

SEC scrutinizes executive compensation

In January the five-member Securities and Exchange Commission (SEC) voted unanimously to publish sweeping new rules that amend disclosure requirements for the reporting of executive and director compensation in publicly traded companies. The new rules would affect disclosures in proxy statements, annual reports and registration statements. These proposals would require that most of the disclosures be written in “plain English.”

“This information is information that shareholders have a right to know,” asserted Commissioner Cynthia Glassman at the time that the proposals were announced.

According to the Chairman . . .

At the same time a speech by SEC Chairman Christopher Cox revealed the purpose behind the call for changes to the current disclosure rules: “. . . to help investors keep an eye on how much of their money is being paid to the top executives who work for them.” As he explained, the last time the SEC had undertaken revisions of its rules for executive compensation was 14 years ago.

“Simply put,” said Cox, “our rules are out of date Our disclosure rules haven’t kept pace with changes in the marketplace, and in some cases disclosure obfuscates rather than illuminates the true picture of compensation.”

According to Cox, the proposed changes will provide investors with better information, including one key number—“a bottom-line figure for total annual compensation.”

Major elements of the proposal

The SEC is asking for more complete disclosure of the compensation of the principal executive officer, principal financial officer, and the three other highest-paid executive officers and directors. A new disclosure, a “Compensation Discussion and Analysis,” would address the objectives and implementation of executive compensation programs, focusing on the most important factors underlying a company’s policies and decisions on compensation.

In addition, executive compensation disclosure would be organized into three broad categories: compensation over the previous three years; holdings of outstanding equity-

related interests received as compensation that could serve as the source of future gain; and retirement plan and other post-employment payments and benefits.

The threshold for disclosing company “perks” would be reduced from \$50,000 to \$10,000.

Initial reactions

According to *The Wall Street Journal*, business groups don’t oppose more disclosure in principle. The potential lobbying battle, though, will be over the final wording, and experts, says the *Journal*, believe that a few issues will stand out as potential flashpoints.

The Business Roundtable, a group that includes chief executives of some of the largest companies in the country, has offered qualified support for the disclosure proposals. The concern expressed by the Roundtable’s president, John Castellani: “We want to make sure that the disclosure rules do not reveal to competitors strategic information about compensation tied to a company’s business goals or product development plans.”

On the other side of the coin, as reported by Marcy Gordon in *The Insurance Journal*, some critics of corporate conduct don’t believe that the SEC proposal goes far enough, “and they say it may even create competitive pressure among companies that will push compensation higher.”

(February 2006)