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Key Issues for Compensation Committee Members

2009 has been a year of tremendous turmoil in the compensation arena. Compensation committee members should be mindful of the following key issues for the new year:

1. Focusing on Core Objectives. Compensation committees should tailor executive compensation programs that enable the company to attract, retain and incentivize the best available talent, while being responsive to concerns about excessive risk and short-term reward.

2. Coordinating Incentive Compensation with Risk Management. Compensation committees, in coordination with management, should be comfortable that there are processes in place to evaluate the risks inherent in compensation programs. Compensation structures should be consistent with the audit or risk committee's overall risk tolerance. Companies should modify compensation programs that they identify as excessively risky by (1) deferring payments and/or transferability of stock and subjecting payments to reduction or clawback if the earnings on which they were paid are reversed, (2) lengthening vesting and/or performance periods to correspond to the time horizon of risk, (3) de-leveraging performance metrics and/or (4) adjusting payouts to account for risk.

3. Balancing Long-Term and Short-Term Compensation. Compensation committees will need to balance long-term and short-term incentive compensation to help ensure that compensation programs are consistent with the long-term strategy and objectives of the company.

4. Dealing with Economic Uncertainty. Where appropriate, consideration should be given to establishing quarterly or semi-annual goals and/or generating a range of payouts based on a broad range of outcomes to help ensure that the company does not underpay if the economy is worse than expected or overpay if the economy is better than expected.

5. Peer Group Benchmarking. Compensation committees will need to determine how best to use peer groups for benchmarking, given the anomalous effects that may result from widespread executive turnover and divergence in performance among similarly situated companies in the same industry. Attention should be paid to the SEC's call for a more detailed discussion of peer group selection in the CD&A.

6. Adjusting for New Legislation. Compensation committees should keep abreast of proposed legislation that may affect compensation programs and oversee the development of company-specific programs to comply with new regulations, while still attracting, retaining and incentivizing key employees.

7. Communicating with Shareholders. Compensation committees will need to determine the appropriate circumstances to engage in dialogue with shareholders regarding executive compensation matters. Dialogue may be helpful in increasing director credibility, enhancing transparency and avoiding controversy over pay; however, shareholders may use the forum to urge amendments to compensation programs that are not in the best interests of the company.

8. Assessing RiskMetrics. Compensation committees will also need to determine the appropriate level of consideration to be given to RiskMetrics Group's positions on pay practices.

9. Collegiality. Compensation committees will need to maintain collegiality and the culture of a common enterprise with the CEO and senior management, while continuing to react appropriately to the economic crisis and the heightened political and media attention to executive compensation.

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