

Understanding the Impact of the SEC Pay vs. Performance Disclosure Rules

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Agenda

- Dodd-Frank Section 953(a)
- Company Practice
- Overview of Proposed Rules
- Issues with Proposed Rules
- What Companies Can Do
- Our Expectations for the Final Rule

Dodd-Frank Section 953(a)

- *“Section 14(i) directs the Commission to adopt rules requiring registrants to disclose in a clear manner the relationship between executive compensation actually paid and the financial performance of the company, taking into account any change in the value of the shares of stock and dividends of the company and any distributions. The disclosure under this subsection may include a graphic representation of the information required to be disclosed.”*

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Company Practice

- 16% of companies disclose realized or realizable pay
- **Realized pay:** what executives actually received
- **Realizable pay:** what executives could receive based on performance to date

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KeyCorp's Approach – 2013

Compensation Realized by Our Chief Executive Officer in 2012
Realized Compensation

Compensation Component	Period Earned	Target	Amount Realized	Performance Result
Base Salary	2012	\$350,000	\$823,077	The Compensation Committee reviews and establishes base salaries on a competitive basis each year following a market assessment of the base compensation paid to comparable executives of peer companies. Mr. Mooney's base salary was increased from \$850,000 to \$950,000 effective for the pay period including April 1, 2012.
Annual Incentive	2012	\$1,850,000	\$2,810,000	The amount of Mr. Mooney's short-term incentive was determined under our Annual Incentive Plan, which achieved 119% of target performance.
Long-Term Incentive	n/a	n/a	-	
Restricted Stock	2012	n/a	\$811,798	Reflects the vesting of an award of restricted stock granted on March 12, 2009, 60% of which vested on March 12, 2012.
Stock Option Exercises	n/a	n/a	-	Mr. Mooney currently has 823,111 unexercisable options, of which 350,000 are "in the money." Mr. Mooney did not exercise any stock options in 2012.
Total Realized Compensation			\$3,885,885	

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KeyCorp's Approach – 2013 (continued)

Awards Realizable Upon Vesting of Other Equity Awards, Exercises of Stock Options

Compensation Component	Period Earned	Target	Amount Realized	Performance Result
Cash Performance Shares	2011-2013	\$ 1,428,000	To be realized in 2013, subject to performance.	In 2011, 50% of Mr. Mooney's long-term incentive opportunity was granted in the form of cash performance shares. The cash performance shares were calculated only a number of phantom shares based on a \$8.50 grant date closing price. The cash performance shares will vest over 3 years and the number of shares vesting is dependent upon the achievement of a balanced mix of financial and strategic goals.
Cash Performance Shares	2012-2014	\$ 1,214,500	To be realized in 2013, subject to performance.	In 2012, 50% of Mr. Mooney's long-term incentive opportunity was granted in the form of cash performance shares. The cash performance shares were calculated only a number of phantom shares, based on a \$7.98 grant date closing price. The cash performance shares will vest at the end of 3 years and the number of shares vesting is dependent upon the achievement of a balanced mix of financial and strategic goals.
Stock Options	-	\$ 2,024,000	-	In both 2011 and 2012, 50% of Mr. Mooney's long-term incentive opportunity (\$1,454,000 in 2011 and \$1,176,000 in 2012) was granted in the form of stock options with an exercise price equal to the grant date closing price of a share (\$7.98 in 2011 and \$8.50 in 2012). The stock options will vest over 3 years.

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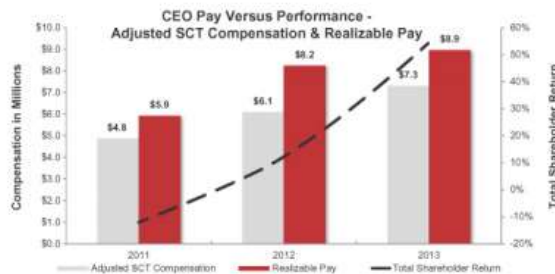
KeyCorp's Approach – 2014



	2011 (\$)	2012 (\$)	2013 (\$)
Base salary received	1,365,336	923,077	996,338
Annual incentive payments	558,800	2,035,000	2,300,000
Restricted stock vesting	195,907	601,788	1,083,024
Restricted stock unrel vesting	742,611	-	811,933
Total	2,162,747	3,559,865	4,491,495

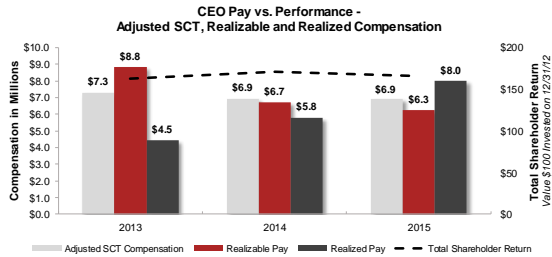
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KeyCorp's Approach – 2014 (continued)



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KeyCorp's Approach – 2016



	2013 (\$)	2014 (\$)	2015 (\$)
Base salary received	986,538	1,000,000	1,038,462
Annual incentive payments	2,300,000	1,900,000	1,900,000
Restricted stock/units vesting	1,164,957	690,506	1,190,664
Cash performance share vesting	0	2,213,139	3,906,520
Total*	4,451,495	5,803,645	8,035,646

* Ms. Money did not exercise any options in 2013, 2014 or 2015

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Proposed Rules

- Issued April 29, 2015
- Over 70 comments received on the proposal
- No clarity on when final rules will be issued

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Proposed Rules Key Aspects of the Rule

- **Years:** Five years
- **Executives Covered:** Principal Executive Officer and average of other Named Executive Officers
- **Performance:** TSR for company and peer index for five years

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Proposed Rules Cash Compensation

- **Salary:** As reported in Summary Compensation Table
- **Non-equity Incentive Compensation:** As reported in Summary Compensation Table
 - Annual Bonus
 - Cash LTIP

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Proposed Rules Equity Compensation

- **RSUs:** Value of shares vesting in FY at date of vesting
- **PSUs:** Value of shares vesting in FY at date of vesting
- **Stock Options:** Fair value of options vesting in FY at date of vesting
 - Disagreement on how this is best calculated

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Proposed Rules Other Compensation

- **Change in Pension value and Non-Qualified Deferred Compensation Earnings:** As reported in SCT with adjustment to reflect service cost only for pension value
- **All Other Compensation:** Value of shares vesting in FY at date of vesting

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Proposed Rules Tabular Form of Disclosure

Year (a)	Summary Compensation Table Total for CEO (b)	Compensation Actually Paid to CEO (c)	Average Summary Compensation Table Total for Other NEOs (d)	Average Compensation Actually Paid to Other NEOs (e)	Company A Total Shareholder Return* (f)	Index Total Shareholder Return* (g)
2016	\$8,000	\$10,500	\$4,450	\$5,750	\$115.00	\$112.00
2017	\$7,950	\$9,250	\$3,800	\$4,450	\$125.35	\$119.84
2018	\$8,050	\$10,000	\$4,550	\$5,600	\$136.63	\$131.82
2019	\$8,200	\$9,300	\$4,700	\$5,650	\$139.36	\$139.73
2020	\$8,250	\$9,800	\$4,730	\$6,120	\$149.12	\$145.32

* Total Shareholder Return reflects the value of a \$100 investment made on 12/31/15

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Issues with Proposed Rules Timing Disconnects

- **PSUs:** Payout/vesting is in a different year than end of performance period
- **Cash LTIP:** Treated differently from PSUs
- **RSUs/Options:** Vesting does not align with end of fiscal year
- **TSR:** Need 6 data points to show 5-year changes in pay and TSR

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Issues with Proposed Rules Hypothetical Values vs. Actual Values

- **Options:** multiple issues
 - Fair value at vesting is likely very different from value realized at exercise
 - Different calculation methods will arise, potentially creating comparability problems
- **Pension Values:** Not clear how to define “actually paid”

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Issues with Proposed Rules Other Issues

- **Performance:** TSR should be included as a measure; however, not the only measure
- **Tabular Format:** Overly prescriptive; could benefit from flexibility to show additional performance measures

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What Companies Can Do

- Model p-f-p disclosure for CEO
- Assess degree of alignment
- Develop explanation for relationship (e.g., supplemental disclosure supporting an alternate metric)
- Assess need to refine compensation program design

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Expectations for the Final Rule

- Rule will not go away
- Expect significant refinements from proposal
- Expect tabular disclosure to be maintained, with modest changes

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