value creation with S/T incentive goals
- ▶ Discuss strategies for effectively communicating and disclosing base and incentive vehicles and how they support corporate strategy and company objectives

5



Roles and Accountabilities of the Compensation Committee

6



Compensation Committee Roles

- ▶ CEO/Top Officer Compensation
- ▶ CEO/Top Officer Performance Evaluation and Feedback
- ▶ Executive Compensation Strategy Monitoring
- ▶ CEO Succession and Executive Talent Management
- ▶ Director Compensation
- ▶ Equity Program Oversight
- ▶ Stakeholder Communication
- ▶ Program Evaluation
- ▶ Risk Management and Compliance
- ▶ Managing External Advisors
- ▶ Committee Management and Board Interface

7



Types of Boards - Implications for the Committee

Corporate Structures

- ▶ Publically Traded
- ▶ Privately-held Companies
 - Investor-Owned Companies
 - Family-Owned Companies
- ▶ Non Profits
- ▶ Partnerships
- ▶ Special Ownership (e.g., Trusts)



Emphasis on Committee Roles

- ▶ Market Pricing and Peer Group Selection
- ▶ Reasonable Compensation
- ▶ Compliance Requirements
- ▶ Executive Talent Management
- ▶ Stakeholder Engagement

8



Director Competencies

The critical competencies for members of the Compensation Committee

Knowledge/Experience

- ▶ Corporate Performance Metrics
- ▶ Executive Labor Markets
- ▶ Components of Executive Compensation
- ▶ Tax and Accounting Principles
- ▶ Industry Trends and Issues
- ▶ Strategic Planning
- ▶ Executive Development and Succession Strategies
- ▶ Executive Performance Management Systems

Personal Attributes

- ▶ Financial Acumen
- ▶ Numerical Aptitude
- ▶ Analytical Ability
- ▶ Strategic Orientation
- ▶ Solution Focused
- ▶ Critical thinking
- ▶ Inspires Trust and Confidence

9



Value Add Competencies

Committee member advice that transcends oversight roles and adds value to the process

- ▶ Applies executive talent management principles
- ▶ Adjusts the compensation strategy for the maturity cycle of the organization and the long-term vision
- ▶ Understands the tax consequences and balance sheet implications of compensation plans for the company and the plan participants
- ▶ Anticipates and utilizes industry-specific compensation trends
- ▶ Understands the motivational and retention value of various compensation alternatives
- ▶ Leverages the expertise of advisors to educate and inform the Committee
- ▶ Articulates the alignment between the compensation strategy and the desired culture

10



Focus of the Compensation Committee

11



Building The Compensation Strategy

Long-Term Organizational Strategy

Corporate Culture

Financial Plan

Executive Talent

Economic Situation

Competitive Market

Stakeholder Objectives

Compensation Strategy

Compensation Program Elements

- ▶ Base Salary
- ▶ Annual Incentives
- ▶ Long-Term Incentives
- ▶ Benefits
- ▶ Executive Perquisites
- ▶ Deferred Compensation

12



Compensation Strategy Discussion

- ▶ What are the capabilities of the CEO and the executive team?
- ▶ How will total rewards be aligned with market levels, company performance, organizational growth, and individual contribution?
- ▶ Which compensation components are important for attracting talent?
- ▶ What cultural features should the compensation program reinforce?
- ▶ What is the desired balance between annual and long-term programs?
- ▶ What non-monetary components have a motivational impact?
- ▶ Is equity a part of the compensation plan and, if so, what form does it take?



13



2017 BDO 600 Compensation Survey

CEO and CFO Pay Practices

Annual BDO survey of mid-market* CEO and CFO compensation practices of publicly traded companies in the following industries:

- ▶ Energy
- ▶ Financial Services - Banking
- ▶ Financial Services - Nonbanking
- ▶ Healthcare
- ▶ Manufacturing
- ▶ Real Estate
- ▶ Retail
- ▶ Technology



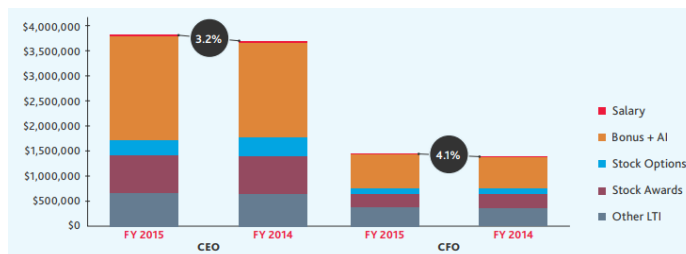
* Companies studied had annual revenues between \$100M and \$3B

14

BDO. (2016, November). *BDO 600 Compensation Study (CEO and CFO 2016)*.
<https://www.bdo.com/insights/assurance/client-advisories/bdo-600-compensation-study-2016>



2016 Survey of CEO and CFO Compensation Practices of 600 Mid-Market Public Companies



2016 Average Compensation

Position	Average Salary	Bonus and Annual Incentives	Stock Options	Full Value Stock Awards	Other LTI	TDC
CEO	\$664,952	\$747,013	\$314,675	\$2,060,984	\$24,729	\$3,812,353
CFO	\$382,107	\$263,904	\$112,474	\$677,342	\$10,552	\$1,446,379

The compensation mix for CEOs is weighted more towards long-term incentives, while the mix for CFOs is more evenly split.

Pay Mix

Position	Annual Cash	LTI
CEO	37%	63%
CFO	45%	55%

Pay mix was largely consistent between FY 2015 and FY 2016. For CEOs in FY 2015, the mix was similar at 38% annual cash and 62% equity/LTI. For CFOs in FY 2015, it was 46% annual cash and 54% equity/LTI. The majority of equity value provided to both CEOs and CFOs is delivered through full-value stock awards.



15

Establishing Compensation Targets - Beyond the Market Pricing

- ▶ Do we target pay at the market median?
- ▶ How do the following factors influence setting pay targets at above or below the market?
 - ▶ Narrow or broad definition of the role
 - ▶ Experience/skill of the incumbent
 - ▶ Performance history
 - ▶ Career stage of the incumbent
 - ▶ Maturity stage of business model
 - ▶ Succession requirements
 - ▶ Labor market opportunity
 - ▶ Individual performance expectations



16

Succession Planning

The Committee provides oversight to make certain each phase of the succession planning process is managed properly

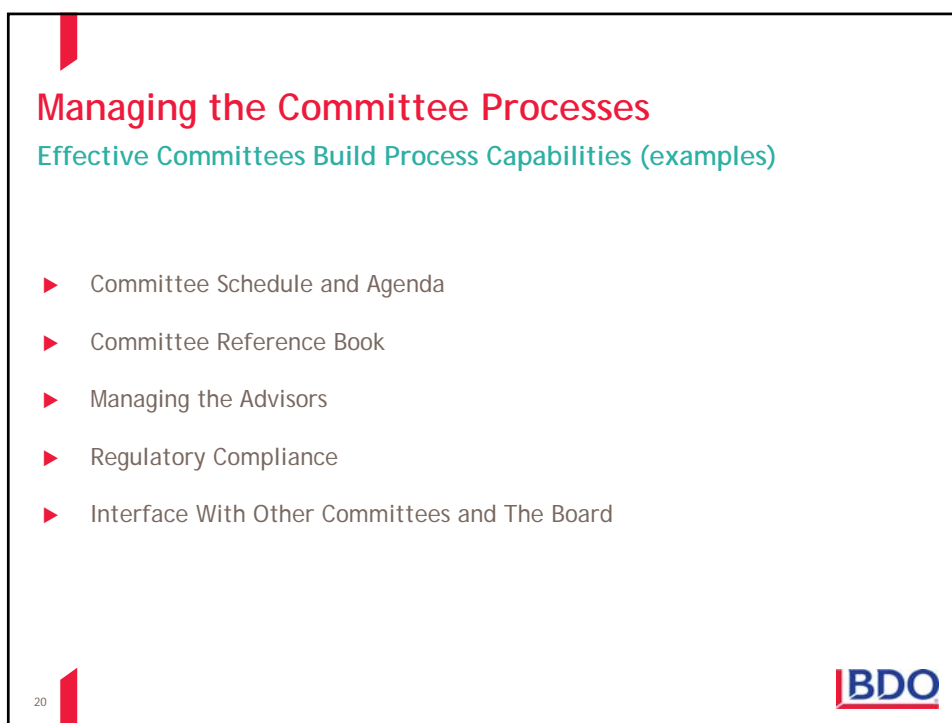
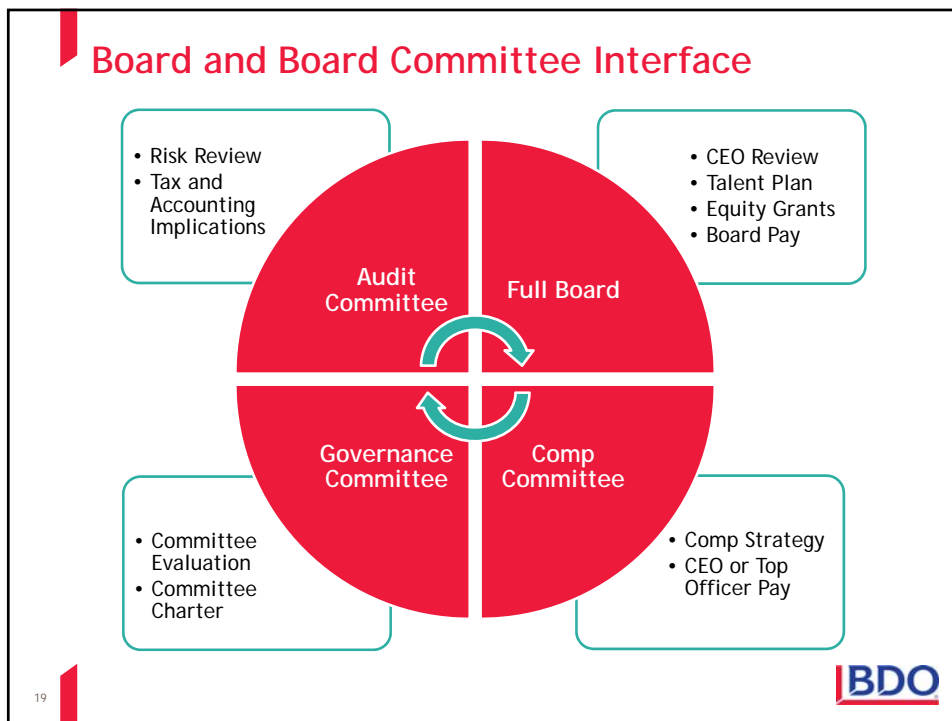
Project Phases

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graph LR; A[Project Sponsors] --> B[Develop CEO Success Profile]; B --> C[Assess Candidates]; C --> D[Succession Plan Development Plans]; D --> E[Program Administration];
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17

Compensation Committee Engagement

18



Sample Committee Schedule and Agenda

Sample Committee Schedule and Agenda

- | | |
|-----|--|
| Q1: | Approve prior year incentive awards
Set current year incentive goals
Approve salary increases
Approve equity grants/long-term incentive targets |
| Q2: | Review executive benefits and perquisites programs
Evaluate Committee performance |
| Q3: | Review competitive positioning of pay program
Review performance (peers and standards)
Review general trends |
| Q4: | Initial review of incentive plan results
Approve any plan changes for coming year
Update of succession plan |

21



Committee Reference Book

Committee Book Contents

- ▶ Individual Officer Profiles
 - Pay history
 - Role description
 - Succession and development plan
- ▶ Summaries of all Plans
 - Salary strategies
 - Incentive plans
 - Long-term incentive plans
 - Equity position
 - Benefits & perquisites
- ▶ Benchmarking
 - Peer group development
 - Market comparisons
- ▶ Performance Histories
 - Company performance compared to peers or internal metrics
 - Progress in attaining long-term strategic goals
- ▶ Prior Minutes

22



Managing the Advisors

Advisors can accelerate the Committee's knowledge and decision making effectiveness

- ▶ Legal
 - Plan documents
 - Compliance issues
- ▶ Compensation Consultants
- ▶ Human Resources Consultants
 - Succession Issues
- ▶ Accounting and Tax Consultants
- ▶ Valuation Experts
 - Establishing enterprise value
- ▶ Investment Bankers
 - Impact of ownership transition alternatives
- ▶ Financial Advisors
 - Funding incentives with insurance products

23



Trending Now

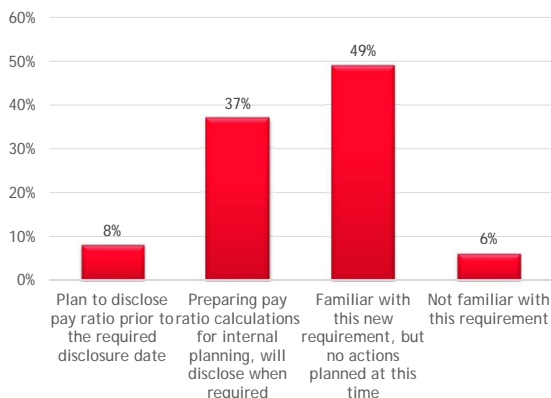
24



Compliance Example - Dodd-Frank Requirements

CEO - Median Employee Pay Ratio

Beginning with 2018 proxies, public companies will be required to disclose the ratio of median employee pay to CEO compensation. As this 2018 requirement will report on 2017 compensation, which ONE of the following best describes the actions your board is currently taking?



25



Compliance Example - Section 409A

409A Covers...

- ▶ Supplemental Executive Retirement Plans
- ▶ Severance Arrangements
- ▶ Stock Option Plans
- ▶ Split-Dollar Life Insurance
- ▶ 457(f) Plans
- ▶ Commission Arrangements
- ▶ Medical or Other Reimbursement
- ▶ Arrangements including Tax Gross-Up
- ▶ Nonqualified Defined Contribution and Defined Benefit Plans
- ▶ Phantom Stock Plans
- ▶ 401(k) "Wrap" Plans
- ▶ Excess Benefit Plans
- ▶ Bonus & Incentive Plans
- ▶ Employment Agreements
- ▶ Change in Control Agreements

...just about every part of compensation

26



Special Topics - "In the News"

- ▶ Disclosure Issues
 - Committee reports that raise red flags:
 - Stated pay-for-performance philosophy when plans have large discretionary components
 - Companies announce adjusted earnings that were higher than their GAAP income
 - Excluding external events beyond management's control
 - Excluding nonrecurring expenses (e.g., legal expenses)
- ▶ Clawbacks
- ▶ Realizable pay
- ▶ TSR controversy
- ▶ Aligning pay with the organization's culture
- ▶ Plans that encourage unethical behavior
- ▶ Shareholder concerns

27



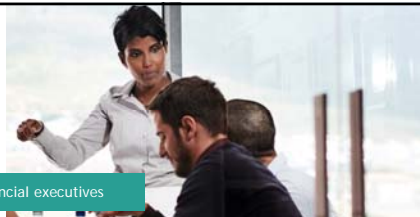
Resources

28



The BDO Center for Corporate Governance and Financial Reporting

A dynamic and searchable on-line resource for board of directors and financial executives



AN INCREDIBLE RESOURCE AT YOUR FINGERTIPS

The BDO Center for Corporate Governance and Financial Reporting was born from the need to have a comprehensive, online, and easy-to-use resource for topics relevant to boards of directors and financial executives. We encourage you to visit the Center often for up-to-date information and insights you can rely on. What you will find includes:

- ▶ Thought leadership, practice aids, tools, and newsletters
- ▶ Technical updates and insights on emerging business issues
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For more information about BDO's Center for Corporate Governance, please go to www.bdo.com/resource-centers/governance



29

Poll Question

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1. Yes, please email me with information so I can manage my subscription
2. I already subscribe to www.bdo.com
3. No thank you, not at this time
4. N/A - BDO, BDO Alliance, BDO International



30

BDO Board Governance - Upcoming Webinars*

For a complete listing of BDO events, refer to: <https://www.bdo.com/events>

Title	Date
Quarterly Technical Update - Q4 2017*	January 11, 2018
Quarterly Technical Update - Q4 2017*	January 10, 2018
Quarterly Technical Update - Q4 2017*	January 9, 2018
<u>Internal Audit's Role in Monitoring and Controlling International Exposure</u>	November 28, 2017
<u>Due Diligence and Oversight of Vendors in the Current Regulatory Environment</u>	November 28, 2017
<u>What's on the Minds of Boards</u>	November 21, 2017
<u>BEPS Global Accounting Standards & How They Apply To Your Globally Mobile Population</u>	November 7, 2017

*Registration will be made available within the next two weeks.

31



BDO Board Governance - Archived Webinars

For a complete listing of BDO events, refer to: <https://www.bdo.com/events>

Title	Date
Quarterly Technical Update - Q3 2017	Oct 2017
<u>Harnessing the Power of Data Analytics and Continuous Monitoring</u>	Sept 2017
Quarterly Technical Update - Q2 2017	July 2017
<u>AICPA SOC for Cybersecurity - What You Need to Know Now</u>	June 2017
<u>Internal Audit's Role in Highly Acquisitive Organizations</u>	June 2017
<u>Applying the New Revenue Standard - Part 2</u>	June 2017
<u>Applying the New Revenue Standard - Part 1</u>	June 2017
<u>How Trump Administration's Tax Reform Proposals Could Impact Executive Compensation</u>	June 2017
<u>Director Diversity - Striking the Right Balance in the Boardroom</u>	June 2017
<u>Board Leadership - How to Onboard Your Board</u>	May 2017
<u>Reducing the Burden of Sox Compliance</u>	April 2017
<u>Blockchain: Technology, Applications and Risks</u>	April 2017
<u>Compensation Committee - How is Your Organization Managing Your Global Equity Compensation Risk?</u>	April 2017
<u>Trump, Legislation & Taxes: How Expected Tax Reform May Impact Global Organizations</u>	March 2017
<u>Tax Planning for Executive Compensation</u>	March 2017
<u>What Boards Need to Know About Cybersecurity (But May Be Afraid to Ask)</u>	March 2017
<u>Establishing an Effective Vendor Audit Program</u>	Feb 2017
<u>Are You Ready to Comply with the New Lease Accounting Standard?</u>	Feb 2017
<u>Countering Corruption Part II: ISO 37001 Compliance & Certification - What's Next</u>	Feb 2017
<u>Boards at Catalysts for Intrapreneurship and Innovation</u>	Feb 2017
<u>Small Cap Boards - Realities and Strategies for Capital Structuring</u>	Jan 2017

32



BDO Board Governance - Publications

For a complete listing of BDO publications, refer to: <https://www.bdo.com/insights/>

- ▶ Significant Accounting & Reporting Matters Q3 2017
- ▶ Initial Offerings Newsletter - Fall 2017
- ▶ Accounting Guidance Related to Natural Disasters
- ▶ SEC Adopts Interpretive Guidance for Pay Ratio Disclosures
- ▶ Topic 606 - Exploring Transition Methods
- ▶ SEC Issues Updates to Reflect New Revenue Recognition Standard
- ▶ FASB Targets Improvements to Hedge Accounting
- ▶ PCAOB 2017 Inspections Will Continue to Focus Where Risk Resides
- ▶ 2017 BDO Cyber Governance Survey
- ▶ 2017 BDO Board Survey
- ▶ New SEC Chair Sets Tone for SEC's Agenda
- ▶ FASB Simplifies Accounting for Down Rounds
- ▶ FASB Delays Adoption of ASC 606 and 842 Permitted for Certain Entities
- ▶ Reminder: SEC SAB 74 Disclosures and Controls for New Accounting Standards
- ▶ SEC Extends Voluntary Submission of Draft Registration Statements for All Companies
- ▶ U.S. IPO Market Rebounds Strongly in First Half of 2017
- ▶ BDO Knows Cybersecurity: Petya Cyber Attack
- ▶ BDO Highlights Important DHS - FBI Cyber Alert on North Korea - Hidden Cobra
- ▶ PCAOB Adopts New Standard to Enhance the Auditor's Report
- ▶ Introducing SOC for Cybersecurity: Translating Cyber Risk For Every Stakeholder
- ▶ BDO 2017 Approach to Audit Quality
- ▶ SEC Chief Accountant Speech - Advancing the Role of Audit Committees
- ▶ BDO Knows Cybersecurity - A Cyberattack of Unprecedented Scale
- ▶ Cybersecurity Officially Reaches the Board
- ▶ Global Equity Rewards Matrix - International Tax Consequences for Equity Compensation
- ▶ AICPA Issues SAS 132 on Going Concern
- ▶ SEC Rule and Form Amendments Applicable to Emerging Growth Companies
- ▶ FASB Updates Presentation of Pension and Other Postretirement Benefit Plan Costs
- ▶ BDO 2017 Shareholder Meeting Alert
- ▶ Topic 606 Revenue from Contracts w/ Customers
- ▶ BDO Knows: Cybersecurity
- ▶ Audit Committee Requirements Practice Aid

33



Evaluation

We continually work to improve our programming and appreciate constructive feedback. As you print your CPE certificate, please consider responding to a brief evaluation.

Following the program, we will send a thank you e-mail containing additional resources for your consideration.

Thank you in advance for your participation.



34



Conclusion

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Please exit the interface by clicking the red "X" in the upper right hand corner of your screen.

35



Presenter Bios

36



BIOGRAPHY



LoriAnn V. Lowery-Biggers

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LoriAnn is the CEO and co-founder of Bella Vaughan, Inc., an award winning global diamond and design company. She has over 25 years of experience in the global finance and insurance industry, notably in executive roles as President of Lloyd's of London for North America, and President of Field Operations and CMO of the Navigators Group, Inc (Nasdaq: NAVG). She has held positions as the Managing Director and National Practice Leader for Risk Management and Financial Products for Wells Fargo, Inc. and served as Vice-Chairman of Wells Fargo Captive Management, and as the Managing Director and Practice Leader for Enterprise Risk Management, Alternative Risk Finance and Risk Solutions at Marsh and McLennan, Inc.

She is a director on the corporate boards of Copper Point Mutual Insurance Company, Brown & Riding Insurance, Inc., and Baldwin & Lyons, Inc. (NASDAQ: BWINB).

She serves on the boards of the A21 Campaign, PropelWomen, Equip and Empower, Inc., Global Advance, Inc., and the board of NYAC College Center for Global Studies. She sits on the Counsel on Litigation Management and is a Member of Global YPO. LoriAnn has served on the national board of Prevent Child Abuse America for 10 years, and was previously on the advisory board of St. John's University and the Robert Morris College MBA School.

37



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Leo Pound is the founder and principal of Pound Consulting Inc. providing guidance to companies in all aspects of "corporate renewal" and business issues focused on revenue growth, debt restructuring, poor financial performance, loss of key management, relationships with trade creditors and lending sources, and bottom-line results and ROI.

He has worked with many multi-national companies - including ones based or operating in China, Australia, Canada, England, Germany, Japan and more. He has in-depth knowledge of operational and strategic planning, M&A, forecasting and budgeting and cost containment. Leo is a hands-on professional who is sensitive to the pressures and challenges facing a troubled or rapidly growing company and their management team. He has held CEO, COO, CRO, and CFO roles in manufacturing and distribution and service industries.

He has extensive board services and currently serves as a director of: Empire Petroleum Partners, LLC; StoneMor Partners L.P.; Alliance Holdings; and Nixon Medical.

He further serves as an adjunct professor for the Lehigh University Executive MBA Program.

38



BIOGRAPHY



Rick Smith

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Rick is an independent advisor to compensation committees and management of public and private companies, as well as family owned businesses. He has extensive experience providing competitive market analysis for senior level executives and designing and implementing performance based reward strategies that define the proper mix of annual and long-term incentives as appropriate to the organization and its culture. He works closely with boards of trustees of colleges and universities, as well as national and global charitable organizations, health care systems, performing arts and other 501(C)(3) and (C)(4) organizations assisting with determining reasonable compensation.

Rick is experienced in structuring executive employment contracts in light of current practices and individual situations, recommending appropriate compensation for independent Directors and advising boards and management on succession planning and strengthening governance. He is experienced in structuring compensation plans for companies in pre and post IPO and M & A positions both domestic and international.

Rick serves client domestically and internationally in the energy, financial services, manufacturing, retail, aerospace and pharmaceutical industries among others. Rick has 27 years of experience in executive compensation that includes Willis Towers Watson, Sibson Consulting, KPMG, The Hay Group, and Mercer.

His professional affiliations include: the Economic Club of New York, the NACD, NASPP, the Shareholder Forum, WorldatWork, ASHHRA, NACUBO, and CACUBO



39

Biography



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Tom Ziemba, Ph.D., is a Managing Director in BDO's Strategic Services practice in Chicago. He has over 20 years of consulting and corporate experience in a number of industry segments. He assists clients in building governance capabilities, strategic positioning, leadership team development, and designing executive and Board compensation programs. Dr. Ziemba has advised CEOs, Boards and executive teams on strategies to build organizational capabilities.

Dr. Ziemba held practice leader positions in national consulting firms including: McGladrey, the Mercer Consulting Group, and the Performance Management Practice at KPMG. He also held executive positions at Harris Bank in Chicago and Campbell Soup Company.

Dr. Ziemba has advised clients on all facets of board and policy development including: preparing governance guidelines; establishing committee structures; developing Director remuneration programs; conducting board evaluations; establishing strategic agendas, Director selection and nominating processes; conducting Director education seminars; and defining Director, Board chair and committee chair roles.

In addition, he assists clients in building organizational capabilities including organizational structure, job design, executive talent review, and the implementation of corporate policies and procedures best practices.

His professional affiliations include: Rainmaker Academy; American Compensation Association; National Association of Corporate Directors; and Society of Industrial/Organizational Psychologists. His degrees include:

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 M.S.I.R. Loyola University, Chicago
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40