CFA Institute Centre for Financial Market Integrity
U.S. Member Poll on Executive Compensation

May 2009

Purpose & Methodology

Corporate law provides authority for determining how and how much to pay senior executives to company boards. Yet, as the recent restrictions on what TARP-recipient financial firms can pay their executives have highlighted, many questions remain about how effective boards have been in this role.

To help us determine what investors think about how boards have done in setting executive pay, we asked a sample of members in the United States to participate in a brief survey, with the intent of using the results to launch a discussion with a select group of board members about how to improve their executive pay decisions, and how to convey those decisions more effectively.

The survey was delivered to 14,977 members Tuesday, 19 May 2009. Of those, 913 responded to the survey (6.1 percent).

The margin of error based on this number of responses is ±3.2 percent at the 95 percent confidence level. After a reminder to non-respondents was sent on 27 May, the survey closed on Friday, 29 May 2009.

1 Number of responses varies by question as not all respondents answered each question
Key Findings
39 percent of respondents always or often use compensation practices and/or pay levels to when analyzing investments to access the degree to which management is shareholder-oriented or to assess the prospects and value of companies.
52 percent of respondents use metrics cited to determine incentive payments and business goals frequently (top two box out of five) when making investment decisions, 50 percent use mix of fixed vs. variable pay frequently, and 47 percent use a mix of pay which can be considered short term vs. long term frequently. The level of pay is used least frequently by respondents when making investment decisions.

As far as value, the most valuable type of executive pay information is metrics cited to determine incentive payments and business goals, stated as valuable (top two box out of five) by 67 percent of respondents. Mix of pay which can be considered short term vs. long term and mix of fixed vs. variable pay are next value, with 60 and 59 percent, respectively, indicating they are valuable when making investment decisions. Level of pay, in addition to being the most infrequently used type of executive pay information, is also less valuable, with only 42 percent of respondents indicate such information is valuable to them when making investment decisions.
Generally, members are not very satisfied with executive compensation-related information in the companies they follow. They are least satisfied with the degree compensation plans encourage appropriate risk taking in both the short and long term, with 75 percent of respondents not satisfied (bottom two box) and only 6 percent satisfied (top two box). Respondents are most satisfied with the level and clarity of executive compensation disclosure in the CD&A and other executive compensation disclosure and the relationship between large shareholders and company Board Compensation Committees in companies they follow, although they are still more dissatisfied than satisfied with these components.

On a scale of 1 to 5, where '1' is not satisfied and '5' is very satisfied, please indicate your overall satisfaction with each of the following in regards to the companies you follow.
62 percent of respondents indicate the existence of claw back provisions for incentive pay positively affects their view of the company. However, the majority of members indicated severance policies with no or limited ties to business performance, the re-pricing of underwater stock options, and the exchange of some or all of the underwater options for something else, such as restricted stock, negatively their view of the company.

How do the following specific compensation practices affect your view of the company with '1' being very negatively and '5' being very positively?

- **Existence of claw back provisions for incentive pay:**
  - Negatively (bottom two box): 18%
  - Neither negatively nor positively (middle box): 62%
  - Positively (top two box): 20%

- **Severance policies with no or limited ties to business performance:**
  - Negatively (bottom two box): 14%
  - Neither negatively nor positively (middle box): 82%
  - Positively (top two box): 4%

- **The re-pricing of underwater stock options:**
  - Negatively (bottom two box): 12%
  - Neither negatively nor positively (middle box): 86%
  - Positively (top two box): 3%

- **The exchange of some or all of the underwater options for something else, such as restricted stock:**
  - Negatively (bottom two box): 18%
  - Neither negatively nor positively (middle box): 76%
  - Positively (top two box): 5%
The majority of respondents (52 percent) think the length of the performance period for measuring long-term incentive compensation metrics should be five years. 30 percent believe the length should be three years, 10 percent seven years, 7 percent 10 years, and only 1 percent one year.
The majority of members would like to see more emphasis on the relative emphases on performance plans requiring continued employment and performance as well as on restricted stock requiring continued employment (84 and 67 percent, respectively). 50 percent would like to see less emphasis on stock options and 38 percent would like to see the emphasis stay the same. Regarding emphasis on cash bonus vs. stock, 42 percent would like to see less, 40 percent would like it to stay the same and 17 percent would like to see more emphasis.

**How would you like to see the balance of long-term incentive characteristics change, if at all?**

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<thead>
<tr>
<th>Relative emphasis on stock options</th>
<th>Relative emphasis on restricted stock requiring continued employment</th>
<th>Emphasis on cash bonus vs. stock</th>
<th>Relative emphasis on performance plans requiring continued employment and performance</th>
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</thead>
<tbody>
<tr>
<td>Less emphasis</td>
<td>Stay the same</td>
<td>More emphasis</td>
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<tr>
<td>50%</td>
<td>26%</td>
<td>42%</td>
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<td>38%</td>
<td>67%</td>
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<td>11%</td>
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<td>84%</td>
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