



Investor Communications In The Dodd-Frank Era

ABA Community Bank Investor
Conference

March 2, 2011



Today's Agenda

- Overview
- Key Issues
- Communication Tips
- Q & A





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Overview



Overview

- Initial focus on increased regulatory burden and compliance costs
- Overlooked is the misinformation that could spread among stakeholders
- Increased level of disclosure = greater scrutiny by shareholders, activists, media and other potentially adversarial groups



Overview

- The *perception* of stakeholders is key
- The media will tell the story as they see fit
- Banks must control their own message
 - Translate how complex legislation will impact stakeholders – in simple and clear language
 - Make a strong case for your positions on key issues





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Key Issues





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Key Issues

- Executive Compensation
- Whistleblower Provision
- Compliance Costs



Executive Compensation



Executive Compensation

- Must show relationship between compensation and financial performance
- Articulate how executives have fared re: performance goals
 - Keep it simple and short
 - Regularly communicate milestones



Executive Compensation

- Specify executives' value to the company
 - Reduced NPAs / Improved credit quality
 - Diversified lending portfolio
 - Positive shareholder returns
 - Expanded market share
- Show management's interest is tied to shareholders' interest



Executive Compensation

- Shareholder “say on pay”
 - Non-binding vote on executive compensation held every 1-3 years
- Need to explain executive compensation in relation to these new rules
 - Communicate principles that guide policy



Executive Compensation

- When persuading shareholders to move to a biennial or triennial vote:
 - Contact largest investors to gauge feelings
 - Don't look defensive
 - Give roadmap for next 2-3 years
 - Highlight good pay practices



Executive Compensation

- Persuading shareholders to move to a biennial or triennial vote (*cont'd*)
 - Continue to engage shareholders between votes to show accountability & transparency
 - Promote past changes to exec. compensation programs that had shareholder input
 - Show compensation programs in line with banks of similar size



Whistleblower Provision



Whistleblower Provision

- Individuals entitled to 10-30% of any financial penalty
- Could create a cottage industry of whistleblowers
- Could encourage employees to bypass internal compliance systems



Whistleblower Provision

- Build a robust employee communications program
- Foster a culture of transparency/openness
- Communicate corporate integrity:
 - Ethical behavior
 - Company standards
 - Sales practices
 - Use of company technology, etc.



Whistleblower Provision

- Remind employees of internal reporting mechanisms
- Increased communications and open door policies can reduce unwarranted whistleblower risk
- Get out in front of issues before they become damaging



Whistleblower Provision

- Develop key messages to communicate externally
- Ensure Board and management are made aware of potential issues in real time
- Recognize that governance is now part of corporate reputation management



Compliance Costs



Compliance Costs

- Costs of compliance for investors - impact on earnings and shareholder ROI
- Potential impact on capital and liquidity requirements, leverage limits, etc.
- Give shareholders a road map on the potential impact of the regulations



Compliance Costs

- Costs of regulatory compliance being passed on to customers = new fees and reduced services
 - BofA charging monthly fees for paper statements
- Perception = customers will be paying more in the future for the same services they have today



Compliance Costs

- Tell customers how fees can be avoided
 - Maintaining certain minimum balances
 - Choosing specific account options that best match the way they bank
- Be up front about any changes in fee structure
 - Do not hide it in the small print



Communication Tips



Communication Tips

- Consider how individual constituent groups may be impacted
- Deliver targeted communications to each group
 - Allay fears
 - Promote the benefits of the Act



Communication Tips

- Put procedures in place to respond quickly to shareholder concerns
- Reach out to top shareholders to identify concerns
- Ensure management and Board know key messages on hot button issues
- Provide communications training



Communication Tips

- Turn regulatory reform from a negative into a positive
- Banks required to provide greater detail on credit quality = provide greater transparency
 - Create dashboard graphics that synthesize details into easy-to-understand overviews
 - Better educate investors/differentiate your bank





Communication Tips



Communication Tips

- Publicize changes in FDIC coverage - \$250,000 per depositor & extended coverage of noninterest bearing transaction accounts
 - Increased safety and soundness for depositors
- Target small businesses with provision allowing interest on checking accounts



Communication Tips

- All stakeholders are now focused on governance matters
- Communicate beyond the proxy - use variety of communication outlets
- Develop synchronized communications across groups
 - Requires ongoing coordination among CFO, IR, legal, corp. comm. and HR



Summary



Summary

- Increased shareholder power from say on pay, proxy access, etc.
- Effective communications with largest and active shareholders is vital



Summary

- Impact of Dodd-Frank is unknown
- Ongoing communication of guiding principles will help navigate changing landscape
- Need to adjust overall perspective



Summary

“For decades bankers have been blaming regulations for red tape and the complexities of doing business. The idea that customers didn't agree never occurred to me. For bankers, compliance has a negative connotation as a necessary evil, which rubs off on the staff's communications with customers. Perhaps "compliance" should become a key element in the delivery of quality service. If the public thinks government is good and banks are bad, then bankers should be ashamed.” – Veteran Community Bank CEO



Make lemonade out of lemons





Questions & Answers





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