



# The Spotlight

The Spotlight is a regular Q & A feature that showcases our people, their expertise, and trending topics that are on top of our clients' minds directly from the voices of our business leaders.



## Todd Leone, Partner, Global Head of Executive Compensation and Regional and Community Banking

Todd Leone leads McLagan's global executive compensation practice and the regional and community banking sector team. Todd specializes in advising banks and compensation committees on complex compensation issues in the context of changing regulatory environments. He works with clients to design compensation plans that consider taxation, regulatory compliance, and compensation agreement provisions.

### Questions and Answers

#### What is top of mind for board of directors and compensation committees in 2018?

As a result of Wells Fargo and other scandals, there has been heightened regulation and an increased level of interest concerning best practices for monitoring ongoing risk. Outside of North America and Europe as a whole, boards have an increased focus on effective compensation management and leveraging collective experience from the Great Recession. Balancing lessons learned and ensuring that local regions are following proper practice is a top priority for many committees.

#### With the growing global trend of increased requirements of CEO pay ratio disclosures, how are you seeing firms react?

This is an ongoing story that we are closely monitoring to date. There has not been any significant immediate reaction to the U.S. Pay Ratio disclosure. For financial services, the ratio has been in line with the overall market. From my perspective, the current value that exists from the regulation is the fact that this is the first ever mandated exposure of median employee compensation levels for publicly traded firms in the North American environment. Beyond this, the ratio itself does not provide any immediate useful information. Following the U.S., new laws have emerged in the UK, requiring listed companies to annually report the ratio of CEO pay to the average pay of the UK workforce with a narrative explaining the changes to the ratio from year to year in the context of pay and conditions across the wider workforce. Hong Kong is on track to follow similar mandates to the UK.

#### If you could describe financial services executive compensation strategies in three words, what would they be?

Pay for performance.

#### What are some key global trends in executive compensation?

Each regulatory mandate is being watched on a local and international basis. In particular, we will see increased focus on transparency in executive pay through additional disclosure and governance initiatives such as say-on-pay. The key is simple—the formula for success is a pay for performance foundation that balances risk and reward, provides for transparent disclosure, and creates a motivational instrument for today's executives.

#### What actions should firms be taking now to prepare for the years to come?

There is a strong need for firms to attain a global perspective on executive advisory that allows regions to leap into modern governance and plan design framework. Governance and infrastructure should be assessed relative to incentive compensation plans. It is also important to determine what internal control mechanisms are available for the firm to design, evaluate, and monitor internal pay levels, keeping how boards review compensation in mind. Financial services firms must review goals continually against long-term plans to ensure that they are consistent with their overall vision and meet each client's specific needs. The U.S. Tax Cuts & Jobs Act has caused many firms to increase their minimum wages, especially in the retail network. As a result, firms must confirm that their ongoing salary grade structures are appropriate for today, address any compression issues, and prepare them to be scalable for the future.