

Maybe It Stays, Maybe It Goes. But When? Nobody Knows: The CEO Pay Ratio Checklist



Despite the CEO Pay Ratio being on the chopping block since the beginning of 2017, the reality is that it is here to stay for the near future. This means boards of directors, human resources (HR) groups and management teams need to be ready to include it in their 2018 Compensation, Discussion and Analysis. Farient Advisors continues to work with our clients

to prepare them for their upcoming disclosures. It is important to anticipate outcomes and think about how those outcomes will be communicated. Solid preparation will help ensure organizations are ready to respond quickly and articulately. Farient encourages companies to follow this easy-to-use checklist to ensure all Is are dotted and Ts are crossed.

Farient's CEO Pay Ratio Checklist

Completed	Item	Why
<input type="checkbox"/>	1. Assemble a core team to calculate the pay ratio	New territory that needs HR data and analytics, legal, compensation and benefits coordination
<input type="checkbox"/>	2. Discuss the pay ratio with your compensation committee advisor	Understand what other clients are doing and obtain guidance on your methodology
<input type="checkbox"/>	3. Determine the approach for calculating total compensation and assess the implications	Identify if there is a meaningful difference in total compensation depending on how it is derived because it will be an important internal topic of discussion
<input type="checkbox"/>	4. Model a range of CEO compensation outcomes for the current year and actual results for past three years	Historical ratios will not be disclosed, but they provide context for the compensation committee when it comes to reviewing the disclosed pay ratio
<input type="checkbox"/>	5. Test the outcome of the different options available for calculating the median employee pay ratio	The rule provides some flexibility, but has also stated that methodologies cannot change annually without good reason. Therefore, Farient recommends developing a solid methodology now that will be easy to use over time
<input type="checkbox"/>	6. Discuss the ratio with the compensation committee at least twice before it is published	Because this is also new for the compensation committee, it is important to provide them with enough time to ask questions and understand the nuances
<input type="checkbox"/>	7. Meet with your internal investor relations team	Investor relations will play an important role in managing the message externally and should be armed with the information to respond effectively
<input type="checkbox"/>	8. Prepare HR business partners to address employee concerns	HR will be the first line of defense when it comes to addressing employee concerns
<input type="checkbox"/>	9. Work with the CEO and investor relations to determine if investor and/or proxy advisor outreach is needed	Agree on a course of action in order to prepare for the shareholder meeting

About Farient Advisors LLC

Farient Advisors LLC is an independent executive compensation and performance consultancy. Farient provides a comprehensive array of advisory services, including compensation program design, board of directors compensation, and investor communications. Farient has offices in Los Angeles and New York and covers clients in more than 30 countries through our partnership in the Global Governance and Executive Compensation Group (GECN). Contact us at info@farient.com.