Governance Insights Center

Serving on and chairing the compensation committee

July 2026

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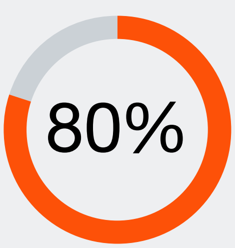
Introduction

The compensation committee operates at the crossroads of pay, performance, talent, and accountability. Each decision the committee makes about how executives are paid, how plans are designed, and how outcomes are disclosed becomes a public statement about the board's judgment. That has always been true. What has changed in 2026 is that the committee faces a more fragmented external landscape than it has in years.

Three shifts define the environment. First, the SEC is openly questioning whether the current executive compensation disclosure regime is serving investors well, signaling appetite for a materiality-driven approach to what gets disclosed and how. Second, proxy advisors are moving away from a single uniform policy view, with one major firm announcing it will retire its long-standing single benchmark policy in favor of multiple policies aligned to different investor types. Finally, the largest institutional investors, in part responding to recent SEC staff guidance on shareholder engagement, are providing less prescriptive directions to companies about what they want to see in pay programs.

Compensation committees face pressure to make executive pay more strategic and transparent



of executives think there's room to improve compensation committee effectiveness

Top three ways compensation committees can improve their effectiveness

39% Incorporate non-financial metrics more meaningfully into pay and incentive plans

36% Communicate rationale for executive pay decisions more clearly to stakeholders

31% Ensure compensation design discourages excessive risk taking

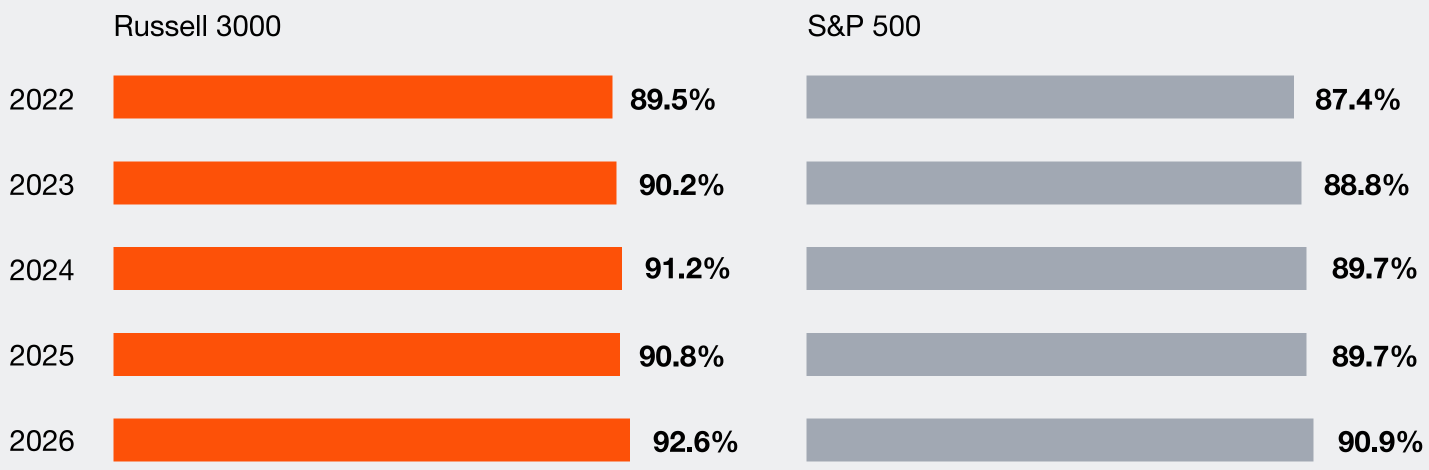
Q: What could the compensation committee be doing more effectively? (select all that apply)
Base: 246 executives who interact with the compensation committee
Source: PwC and The Conference Board, *Board effectiveness: A survey of the C-suite*, May 2026.

Through all of it, pay programs themselves remain broadly supported. Say-on-pay support sits near historically strong levels. But widespread support can be misleading. Special and one-time awards are receiving renewed scrutiny. Mid-cycle adjustments in response to tariffs and other macro shifts are testing committees' communication discipline. And the unifying frameworks from investor and proxy advisor guidelines that committees have long used to anchor expectations and predict outcomes are pulling apart.

The committee's north star in this environment is straightforward. Investors use compensation disclosure to make buy, sell, hold, and vote decisions. The clearer that disclosure is, and the better it explains why the committee made the choices it made, the better the committee will fare regardless of which proxy advisor policy is in effect or which investor is engaging in any given season. The work of the committee has not fundamentally changed. The work of explaining that work, however, has become more important.

This guide offers practical guidance to help compensation committees navigate the current environment. It highlights what has changed, what remains the same, and how leading committees are approaching their work.

Average say-on-pay support



Source: Data from Proxy Analytics as of May 31, 2026

Compensation committee composition

Who sits on the committee?

Unlike audit committees, where at least some members must have specific areas of expertise, neither Congress nor the listing exchanges prescribe detailed skill requirements for compensation committee members. The rules focus principally on independence. That reflects a core concern: directors who set management's pay must be able to exercise independent judgment and should not be overly influenced by management.

Independence remains foundational, but the work now requires a broader mix of experience. Executive compensation programs often combine annual incentives, long-term equity, performance share units, time-based awards, stock options, special retention awards, severance arrangements, clawback policies, and disclosure obligations. Each design choice has tax, accounting, securities law, human capital, investor relations, and reputational implications.

Helpful skills and experience on a compensation committee include:

- Human capital and total rewards experience
- Business strategy and capital allocation experience
- Financial literacy, including comfort with non-GAAP measures and incentive plan adjustments
- Risk management and internal controls experience
- Legal, regulatory, and disclosure experience
- Investor engagement and communications experience
- Executive leadership and talent management experience
- Technology and data fluency, particularly where AI, automation, or digital transformation affects the workforce or incentive design

The committee does not need every member to be a compensation expert. It does need the collective ability to test the link between pay and strategy, challenge management and advisors, evaluate the implications of plan design, and communicate the board's reasoning to investors.

Financial expertise is particularly important. Many incentive plans rely on metrics that differ from GAAP results, such as adjusted operating income, free cash flow, return on invested capital, relative total shareholder return (TSR), or strategic milestones. Committee members should understand what is being measured, how targets are calibrated, which adjustments are appropriate, and how outcomes will be validated.

An understanding of human behavior matters as well. Compensation is a tool for motivating behavior. A plan that looks sound on paper can still create unintended incentives, encourage excessive risk taking, undermine culture, or create fairness concerns. The committee should understand how executives, employees, and investors are likely to respond to the plan.

Who chairs the committee?

The chair's role is to keep the committee's work focused, coordinated, and forward-looking. In partnership with management and the independent compensation advisor, the chair shapes the agenda, confirms the committee receives the right materials, manages executive sessions, and coordinates with the full board and other committees.

The chair may also serve as the board's lead voice in shareholder engagement on executive pay, explaining the board's process, the connection to strategy, the rationale for significant judgments, and how shareholder feedback was considered.

The most effective chairs combine command of the details with credibility, candor, and sound judgment.

Refreshing the committee

Compensation committees benefit from both continuity and fresh perspective. Longer-tenured directors bring institutional knowledge about pay philosophy, target-setting history, prior investor feedback, and the way incentives have worked in practice. Newer directors may ask different questions and may be more attuned to emerging risks or changing investor expectations.

Boards can promote refreshment by periodically reviewing committee assignments and leadership roles. Some boards use formal rotation guidelines, while others rely on an annual process to align committee membership with director expertise, availability, succession planning, and the company's evolving strategy. Either approach should allow flexibility when continuity is important, such as during CEO succession, a major transformation, or a significant change in compensation strategy.

Planning the meeting calendar and the agenda

Much of the compensation committee's work follows the company's fiscal year. Results from the most recently completed year are needed to determine annual incentive payouts and long-term incentive outcomes. Business plans and budgets influence target setting for the next year. Proxy deadlines drive the review of the Compensation Discussion and Analysis (CD&A), pay versus performance (PVP) disclosure, pay ratio disclosure, committee reports, and, where relevant, shareholder proposals or equity plan approvals.

The agenda has expanded, however. Committees now devote more time to issues such as human capital, leadership succession, compensation risk, special awards, in-flight plan changes, investor feedback, disclosure quality, and coordination with other committees. The point is not simply to cover more ground, but to make sure the committee focuses on the decisions and oversight activities most connected to long-term shareholder value.

A compensation committee's essential functions often include:

- Determining and periodically reviewing the company's compensation philosophy
- Approving the CEO's pay package and reviewing CEO performance
- Consulting with the CEO on compensation for other executive officers
- Approving or recommending annual and long-term incentive plan designs, goals, and grant levels
- Determining whether and to what extent performance goals have been met
- Reviewing the rigor and strategic relevance of incentive metrics and targets
- Reviewing special awards, off-cycle grants, and material plan changes
- Overseeing compensation risk and coordinating with the audit committee on financial metrics and controls
- Overseeing the CD&A and related proxy and 8-K compensation disclosure
- Monitoring say-on-pay results, shareholder views, and proxy advisor feedback
- Overseeing leadership, succession, and assigned human capital matters
- Reviewing director compensation and recommending changes to the full board
- Engaging and monitoring independent compensation advisors and counsel

Agenda planning—tips for the chair

Balancing the compensation committee's work requires disciplined agenda planning. Leading practices include:

- **Anchor the agenda in the charter.** The annual calendar should confirm that all charter responsibilities are addressed and that the charter remains aligned with actual committee practice.
- **Map topics annually.** Build an annual calendar that allocates time for recurring decisions, deep dives, and emerging issues. Leave room for unexpected items, such as a retention risk, transaction, leadership transition, or plan design issue.
- **Coordinate with other committees.** Many decisions require input from the audit committee, nominating/governance committee, risk committee, or full board.
- **Confirm materials are decision-useful.** Clear recommendations, alternatives, assumptions, risks, investor implications, and the decision requested.
- **Review the investor lens before finalizing decisions.** For significant awards or plan changes, ask how the decision will be explained in the CD&A and how investors are likely to evaluate it.

Assessments of committee performance

For NYSE-listed companies, annual assessments of the board and its committees are required. For others, annual assessments are considered good governance practice. A compensation committee's charter should include annual performance self-evaluation.

The assessment process helps the committee chair and members reflect on whether they are fulfilling the charter, allocating enough time to the right topics, receiving useful materials, engaging effectively with management and advisors, and coordinating well with other committees. It can also help identify skills or education needs for committee members.

The assessment should not be a check-the-box exercise. The most useful assessments ask whether the committee is spending enough time on strategy and human capital, whether it is appropriately challenging target setting and adjustments, whether it is prepared for shareholder engagement, and whether the CD&A tells the story investors need.

Questions for a compensation committee self-assessment:

- Does the committee understand how the compensation program supports the company's strategy and risk profile?
- Are incentive metrics, targets, and adjustments reviewed with enough rigor?
- Does the committee have the right information to evaluate special awards and plan changes?
- Are committee materials strategic, concise, and decision-useful?
- Does the committee coordinate effectively with the audit, nominating/governance, and risk committees?
- Is the committee prepared to engage with investors on pay decisions and disclosure?
- Does the CD&A clearly explain the committee's reasoning?

A sample compensation committee annual calendar (calendar year-end company)

Agenda item	Feb.	Apr.	May	July	Oct.	Ongoing/ as needed
I. CEO compensation						
Establish goals and objectives for CEO compensation	■					
Review CEO performance against financial, operational, and strategic goals	■				■	
Determine and approve CEO compensation award	■					
Review CEO succession-related compensation considerations					■	■
Review employment agreements and/or material changes to CEO arrangements						■
II. Executive officer and management compensation						
Verify company performance metrics and supporting calculations	■					
Approve incentive-based compensation payouts and equity grants	■					
Set annual incentive targets for the upcoming fiscal year	■	■				
Approve long-term incentive design, metrics, and grant levels	■	■				
Review in-flight performance plan status, adjustments, and potential modifications				■	■	■
Review special awards, retention grants, or off-cycle equity awards						■
Evaluate post-service arrangements for CEO and senior management				■		
Review executive officer contracts and change-in-control arrangements				■		
Review results of say-on-pay vote and investor feedback			■	■		
III. Review of compensation disclosure						
Review CD&A, PVP, pay ratio, and related proxy disclosure	■	■				
Review disclosure of special awards, plan modifications, discretion, and adjustments	■	■				■
Recommend to the board inclusion of CD&A and committee report in proxy	■					
Review clawback, equity grant timing, 10b5-1, and relevant 8-K disclosure matters	■	■				■
IV. Employee compensation, human capital, and risk						
Assess human capital strategy, workforce rewards, and retention risk		■				
Review pay fairness and pay equity strategy		■		■		
Identify policies to promote a pay-for-performance culture			■			
Review compensation risk assessment and incentive plan controls				■	■	
Review executive talent management and succession planning			■		■	
V. Director compensation						
Review director compensation, equity plan limits, and peer positioning	■		■			

Building on the basics

Proper procedures and documentation

Having the right processes in place is crucial. Compensation decisions often involve significant judgment, particularly when the committee approves incentive outcomes, applies discretion, changes a plan in flight, or grants a special award. Proper documentation preserves a record of what the committee considered, why it acted, and whose advice it relied on.

That record matters. It can help demonstrate a thoughtful process if the committee's decisions are challenged. It can also improve the quality of next year's decisions by giving the committee a clear view of the assumptions, alternatives, and investor considerations that informed the prior decision.

Examples of leading practices include:

- Provide committee members with relevant materials before meetings in which binding decisions will be made. Materials should highlight key terms, assumptions, alternatives, and areas requiring judgment.
- When possible, make major decisions over the course of more than one meeting. For example, review competitive analysis, performance scenarios, and investor considerations at one meeting, then approve compensation actions at a later meeting.
- Use executive sessions to allow candid discussion among independent directors and advisors.
- Consult outside advisors and counsel on significant decisions, including CEO pay, special awards, severance arrangements, changes to incentive plans, equity plan design, and disclosure.
- Document the business rationale for significant judgments, including why alternatives were rejected.

- Provide training for new committee members on executive compensation fundamentals, regulatory requirements, investor expectations, and company-specific pay history.
- Stress test proposed plan designs and significant compensation decisions before approval to understand potential payouts under different performance and share price outcomes and confirm they support the company's pay-for-performance story.

Tying compensation to strategy

Compensation is deeply connected to the company's strategy. A well-designed program should make clear what the company is trying to achieve, how it defines success, and how leadership is expected to balance short-term execution with long-term value creation.

The committee should be able to explain why each metric is included, why the weighting is appropriate, how targets were set, how the goals compare with prior years and external expectations, and how the program supports the business plan. That explanation should be clear to directors before the plan is approved and clear to investors when the plan is described in the proxy.

The committee should also consider the risk of overemphasizing a single metric. A plan that rewards one outcome too heavily can create unintended consequences, such as underinvestment, excessive risk taking, or neglect of customer, employee, or operational priorities. Balanced scorecards, modifiers, and thoughtful use of discretion can help, but they also require transparent disclosure and a disciplined governance process.

Common plan structures and design choices

Most executive compensation programs at public companies continue to combine fixed pay, annual incentives, and long-term equity. The right mix depends on strategy, industry, maturity, capital structure, talent needs, and shareholder expectations.

Annual incentive plans

Annual incentive plans typically focus on measures that reflect near-term execution, such as revenue, earnings, margins, cash flow, capital efficiency, customer outcomes, safety, operational milestones, or strategic priorities. Some plans include individual or qualitative factors, while others rely primarily on formulaic outcomes.

The committee should consider whether the annual plan reinforces the right priorities for the year, whether targets are rigorous, whether threshold and maximum payouts are appropriately calibrated, and whether adjustments are consistent with the company's pre-established framework. If the committee uses discretion, the rationale should be tied to business outcomes and disclosed clearly enough for investors to understand the judgment exercised.

Long-term incentives

Long-term incentives (LTIs) are generally the largest portion of executive pay. They may include performance share units, restricted stock units, stock options, or other equity-based awards. Performance share units can reinforce multi-year goals and relative performance. Time-based equity can support retention and ownership. Options may be useful where the company wants to reward significant stock price appreciation, but they can also deliver value from broad market movements and are less common in some sectors than they once were.

Key questions when designing the LTI include whether the equity mix fits the company's stage and strategy, whether performance periods are long enough, whether the program avoids overlapping incentives that reward the same outcome multiple times, whether share usage and dilution are appropriate, and whether vesting conditions are consistent with investor expectations.

Peer groups and benchmarking

While benchmarking remains an important input, it should not drive decisions by itself. Overreliance on market medians can contribute to pay escalation and can obscure the company-specific reasons for a decision. The committee should review peer group composition, changes to the peer groups used by others, the appropriateness of revenue or market-cap screens, and whether business model, talent market, and investor comparability are all being considered.

A committee that approves a significant pay increase should be prepared to explain why benchmarking is relevant, why the increase is needed, how performance and retention were considered, and how the decision fits the company's broader workforce and shareholder context.

A note on tariff and macro shock disclosure
When the committee adjusts goals or exercises discretion in response to a macro event, the CD&A discussion should explain the event, the analysis the committee performed, the alternatives considered, and the resulting outcome. Disclosure that shows the work, including what was considered and not done, is generally more credible than disclosure that summarizes only the conclusion.

Special awards and changes to plans in flight

Special awards and in-flight plan changes are receiving more attention. Boards may consider them for legitimate reasons such as leadership retention, critical transformation, changes in strategy, transactions, succession planning, competitive threat to key talent, or a performance period disrupted by events outside management's control. But these decisions are among the easiest for investors to question.

One-off awards can look like pay that is outside the agreed framework. Changes to plans in flight can look like moving the goalposts. Even when the business rationale is strong, the committee should expect investors and proxy advisors to ask why the original plan did not address the issue, whether the award was necessary, whether the value is reasonable, whether performance conditions are rigorous, and whether the committee has made similar adjustments before.

Before approving a special award, the committee should consider:

- The specific business problem the award is intended to solve
- Whether the recipient already has meaningful unvested equity or other retention incentives
- Whether the award is truly one time or likely to create future expectations
- Whether performance conditions, stock price hurdles, or extended vesting are appropriate
- How the award compares with the executive's annual and long-term incentive opportunity
- The impact on dilution, burn rate, and shareholder value transfer
- How the decision will be described in the CD&A and whether the company can explain why alternatives were insufficient

Before changing a plan in flight, the committee should consider whether the change is consistent with the plan terms and prior disclosure, whether the adjustment is symmetrical for positive and negative events, whether it applies broadly or only to executives, and whether the committee is preserving the rigor of the original goals. A pre-established adjustment framework can help the committee distinguish between ordinary business volatility, which executives are expected to manage, and extraordinary events that may warrant adjustment.

Questions before approving a one-off award

- What is the problem we are solving, and why is the existing compensation program insufficient?
- What alternatives did we consider?
- What performance or service conditions make the award earned rather than merely granted?
- How will this decision affect the say-on-pay vote, proxy advisor analysis, and votes on compensation committee members?
- Can we explain the decision in plain English without relying only on generic retention or market arguments?

Succession planning

Succession planning remains an important responsibility for compensation committees. The committee should understand the depth of the executive bench, the retention risks among key leaders, the compensation implications of potential internal and external CEO candidates, and the link between leadership development and incentive design.

CEO succession decisions belong to the full board, but many boards ask either the nominating/governance committee or the compensation committee to do some of the advance work. The compensation committee may help evaluate the compensation arrangements needed for potential successors, retention of key executives during a transition, or the treatment of outstanding equity when a CEO departs.

Succession planning should also extend below the CEO. A regular review of the executive leadership team and one or two levels below can help directors understand the company's human capital pipeline and identify where development, retention, or recruiting efforts may be needed.

Talent management and human capital

The compensation committee's responsibilities now extend well beyond approving pay packages. Increasingly, the committee owns or co-owns oversight of human capital management, which has become a defined area of board responsibility at many large public companies. That broader mandate is generally reflected in committee names that now include references to people, talent, or human capital alongside compensation.

The substance of human capital oversight is wide-ranging. It typically includes succession depth below the executive team, leadership development, talent attraction and retention strategy, workforce composition and skills, and culture and engagement indicators. The committee should confirm it is receiving the data it needs to oversee these areas without becoming so deep in the operational detail that it loses focus on its core compensation responsibilities.

Artificial intelligence (AI) is adding a new dimension to this work. Companies are using AI to automate routine tasks, augment skilled work, and reshape entire job functions. That has implications for headcount strategy, workforce skills and training investment, organizational design, and ultimately for incentive plan design. The committee should understand how management is thinking about AI's workforce impact, what reskilling investments are being made, and how the company's people strategy fits with the broader corporate strategy.

Talent and AI—questions for the committee

- How is AI changing the work our executives and broader workforce do, and over what time horizon?
- Where are we investing in reskilling, and how does that investment match the changes we anticipate?
- Do our incentive plans appropriately reward leaders for both near-term performance and longer-term workforce transformation?
- What metrics, if any, do we use to track human capital outcomes, and are they decision-useful for the board?

Director compensation

Often, the full board approves director compensation, but the compensation committee may make recommendations. Director pay continues to attract shareholder and litigation attention because directors are effectively setting their own compensation. Delaware court decisions have underscored the importance of a disciplined process, including meaningful shareholder-approved limits on director equity awards, periodic benchmarking, consideration of board and committee workload, and a clear record supporting any above-market or unusual elements of pay.

The committee should periodically review director compensation relative to peers, the company's board leadership structure, committee workload, special committee service, stock ownership guidelines, and investor views. Any significant increase should be supported by a clear rationale and evaluated in light of director workload, the company's size and complexity, and broader pay fairness considerations.

Tackling the intangibles—culture, fairness, and promoting excellence

Some of the most difficult compensation issues are also the hardest to measure. Compensation programs do not define culture, but they can reinforce it. Incentives communicate what the company values, how it defines success, and how it balances financial results with operational quality, risk management, innovation, customer outcomes, and workforce considerations.

Goal setting is one of the clearest ways the committee sends that message. Goals that are consistently too easy can undermine accountability. Goals that are consistently unattainable can encourage excessive risk taking or lead to repeated adjustments. Goals that focus too narrowly on one outcome may drive behavior that is inconsistent with long-term value creation.

Spotting red flags in compensation culture

Red flags may include:

- Overly scripted presentations to the board or committee
- A lack of transparency about how compensation decisions are made
- Repeated maximum payouts without a persuasive link to sustained performance
- Frequent use of discretion or adjustments without a clear framework
- Special awards that appear to replace rather than supplement the ordinary program
- Internal pay disparity that is difficult to explain
- Perquisites or post-employment benefits that seem inconsistent with company culture or investor expectations
- A disconnect between the company's stated human capital priorities and the metrics used in incentive plans

A focus on pay fairness

Pay fairness is not limited to the required CEO pay ratio disclosure. Investors, employees, and other stakeholders may also look at workforce compensation, pay equity, internal promotion rates, retention, employee engagement, and the distribution of equity or incentive opportunities across the organization.

As part of the talent review process, many compensation committees review broad-based compensation trends and pay fairness information. The right level of detail will vary by company, but the committee should understand whether the company has a clear methodology, whether the analysis is updated regularly, and whether management has a plan to address identified issues.

Where incentive plans include human capital, diversity, inclusion, safety, or other non-financial metrics, the committee should apply the same rigor it applies to financial metrics. The metric should be tied to strategy, measurable, auditable enough to support a payout decision, and described in a way that is credible in the current legal, political, and investor environment.

Working with others—board committees, advisors, and shareholders

Interactions outside of the committee are increasingly important because compensation decisions often touch multiple oversight areas. How the compensation committee runs itself is important, but the committee also interacts with other committees, independent advisors, management, and shareholders.

Working with the nominating/governance committee

The compensation committee's work often overlaps with the nominating/governance committee on CEO succession, board composition, director compensation, and investor engagement. If the nominating/governance committee oversees CEO succession, the compensation committee may still need to address the compensation implications of succession planning, including retention, separation, sign-on, or transition arrangements.

The two committees should also coordinate on director compensation. The nominating/governance committee may assess board composition, committee workload, and director recruitment needs, while the compensation committee may evaluate the pay program and recommend changes to the full board.

Working with the audit committee

The compensation committee and audit committee should coordinate closely where incentive plans rely on financial measures. The compensation committee is responsible for determining and certifying performance results, but many calculations rely on financial data, non-GAAP adjustments, internal controls, and judgments about unusual items. The audit committee can help the compensation committee understand how the figures are supported.

Coordination is also important for clawback policies. If a restatement occurs, the audit committee may be focused on the accounting and reporting implications, while the compensation committee must evaluate whether a recovery analysis is triggered, what compensation is covered, and what disclosure is required. A clear process before a restatement occurs can reduce confusion when timing is sensitive.

Working with the risk committee or full board

Some companies assign enterprise risk oversight to a dedicated risk committee or to the full board. The compensation committee should coordinate where incentive plans could affect risk taking, compliance, safety, customer outcomes, cybersecurity, AI implementation, or other operational priorities. Compensation risk assessments should not be a routine exercise—they should help the committee understand whether the program supports appropriate behavior.

Working with independent advisors

Independent compensation advisors and counsel can be valuable resources. They provide benchmarking data, market context, plan design alternatives, tax and accounting input, investor perspectives, and advice on disclosure and governance practices. The committee should use advisors as inputs to its judgment, not as substitutes for it.

The advisor should be willing to challenge management and the committee, identify trade-offs, explain proxy advisor and investor implications, and point out where market practice may not be the best answer for the company. The committee should periodically evaluate the advisor's performance, independence, and effectiveness.

The right compensation advisor should:

- Have technical expertise and access to relevant market data
- Understand the company's strategy, talent market, and investor base
- Encourage creative thinking and problem solving
- Keep the committee informed of emerging issues
- Be comfortable pointing out drawbacks and unintended consequences
- Help the committee understand where market practice, investor expectations, and company-specific needs may diverge

Benchmarking data can be helpful, but the committee should be cautious about relying on it as the primary rationale for pay decisions. Investors increasingly expect companies to explain why a particular decision makes sense for the company, not simply why it is consistent with peers.

Reaching out to shareholders

Executive compensation remains one of the most common reasons investors ask to speak with directors. The need for engagement grew after the adoption of say-on-pay and remains important as pay programs become more complex and investor expectations become less prescriptive.

When shareholders want to discuss executive compensation, they often seek to meet with the chair of the compensation committee. Shareholders typically want to understand how the committee sets pay, selects metrics, applies discretion, approves special awards, responds to prior voting results, and assesses alignment with shareholder and employee experience.

The changing proxy advisory landscape makes direct engagement more important. If investors are relying more on their own analysis, customized voting policies, or internal research, companies may have fewer baseline expectations to use as a guide. The committee should not assume that a favorable outcome under one proxy advisor framework reflects broader investor support.

Our **directors' guide to shareholder engagement** has more information on this topic.

Engagement practices that can strengthen trust

- **Engage before there is a problem.** Regular dialogue can help the committee understand investor priorities before the company faces a low vote or controversial award.
- **Listen more than talking.** Investors may not provide detailed design instructions, but their questions often reveal what information they need and where the company's disclosure may be unclear.
- **Prepare directors carefully.** Legal, investor relations, human resources, and the compensation advisor should brief directors on the investor base, recent voting results, investor policies, proxy advisor reports, and likely areas of concern.
- **Close the loop.** When the committee makes changes after engagement, disclose what was heard and how the company responded. When the committee does not make a requested change, explain why.
- **Use disclosure to extend the impact of engagement.** A thoughtful proxy narrative can make the committee's reasoning visible to all investors, not just those who met with the company.

Say-on-pay is a signal, not a finish line

- A passing vote can still reveal investor concern if support declines materially or falls below the company's historical level.
- Low support can affect future votes on compensation committee members, equity plans, and other governance matters.
- The committee should review voting results, investor feedback, and proxy advisor analysis as inputs to next year's plan design and disclosure.

Engagement disclosure

Some boards and compensation committee members do the hard work of shareholder outreach but keep the insights and impact internal. Others describe the engagement process in the proxy, giving all investors a view into the topics discussed, who participated, the proportion of shares engaged, and what changed as a result.

Effective engagement disclosure is specific without being overly detailed. It may include the number or percentage of shareholders contacted, the percentage of shares represented by those who engaged, whether directors participated, the topics discussed, key feedback received, and actions taken. Where no change was made, the disclosure can explain the committee's rationale.

Engagement disclosure is particularly important after a low say-on-pay vote, a significant special award, an in-flight plan change, or a material change in compensation philosophy. Investors want to know that the committee heard the feedback, evaluated it seriously, and exercised judgment.

Regulatory and disclosure update

The disclosure environment around the CD&A is in active discussion. The Commission has signaled through several actions that it intends to examine whether the existing disclosure regime is serving investors well. Chair Atkins and other commissioners have suggested that materiality should drive what is disclosed, and that simplification may be warranted. The direction of any rulemaking is not yet clear, and material elements of the current disclosure framework are statutorily mandated under the Dodd-Frank Act, including PVP, the CEO pay ratio, say-on-pay, and clawback. Those elements cannot be eliminated by rulemaking. But the way the rules are interpreted, and the specifics required around items like perquisites and qualitative discussion, could meaningfully change.

For now, the committee's posture should be to focus on the goal of the disclosure. Investors use the CD&A to decide whether the pay program aligns with the company's strategy and their interests as long-term holders. The committee should review the CD&A with that audience in mind, pushing back on disclosure that is technically compliant but practically unhelpful, and asking whether the document a reasonable institutional investor reads tomorrow morning would give that investor the information needed to make an informed decision.

What effective CD&A disclosure should do

- Explain the pay philosophy and how it supports strategy
- Show the link between performance, pay outcomes, and shareholder experience
- Describe key judgments made by the committee
- Explain why metrics and targets are appropriate and rigorous
- Address shareholder feedback and the committee's response
- Provide enough context for investors to evaluate buy, sell, hold, and vote decisions
- Use clear language, graphics, and tables to make the story understandable without overwhelming the reader

PVP disclosure

PVP disclosure is no longer new. It's now part of the proxy disclosure package that investors may read alongside the CD&A. The rules require companies to disclose specified executive compensation and financial performance measures, including compensation actually paid, company and peer TSR, net income, and a company-selected measure. Companies must also describe the relationships between compensation actually paid and the performance measures.

Although PVP disclosure is not required to be included in the CD&A, the compensation committee should review it for consistency. Inconsistencies may create confusion or undermine credibility, even if each disclosure technically complies with the rule. Investors may compare the story told in the CD&A with the relationships shown in the PVP table and related graphics or narrative.

Clawback rules

Listed companies are required to maintain and disclose policies for recovering erroneously awarded incentive-based compensation following an accounting restatement caused by material noncompliance with financial reporting requirements. The rules apply to current and former executive officers and require disclosure of both the recovery policies and any actions taken under those policies when triggered.

The compensation committee should understand each step in the process, including which awards are covered, how incentive compensation is measured, and how recoverable amounts are calculated. Coordination with the audit committee, finance, legal, and outside advisors is important before a restatement occurs.

Committees may also want to consider whether the company's recovery framework should go beyond the exchange-mandated clawback policy. There may be circumstances in which the board determines that compensation should be reduced, canceled, or recovered even when there has not been an accounting restatement, such as misconduct, significant risk management failure, material violation of company policy, or conduct that causes reputational harm. Any broader recoupment or malus policy should clearly define the covered population, covered awards, triggering events, and decision-making process, and should be coordinated with award agreements, employment arrangements, severance plans, and related disclosure.

Perquisites and security

Perquisite disclosure has drawn renewed attention in recent years. Executive security in particular has become a more prominent topic following high-profile incidents involving senior corporate leaders. Boards have generally responded by reviewing security arrangements and disclosing the associated costs as perquisites under the SEC's existing framework. The committee should periodically review the security program, the disclosure that accompanies it, and any other perquisites to confirm that the program reflects the company's actual risk assessment and that disclosure is clear about both what is provided and why.

Equity grant timing and insider trading plan disclosure

The SEC's Rule 10b5-1 amendments added disclosure requirements related to insider trading policies, Rule 10b5-1 plans, and certain option grants made around the release of material nonpublic information. Compensation committees should coordinate with legal and the corporate secretary on equity grant timing, approval practices, and related disclosure controls.

A strong process can reduce the risk that equity awards appear to be timed opportunistically. Committees should consider the timing of regular grants, off-cycle grants, and special awards in light of earnings releases, material announcements, and trading windows.

Conclusion

Serving on the compensation committee has never been simply about deciding how much executives should be paid. The committee's work is a central expression of board judgment: how the company defines performance, how it motivates leaders, how it manages risk, how it treats talent, and how it explains accountability to investors.

The current environment raises the bar. Say-on-pay remains a powerful signal. Special awards and plan changes require careful process and clear rationale. Investor guidance is becoming less prescriptive, while proxy advisor and voting models are becoming more customized. Disclosure requirements may change, but investor demand for decision-useful information will not disappear.

Leading compensation committees anchor their work in strategy, transparency, and disciplined judgment. With the right composition, effective leadership, and a clear investor-focused narrative, the committee can help reinforce long-term value creation and build confidence in the board's oversight.

Appendix A

NYSE vs. Nasdaq compensation committee requirements

Both NYSE and Nasdaq require listed companies to have an independent compensation committee that meets exchange-specific independence standards and operates under a written charter. The substantive requirements are similar but differ in some specifics. The table below summarizes the principal differences and is intended for general reference. Companies should confirm current requirements with counsel.

Standard/topic	NYSE	Nasdaq
Committee required	Required	Required
Minimum number of members	Charter must address composition; no specified minimum	At least two independent directors required
Independence	All members must be independent under NYSE general independence standard Board must also consider sources of compensation paid to the member, including consulting, advisory, or other fees, and any affiliations	All members must be independent under Nasdaq general independence standard Board must also consider sources of compensation paid to the member, including consulting, advisory, or other fees, and any affiliations
Written charter	Required Must address committee purpose, responsibilities, structure, and operations, including annual performance evaluation	Required Must address committee responsibilities, authority, and operations
Compensation advisor independence	Committee must consider the six factors under Rule 10C-1(b)(4) before retaining any compensation advisors	Committee must consider the six factors under Rule 10C-1(b)(4) before retaining any compensation advisors
Authority to retain advisors	Committee must have sole authority to retain, terminate, and oversee compensation advisors, with funding provided by the company	Committee must have sole authority to retain, terminate, and oversee compensation advisors, with funding provided by the company
Annual self-assessment	Required; must be addressed in the committee charter	Not specifically required, though widely treated as a good governance practice
Disclosure requirements	Compensation governance disclosures required by SEC rules apply; corporate governance guidelines must be posted on the company website	Compensation governance disclosures required by SEC rules apply

This summary is general in nature and does not address every nuance of NYSE or Nasdaq listing standards. Companies should consult counsel for the current rules and any company-specific considerations.

Appendix B

Questions for the committee to consider in 2026

The following questions are organized around the topics covered in this guide. They are intended to prompt discussion rather than serve as a checklist, and they can support the committee's annual planning, self-assessment, and engagement preparation.

Disclosure

- Does our CD&A help a long-term investor understand why the committee made the decisions it made, or does it primarily describe what was decided?
- Where the committee exercised discretion or approved a special action, does the disclosure explain the reasoning specifically, including alternatives considered?
- Are our PVP disclosures, summary compensation table, and CD&A telling a consistent story?
- Does our perquisite disclosure, including any security-related items, clearly explain both what is provided and why?

Plan design and goal setting

- Are our incentive plan goals calibrated to be ambitious but achievable, and do they support the company's longer-term strategy?
- Have we considered how tariffs, macro volatility, or AI-driven shifts could affect our goal setting for the coming cycle?
- If we have considered or made mid-cycle adjustments to in-flight awards, have we prepared a clear narrative that explains the reasoning, the alternatives, and the result?
- Is the mix of performance and time-based equity appropriate given our strategy, our peers, and the expectations of our investor base?

Special and one-time awards

- What is the problem we are solving, and why is the existing compensation program insufficient?
- What alternatives did we consider?
- What performance or service conditions make the award earned rather than merely granted?
- How will this decision affect the say-on-pay vote, proxy advisor analysis, and votes on compensation committee members?
- Can we explain the decision in plain English without relying only on generic retention or market arguments?

In-flight plan changes

- Is the change consistent with the plan terms and prior disclosure?
- Is the adjustment symmetrical for positive and negative events?
- Does the change apply broadly or only to executives?
- Are we preserving the rigor of the original goals?
- Have we distinguished between ordinary business volatility and extraordinary events that may warrant adjustment?

Talent and human capital

- How is AI changing the work our executives and broader workforce do, and over what time horizon?
- Where are we investing in reskilling, and how does that investment match the changes we anticipate?
- Do our incentive plans appropriately reward leaders for both near-term performance and longer-term workforce transformation?
- What metrics, if any, do we use to track human capital outcomes, and are they decision-useful for the board?

Engagement

- Do we have a written engagement protocol that addresses what to do when investors decline to provide specific feedback?
- Is the committee chair prepared and supported to lead investor conversations on pay?
- Are our engagement efforts being documented in a way that supports the CD&A disclosure?

Coordination

- Have we clarified, in writing, which committee owns which elements of CEO succession work?
- Are we coordinating effectively with the audit committee on performance metric reliability and on clawback events?
- Are we coordinating with the nominating/governance committee on committee composition and director compensation?

Self-assessment

- Does the committee understand how the compensation program supports the company's strategy and risk profile?
- Are incentive metrics, targets, and adjustments reviewed with enough rigor?
- Does the committee have the right information to evaluate special awards and plan changes?
- Are committee materials strategic, concise, and decision-useful?
- Does the committee coordinate effectively with the audit, nominating/governance, and risk committees?
- Is the committee prepared to engage with investors on pay decisions and disclosure?
- Does the CD&A clearly explain the committee's reasoning?

How PwC can help

To have a deeper discussion about how this topic might impact your business, please contact your engagement partner or one of the PwC specialists below.

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